# TECHNOLOGY + INNOVATION = SUSTAINABILITY
# ANNUAL REPORT 2017

CONCENTRIC

SUMMARY

1,055 MSEK **45%**
EXTERNAL NET SALES
AMERICAS

1,266 MSEK **55%**
EXTERNAL NET SALES
EUROPE & ROW

155 MSEK **38%**
OPERATING INCOME & MARGIN (14.7%)
AMERICAS

250 MSEK **62%**
OPERATING INCOME & MARGIN (19.8%)
EUROPE & ROW

341 **34%**
AVERAGE NUMBER EMPLOYEES
AMERICAS

658 **66%**
AVERAGE NUMBER EMPLOYEES
EUROPE & ROW


## Global footprint

Concentric's global manufacturing presence now includes wholly owned facilities based in Germany, the UK, the USA, Argentina, India and China, backed by central support and development functions, together with a joint venture ("JV") based in Sweden. This means we sell locally to our global customers. The business fuses Concentric's strengths as a pumps maker with long-standing expertise in hydraulic products. Our customers use pumps for trucks, general industrial applications, agricultural machinery and construction equipment.

**2,104** MSEK
EXTERNAL NET SALES
GROUP (EXCLUDING JV SALES)

**404** MSEK
OPERATING INCOME & MARGIN (19.2%) GROUP

**937**
AVERAGE NUMBER EMPLOYEES
GROUP

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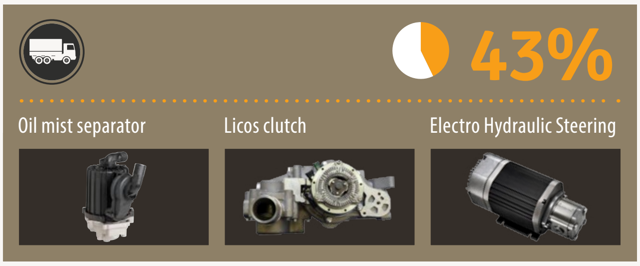
*The statutory annual report encompasses pages 62–111.*

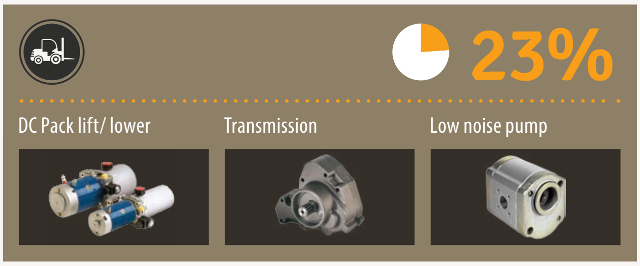
*Unless otherwise stated, all amounts have been stated in SEK million. Certain financial data has been rounded in this annual report. Where the sign "–" has been used, this either means that no number exists or the number rounds to zero.*

# ESSENCE OF CONCENTRIC



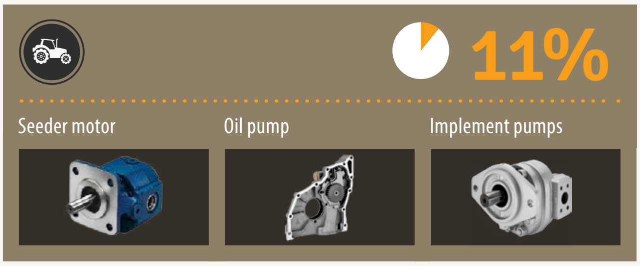

## Trucks

Concentric sells both directly to the OEMs of trucks and also via Tier 1 diesel engine manufacturers in the truck market. The solutions provided relate to flow generation for fuel, oil and coolants, and for the separation of oil drops from crankcase gases using the Alfdex system. Concentric's products are generally used in medium and heavy duty trucks.



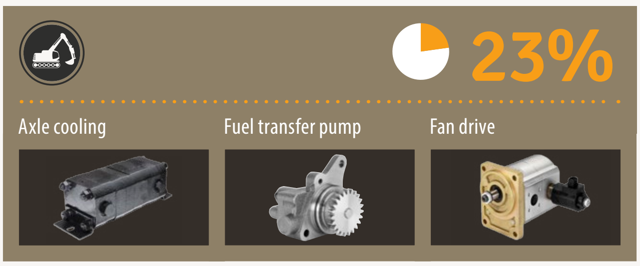

## Industrial applications

Concentric provides pumping solutions for a wide variety of industrial applications, from forklifts used in the retail trade to heavy machines used in the mining industry. They also include applications for the marine industry, energy production, compressors, cranes, refrigeration and street-cleaning vehicles as well as military and airport vehicles.




## Agricultural machinery

Concentric primarily sells directly to the OEMs of agricultural machinery. The main solutions provided are engine pumps, hydraulic fan drives and ancillary hydraulic pumps for tractors, combines and other specialty equipment, such as harvesters and balers.




## Construction equipment

Concentric provides pumping solutions used in a wide range of mobile construction equipment, including engine pumps, hydraulic fan drives and ancillary hydraulic pumps. These solutions are typically used on smaller equipment such as skid steer and backhoe loaders, and on heavier equipment such as wheel loaders, bulldozers and excavators.


Striving to be a sustainable business means:

- protecting our environment,
- managing our economic prosperity, and
- acting for the social good to benefit our present and future stakeholders.

*Read more in the CBE spotlight interviews on pages 18–25.*

# We're on the road towards sustainable, highly efficient electrical and hybrid powertrains.

Propulsion and vehicle efficiency is shifting gears dramatically, moving us forever from traditional vehicle powertrains to transformative electrical load minimization technologies. The drive toward electrification of commercial vehicles encompasses a spectrum of uncertainties, realities and challenges for both internal combustion engine vehicles, and the range of full or partially electrified vehicles, i.e., hybrid vehicles.

*Read more on electrification on pages 34–43.*

Concentric is one of the world's leading pump manufacturers. We aim to increase fuel economy, reduce emissions and improve control. Our passion for business excellence and innovation ensures that we provide sustainability for all stakeholders.

*Read more about how we deliver the different aspects through Sustainability Reporting on pages 50–57 and 128–135.*

# INVESTMENT CASE

| ENGINE PRODUCTS | HYDRAULIC PRODUCTS |
|---|---|

**E-PRODUCTS**

## DRIVING FORCES

### Increased freight activity
Increased demand for freight transport as medium/heavy duty trucks are expected to account for larger share of land-based transport.

### Fuel efficiency
Increasingly tough $CO_2$ emission standards drive further fuel efficiency requirements.

### Global infrastructure
Continued urbanisation and economic growth, especially in emerging economies.

### Size reduction and reliability
Increased machine complexity is putting a premium on space which is driving demand for higher power density pumps.

### Energy efficiency
Increasing trend to apply systems approach and improve energy recovery to reduce consumption.

### Environmental impact
Requirement to limit the environmental impact by reducing noise in the working environment and minimising leakage and waste.

## OUR STRENGTHS

- Concentric serves the largest OEMs and engine manufacturers with market leading technology that improves fuel efficiency and reduces $CO_2$ emissions.
- Concentric is the only global player in the market for diesel engine pumps and the footprint enables Concentric to sell locally to global customers.
- Innovative products reduce frictional losses, enabling a more compact sized engine whilst maintaining absolute reliability, and improving fuel efficiency and/or reducing emissions.

- Concentric's hydraulic products occupy leading niche positions in a very fragmented market, where the technology included in the product is more advanced and requires absolute reliability together with customer specific options.
- Concentric has innovative products that address the key market drivers of increased energy efficiency, pressure to reduce size due to increased machine complexity and working environment restrictions to reduce noise.

## OUR PROPOSITION

- Target the next generation of engine platforms that will be driven by tougher emissions legislation.
- Exploit innovative engine products, such as the 2-speed water pump clutches, the Alfdex oil mist separator and the variable flow oil pump.
- Explore long-term growth opportunities by growing with existing customers in emerging markets.

- Significantly expand the distributor network, particularly in Europe.
- Continue to exploit products such as the Integrated Clutch which enables power on demand, the Ferra Series which delivers higher power density and the Calma Series which reduces noise levels.
- Explore new market niche opportunities, especially for agricultural machinery.

## … whilst maintaining margins and financial flexibility

- The Concentric Business Excellence programme ("CBE") ensures that our operations have both a competitive cost structure and a flexible cost base.
- Staying close to our customers, sourcing locally where possible and robust working capital management practices all contribute to the strong cash conversion levels.
- Track record of delivering strong shareholder returns through special dividends and own share buy backs.
- Further opportunities to accelerate growth through acquisitions using available funding capacity.

# ADDING VALUE TO THE CUSTOMER'S PRODUCTS

## Concentric's business concept is to be a global leader in engine and hydraulic products, while providing solutions in application areas in which Concentric can add value to the customer's products.

Our customers provide sustainable transportation, material handling, farming and construction solutions through the engines and vehicles they develop, both on- and off-highway. Concentric's innovative products add value to our customer products by providing:

- higher energy efficiency, including intelligent products that respond to the duty cycle,
- lower fuel consumption and reduced emissions,
- durable and reliable products which improve uptime,
- 'fit and forget' products designed for life, and
- solutions for alternative fuels and electrification.

Concentric's business model provides technology and innovation throughout our customer's product life cycle, not just at the evaluation and design phase of projects. We deliver industry leading solutions in partnership with our customers. Our focus on continuous improvement and the core values of our people means that we also drive out waste and resource inefficiencies through our business excellence programme. This approach provides sustainable products, resources, growth, profitability, employment and shareholder value.

*See pages 18–25 for CBE Spotlight Interviews and 50–57 for Sustainability Report*

## DRIVING FORCES

### Environment and legislation

**Increased energy efficiency**

Increasing fuel costs strengthens the need for technology to improve fuel efficiency in machines and engines.

**Regulations**

The demand to reduce emissions continues to be a strong environmental driving force. Far-reaching regulations being enacted at regional and national levels aimed at reducing emissions from transport and machinery are forcing manufacturers to adapt their products.

### Global infrastructure growth

Continued economic growth in emerging economies, particularly those known as the BRIC countries, entails increased demand for Concentric's products in all major end-markets.

*See pages 28–29 and 32–33*

## OUR SOLUTIONS

### Engine products

Concentric is a Tier 1-supplier to engine manufacturers and major OEMs. We offer lubricant, coolant and fuel transfer pumps for diesel engines. Alfdex manufactures oil separators under a joint venture with Alfa Laval. Our products have been developed to improve fuel efficiency and/or reduce emissions.

### Hydraulic products

Concentric offers a wide range of hydraulic products, including gear and gerotor pumps, along with hydraulic power packs and hydraulic hybrid systems for installation in a vast array of industrial vehicles and diesel engines. Our products are focused on improving the efficiency of hydraulic systems and reducing emissions, such as noise.

### E-products

Concentric supply several key technologies for the fast growing electromobility market. Pressure to improve urban environments and the drive for lower total cost of ownership, mean this market will grow significantly in the years to come. Concentric are ready to support this growth with advanced technology and the expertise to tailor it to meet our customers' needs.

*See pages 26–27, 30–31 and 34–35*

## END-MARKETS

### Trucks

**Major customers**
Cummins/TATA, Daimler, DAF/Paccar, FPT Industrial, Navistar, MAN/Scania, Volvo/Dongfeng, CNHTC

### Industrial applications

**Major customers**
Crown, Doosan, Kion, NACCO, Perkins, Toyota (BT, Raymond)

### Agricultural machinery

**Major customers**
Agco, CNH, Class, John Deere, Deutz, Valtra

### Construction equipment

**Major customers**
Caterpillar, CNH, Hyundai, John Deere, JCB, Komatsu, Wirtgen Group, Volvo, Doosan, Atlas Copco

*See pages 44–49*

## Vision

Our Vision is to deliver sustainable growth for every application in the markets we serve.

**Will be achieved by:**

- Business Excellence in all we do.
- Capitalising upon our global infrastructure and being adjacent to our customers.
- Developing world class technology with innovative solutions that meet the demands of our customers/end-markets.

## Mission

Concentric's purpose is to design, develop, manufacture and sell high quality, customer focused solutions for hydraulic and engine applications within our global end-markets.

## Values

### Business excellence in all we do

- Performance
- Process
- Change

### Customer focused

- Sustainable products
- Customer satisfaction

### Achievement through our people

- Integrity
- Teamwork
- Resilience
- Openness

# BUSINESS OBJECTIVES 2017 AND BEYOND

## ORGANIC SALES GROWTH
CONSTANT CURRENCY (ANNUALLY)

### 5 YEAR TARGET 2015–2019

6 % above market

- Leverage LICOS clutch technology.
- Increased sales via distribution channel for Hydraulics.
- Other innovative products that address key market drivers to provide solutions for our customers.
- Long-term growth opportunities in emerging markets.
- Introduce new products into serial production on the next generation of platforms (e.g. variable flow oil pumps) and penetrate new market niches and/or end-markets.

### 2017 ACHIEVEMENT

–1 % below indices*

Overall, market indices* suggested production rates, blended to the Group's end-markets and regions, were up **7 percent** year-on-year. Concentric's actual sales for 2017, including revenues attributable to Alfdex, were slightly behind these indices at **6 percent** year-on-year, adjusting for currency. The increased activity levels in the second half of 2017 reflect a favourable development in demand across the board within our core regions of North America and Europe.

## OPERATING MARGIN

### 5 YEAR TARGET 2015–2019

≥16 %

- Rationalisation of product and component variants across certain business lines to reduce unnecessary complexity and improve lead times.
- Establishment of global/regional centres of excellence which align best practices in sales & marketing and manufacturing.
- Continuous improvement and innovation within our global work force to increase efficiency and/or flexibility.
- Global sourcing and supply chain management to maintain a competitive cost structure.

### 2017 ACHIEVEMENT

19 %

The reported operating margin for 2017 increased to **19.2 percent** (17.0). Adjusting for restructuring expenses and pension related items affecting comparability, the underlying operating margin improved to 18.7% (16.8). This was primarily driven by the cost savings derived from the restructuring plans executed in the second half of 2016, together with the strong drop through achieved on the increased sales. The CBE-programme has also continued to improve the group's profitability.

* Market indices are based on the published data received from Power Systems Research, Off-Highway Research and the Industrial Truck Association.

## DIVIDEND PAYOUT RATIO

### 5 YEAR TARGET 2015–2019

33%

- Track record of delivering strong shareholder returns through special dividends and buy-backs.
- Total dividends (ordinary + special) declared for FY 2012–17 have equated to an average payout ratio of **56 percent** of net income.

### 2017 ACHIEVEMENT

50%

Due to the Group's earnings and strong financial position, the Board of Directors intend to propose to the shareholders at the Annual General Meeting an ordinary dividend of SEK 2.50 (2.00) per share for the 2017 fiscal year, plus a special dividend of SEK 1.25 (1.50). As noted above, the company has also repurchased own shares during the year amounting to MSEK 142 (85), which corresponds to a further shareholder distribution in the year of SEK 3.60 (2.10) per share.

## GEARING

(NET DEBT/EQUITY)

### 5 YEAR TARGET 2015–2019

≥50%

- Continue to distribute surplus cash through own share buy-backs and special dividends to maintain a minimum gearing of **50 percent**.
- The maximum permissible debt level of **150 percent** of Equity can comfortably be serviced given strong cash conversion.
- Additional debt capacity is readily available to use to fund future acquisitions.

### 2017 ACHIEVEMENT

21%

The indebtedness decreased to MSEK 185 (300), including the revaluation of pension liabilities which recognised net remeasurement gains of MSEK 58 (losses 59) at year end. The low gearing ratio was supported by the continued strong cash flow derived from operating activities of MSEK 360 (409), which was also used to fund dividend payments and further own share buybacks in 2017. The group's credit facilities (approximately MSEK 765 in total) were renewed for a minimum of three years with existing banks just before year-end.

# 2017 IN BRIEF
# NET SALES AND OPERATING INCOME – GROUP

Net sales for the year were MSEK 2,104 (2,004), up 6 percent year-on-year after adjusting for –1% impact of currency. Underlying operating margin improved to 18.7% (16.8), adjusting for restructuring expenses and pension related items affecting comparability.

| Key figures, amounts in MSEK unless otherwise specified | 2017 | 2016 | 2015 | 2014 | 2013[1] |
|---|---|---|---|---|---|
| Net sales | 2,104 | 2,004 | 2,306 | 2,078 | 1,858 |
| Organic sales growth, constant currency, % | 6 | –10 | –8 | 3 | –8 |
| Operating income before items affecting comparability | 395 | 337 | 382 | 333 | 279 |
| Operating margin before items affecting comparability, % | 18.7 | 16.8 | 16.6 | 16.0 | 15.0 |
| Operating income | 404 | 341 | 381 | 333 | 279 |
| Net income for the year | 303 | 246 | 271 | 241 | 176 |
| Cash flow from operating activities | 360 | 409 | 366 | 340 | 199 |
| Diluted earnings per share, SEK | 7.52 | 6.00 | 6.44 | 5.53 | 4.00 |
| Basic earnings per share, SEK | 7.54 | 6.01 | 6.45 | 5.54 | 4.00 |
| Dividends, SEK | 3.75[2] | 3.50 | 3.25 | 3.00 | 2.75 |
| Net debt | 185 | 300 | 488 | 528 | 409 |
| Gearing (Debt/equity) ratio, % | 21 | 35 | 57 | 65 | 52 |
| Capital Employed | 1,030 | 1,083 | 1,254 | 1,278 | 1,194 |
| Return on capital employed, before items affecting comparability, % | 37.1 | 28.6 | 28.9 | 27.1 | 25.0 |
| Return on equity, % | 37.0 | 32.2 | 31.7 | 29.6 | 27.2 |
| Basic average number of shares (000's) | 40,238 | 40,924 | 42,058 | 43,421 | 43,922 |
| Diluted average number of shares (000's) | 40,374 | 40,973 | 42,119 | 43,523 | 43,962 |
| Number of shares at 31 December (000's) | 39,542 | 40,482 | 41,180 | 42,392 | 43,957 |
| Number of stock options at 31 December (000's) | 422 | 413 | 341 | 403 | 287 |
| Market capitalisation | 5,971 | 4,605 | 4,406 | 3,942 | 3,198 |

[1] Figures for 2013 have been restated for the amendments to IFRS 11, Joint Arrangements.
[2] Proposed dividend for consideration at the 2018 AGM.

The evolution of the Group's net sales over the five years to 31 December 2017 reflects:

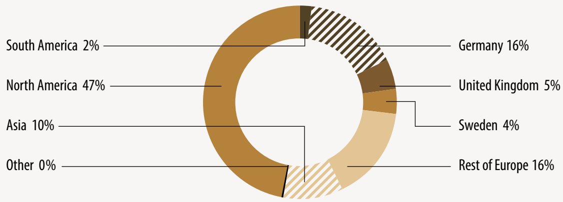
- Development of Concentric's four end-markets during that period.
- Re-organisation and re-focus of hydraulic products sales, including the exit from low margin business which was completed by the end of 2014.
- Impact of changes in the currency exchange rates used to translate the group's sales, predominantly denominated in USD, EUR and GBP.
- Inclusion of net sales made by Licos Tructec GmbH, acquired in June 2013 onwards.
- Inclusion of net sales made by GKN Pumps, acquired in January 2015 onwards.

For the five years to 31 December 2017, Concentric's shares have given a total annual average return to shareholders of 25 percent. The total return to shareholders for the year ended 31 December 2017 was 36 percent.

## Net sales – Group

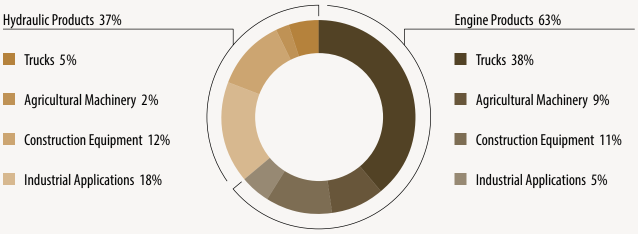
Sales for the year were up year-on-year by 6% adjusting for the impact of currency (–1%). The increased activity levels in the year reflect the strong demand experienced across our core regions of North America and Europe. The largest year-on-year improvements were achieved in medium- and heavy-duty Truck sales and sales made into the off-highway sectors of Agricultural Machinery and Construction Equipment. Demand in our emerging markets also improved in the year.

**Net sales by customer location,** % of MSEK 2,104




North America and Europe remain the principal territories for Concentric, based upon sales by customer location, reflecting the maturity of these markets. Emerging territories account for 12 percent of the Group's sales.

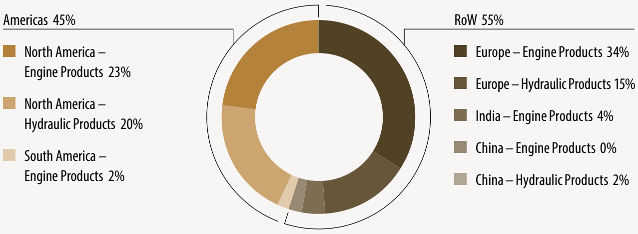
**Net sales by product line and end-market,** % of MSEK 2,321*




The balance of sales between engine and hydraulic products remained around 2:1 in 2017, driven primarily by the volume of business directed at the US and European truck markets. Hydraulic product sales for off-highway equipment improved during 2017.

* Including net sales attributable to joint ventures (Alfdex AB)

**Net sales by region and product line,** % of MSEK 2,321*




Sales continue to be quite evenly distributed across the two reported regions with a bias towards engine products in both regions, driven by the US and European truck markets.

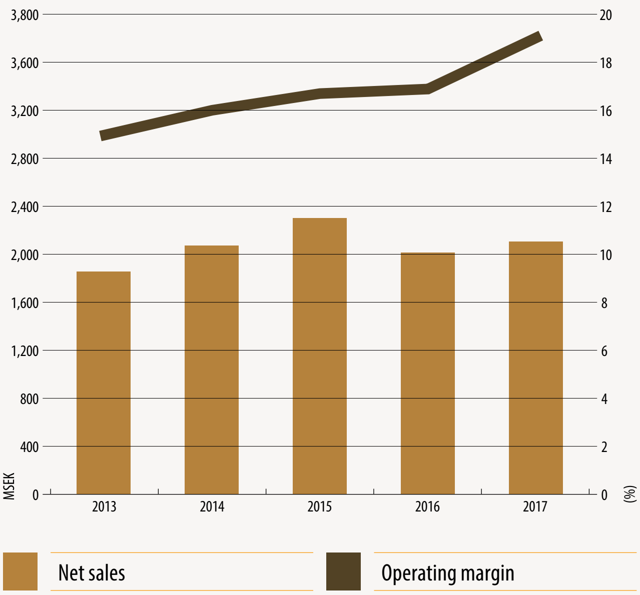
## Operating income – Group

The reported operating income and margin for the year amounted to MSEK 404 (341) and 19.2 percent (17.0) respectively. This included the following specific items:

- MSEK 9 (expense 9) of impairment reversal (prior year write-down) related to tangible assets.
- MSEK nil (39) of gains associated with the curtailment of certain retirement benefits provided to both existing and former employees of our operations in Rockford, Illinois USA and Hof, Germany.
- MSEK nil (26) of restructuring expenses relating to a reduction in force ("RIF") programme which removed nil (70) employees, principally in Hof, Germany and Chivilcoy, Argentina.

Adjusting for the net effect of these items, the operating margin before items affecting comparability for 2017 was 18.7 percent (16.8). The increase in profitability was primarily driven by the cost savings derived from the restructuring plans executed in the second half of 2016, together with the strong drop through achieved on the increased sales. CBE has also been a fundamental part of the continuous improvement of the performance of the business, including customer service, employee motivation and operational excellence.

**Sales and Operating margins**




2017 was another record year for Concentric in terms of the highest operating margin achieved.

» Concentric's "Technology + Innovation = Sustainability" has never felt more relevant than now «

# CEO David Woolley shares his reflections on the steady improvement in both end-market conditions and Concentric's performance during 2017, the acceleration in electrification and the group's continued focus on sustainability.

### Sales development

We saw stronger demand across all our end-markets in 2017 in most of the geographic markets we operate in. Market indices blended to the group's end-market and regions were up 7% y-o-y. The increased activity levels in the full year reflect the strong demand experienced across our core regions of North America and Europe. The largest market for Concentric continued to be Trucks, representing 43% of the group's sales. Class 8 Truck sales in North America showed the largest year-on-year growth, as the region recovered from the low point in 2015. European demand for medium- and heavy-duty Trucks in 2017 showed steady improvement, in line with the trend of the previous year. The end sectors of Construction Equipment and Industrial Applications also showed improvement in all geographic areas. Whilst demand for Agricultural Machinery remained relatively low, there were signs of improvement for heavier machinery, particularly in South America. Demand in our Chinese end-markets showed some signs of improvement especially for construction equipment and India continues to gain in importance for Concentric, underpinned by the strengthening Indian economy. As a result, group sales for the full year were up year-on-year by 6% in constant currency.

### Concentric Business Excellence

The culture within Concentric to achieve continuous improvement is firmly embedded. The Concentric Business Excellence programme ("CBE") is a key component of this culture and its objectives are:

- Promote a safe and productive work environment
- Increase employee engagement and satisfaction
- Improve the quality of products and services to customers
- Drive process reviews to continuously increase efficiency

The programme has enabled the teams to efficiently increase our capacity and output across the globe to meet a growing demand.

The restructuring plans initiated and executed during the second half of 2016 delivered cost savings in 2017 in line with expectations. The CBE-programme has continued to improve the group's profitability, and the reported operating margin for the year increased to 19.2% (17.0). Adjusting for the restructuring and pension related items, the operating margin improved to 18.7% (16.8) for the year.

We are constantly seeking, monitoring and acting upon the feedback received from our stakeholders and we are pleased with the survey results for 2017. Continuous improvement is, by definition, an ongoing process and the business has well defined roadmaps for 2018 and beyond.

We have seen some changes in management which I believe will provide further support in our growth efforts over the coming years. David Bessant was appointed to the position as SVP for Europe and RoW and Marcus Whitehouse took over David's previous position as CFO. We promoted Paul Shepherd, who was formerly Director of Advanced R&D, to the group executive team, where he will lead the engine products. These are important announcements and I feel confident that they will support continued profitable and sustainable growth.

### Technology: Acceleration in the Development of Electric and Hybrid Vehicles and Machines

Concentric´s "Technology + Innovation = Sustainability" has never felt more relevant than now. Concentric already has world-class technology that is well recognised in the areas of heavy duty diesel engines and hydraulic systems in both on and off-highway markets.

Legislative forces that drive emissions reductions has been a recurring theme over the past decade, but in 2017 we saw OEMs stepping up their development activity for both electric and hybrid vehicles. Concentric announced a number of new business wins within this increasingly important market, including nominations for electrically driven water-pumps, oil-pumps and electro-hydraulic steering pumps. Our product and application engineers have successfully combined our durable, high performance and efficient pumping technology with market leading DC brushless motors and intelligent control systems. The net result is that Concentric has extended its reputation for technology and innovation into the growing low-emission vehicle market.

Our internal team and external advisor network continue to review potential acquisition targets that enhance our technology offering and/or geographical presence alongside our global customers.

**Sustainability at Concentric**

We are happy to include the Global Reporting Initiative (GRI) index for the second time in this year's Sustainability Report. Sustainability efforts constitute an integral part of Concentric's operations and is something we consider when engaging with all our stake-holders. The aim is to ensure a greater wholeness with as many positive results as possible – environmentally, socially and economically. Every plant within the Concentric group is certified to ISO 14001 or higher, demonstrating the group's environmental credentials and commitment to reduce waste.

The GRI index is a framework with tangible goals that provides for a structured way to plan, execute and follow-up on Concentric's sustainability efforts. In line with the GRI guidelines, we have translated our long-term goals to operational goals for the following areas: Ethics & Value Creation, Product Responsibility & Climate Impact, Responsible Suppliers, Equality & Diversity and Resource Efficiency. Concentric's principal contribution to a sustainable world takes place through



the use of the company's products. We measure the efficiency of our products through the customer validation process and the overall rating in the annual customer survey – and we have delivered stronger results for both these areas in 2017. Yet another important aspect of limiting the environmental impact of our products is through the efficient use of energy and raw materials. Since Concentric purchases a wide range of commodities, we track the share of recycled material being used and we are pleased with having increased the share from 24.8% to 25.9% during the year. There has been good progress in a number of areas, but at the same time recognise that we need to do more in areas like Equality and Diversity. We have set ambitious goals for increasing the number of female salaried employees and we made some progress in 2017 towards our operational goal as the share of female wage earners increased to 15.3%, but more actions are required in order to reach our target of 18% share by 2025. Concentric's Sustainability Report, which is prepared in accordance with GRI guidelines, is available on pages 50–57 and 128–135.

**Outlook**

Based upon the activity levels experienced towards the end of 2017 and considering the market indices weighted for our end markets, 2018 has the potential to support further growth. The adoption of higher technology solutions that reduce emissions will be an important contributor to this growth. As we look into the coming year, medium- and heavy-duty Truck markets seem capable of sustaining the current strong demand levels. The market outlook for Construction Equipment and Industrial Applications also appears stable. The global Agricultural Machinery market is still recovering but from a comparatively low base and this may offer further potential for growth. We have a great team in place that are highly motivated and look forward to the opportunities and challenges of 2018. Concentric remains well positioned both financially and operationally, to fully leverage our market opportunities.

# CBE SPOTLIGHT: EXPLORING HYDRAULICS CUSTOMER STRATEGY

## A little about our interviewees

**Oliver Percival** is the Vice President of Hydraulics Sales for Europe and Asia. He joined the company in November 2016 and has been leading the sales teams to growth in both regions. In addition, he has been working with the Hydraulics leadership team to develop the Hydraulics sales strategy for both OEM and distribution sales.

When asked to describe his role, Oliver told us his main responsibilities are to develop profitable sales growth, to mentor and develop the sales teams, to define the sales strategy and, of course, to execute the strategic plans.

**Jennifer Peters** is the Group Business Controller for Hydraulics. She has worked with the company for 13 years. As a member of the Hydraulics leadership team, Jennifer supports and, on occasion, leads initiatives that drive growth or improve service standards and delivery. The Leadership Team are driving growth by introducing new products, increasing sales with new and existing customers and developing new markets. Jennifer works with her colleagues to ensure they deliver economic efficiencies and adopt financial best practice too.

Jennifer said of her role, "I share responsibility for the organisation's economic and financial performance, provide research, analysis and experience to develop business and financial recommendations, provide budget feedback and assist my leadership colleagues in key financial decisions."

***How do you describe sustainability?***

In this series, we ask our interviewees what sustainability means to them. **Oliver** said, "I can give you the text book definition but instead, I prefer to think of it like this. Sustainability is about ensuring 3 things:

1. Sustainable development – meeting the needs of the business we deliver today without compromising the scope for future development
2. Operations improvements – finding the most efficient and effective way to deliver for our customers today and how we prepare to set up and deliver for the future, and
3. Customer-focused communications – as a sales team, we make it our business to build strong relationships and effective communications with strategic global accounts. **Oliver** added, "I ensure that the regional managers have the tools and resources to provide efficient and effective customer support."

**Oliver** continued, "Beyond the commercial advantages, there is a feel good aspect for employees that come from making sustainability a priority. It creates a strong sense of morale and it is developing our culture too. Indirectly, this is supporting improved productivity and has other soft benefits such as helping to build Concentric's employer brand."

**Jennifer** said, "For me, sustainability means understanding, measuring and managing our financial and economic performance to ensure long term growth. Sustainability is at the heart of everything we do in Concentric."

**Sustainable working practices in our day to day work**

Providing an example of sustainability in his day to day work, **Oliver** said "I have always believed strongly that employees who demonstrate passion and accountability make the best advocates for a strong corporate brand. For example, we meet as a cross functional team where we brainstorm ideas for planning improvements for the short, medium and long term." He added, "We include members from a range of departments including project engineering, production, quality and sales in these meetings. This helps to ensure that the ideas we generate have the greatest chance of success. If we want to improve what we have today and for the future, no one knows our company better than our own employees."

Concentric operates the same way in North and South America, in Asia and Europe. Having consistent communications



is an important element for success and the Hydraulics dashboard is one such example. Jennifer went on to explain, "The Hydraulics dashboard is an example of a best practice tool and approach to reviewing, measuring and understanding our economic growth and it helps us to develop strategies to achieve our sustainable future."

***Why do customers choose Concentric products?***

Concentric doesn't simply offer a product; Concentric offers a complete system and service solution for customers. The Company has a strong brand heritage and long standing relationships with customers, both global and regional. Oliver commented, "We develop a high level of intimacy with our customers and allocate resource to create a long standing partnership. Concentric teams are embedded with customers and the relationships they build together help to ensure that customers think about Concentric first, before anyone else. In addition, innovative, reliable Hydraulic solutions, coupled with knowledgeable employees who possess a high technical skill set means that Concentric will be the supplier of choice for our partners. For strategic accounts, Concentric can service customers globally to the same high standards with regional support and this is also an advantage."

Jennifer added, "Not all of our competitors can offer bespoke tailored solutions to meet customers' needs for high, medium and low volume applications. More often than not, competitors can offer a standard product only whereas we offer a custom solution."

Concentric invests significantly in the development of new products such as Electro Hydraulic Steering (EHS) and on-going product improvements. Each product development is environmentally more effective than the last either through greener materials or improved efficiencies. Sustainable working practices are not only good for customers; there are advantages for all stakeholders.

In talking about the future, Oliver commented, "We are seeing change amongst our customers. They are asking for more sustainable products, in our sourcing and supply chain; in production and in future product developments. We are seeing a shift to more hybrid systems – with an increasing demand for electric vehicles and our product range shifting from mechanical to electro mechanical solutions and potentially to a fully electric solution in the future."

***Why do customers like to work with Concentric?***

Everyday Concentric Sales teams are working to develop strategic customers – improving customer intimacy, building stronger relationships and strengthening the company brand. Oliver explained, "The sales teams carry the Company values with them, the products we offer are reliable and we service and support our customers regionally, we deliver on time and continue to improve efficiency and offer future concepts. On a personal level, I encourage my team to support their customers with drive, passion and accountability. Customers respond to this direct and positive approach."

We also engage with suppliers in the very early stages of projects to ensure that we are contractually aligned and that any potential issues are addressed early. This partnership with suppliers helps to ensure that Concentric maintains a competitive advantage for all our customers.

Jennifer concluded, "Sustainable working practices make good business sense". Oliver agreed, "Return on investment will be the ultimate measure of our success with our customers." he added.

# CBE SPOTLIGHT: SUSTAINABILITY IN LICOS – AN INTEGRATED ACQUISITION

We interviewed Franz Biegert Managing Director (MD) and Geschäftsführer for LICOS to tell us more about his experience leading LICOS – an integrated Concentric business.

Interview with Franz Biegert,
Managing Director and Geschäftsführer at LICOS

**Career planning as a sustainable process**
Franz joined the LICOS business in July 2003. He started as the process planner for the Laser Cutting system – recruited to optimise the process and generate increased business for the machine to fill spare capacity. This was Franz's first experience of being accountable for a profit centre, "I ran the Laser Cutting department like a small business – it was a great learning ground", he said.


Franz Biegert

When LICOS set up in Atlanta, USA, Franz was appointed as the business leader responsible, giving him the opportunity to experience working internationally. Later in 2011, following the global financial crisis, Franz was given the chance to lead the Supply Chain business for LICOS. At this time he took full responsibility for Purchasing, Logistics, Inventory and Internal Sales (including invoicing and delivery papers); in short, process ownership from Goods In straight through to Customer Delivery.

Following Concentric's acquisition of LICOS in 2013, Franz was promoted to Plant Manager in 2014, and later to Geschäftsführer in 2015. Career planning is a necessary process for sustainable businesses. Franz explained, "We have always talked openly about the company, future business plans and discussed personal strengths, development needs, career aspirations and opportunities with our employees. A great advantage about a growing business like LICOS is the opportunities it can offer for personal growth and development."

**Leading an acquired business in Concentric**
Franz, who likes to talk in pictures, continued, "Today my job as Geschäftsführer is to keep everything balanced – like a see saw in a children's playground. I keep the balance between the Markdorf plant and the wider Concentric group, between each of the local departments, amongst the employees and between inventory levels and the fulfilment of sales orders. There are many examples where I am constantly shifting the emphasis from one part of the business to another to keep the balance so that LICOS runs efficiently and effectively."

Franz spends most of his day with colleagues on the shop-floor and in the different departments to see where he can remove roadblocks, keep communication free-flowing and ensure that everyone is focused on getting the job done. "As a boss, I try to keep the balance between power and authority. I work on the principle that motivated and engaged employees will try and do more than even they think they are capable of! Trust and respect on both sides underpins my philosophy."

***What does sustainability mean to you?***
Franz explained, "It is such a wide field that it is difficult to describe in one sentence. I think the most important aspect for a business is to have sustainable processes and products: from research and development to start of production, all the way through to shipping product to the customer. The best organisations learn from their experience and make improvements for the next production line. This is Concentric Business Excellence in practice and when we incorporate feedback from the market and our customers, this cycle creates a sustainable business."

He added, "This has been the LICOS story – to listen, anticipate customer needs and deliver competitive high quality products to address those needs. First it was a clutch for a specific customer, then it was the bracket business, then the addition of the laser cutting business. Next came the water pump clutch and now the introduction of new technology products like the dual cone clutch as an example. The business has been delivering double digit growth on average since 2003 and if we continue with this successful formula there is every reason to believe it will continue."

It is not Franz's role to create new products – rather he inspires his team to "think outside the box" and motivates them to generate new ideas. Franz added, "Customers told us that they wanted a more powerful clutch but they could not allocate more space in the design. We listened and this led to the design of the Dual Cone Clutch. We anticipated this need based on customer feedback and designed a clutch for switching a compressor that had more torque and took up less space. This is sustainable innovation. And it doesn't stop there", Franz continued, "… just because we have customers and we are building prototypes and delivering products, as the Managing Director, I am constantly asking, 'What else are customers telling us? What are the next problems we need to solve? Where are the next product ideas?'"

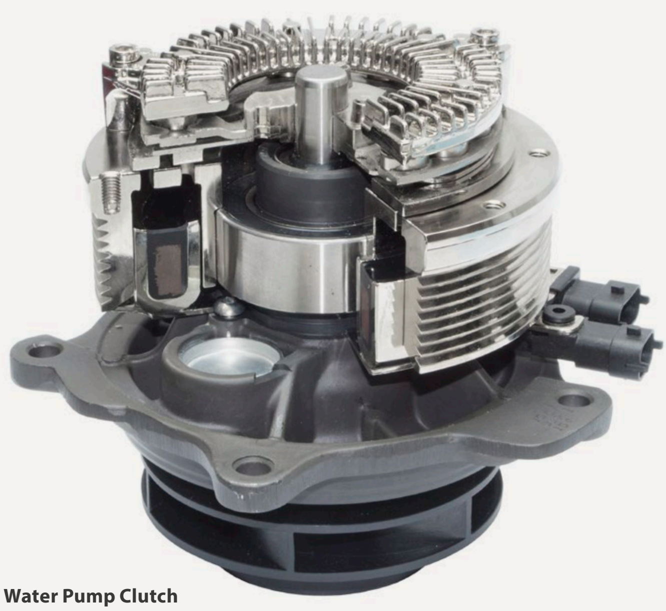
The acquisition of LICOS by Concentric AB in 2013 was perfect timing. The business was growing and our global customers wanted reassurance that LICOS had solid foundations and the necessary financial backing to be their long-term partner. Franz said, "Concentric was the perfect buyer – they understood our business model, they knew the market with all its key players and could support LICOS with the investment necessary to enable the business to continue to grow."

In June 2017, LICOS were awarded the prestigious Horst Hartmann prize by the University of Kiel and the North German Chamber of Commerce to recognise innovation in their Supply Chain. Franz explained the value of a strong, well-managed Supply Chain Management System in delivering a successful, sustainable business. He said, "In winning the award, LICOS could show how we had made a significant and sustained improvement in inventory days (more than a 50% reduction in days) which still allows us to meet customers' needs for on time delivery and all the while improving profitability." Adding, "The reduction in inventory days is just one example of improved working practices – the whole Company operates like this – we constantly ask ourselves how can we improve our performance profitably and maintain customer service standards?"

***What sets us aside from our competitors?***

The LICOS business reviews are forward looking and concentrate on what we can do to continue to deliver a profitable, sustainable business. Franz said, "In production, for example, we have invested in new machinery which allows the team to produce more parts per shift with the same number of employees – thus increasing efficiency. This in turn allows us to develop our production team. We take time to educate them in new processes and systems and learn more about the importance of quality and lean working. It is these improvements in efficiency which make it commercially viable for us to manufacture in Germany despite the competition from low cost countries. Efficient operations are an important element of a sustainable business."

Customers have told Franz and his team that they choose to work with us for 3 main reasons:



**Water Pump Clutch**

1. Our research and development teams listen to existing and potential customers and design patented products to address their needs
2. Our products offer significant advantages to the customer at a competitive price. For example, a typical truck owner will have a 5 year lease and the average return on investment for the LICOS clutch pump means that the truck owner will see notable fuel savings, compared to a standard pump.
3. Capable and committed teams working on solving customers' problems. As leaders we have an important role to play in matching our employees' strengths to the jobs we ask them to do. We also find the balance between trust and accountability. For example, a team member who takes a call with China at 3 am German time can be sure that their commitment and flexibility does not go unnoticed. There is a strong bond of trust on both sides.

***What of the future?***

We take careful account of how the truck market is developing. For example, it is clear that more and more truck manufacturers are thinking about electric motors. "We anticipate that the small and medium duty truck sector will make developments in this area more quickly – much will depend on how easy it will be for these trucks and buses to be able to "plug in" and recharge. The heavy duty trucks will inevitably take more time to incorporate electric solutions (or some other efficiency and environmental solutions) into their new engine platform designs." said Franz. "We are working to develop ideas and solutions that might address these market changes."

Concentric competes best by delivering innovative, technology solutions to meet customers' needs. Franz added, "In my vision, I see a day in the near future when a packaged LICOS clutch and Concentric pump sets the industry standard for truck manufacturers because of the clear advantages for the end user whether that is in fuel efficiency, reduced emissions or some other customer requirement, such as reduced noise".

CBE SPOTLIGHT

# CBE SPOTLIGHT: SUSTAINABILITY IN SUPPLY CHAIN

"This project was born out of our Concentric Business Excellence programme, striving to achieve continuous improvement for our people, processes and product." Dave Clark

Interview with Dave Clark, Director of Supply Chain for Concentric Group and David Kennington, Quality Manager for Rockford

**Overview of the Supply Chain Project**

Dave Clark, Director of Supply Chain for Concentric Group and David Kennington, Quality Manager for Rockford told us how improvements in the supply chain contribute to the overall performance of the Group.


Dave Clark

Recently, Dave Clark as Project Sponsor and David Kennington, Project Manager, completed a global assignment to identify and benchmark current processes and outputs for the measurement of supplier performance. This required them to standardise supplier selection criteria – how a supplier is selected, promoted or deselected – and produce recommendations for a "Best Practice Global Process" to measure external suppliers.

Dave Clark said, "Concentric has a history of companies that have merged or been acquired and each site has adopted different methodologies, procedures and processes in handling their supply chain. This project has been an important step in controlling our supply base. We have had as many as 550 suppliers which is too many to manage effectively for a business of our size and our level of spend." David Kennington continued, "We have listened to the needs of our business and our customers and created consistency in what we now measure on a regular basis. It will help us to identify our internal benchmarks – the best in class amongst our Group."

Dave Clark and David Kennington have developed a standard supplier balanced scorecard. Each site reports the same information in the same way and everyone has visibility of the reports. Dave Clark explained, "We have provided guidance in how to apply the process and allocate scoring. It is a living process. Over time, we will check that it continues to meet our needs and make improvements as needed."

The process has provided a more objective way to identify which suppliers best meet Concentric's needs and who are the top performing suppliers. This gives us the data to proactively manage our supply base and identify the suppliers with whom we want to do even more business. By controlling our supply base, spending more with the top performers and deselecting suppliers who do not meet our performance criteria, Concentric can take advantage of the benefits afforded by suppliers to larger customers.

***How do we describe our best suppliers?***

Dave Clark quickly pointed out "It does not necessarily mean the cheapest!" He continued, "We have worked hard to disassociate cost as the primary measure. Of course it is important that our suppliers are commercially competitive but low cost is not always synonymous with best value for money." David Kennington elaborated, "Other factors are vital too, such as the quality of the component – this is crucial and we have restructured how we evaluate suppliers to reflect this. Supplier delivery is also critical in determining supplier performance. The best suppliers enable Concentric to meet its commitments to customers. To run out of a material during production would cause complete chaos!"


David Kennington


***What have been the benefits of this project?***

**For suppliers:** Regardless of which Concentric facility they sell to, suppliers are measured in the same way by each site. Based on these consistent evaluations, a supplier can gain additional Concentric business. Dave Clark explained, "It allows us to build a deeper partnership with our best suppliers. Our process highlights those suppliers who run good, efficient businesses with good quality product and consistently high levels of service."

**For customers:** Where we gain economies of scale with suppliers our pricing can improve along with reliable quality and delivery of our products. As we improve our supply chain processes, our customers can be confident in the quality and delivery of their Concentric product. In addition, the Engines design team have incorporated the supplier data into their processes so that new designs, product developments and applications incorporate materials from preferred suppliers.

**For employees:** Having a smaller number of suppliers to manage drives a whole host of benefits, for example, with fewer purchase orders there is less administration. This gives our supply chain employees more time to concentrate on their value adding activities for customers and undertaking more supplier audits. For our operators, they too want to work with suppliers who provide the best quality components (less than 250 ppm and 99% on time delivery) as this allows them to work without interruption to the production line and with less scrap.

**For investors:** The resulting improved operating efficiencies, increasing profits and top line growth together with the accompanying reputation for quality and service addresses the needs of most investors and contributes to a strong share price.

***What results have you seen from this project?***

"Reduction in suppliers, competitive material costs and improved delivery performances are amongst the most notable outcomes." David Kennington said. "The data allows us to have robust conversations with suppliers that we couldn't have before because the data was not readily available; we now know what's working well and where we need improvements, furthering our aim to partner more closely with our best performing suppliers."

**Sustainability in Action**

There are numerous benefits of a well-managed supply chain that support sustainability. On the environmental side, for example, if we do more business with one supplier instead of four, we have fewer freight deliveries. Admittedly this alone will not move the needle for the Paris Climate Agreement but these changes are contributing in a small way and improving us for the better. On the economic side, we can make clearer data driven decisions and improve our efficiency and margins through these supply chain improvements. This means more money is available to invest in R&D which is an important element of a sustainable future. Supply chain improvements help every part of our business either directly or indirectly.

Dave Clark commented that David Kennington was a great choice for this project. "As a quality manager rather than a purchasing manager, David looked at the challenge from a different angle. Through close collaboration with the Purchasing Managers around the Group, he was able to incorporate their feedback into the new process."

This was a great development opportunity for David Kennington too. He had the chance to work with many people from all facilities, often with diverse interests and opinions. "Working with colleagues across the Group, we have delivered a new process which directly addresses the agreed objectives and delivers business benefit. I am very proud of the team accomplishment. By working with a smaller number of the best suppliers, Concentric will be able to leverage volumes and be a more competitive supplier for our own customers." To conclude, Dave Clark added that one of the big benefits was the improved sense of teamwork across the function. "Whilst this element is difficult to put a cost benefit on," he said, "it is already helping to improve collaboration on other related topics. This has been a great start for group projects designed to give development experience to our employees."

# CBE SPOTLIGHT: SUSTAINABILITY THROUGH BUSINESS EXCELLENCE

Striving to be a sustainable business means:

- protecting our environment,
- managing our economic prosperity, and
- acting for the social good to benefit our present and future stakeholders.

At Concentric, these three elements are important considerations when devising our long and short term strategy and **Concentric Business Excellence** plays a critical part in attaining our sustainability goal. In this article, we interview Jerry Rumple, Continuous Improvement Manager at Rockford who explains how we have achieved an enviable level of business excellence at Concentric Rockford.

Interview with Jerry Rumple, Continuous Improvement Manager, Concentric Rockford

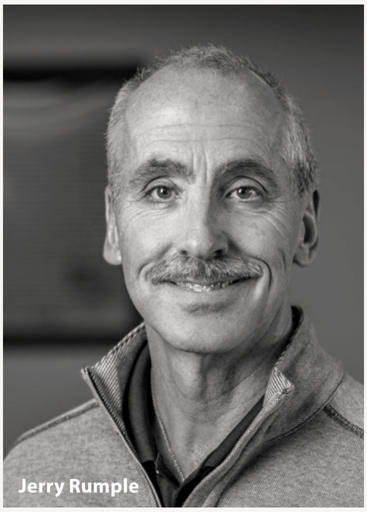
***Jerry, you play a key role in facilitating Concentric Business Excellence, what does your role entail?***
"I have been with the Rockford organisation in its different guises for almost 25 years, first with JSB, then Haldex, Haldex-Barnes and now as Concentric Rockford. My primary responsibilities are to lead improvement processes and activities across the Rockford business and at other locations, if and when required. My role includes leading and mentoring 6 Sigma projects, facilitating key customer reviews, coordinating and participating in Kaizen events, analysing and facilitating improvements for customer and employee survey processes, coordinating the Wellness program, as well as sitting on our Safety Steering Committee."

***You recently coordinated a very successful application on behalf of Rockford to be considered for the prestigious Baldrige/ILPEx Award – receiving ILPEx Silver Award for Progress Toward Excellence from this rigorous assessment. Can you tell us a little more about this?***
"The Illinois Performance Excellence (ILPEx) Recognition Programme leverages the Baldrige Excellence Framework to guide organisations to reach higher levels of performance. The Concentric Business Excellence model has its foundations in the Baldrige and EFQM (European Foundation for Quality Management) Excellence Models. These frameworks are validated, leading edge models for leadership and help to drive improvement and innovation where it is needed most. ILPEx annually recognises organisations for their continuous improvement accomplishments. The ILPEx Award categories – bronze, silver and gold – reflect the increasing maturity of an organisation's business management system and how well it is aligned with business needs. Achieving the ILPEx Silver Award for Progress Toward Excellence demonstrates that we have fully embraced an effective and systematic approach to business excellence and we have been able to show evidence of successfully deploying the model across all functions of the organisation."


***Why do you feel so passionately about participating in the external ILPEx assessment?***
"The ILPEx accreditation requires a thorough and detailed assessment of our performance in the areas of:

- Leadership;
- Strategy;
- Customers;
- Measurement, Analysis and Knowledge Management;
- Workforce;
- Operations and
- Results (such as customer quality, On Time Delivery (OTD), satisfaction/engagement, operational performance measures of Overall Equipment Effectiveness (OEE), first time pass, employee healthcare costs, as well as financial results).

Using a strict scoring system, a team of 8–12 examiners independently reviewed and evaluated our written application for performance and improvement against external benchmarks and best practice standards. Their key findings included an assessment of Rockford's strengths and opportunities. Our application was strong enough to qualify for the next stage which was a rigorous site audit lasting 4 days. The 8 on-site examiners interviewed 124 employees and reviewed hundreds of documents and data to clarify and verify information provided in our application, including the extent to which we deploy and integrate our management systems. They also sought proof that we proactively and systematically review, evaluate and improve our systems and processes.



Jerry Rumple

A detailed Feedback Report was prepared by the Examining team which was reviewed by a Panel of Judges to ensure consistent calibration in scoring and application of the ILPEx criteria. The Judges hold several meetings to review all applicant Feedback Reports and to determine the appropriate level of recognition based on the profile of strengths and opportunities for improvement reported. After such a thorough process, it will not surprise you to learn that the Feedback Report is incredibly valuable for us and it helps to inform future improvement planning.

Also, telling yourself and others you're doing a good job is never as persuasive as someone else who knows what they're talking about telling you. Accredited certification through ILPex indisputably demonstrates our compliance with the standard. It gives customers and other stakeholders greater assurance about our competence and commitment to continuous improvement."

***How does this award benefit our stakeholders?***

"It's not about the award but more about the journey. Any time we can continuously evaluate and improve our approaches to how we lead, strategize, listen to our customers and employees to satisfy and engage them, and improve our operations will lead to improved results in which we all benefit. *The ILPEx Silver Award for Progress Toward Excellence shows that we are differentiating ourselves from our competition through our pursuit of business excellence.*"

***What do you see as the challenges ahead for continued improvement?***

"The biggest challenge moving forward is sustained improvement in all areas, innovation, and integration. Everything starts with Leadership and Strategy. Our approaches must remain aligned and integrated with our defined organisational needs, as determined by our strategy. We must continue to systematically evaluate and improve the efficiency and effectiveness of all of our key approaches based on facts and data. I am reassured that all results reported showed beneficial levels and trends in the areas that are important to accomplishing our mission, and we showed levels of performance relative to comparisons that demonstrate Rockford is an industry leader and can be considered a role model. It is always a challenge to raise the bar but I am confident that we have the commitment and drive, the people and skills, and the systems and processes to deliver further success."

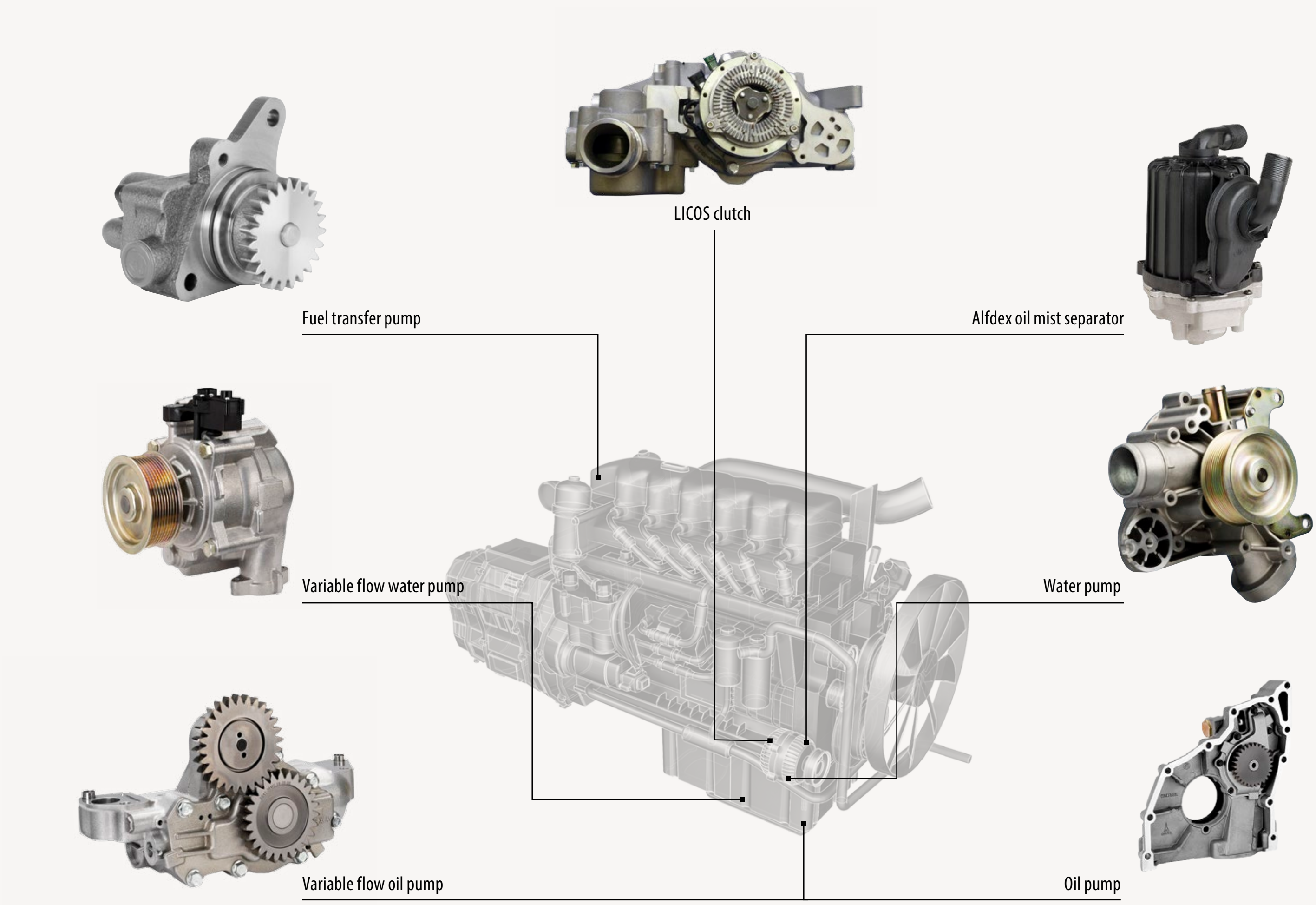
***How does the Concentric Business Excellence model support our goal for sustainable working practices?***

"That's easy! **Environment:** our Environmental Management System (EMS) is continually evaluated and improved such that our products and operations positively impact our customers, suppliers, employees, and community. **Social:** we continually evaluate and improve our key approaches when it comes to employee health, safety, accessibility, and security. **Economic:** one of the main criteria we apply to any process improvement activity is that it must deliver improved results and align with our financial goals. You can't have good processes and process results without showing good levels and sustained trends in key financial results.

Concentric Business Excellence, through the principles of the Baldrige and EFQM models, provides the framework to look to the future and think what does the future look like? And if that's what the future looks like, what are the attributes we have to have to succeed in that future? It guides us not to focus on our markets today; instead it guides us to be focused on the future. What markets are out there and what part we can play in them? Concentric Business Excellence encourages the creation of sustainable working practices which lead to business success."

# ENGINE PRODUCTS

Engine products encompass lubricant, coolant and fuel transfer pumps and oil mist separators produced for major OEMs of both on- and off-highway vehicles and for Tier 1 manufacturers of diesel engines.



PRODUCTS

Concentric's customer solutions are based on the company's core technical skills and expertise in the pump sector. The pumps are designed to enable customer-specific solutions requiring a certain flow or pressure and/or that reduce power consumption or noise levels. This creates environmental benefits in the form of lower fuel consumption, noise levels and emissions.

The pumps are used by OEMs and Tier 1-suppliers in many end-markets and adapted for use in many different applications. Traditional mechanical oil pumps and water pumps are developed to deliver variable flow, via hydraulic or electronic control, thus offering energy savings, more efficient engines, improved temperature stabilisation, reduced emissions and greater noise reduction.

## Alfdex oil mist separator

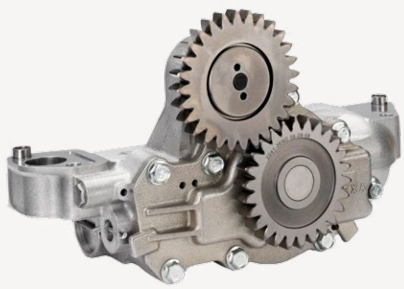
**Crankcase ventilation ➡ Lower emissions**

Alfdex technology is the global market leader for crankcase gas ventilation on heavy duty diesel engines. Now Alfdex has introduced a new product specifically sized for medium duty diesel engines which provides the same operation and benefits in a more compact configuration suited for medium duty commercial diesel engines.

## Variable flow oil pump

**Variable flow technology ➡ Fuel efficiency**

Concentric has developed its leading edge variable flow oil pumps towards a modular approach that offers different technologies and levels of sophistication to meet the varying application needs. This includes fixed drive pumps with electronic pressure regulating valves to enable precise mapping of the oil pressure to suit the engine load requirements. Concentric is currently focused on our customers' next generation engine platforms that will exploit these technologies.

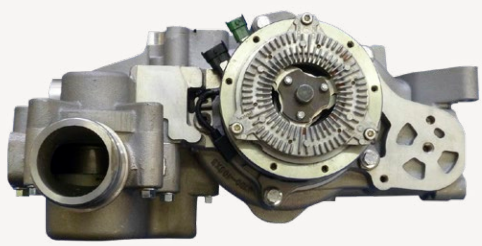


## Controllable Coolant Pump

**2 speed water pumps ➡ Fuel efficiency**

The Licos clutch technology provided by Concentric is the global market leader for controllable pump technology, as used on EPA13/EuroVI engines. This unique two-speed clutch provides an energy saving mode during conditions of low power operation which directly reduces fuel consumption.

Concentric is building on its existing controllable coolant pump technology to provide even more sophisticated control solutions to further increase fuel efficiency.



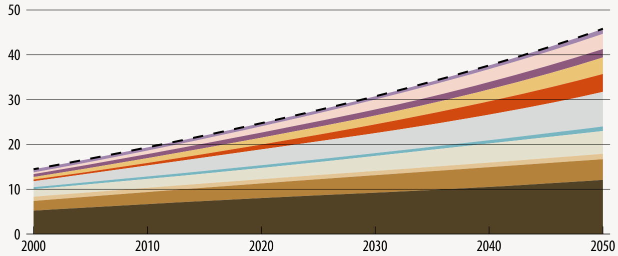
# ENGINE PRODUCTS
# DRIVING FORCES

### Increased freight activity

Transport services facilitate the movement of goods, which is an important enabler of economic growth. Demand for commercial vehicles is cyclical and closely correlates with the total output of the global economy, but the overall trend is clear – demand for freight transport will continue to increase.

OECD's report "Mobility 2030: Meeting the challenges to sustainability" forecasts that emerging markets will be important in driving this growth and that medium and heavy-duty trucks will account for an increasingly larger share of the total market for land-based transport.

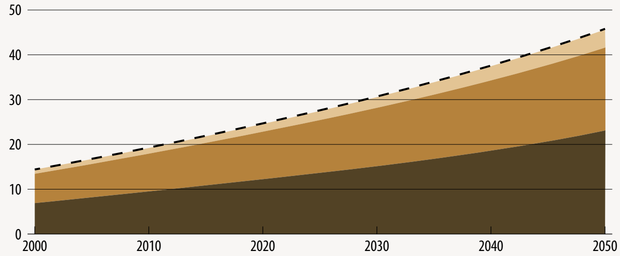
### Freight transport activity by region




| Average Annual Growth Rates | 2000–2030 | 2000–2050 |
|---|---|---|
| – – Total | 2.5% | 2.3% |
| Africa | 2.5% | 2.3% |
| Latin America | 3.4% | 3.1% |
| Middle East | 2.8% | 2.4% |
| India | 4.2% | 3.8% |
| Other Asia | 4.1% | 3.7% |
| China | 3.7% | 3.3% |
| Eastern Europe | 2.7% | 2.8% |
| Former Soviet Union | 2.3% | 2.2% |
| OECD Pacific | 1.8% | 1.6% |
| OECD Europe | 1.9% | 1.5% |
| OECD North America | 1.9% | 1.7% |

Source: *World Business Council for Sustainable Development – Mobility 2030: Meeting the challenges to sustainability*

### Freight transport activity by mode




| Average Annual Growth Rates | 2000–2030 | 2000–2050 |
|---|---|---|
| – – Total | 2.5% | 2.3% |
| Medium Duty Trucks | 3.0% | 2.7% |
| Freight Rail | 2.3% | 2.2% |
| Heavy Duty Trucks | 2.7% | 2.4% |

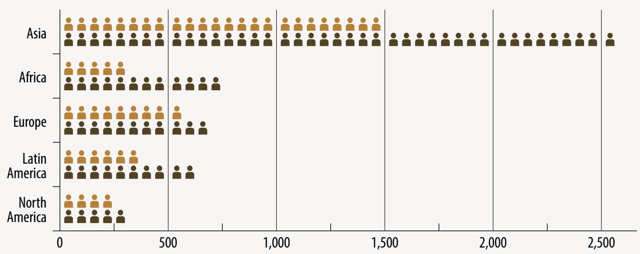
Source: *World Business Council for Sustainable Development – Mobility 2030: Meeting the challenges to sustainability*

### Global infrastructure

The continued economic growth in emerging markets, particularly the BRIC countries, is driving increased demand for Concentric products in all major end-user markets.

- **1 billion** new consumers in emerging market cities by 2025.
- Cities are expected to need to build floor space equivalent to **85 percent** of today's building stock – an area the size of Austria, at a **annual growth rate of 4.2 percent** from 2010 to 2025.
- Over **2.5 times** today's level of port infrastructure needed to meet rising container shipping demand. Container traffic will grow at a compound **annual rate of 7.2 percent** from 2010 to 2025.
- **4.4 percent** annual GDP growth in cities globally 2010 to 2025.

**Urban populations, by region**




**Urban population** (millions)

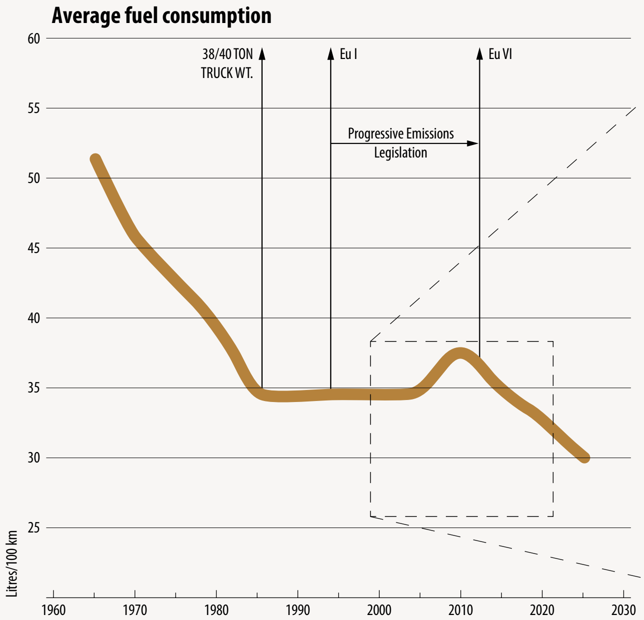
| | |
|---|---|
| year 2000 | year 2030 |

Source: *Haver, UBS*

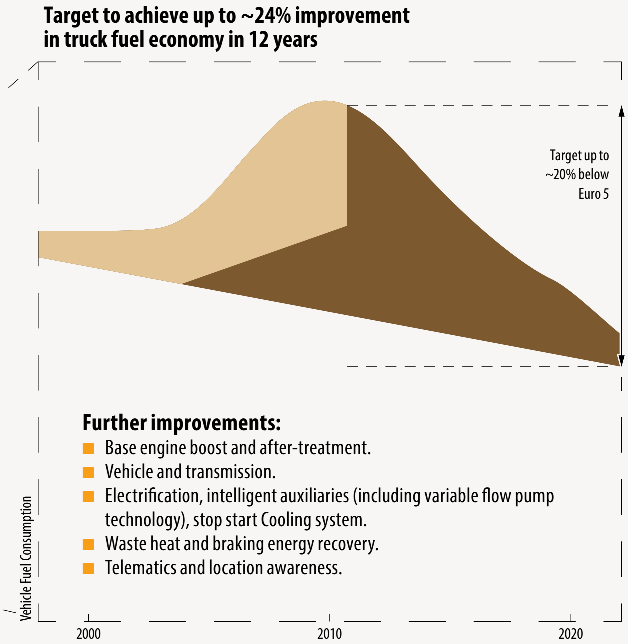
## Fuel efficiency

The US Environmental protection agency (EPA) have proposed greenhouse gas (GHG) emissions and fuel efficiency standards for medium and heavy duty vehicles. The proposed standards will cover model years 2021 to 2027. The engines for these models are currently being developed and our new technology is under consideration for use within them.

The Phase two GHG standards in 2027 for Class 8 heavy-duty trucks will give a reduction in $CO_2$ of 24 percent for the whole vehicle and four percent for the engine alone.




Source: *Lastauto Omnibus, April 2014*

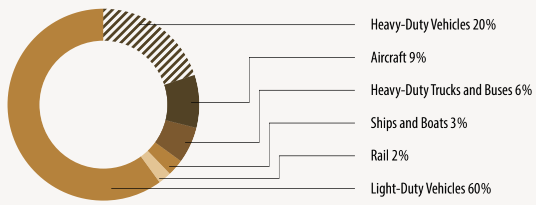



Source: *Ricardo*

A four percent reduction in $CO_2$ at today's fuel prices is equivalent to a fuel saving of approximately 2400 Euros per year.

The proposed standards do not mandate the use of specific technologies. Rather they establish standards to be achieved through a range of technology options, and allow manufacturers to choose those technologies that work best for their products and for their customers.

High on the list of technologies to achieve very low payback periods for the end customer are variable flow pumps, as referenced by the Southwest Research Institute in a paper to support the introduction of the Phase two regulations.




Source: *US Energy information, Administration, Annual Energy Outlook 2014*

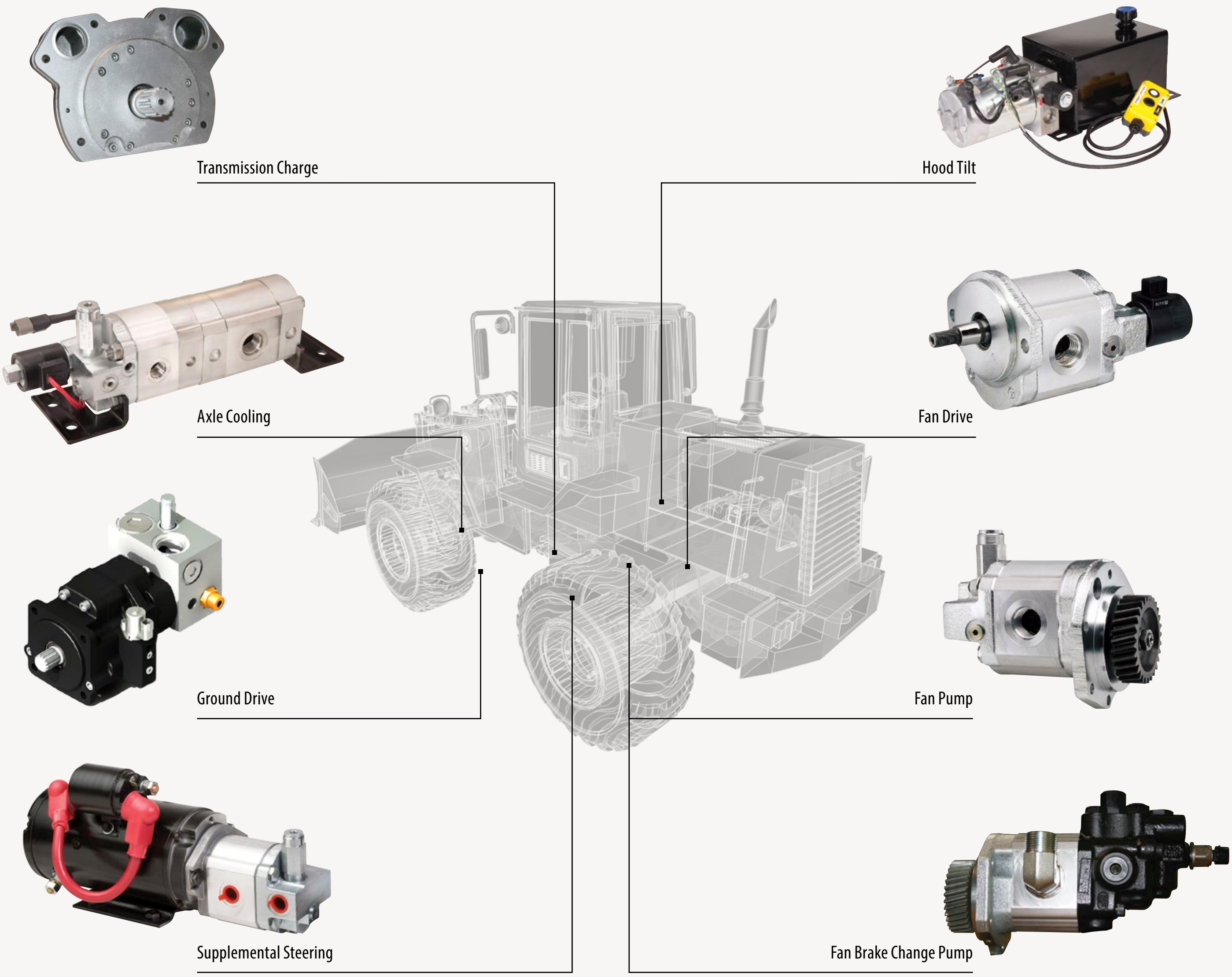
Heavy-duty vehicles are responsible for about one fifth of the energy use and GHG emissions from transportation sources.

| Category | $CO_2$ Emissions and Fuel Consumption Reductions in 2027 |
|---|---|
| Combination Tractors | up to 24% |
| Trailers Pullered by Combination Tractors | up to 8% |
| Vocational Vehicles | up to 16% |
| Pickups/Vans | up to 16% |
| Engines | up to 4% |

Source: *EPA GHG legislation, published June 2015*

# HYDRAULIC PRODUCTS

Hydraulic products encompass gear pumps and power packs produced for major OEMs of both on- and off-highway vehicles and for distributors of hydraulic solutions.



There are several major players in the global market for hydraulic pumps, such as Bosch Rexroth, Parker Hannifin, Eaton and Sauer Danfoss, all of which are active in high-volume areas of the market. There are also regional competitors in Japan, such as Shimadzu and Kayaba, and other regions, such as Hawe in Europe and HPI in the USA. The market is highly diversified.

Concentric usually only competes with these companies in certain niche areas where the technology included in the products is generally more advanced, or where Concentric is able to differentiate its products by offering customers specific solutions.

Concentric also has a large market share in specific niche areas such as hydraulic fan drive systems, complementary control pumps and other special applications in which customers attach value to low noise, compact size and low weight.

## Calma pump

**Environmental impact ➡ Noise Reduction**

The impact of noise, from the viewpoint of both the machine operator and those exposed to noise at worksites, is also attracting attention from legislators. Concentric's Calma series reduces outlet pressure pulsation by 75 percent which can deliver up to 8–10 dB lower noise levels. The Calma product line is being expanded to include the Ferra series products, namely the F15 and F12 pumps. The F9 Calma is slated for future development and product introduction.

## Ferra series

**Power density ➡ Size reduction**

The Ferra series pumps offer increased power density and delivers higher durability within a 20–30 percent smaller space claim. The two piece cast iron design is extremely robust across a broad temperature range and offers installation flexibility due to its compact design. The expanded pressure ranges up to 300 bar available with the Ferra series pumps and birotational motors offer designers various options when selecting products. The new F20/30 FerraExpress program also allows for quick delivery to address the dynamic needs of today's market.

## Dual cone clutch

**Energy efficiency ➡ Power on demand**

The Concentric DCC pump is designed to suit intermittent applications that demand high power density during work cycles, while offering savings in energy consumption when hydraulic power is not required, such as during travel times between operating cycles. The technology employs power-on-demand logic, which eliminates parasitic losses, thereby saving energy in transit mode when work functions are not being performed.

# Concentric's business is driven by a number of specific demands from the fluid power industry to increase performance in a variety of areas.

These specific demands are being addressed in a number of ways, thus improving the design and function of fluid power components and systems. The market trends include a move towards applying more of a systems approach utilising components that increase performance and productivity, improve machinery up-time, reduce the life cycle costs and better predictability of maintenance.

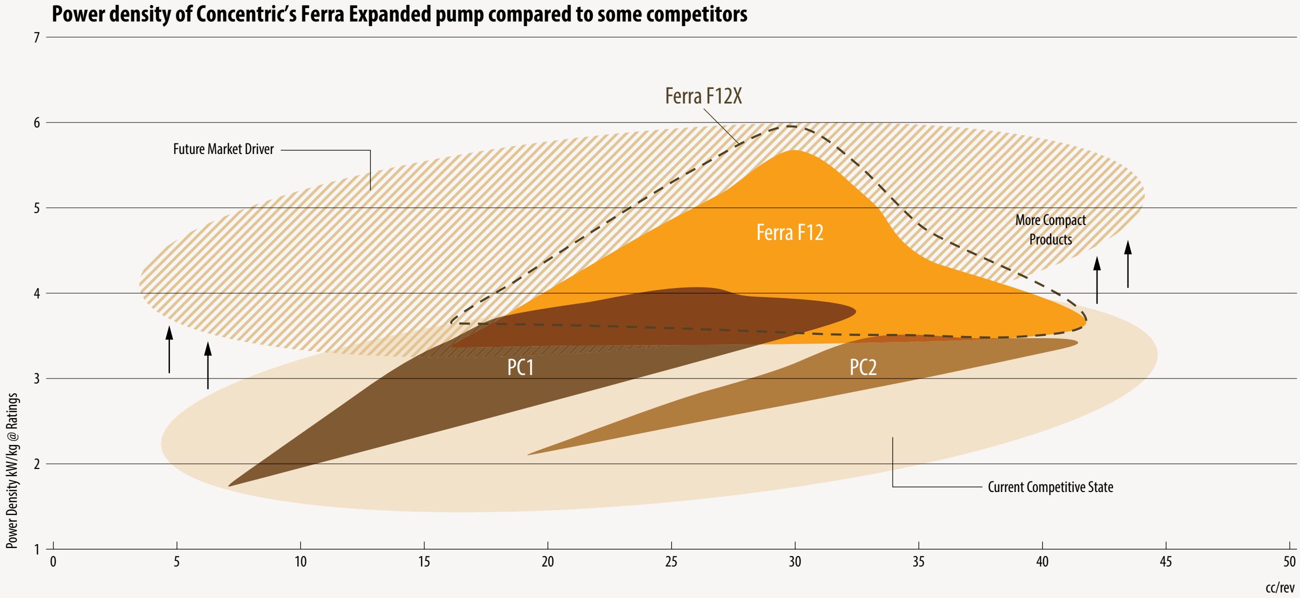
Ever increasing machine complexity is putting a premium on space availability which is driving the demand for higher power density pumps. In addition, the growing requirements to limit the environmental impact of equipment in the working environment is leading to further development and expansion of noise reduction technology in vehicles.

**Size reduction and reliability**

Concentric continues to develop and expand its product offering by pushing the power density envelope even higher. The ability to deliver the same power output within a smaller pump body allows vehicle designers greater flexibility when space allocation is limited. In addition, the cast iron body is more durable and performs better under various environmental conditions.

Reliability can also be improved by better integration of components into a more contained system and reducing maintenance requirements.

**Power density of Concentric's Ferra Expanded pump compared to some competitors**




Concentric continues to raise the bar on the power density of its products as compared to competitive product offerings, illustrated by PC1 and PC2 in the above graph. The Ferra 12 series has increased its rated pressure for smaller displacements up to 300 bar.

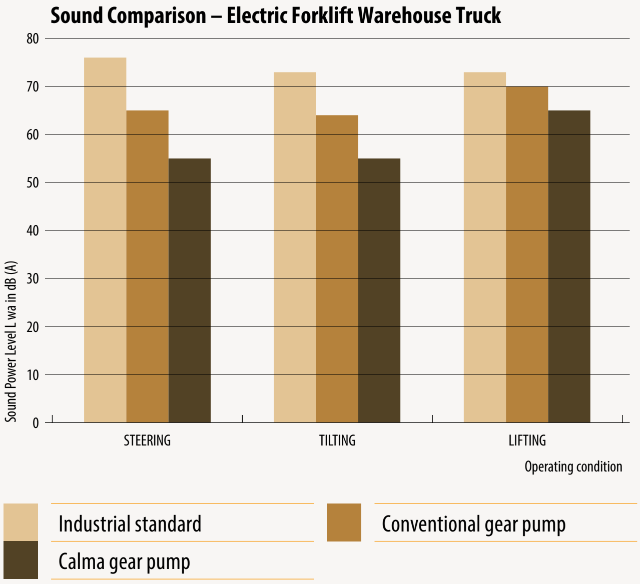
## Environmental impact – Noise reduction

Reduced noise is an important issue when considering how to improve the working environment in a warehouse. There are a number of ways to reduce the level of noise. Power on demand options is one method. Additionally, novel designs in the components used within the system can impact the overall noise emission levels. Pump designs can be optimised, including materials selected, to reduce obstructions to the flow and pressure pulsations thereby lowering the resulting noise emitted.

## Energy efficiency

In 2015, the National Fluid Power Association in the USA (NFPA) have, through their Technology Roadmap Task Force, provided an update to the work previously published in 2012. The task force maintained that energy efficiency is one of the key areas in need of development. Improvements can be made through increased efficiencies of components and systems, reduced consumption of energy within the system as well as improvement in energy recovery methods.

Smarter use of energy as well as elimination of parasitic losses all aid in the development of more efficient systems. In addition, smart components and systems, supported by sensor data, can also contribute to more efficient systems by utilising power on demand and variable displacement devices and technology.




The Concentric Calma pump is compared against the industry standard as well as other conventional gear pumps.

**Given the benefit of decoupling when hydraulic power isn't needed, a pump and a clutch combination isn't really that strange – as the energy savings and low wear will testify.**

Concentric uses elements of its core technology building blocks to aid the design and development of unique solutions that answer a variety of key industry market drivers, namely energy savings and power density combined with lower noise. The company's most recent development is an integrated combination of its patented dual cone clutch (DCC) and its Ferra series pumps.

Following the acquisition of LICOS Trucktec GmbH in 2013, a variety of new technologies became available to Concentric. The patented DCC is compact in design and, with extremely low wear at the friction interfaces, is virtually maintenance free. Actuation of the clutch can occur either hydraulically or pneumatically and can be designed to include fail-safe modes of operation depending upon the application requirements.

Like many other products in the Concentric offering, the integrated DCC pump product is modular in design, which allows for easy substitution of standard pump components as well as the addition of the clutch mechanism, which is bolted directly to the pump. The modular approach also helps to ensure the exact production standards required to deliver market-leading technologies cost effectively.

The technology is easily scalable depending on the torque loads required by the application. Recent testing has yielded positive results in transmitting up to 140Nm of torque and power savings up to 3kW. Prototype units are available that can be customized to meet specific application requirements.

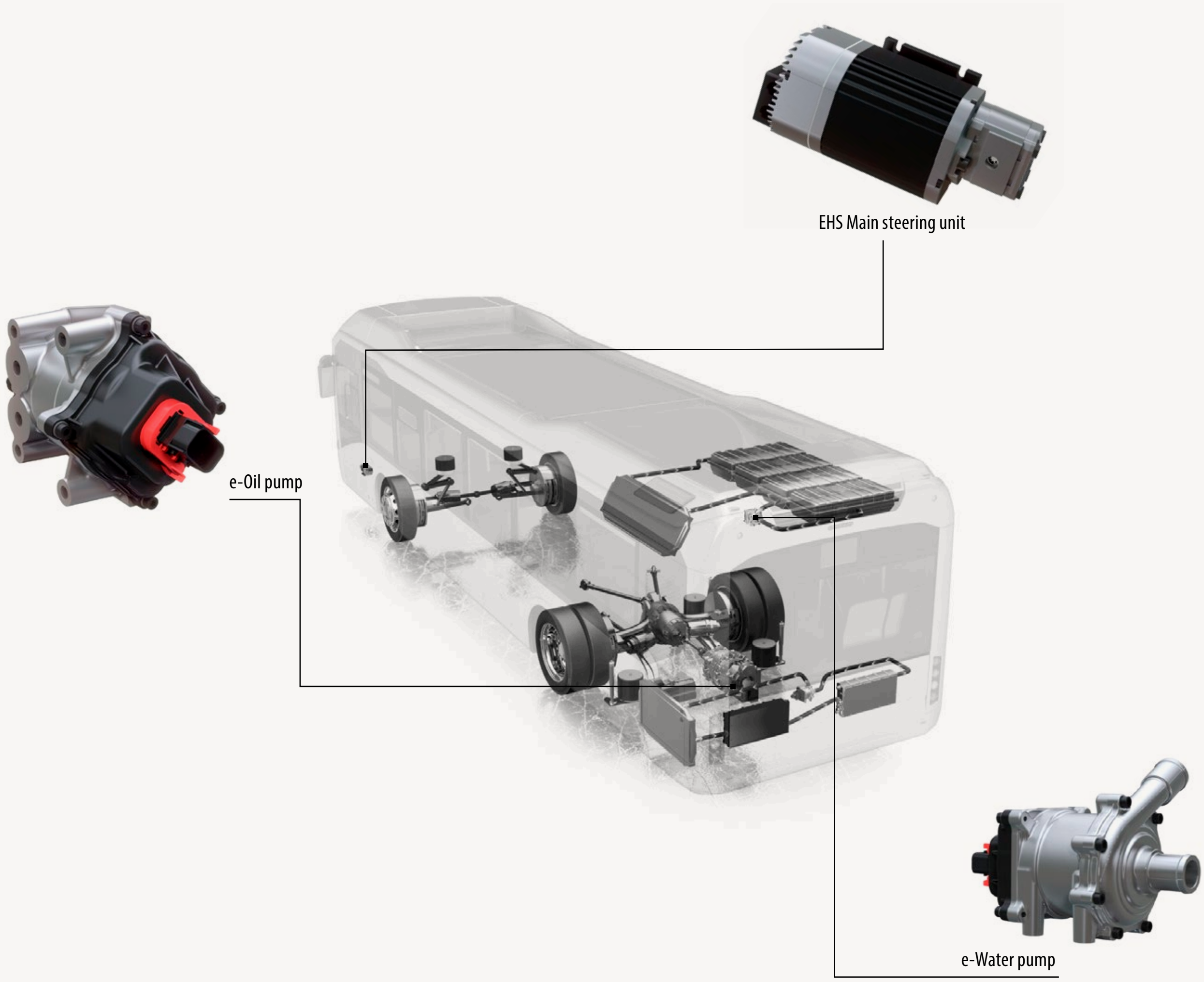
There are many advantages associated with the integrated power-on-demand DCC product – not least the compact design that offers vehicle and system designers greater flexibility when competing for the ever-decreasing available space within the latest machines. Through its very nature of possessing the ability to be decoupled when not performing work, the resulting reduction of parasitic losses directly correlates to a drop in fuel consumption.

The power-on-demand logic allows for additional benefits by decoupling auxiliary pumps to deliver improved startup capability, particularly in cold weather conditions, thereby requiring reduced cranking power. This opportunity may also allow for an overall reduction in engine size as a result of not having to overcome these parasitic loads at startup.

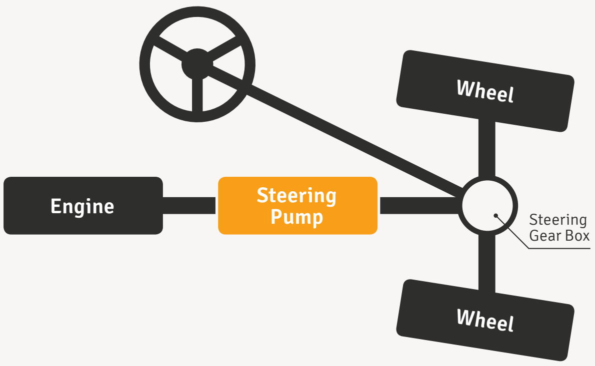
In addition to these benefits, improved pump reliability is anticipated through extended pump life, which is accomplished by only running the unit when the work cycle requires. Furthermore, a reduction in environmental noise emission is also accomplished by turning the pump off when it is not being used. In fact, whatever the application might be, this new technology being offered by Concentric can be easily adapted to suit the demands of almost any vehicle.

# E-PRODUCTS

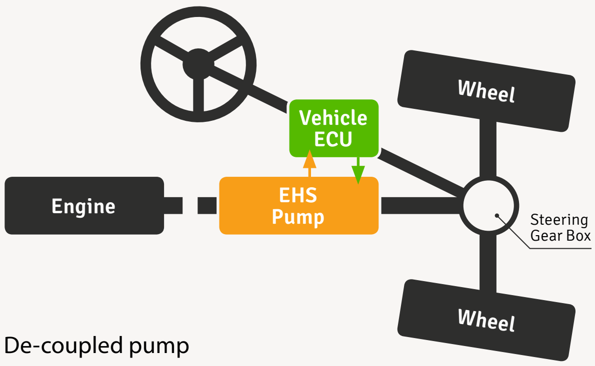
Concentric supply several key technologies for the fast growing electromobility market. Pressure to improve urban environments and the drive for lower total cost of ownership, mean this market will grow significantly in the years to come. Concentric are ready to support this growth with advanced technology and the expertise to tailor it to meet our customers' needs.



**Conventional steering system compared to an Energy Savings steering system**




- Conventional steering system




- De-coupled pump
- Input feedback control
- Energy Saving steering system

## EHS Electro Hydraulic Steering

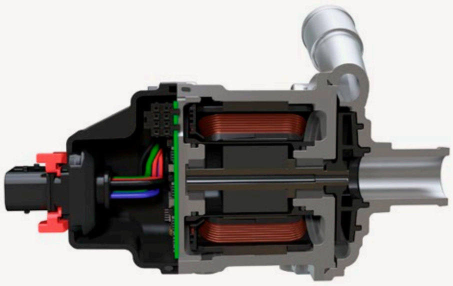
**Power consumption ➡ Energy efficiency**

The Concentric Electric Hydraulic Steering unit has sufficient power for full steering control in all conditions. High efficiency helps improve fuel economy and Electric Vehicle range. The control Software is designed to meet the required safety demands. Simple installation with integrated controller featuring full J1939 CAN control. Designed to meet the challenges of heavy duty commercial vehicles including installation vibrations, dust and water resistance and EMC compliance.

## Electric water pump

**Integrated system ➡ Energy efficiency**

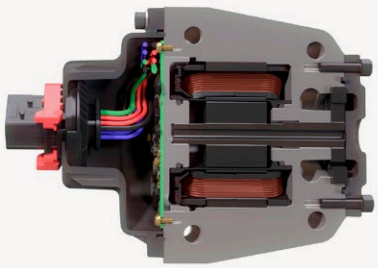
Developed for the cooling of hybrid and electric vehicle batteries and power electronics. The electric coolant pump has been designed without the need for a dynamic seal, removing seal failure modes, thus allowing for an extended lifetime and periods of dry running. The wet rotor design assists with cooling the electric motor and controller, enabling greater resistance to extremes of environmental temperatures. The hydraulic pump design can be tailored to meet specific customer performance requirements. Intelligent J1939 CAN control with performance feedback and fault detection capability.



## Electric Oil Pump

**Integrated system ➡ Energy efficiency**

Like the electric water pump, the Concentric electric oil pump has been designed without the need for a dynamic seal, removing seal failure modes, thus allowing for an extended lifetime. The hydraulic pump design can be tailored to meet specific customer performance requirements. The wet rotor design assists with cooling the electric motor and controller, enabling greater resistance to extremes of environmental temperatures. Designed to meet the challenges of heavy duty commercial vehicles including installation vibrations, dust and water resistance and EMC compliance.

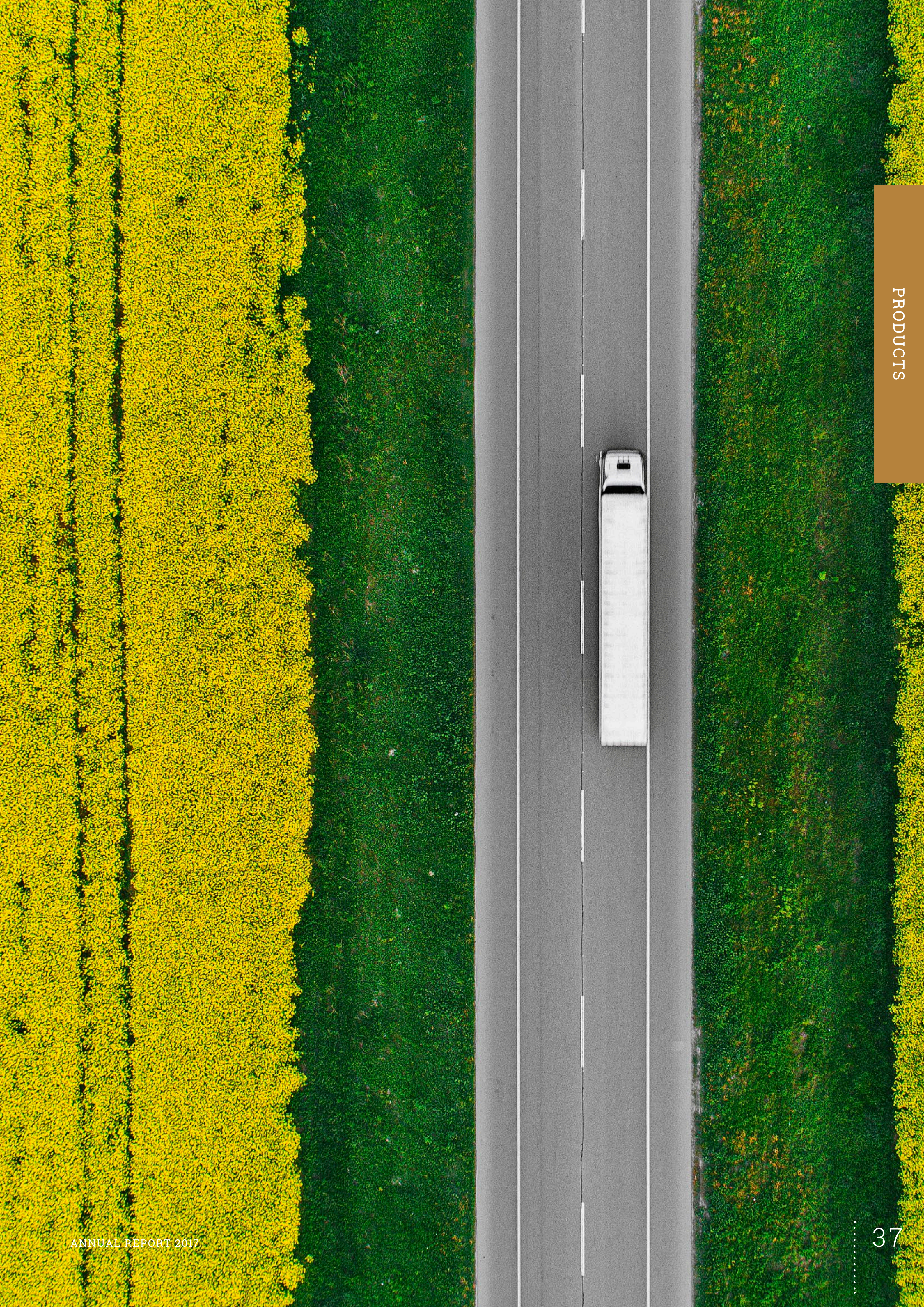


PRODUCTS

We're on the road towards

# sustainable, highly efficient electrical and hybrid powertrains.

Propulsion and vehicle efficiency is shifting gears dramatically, moving us forever from traditional vehicle powertrains to transformative electrical load minimization technologies. The drive toward electrification of commercial vehicles encompasses a spectrum of uncertainties, realities and challenges for both internal combustion engine vehicles, and the range of full or partially electrified vehicles, i.e., hybrid vehicles.



PRODUCTS

» The driving idea is to come up with intelligent pumps that 'talk' to the engine «

Paul Shepherd

Propulsion and vehicle efficiency is shifting gears dramatically, moving us forever from traditional vehicle powertrains to transformative electrical load minimization technologies.

The drive toward electrification of commercial vehicles encompasses a spectrum of uncertainties, realities and challenges for both internal combustion engine vehicles, and the range of full or partially electrified vehicles, i.e., hybrid vehicles.

**Setting the roadmap with innovative pump auxiliaries**

Concentric is strategically positioned to drive the agenda forward by enabling the right technologies for achieving electric vehicles. Electrification of vehicles, both on-and off-highway, is today highly critical to us. It is our focus to harness the best of our resources and capabilities to deliver on the rapidly evolving needs of a market that is racing towards dynamic electrification of commercial vehicles.

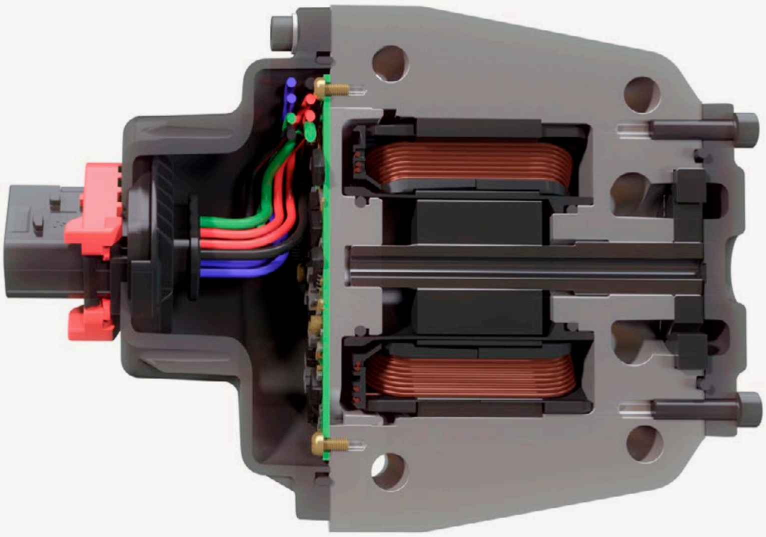
The commercial vehicle industry, devoid of a single alternative energy strategy, is bent on heightening efficiency and reducing emissions. This has resulted in OEMs and Tier 1 powertrain suppliers developing breakthrough mechanisms and innovative solutions. Full-vehicle electrification is generally agreed upon to be the ultimate goal for many manufacturers, especially for urban applications, with hybrid technologies that converge electrical and hydraulic systems being the essential stepping stone for achieving efficiency.

**The power of the pump**

Electrification started in a modest way: as convenience items. However, ever rising environmental concerns have put pressure on commercial vehicle manufacturers to develop more electrified subsystems in order to provide mechanically or hydraulically driven solutions. This is when electric pumps took center stage and helped drive the efficiency levels of vehicles to new heights.

Pumps are needed for cooling and actuation purposes in commercial vehicle engines and transmissions. Traditionally, hydraulic pumps are engine-driven, continuously providing fluid pressure. Because of this direct link to the engine, oil is flowing – even if not needed. Perhaps even more importantly, oil is especially wasted at higher engine speeds.

Electric pumps have the capacity to be activated to provide power on-demand, and allow vehicles to switch off circuits in various situations, thereby achieving lower fuel consumption. Consequently, numerous solutions designed to reduce the time that the engine is used, or to even remove the engine altogether, have emerged. However, these solutions all have one critical common problem: incompatibility with conventional mechanical pumps leading to the development of increasingly intelligent, electric pumps.





## The intelligence behind electrification

We need to also consider the fact that saving energy and heightening efficiency in a vehicle often means much more than simply switching off the combustion engine during standstill.

Concentric is dedicated to driving innovation in the conversion of mechanically-driven auxiliary devices to electrically-driven devices. This will enable the relevant devices to be easily switched on and off according to the actual needs, like for example in the electrification of the cooling fluid pump.

An electric pump can be operated intelligently, so it is not activated when the engine is cold. Yet another example is regenerative braking to harness the vehicle's kinetic energy to recharge the battery more efficiently and thereby make best use of short periods of energy for free.

## Blending of technologies

Applications where electrical and hydraulic power are being combined to satisfy critical performance requirements is increasingly on the rise. In the true sense of a hybrid system, two different technologies are applied to power an individual service need. The primary goal with hybridization is to downsize or down-speed the prime mover while still maintaining overall performance and achieving desired results. Hybrid solutions deliver a host of benefits, including seamless integration and filling the performance gap.

## On the highway to the future

Undoubtedly cost remains the biggest challenge to the industry, even as we work to embrace the complete electrification of vehicles for a more sustainable, efficient future. While advancements in the commercial vehicle industry are helping to alleviate this, it still remains a factor both in terms of development for OEMs and what customers are willing to pay. Energy storage and infrastructure logistics are also challenges that cannot be taken lightly.

Concentric is determined to work in close collaboration with our partners to develop the right technologies. Developing overall smarter systems through the use of sensors and other electronics, as well as integrated systems are ways that we, together with our partners, can meet those efficiency and emissions-reduction goals. And get us well on the way towards greater hybridization and full-vehicle electrification.

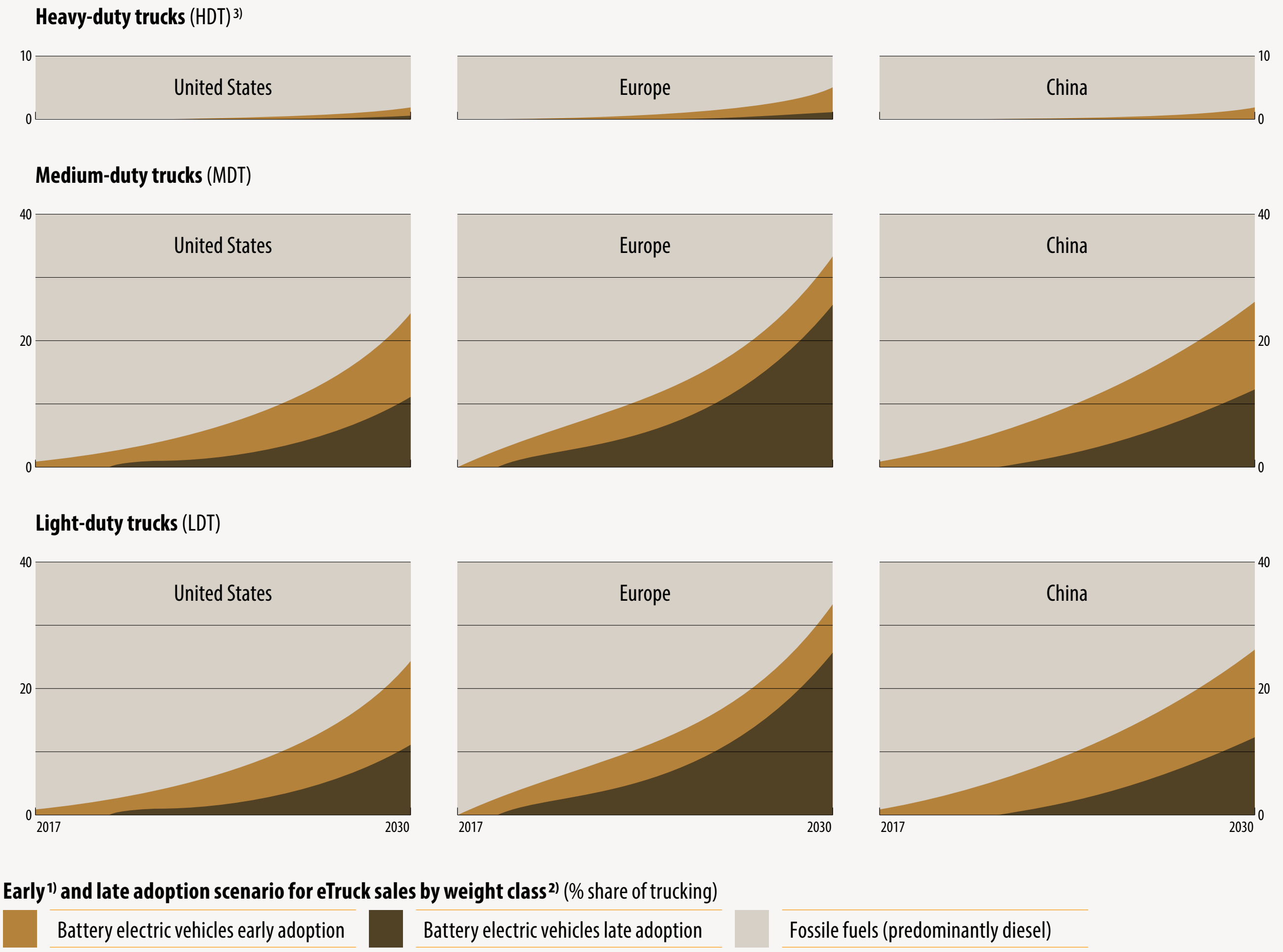
## Electrification is happening fast, and it's happening now

McKinsey has developed a granular assessment of battery-electric commercial vehicles (BECVs) for 27 CV segments across three different regions (China, Europe, and the United States), three weight classes, and three applications. The three weight classes are light-duty trucks (LDTs), medium-duty trucks (MDTs), and heavy-duty trucks (HDTs), while the three applications are urban, regional, and long-haul cycles. Whilst the market will also include other alternative fuels and technologies such as mild hybrids, plug-in hybrids (PHEVs), natural gas, and fuel-cell electric CVs, this analysis focuses on full electrification.

McKinsey have modelled two scenarios, "early adoption" and "late adoption," to help place bookends for each weight class and geography (Exhibit 1). The two scenarios reflect different beliefs regarding core assumptions, such as the effectiveness of any regulatory push, the timing of infrastructure readiness, and the supply availability, which results in delay or advancement of uptake.

The research reveals strong potential uptake of BECVs, especially in the light- and medium-duty segments. CV purchasing decisions  generally place greater emphasis on economic calculations and reflect a greater sensitivity to regulation. However there will be a low uptake in the HDT segment mainly because of high battery costs, and, as such, later TCO parity. The inflection point appears to be shortly after 2025, when demand could be supported by a significant tailwind from the expected tightening of regulation (for example, free emission zones), in combination with increasing customer confidence, established charging infrastructure, model availability, and improved economics for a variety of use cases and applications.

**Exhibit 1:**
**Electric trucks could see several adoption scenarios**




[1] Based on set more optimistic assumptions (for example, higher impact of regulation).
[2] Weight-class definitions: United States: HDT: class 8 (>15 tons), MDT: class 4–7 (6.4–15 tons); China: HDT >14 tons, MDT: 6–14 tons, LDT: 1.8–6 tons.
[3] City buses not included

Source: *McKinsey Center for Future Mobility*

### The importance of total cost of ownership

TCO plays a more important role in commercial-vehicle purchasing considerations and modelling TCO helps companies understand the timing of TCO parity across different powertrain types. McKinsey analysed the sensitivity of TCO parity to see how much earlier a specific use case with a custom-made technology package tailored to a predefined driving and charging pattern can break even. The illustration of the "race of eTrucks" shows the interval of potential TCO break-even points for various applications and weight classes (Exhibit 2). The light-coloured shade behind each point indicates how early a specific use case can potentially break even.

Medium average daily distances show the earliest TCO break-even point. Urban city buses will break even earliest in the heavy-duty segment. Electric city buses – an adaptation of a purpose-built HDT – could break even the earliest in the HDT segment, between 2023 and 2025 for the average application. In China in 2016, the share of new EV bus sales already exceeded 30 percent due to regulatory considerations. By 2030, EV city buses could reach about 50 percent if municipalities enact conducive policies. City and urban bus segments are likely to experience some of the highest BECV penetration levels in Europe and the United States. The breakeven point for light-duty urban applications is sensitive to minor changes in use case.

Three critical assumptions most affect TCO breakeven points: the development of fuel and electricity efficiencies for ICE or BECV technologies, the cost of batteries, and the cost of fuel and electricity.

### Infrastructure readiness

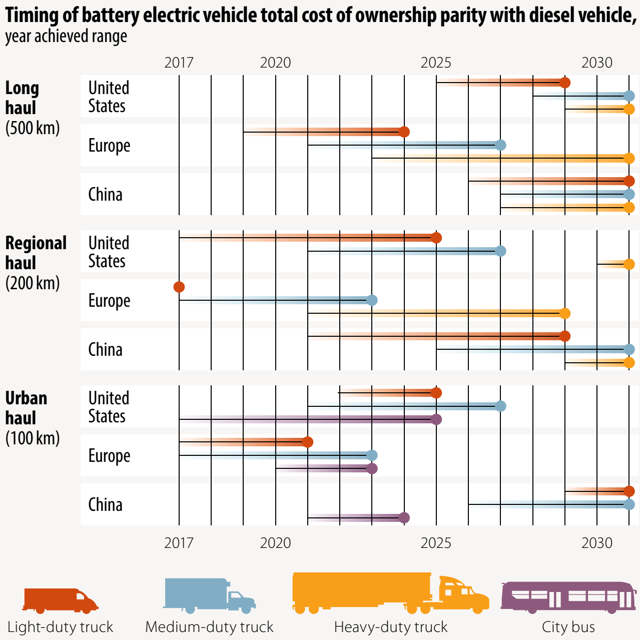
The required charging infrastructure represents a major challenge to BECV uptake. Nevertheless, charging may not be as critical as it is for passenger cars, due to the predictability and repeatability of driving patterns and operational uses and the central nature of refuelling. In general, charging infrastructure will be required at depots to enable charging when BECVs are not in use (for example, overnight). Building a supporting infrastructure will require investments by vehicle owners and, potentially, end users as well. The possibility of charging while loading or unloading could drive earlier adoption because it has the potential to reduce cost based on smaller battery-size requirements.

### Factors that will drive eTruck penetration through 2030

McKinsey's focus on common and specific use cases provides a transparent way for industry players to understand the forces driving BECV technology into the market. When examining the underlying drivers of eTruck penetration, use cases can highlight patterns (such as range versus typical driving distances and charging patterns) and adoption rationales. McKinsey selected globally representative use cases that we believe will drive the adoption of electrified commercial vehicles in China, Europe, and the United States (Exhibit 3).

**Exhibit 2:**

**Different applications and weight classes will see varying breakeven points for electric vehicle total cost of ownership.**




Source: *McKinsley Center for Future Mobility*

**Exhibit 3:**

**Typical use cases could spark the electrification of trucks.**

| Application segment | Segment perspective | Example use cases | Range of TCO parity[1], year |
|---|---|---|---|
| Regional light-duty-truck (LDT) hub-and-spoke delivery | First truck segment to reach total-cost-of-ownership (TCO) parity, lowest entry barrier for battery electric vehicles (BEVs) | Regional grocery delivery for shops and restaurants | 2017 |
| Urban LDT stop-and-go delivery | Second truck segment to reach TCO parity due to low share of battery cost | Urban last-mile distribution with central hub and many stops | 2017–21 |
| Regional medium-duty truck hub-and-spoke delivery | Third segment to reach TCO parity due to balanced capital and operating expenditure | Grocery store chain with logistics center for several branches | 2017–23 |
| Urban heavy-duty city bus | In China and US, buses reach earlier TCO parity than truck segments due to lower share of battery cost in total capital expenditure | Typical city bus or school bus with dozens of stops | 2020–23 |
| Long-haul heavy-duty truck point to point | Parity for average users around 2030, due to large battery need, but up to 7 years earlier in beneficial use cases | International or continental freight logistics | 2023–31 |

[1] Depending on region, example shown, Europe.

Source: *McKinsley Center for Future Mobility*

These five crucial use cases will likely spark commercial EV adoption and represent a large share of BECV driving patterns. In addition to these use cases, McKinsey analysed the potential from adjusting inputs to the very specific needs of customers. Doing so can shift TCO parity points by up to ten years in targeted sub-segments.

Some of the detailed specifications and driving patterns will differ across regions. As an example, we have considered two use cases tailored for the European market below.

**Light-duty regional hub-and-spoke delivery.** This use case can reach TCO parity with diesels today. While most industry players' focus on last-mile and urban-delivery solutions, the regional hub-and-spoke distribution approach is more advantageous from a TCO perspective (customers could include regional grocery delivery for shops and restaurants). Vehicles in this use case could share car components and infrastructure to accelerate adoption. However, the need for charging infrastructure at a regional level likely represents an implementation bottleneck (Exhibit 4). By opportunistically charging with an adjusted battery size during loading/unloading, fleets could advance the timing of TCO parity.

**Heavy-duty point-to-point long haul.** In contrast, the average heavy duty application reaches TCO parity only toward 2030. The need for a bigger battery initially causes a larger cost difference, yet the cost gap between diesel and BECV will decrease. Battery-induced payload loss remains, making the use case unfavourable for weight maximisers (yet some regulators may increase the maximum payload for BECVs). Counterintuitively, several OEMs are expected to launch HDT eTrucks long before 2030, likely driven by three reasons: First, TCO parity could be achieved as early as 2023 for users that optimize the benefits of BECVs – for example, by achieving higher utilization (300-plus days a year), introducing midday charging, and requiring below average payload needs. An example could be industrial area stop-and-go goods delivery. Second, operators may want to include BECVs in their fleet to reach potential fleet emission targets and to gain a green image. Third, for similar reasons some customers will have a higher willingness to pay and thus TCO is not the primary driving factor. Another factor not included in the analysis is the potential efficiency and range improvement of platooning trucks, which will become increasingly relevant in the next decade.

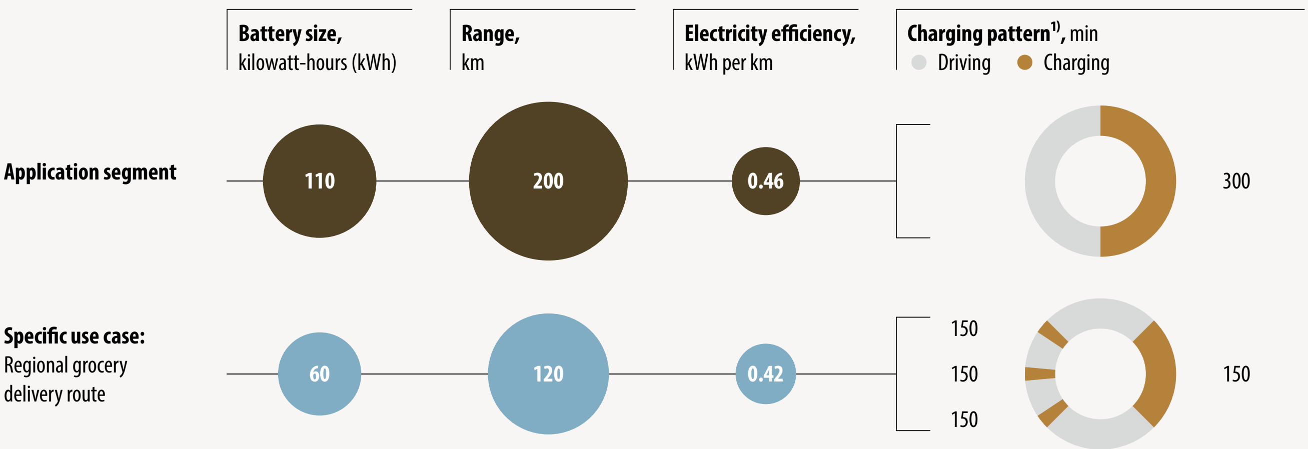
The key success factors for the eTruck ecosystem will be:

1. Design to specific use cases with tailored products that can shift TCO parity forward by a couple years or towards break even today.
2. Innovate the business model around eTrucks – holistic service concept, including the required charging infrastructure and power contracts, with value-based pricing
3. Master supply chain (for example, tier-one suppliers) and operations and capture supply chain synergies.
4. Educate, train, and enable both the end-customer and the dealer network with new selling and service competencies.

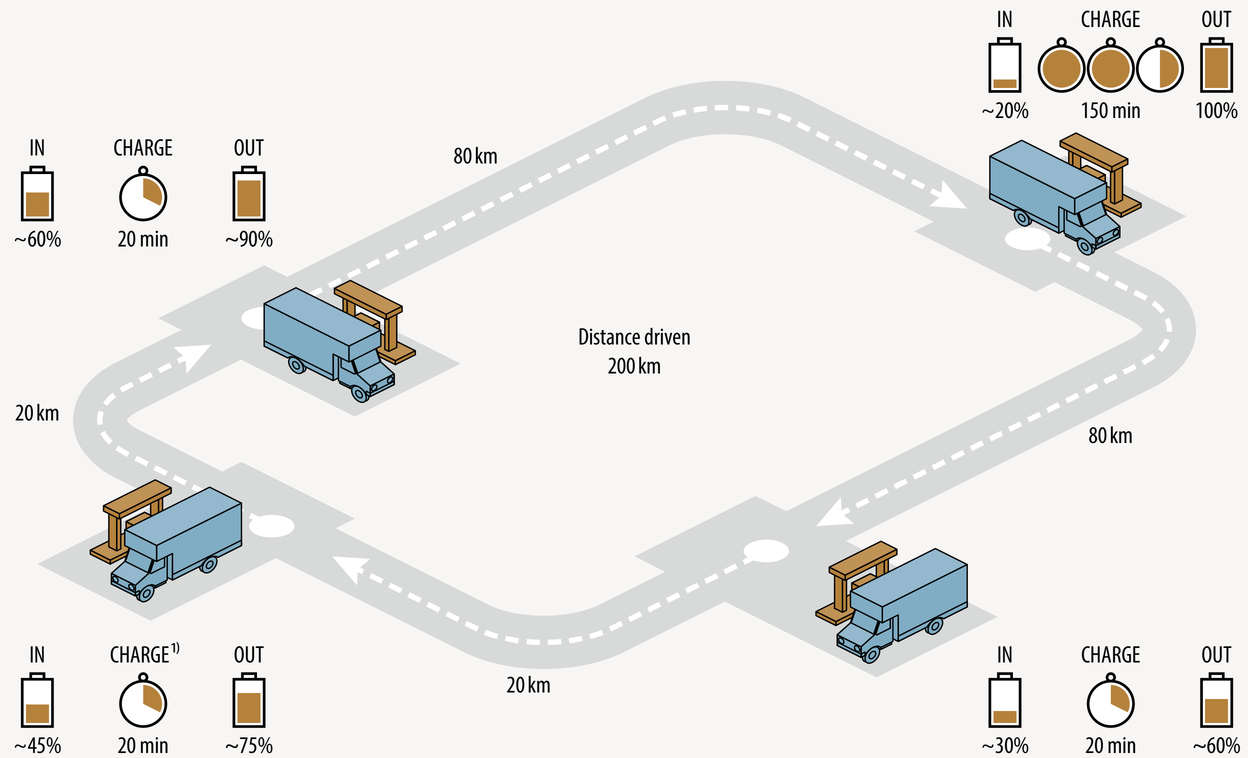
**Exhibit 4:**

**Light-duty trucks for regional hub-and-spoke distribution reached total-cost-of-ownership parity in 2017.**

**Total-cost-of-ownership parity levers for light-duty trucks**



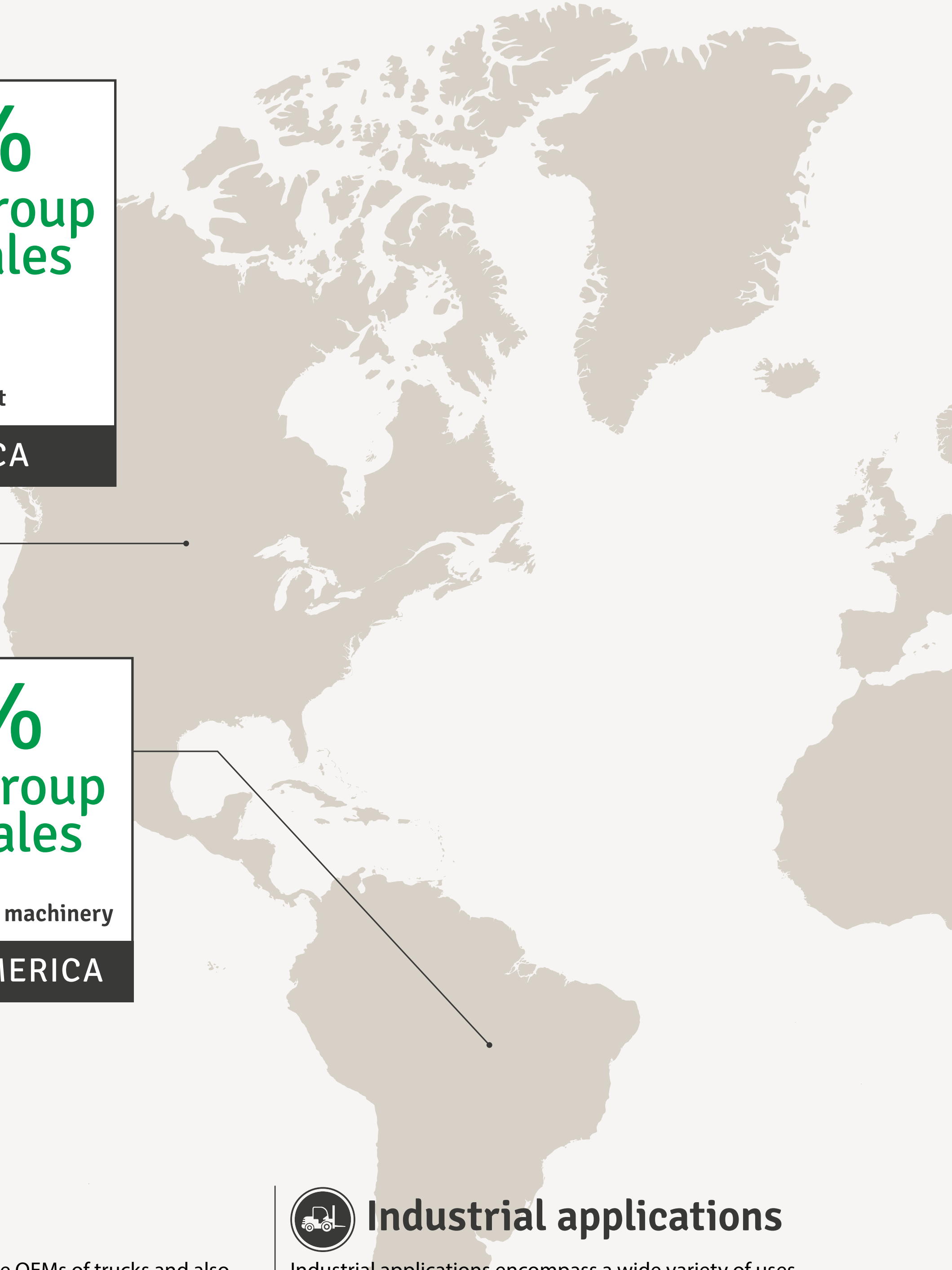

- 3.5-ton light-duty truck
- Customised equipment and specifications for use case (for example, no HVAC, minimal interior)
- Additional charging stops on the route
- Smaller battery for lower capital expenditure and higher payload




[1] Charging at hub with 22 kilowatts (kW) and on the route with 50 kW.

Source: *McKinsley Center for Future Mobility*

GROUP SALES



**43%** Group sales

11% Trucks
14% Industrial applications
6% Agricultural machinery
12% Construction equipment

NORTH AMERICA

**2%** Group sales

1% Trucks
1% Agricultural machinery

SOUTH AMERICA

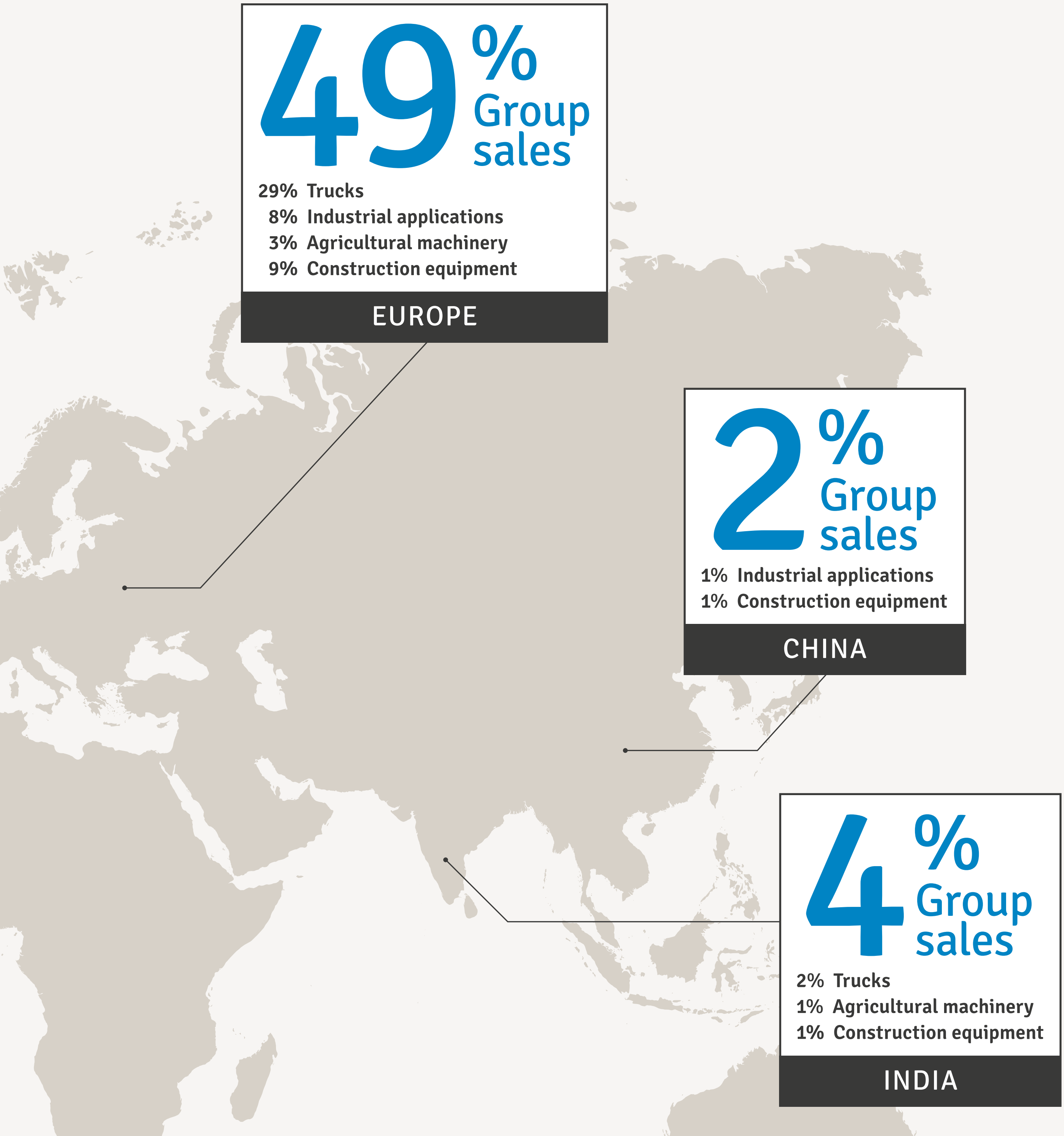
## END-MARKETS

### Trucks

Concentric sells both directly to the OEMs of trucks and also via Tier 1 diesel engine manufacturers in the truck market. The solutions provided relate to flow generation for fuel, oil and coolants, and for the separation of oil drops from crank-case gases using the Alfdex system. Concentric's products are generally used in medium duty trucks exceeding 7.5 tons and heavy duty trucks exceeding 16 tons.

### Industrial applications

Industrial applications encompass a wide variety of uses, from forklifts for the retail trade to heavy machines used in the mining industry. They also include applications for energy production, compressors, cranes, refrigeration and street-cleaning vehicles as well as military and airport vehicles. Virtually all of these machines and vehicles are fitted with standardised driveline and engine pumps as well as hydraulic equipment resembling what is used in the machines in other end-user markets.




## Agricultural machinery

Concentric primarily sells directly to the OEMs of agricultural machinery. The main solutions provided are engine pumps, hydraulic fan drives and ancillary hydraulic pumps for tractors, combines and other specialty equipment, such as harvesters and balers. Many agricultural machines use on-highway engines and truck engine derivatives, and there are many OEMs that operate both in the truck and agriculture machinery sectors. The long-term trend for agricultural production is a function of demographics and rising living standards.

## Construction equipment

Concentric provides pumping solutions used in a wide range of mobile construction equipment, including engine pumps, hydraulic fan drives and ancillary hydraulic pumps. These solutions are typically used on smaller equipment such as skid steer and backhoe loaders, and on heavier equipment such as wheel loaders, bulldozers and excavators. The engines used in this end-market are often similar to those used in trucks, and subject to a similar regulation and development cycle.

# Trucks


Based on the forecast production of diesel engines over the next 5 years, on-highway medium and heavy duty trucks are expected to grow by a CAGR of 1.4 percent in North America, 2.7 percent in Europe, 6.6 percent in South America and 5.0 percent in India. Production in China is actually expected to fall by 12.0 percent in 2018 and then remain broadly flat thereafter, equating to a CAGR of –2.4 percent over the next 5 years.

## North America

Market indices published at year-end indicated that North American production of diesel engines for light trucks and medium-heavy duty trucks increased year-on-year by 12 percent and 8 percent respectively. Concentric's actual sales of engine and hydraulic products for trucks were actually up 16 percent year-on-year in constant currency largely reflecting recovery from the low point in 2015 following the last peak experienced in the Class 8 heavy duty replacement cycle.

## Europe

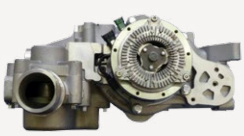
European market indices for the production of diesel engines for medium-heavy duty trucks increased year-on-year by 9 percent. Concentric's actual sales of engine and hydraulic products for trucks actually only increased by 1 percent year-on-year in constant currency, largely reflecting the customer mix of these sales.

## Emerging markets

Market indices for the production of diesel engines in South America and China for medium-heavy trucks increased significantly year-on-year by 27 percent and 33 percent respectively, and were down 5 percent for India. However, Concentric's exposure to trucks in these emerging markets remained relatively low at approximately 3 percent of the group's total net sales for 2017.

## PRODUCT RANGE


Oil mist separator

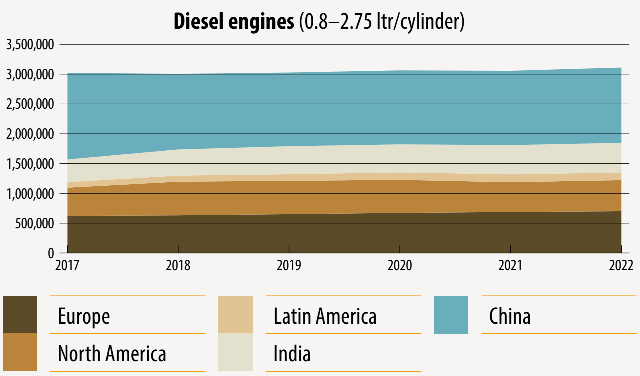

Licos clutch


Electro Hydraulic Steering

## MAJOR CUSTOMERS

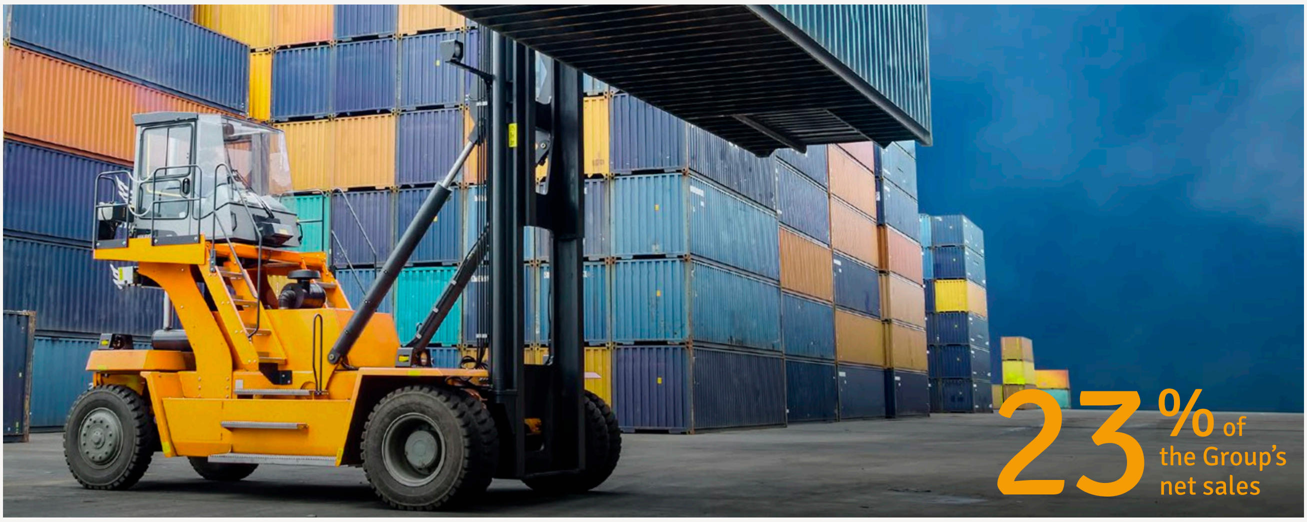
Cummins/TATA, Daimler, DAF/Paccar, FPT Industrial, Navistar, MAN/Scania, Volvo/Dongfeng, CNHTC

## FORECAST MARKET VOLUME




Source: Power Systems Research, January 2018 update.

# Industrial applications






Since the industrial sector comprises a wide variety of applications, there is no single forecast for this market. Based on the forecast production of diesel engines over the next 5 years, off-highway industrial applications in our largest 2 territories are only expected to grow by a CAGR of 2.0 percent in North America and 1.3 percent in Europe.

### North America

Market indices published at year-end indicated that North American production volumes for industrial applications increased year-on-year by 4 percent for diesel engines but decreased by 2 percent for lift trucks. Concentric's actual sales of engine and hydraulic products for industrial applications were broadly flat year-on-year in constant currency, reflecting the customer mix of these sales.

### Europe

European market indices increased year-on-year by 7 percent for the production of diesel engines and by 18 percent for lift trucks for the industrial applications market. Concentric's actual sales of engine and hydraulic products for industrial applications were also broadly flat year-on-year in constant currency, again reflecting the customer mix of these sales.

### Emerging markets

Market indices for the production of diesel engines in India and China for industrial applications increased year-on-year by 6 percent and 15 percent respectively, but decreased 1 percent for South America. However, Concentric's exposure to industrial applications in these emerging markets remained very low at approximately 2 percent of the group's total net sales for 2017.

## PRODUCT RANGE

DC pack lift/ lower

Transmission

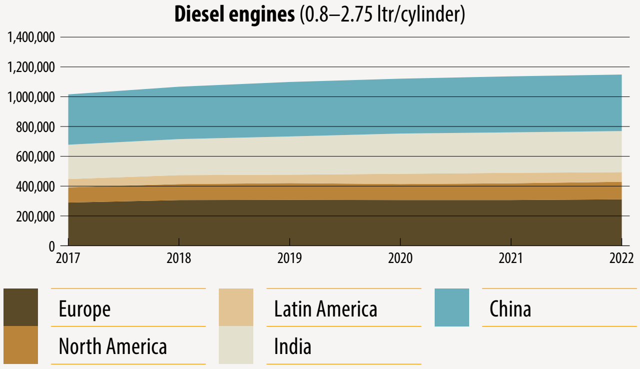
Low noise pump

## MAJOR CUSTOMERS

Crown, Doosan, Kion, NACCO, Perkins, Toyota (BT, Raymond)

## FORECAST MARKET VOLUME

**Diesel engines** (0.8–2.75 ltr/cylinder)




Source: Power Systems Research, January 2018 update.

# Agricultural machinery


Based on the forecast production of diesel engines over the next 5 years, agricultural machinery is expected to grow by a CAGR of 3.8 percent in North America, 5.4 percent in Europe, 10.4 percent in South America, 5.2 percent in India and 2.9 percent in China. Pressure on food supplies from rising incomes and changing tastes in emerging countries will continue to drive growth on the back of increasing food prices.

### North America

Market indices published at year-end indicated that North American production of diesel engines for agricultural machinery increased year-on-year by 6 percent. Concentric's actual sales for agricultural machinery increased year-on-year by 21 percent in constant currency, reflecting both the mix of customers and applications associated with these sales.

### Europe

European market indices for production of diesel engines for agricultural machinery increased year-on-year by 6 percent. Concentric's actual sales of engine and hydraulic products for agricultural machinery were up 13 percent year-on-year in constant currency, again reflecting both the mix of customers and applications associated with these sales.

### Emerging markets

Market indices for the production of diesel engines for agricultural machinery increased year-on-year by 11 percent in South America, 17 percent in India and 23 percent in China. However, Concentric's exposure to agricultural machinery in these emerging markets remained very low at approximately 2 percent of the group's total net sales for 2017.

## PRODUCT RANGE


Seeder motor

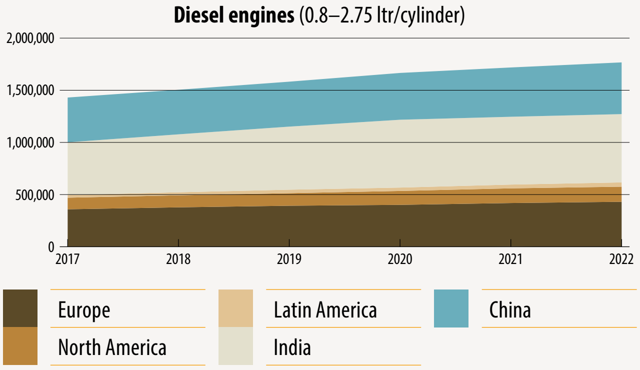

Oil pump


Implement pumps

## MAJOR CUSTOMERS

Agco, CNH, Class, John Deere, Deutz, Valtra

## FORECAST MARKET VOLUME




Source: Power Systems Research, January 2018 update.

# Construction equipment




Based on the forecast production of diesel engines over the next 5 years, construction equipment is expected to grow by a CAGR of 2.0 percent in North America, 3.0 percent in Europe, 5.9 percent in South America, 8.1 percent in India and 5.4 percent in China.

## North America

Market indices published at year-end indicated that North American production volumes for construction equipment increased year-on-year by 3 percent for diesel engines and 8 percent for hydraulic equipment. Concentric's actual sales of engine and hydraulic products for construction equipment were up 9 percent year-on-year in constant currency, reflecting the applications and customer mix.

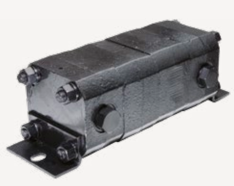
## Europe

European market indices for the production of diesel engines and hydraulic equipment for the construction market were up 8 percent and 3 percent year-on-year respectively. Concentric's actual sales of engine and hydraulic products for construction equipment were up 17 percent year-on-year in constant currency, again largely reflecting the customer mix of these sales.

## Emerging markets

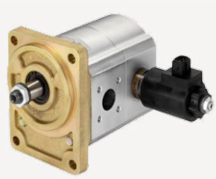
Market indices for the production of diesel engines for construction equipment were up year-on-year in South America, India and China by 3 percent, 10 percent and 36 percent respectively. However, Concentric's exposure to construction equipment in these emerging markets remained very low at approximately 2 percent of the group's total net sales for 2017.

## PRODUCT RANGE



Axle cooling

Fuel transfer pump

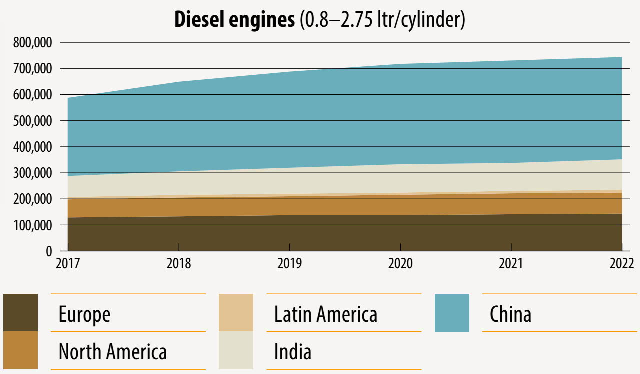


Fan drive

## MAJOR CUSTOMERS

Caterpillar, CNH, Hyundai, John Deere, JCB, Komatsu, Wirtgen Group, Volvo, Doosan, Atlas Copco

## FORECAST MARKET VOLUME




Source: Power Systems Research, January 2018 update.

# SUSTAINABILITY REPORT

Sustainability efforts constitute an integral part of Concentric's operations. The aim is to ensure a greater wholeness with as many positive results as possible – environmentally, socially and economically.

**Technology + Innovation = Sustainability**
The philosophy of the Board of Directors and Group Management is that Concentric's principal contribution to a sustainable world, in terms of everything to do with the environment and society, takes place through the use of the company's products. Concentric's Sustainability Report is prepared in accordance with GRI guidelines and include the outcomes of the group's efforts on sustainability and environmental matters, see pages 128–135.

**Code of Conduct**
Concentric's Code of Conduct stipulates that the group shall comply with the laws and regulations of each country in which it operates; demonstrate and promote a commitment to responsible business practice in policies, decisions and activities; contribute towards improving economic, environmental and social conditions through an open dialogue with the relevant interest groups in those local societies in which we operate, and integrate the principles of the Code of Conduct into all critical processes.

The code incorporates the following areas:

- Requirements on business partners, including a ***Code of Conduct for Suppliers***;
- Business principles which provide guidance on accounting and reporting (including an ***Information Policy***), anti-corruption, money laundering, conflicts of interest, company assets, taxation, customer offering (including marketing and fair competition), insider trading (including an Insider Policy) and political involvement;
- Principles on human rights, non-discrimination and freedom from harassment, forced and child labour, freedom of association, workplace practices (including an ***Assignment and Transfer Policy***) and compensation and working practices (including a Social Policy);
- Environmental principles on resource efficiency (including an ***Environmental Policy***) and a precautionary principle to avoid the use of materials and methods which pose environmental and/or health risks when suitable alternatives are available.

Concentric's Code of Conduct is readily available to all employees through the company's intranet and supported by local Human Resources teams. All employees are encouraged to report suspected violations of any aspect of the Conduct of Conduct to their direct line manager, their manager's manager or Human Resources. Alternatively, matters may be escalated through the ***Whistle Blowing Policy***. Compliance with the code is also monitored through a combination of key performance indicators (see table opposite), self-assessment returns and internal/external audits. In addition, the group intends to roll out a programme of Code of Conduct awareness courses during 2018 to further enhance employees understanding.

**The environment**
**Environmental policy**
In accordance with Concentric's environmental policy, which encompasses all activities undertaken by the company's facilities, Concentric's environmental programme is to be characterised by continuous improvement, technical development and efficient use of resources. Such measures will help Concentric achieve a competitive edge and contribute to sustainable development.

The environmental impact of Concentric's products, industry operations and services must be minimised; the fundamental requirement of all operations will be the prevention of pollution alongside compliance with current legislation, respect for the environment in local communities and respect for stakeholders.

The environmental policy is periodically reviewed and adopted by the Board of Directors. All members of Group Management are responsible for implementing the action plan that is based on the environmental policy.

**Environmental and corporate social responsibility**
All of Concentric's facilities are certified according to ISO 14001 and OHSAS 18001 (the latter is a British Standard for occupational health and safety management systems).

**Integrated governance processes**
The group's management and operations system meets the standards set by the ISO for quality and environmental management. The purpose of these systems is to support and steer our operations towards a uniform way of working with lower costs and improved customer value. Work on sustainability is treated as an integral part of operations, for which the company's CEO has ultimate responsibility. The clear control and follow-up processes mean that the risk of non-compliance with legal or internal requirements on sustainability is small, and if non-compliance should still occur it can be quickly identified and resolved.

**Stakeholders**
As a company pursuing commercial interests, Concentric has a multifaceted network of stakeholders comprising OEMs and Tier 1-suppliers, end-users, suppliers, partners, employees, shareholders, financial markets and the State.

## Concentric's group-wide aspects and targets in sustainability

| Material of Aspects Sustainability | Social Contributions | Long-term Goal | Operational Goal | Results 2017 | 2016 |
|---|---|---|---|---|---|
| Ethics and Value Creation | **General**<br>Long-term financially strong and ethically correct for all our end-markets (Industrial Applications, Trucks, Agricultural Machinery and Construction equipment) where we are present as an engine and hydraulic pump supplier<br><br>**UN's Sustainable Development Goals**<br>No. 8: Promote sustainable economic growth | Concentric achieves long-term financial growth in an ethical manner that contributes to the improved welfare of society | Underlying operating margin should amount to ≥ 16% | 18.7% | 16.8% |
| | | | Gearing (Net Debt/Equity) should amount to 50% ≥ 150% | 21% | 35% |
| | | | Dividends should correspond to at least one third of the Group's consolidated after-tax profit over the course of a business cycle | 49% | 58% |
| | | | No. of ethical breaches based on Concentric's Values | 0 | 0 |
| | | | No. of insider trading violations investigated by Finansinspektionen | 0 | 0 |
| | | | No. of acts of fraudulent behaviour identified | 0 | 0 |
| Product Responsibility & Climate Impact | **General**<br>Reduced impact on the climate for all our end-markets (Industrial Applications, Trucks, Agricultural Machinery and Construction equipment) derived from the innovative development of engine and hydraulic pumps<br><br>**UN's Sustainable Development Goals**<br>No. 9: Promote inclusive and sustainable industrialisation and foster innovation<br><br>No.13: Combat climate change and its impacts by regulating emissions and promoting developments to improve emissions | Concentric develops class leading pumps to enable OEMs to increase energy efficiency and reduce the environmental impact of their vehicles/equipment | **Procedure**<br>The efficiency of all products is verified during the customer validation process | n/a | n/a |
| | | Concentric is recognised as a credible and long-term supplier of first choice by customers for both on- and off-highway commercial vehicles | Improve our overall rating in the annual customer survey to an average score of ≥ 4.00 out of a maximum score of 5.00 | 3.54 | 3.63 |
| Responsible Suppliers | **General**<br>Ensure the application of labour law, human rights, anti-corruption and environmental responsibility in the supply chains for both on- and off-highway commercial vehicles<br><br>**UN's Sustainable Development Goals**<br>No. 8: Promote sustainable economic growth | Concentric promotes social responsibility in its operations and value chain | **Procedure**<br>Concentric evaluates and approves all material suppliers from a sustainability perspective, including environmental and human rights criteria[1)] | 100% | 100% |
| Equality and Diversity | **General**<br>A workplace that offers diversity and equal opportunity<br><br>**UN's Sustainable Development Goals**<br>No. 5: Achieve equal opportunity | Concentric is an equal opportunities organisation that has an even gender distribution amongst its salaried employees and managers | Increase the number of female salaried employees and managers to 33% by 2025 | 15.1% | 15.0% |
| | | | Increase the number of female wage earners to 18% by 2025 | 15.3% | 15.2% |
| | | | No. of human rights claims brought against Concentric | 0 | 0 |
| Resource Efficiency | **General**<br>A resource efficient society<br><br>**UN's Sustainable Development Goals**<br>No. 12: Secure sustainable consumption and production | Minimise consumption of energy and raw materials, the production of waste and residual products and facilitate waste treatment and recycling when possible | Concentric purchases a wide range of commodities. From 2016 onwards, Concentric has tracked the percentage of recycled material being used within grey iron and aluminium components purchased as a percentage of the tonnage of material. | 25.9% | 24.8% |
| | | | Improve operating efficiency by reducing energy consumption (kWh per MSEK 1 of sales value) | 11.38 | 11.81 |

1) Percentages from October 2016 onwards, following introduction of formal procedures to screen new suppliers using environmental and human rights criteria.

**Concentric's operations in 2017, distributed by stakeholder, based on the company's income statement.**

| Amounts in MSEK | | |
|---|---|---|
| Customers | Sales of engine and hydraulic products | 2,104 |
| Suppliers | Procurement of goods and services as well as depreciation, amortisation | – 1,252 |
| Employees | Wages, social expenses and competence development | – 448 |
| Financial Institutions | Interest | – 13 |
| The State | Taxes | – 88 |
| Shareholders | Net income | 303 |

Key stakeholder activities include:

- Annual **Customer** surveys.
- **Customer** accreditation programmes, eg CAT (SQEP) and John Deere (Achieving Excellence).
- **Industry** accreditation programmes in the US (Malcolm Baldrige) and Europe (IiE & EFQM).
- Regular **Supplier** days.
- Annual **Employee** surveys.
- Regular **Investor** perception studies.
- **Customer** Technology Roadshows.

## Stakeholder engagement

It is of great importance that Concentric has an open dialogue with its stakeholders. The table below summarises how Concentric communicates with its stakeholders to understand their primary areas for concern and how these relate to Concentric's material sustainability aspects.

| Stakeholder Group | How We Work | Primary Areas | Examples of Identified Aspects for Stakeholders | Link to Concentric's Material Sustainability Aspects |
|---|---|---|---|---|
| Customers | ▪ Annual customer surveys<br>▪ Customer accreditation programmes<br>▪ Technology roadshows | ▪ Overall customer satisfaction<br>▪ Product quality<br>▪ On time fulfilment of orders and continuity of supply<br>▪ Technology and innovation | ▪ Customer service & relationship<br>▪ PPM and Warranty claims record<br>▪ Delivery (OTIF%)<br>▪ Product development to support changes in emissions legislation | ▪ Product Responsibility<br>▪ Climate Impact<br>▪ Resource Efficiency |
| Suppliers | ▪ Regular supplier days and workshops<br>▪ Factory inspections and on-site supplier audits<br>▪ Code of Conduct for suppliers | ▪ Product quality and warranty claims record<br>▪ On time fulfilment of orders and continuity of supply<br>▪ Technology and innovation<br>▪ Environmental program<br>▪ Health & Safety | ▪ PPM and Warranty claims record<br>▪ Delivery (OTIF%)<br>▪ Product development<br>▪ Waste management<br>▪ Human rights<br>▪ Anti-corruption<br>▪ Risk management<br>▪ Co-operation | ▪ Ethics and Value Creation<br>▪ Product Responsibility<br>▪ Responsible Suppliers<br>▪ Resource Efficiency |
| Employees | ▪ Annual employee surveys<br>▪ Personal development discussions<br>▪ Training and education<br>▪ Code of Conduct | ▪ Recruitment & Employer branding<br>▪ Ethics & Values<br>▪ Skills development<br>▪ Succession planning<br>▪ Health & Safety<br>▪ Remuneration | ▪ Company culture<br>▪ Environmental compliance<br>▪ Skills development<br>▪ Equal opportunity<br>▪ Health & Safety<br>▪ Reward & Benefits | ▪ Ethics and Value Creation<br>▪ Equality and Diversity<br>▪ Resource Efficiency |
| Shareholders, Analysts & Financial Institutions | ▪ Regular perceptions studies<br>▪ Investor roadshows & seminars<br>▪ One-to-one meetings in person/ by telephone<br>▪ Analysts presentations & Capital Markets Days | ▪ Corporate update | ▪ Value drivers<br>▪ Product development<br>▪ Debt servicing capabilities<br>▪ Sustainability<br>▪ Human rights<br>▪ Anti-corruption<br>▪ Risk management<br>▪ Operating leverage | ▪ Ethics and Value Creation<br>▪ Product Responsibility<br>▪ Climate Impact<br>▪ Responsible Suppliers<br>▪ Equality and Diversity<br>▪ Resource Efficiency |
| The State & Local Community | ▪ Ongoing dialogue with emissions legislators<br>▪ Participation in Government initiatives, e.g. US SuperTruck<br>▪ Ongoing dialogues with local community representatives | ▪ Product development<br>▪ Energy efficiency & Climate Impact<br>▪ Involvement in the local community<br>▪ Environmental program | ▪ Long-term financial strength of employer<br>▪ Social sustainability<br>▪ Climate and Energy<br>▪ Environmental compliance<br>▪ Domestic supply chain<br>▪ Waste management<br>▪ Human rights | ▪ Ethics and Value Creation<br>▪ Product Responsibility<br>▪ Climate Impact<br>▪ Responsible Suppliers<br>▪ Equality and Diversity<br>▪ Resource Efficiency |


### Concentric Business Excellence

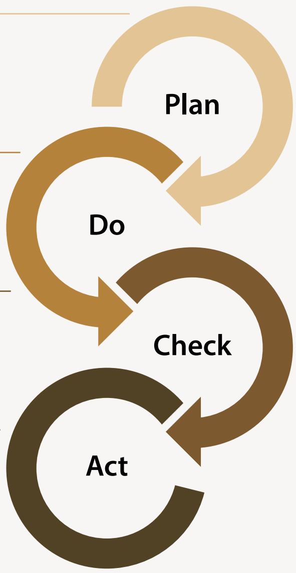
Concentric's Business Excellence programme ("CBE") underpins the group's approach to sustainability in everything we do.

**Plan**
Design and communicate clear targets

**Do**
Implement improvement activities

**Check**
Obtain feedback and analyse results

**Act**
Formulate action plan for continuous improvement




*See pages 18–25 for CBE Spotlight interviews*

### Production

Concentric's business activities are divided by region, with full earnings and balance sheet responsibility at both regional and plant levels. Every plant has a local manager who assumes earnings responsibility for the entire range of plant operations.

Concentric differentiates between engine production lines with higher volumes and hydraulic production lines with lower volumes. The production lines with higher volumes have a cellular structure that utilises automatic or semi-automatic no-fault forward methods for the production of single items, or only a few varieties. The production lines with lower volumes have a production channel structure based on a group method that supports sales of smaller production batches of similar products.

### Quality and environmental control critical to profitability

All production plants are certified in accordance with ISO/TS 16949 and ISO 14001. ISO/TS 16949, a standard for quality control systems for suppliers to the automotive industry, was developed by the International Automotive Task Force (IATF) and the International Standardization Organization (ISO), while ISO 14001 is a standard for environmental control systems developed by ISO.

The company pursues continuous improvement and lean-manufacturing methods that are driven by the Baldrige/EFQM model (European Federation of Quality Management) and an internal improvement programme called Concentric Business Excellence. Personnel at all levels take part in development activities and are encouraged to increase their skills and expertise through relevant training programmes.

## Resource efficiency

The Group's environmental activities shall be integrated in all operations and shall be the subject of continuous improvement through the Concentric Business Excellence programme ("CBE").

The Group's products and processes shall be designed in such a way that energy, natural resources and raw materials are used efficiently, and that any waste and residual products are minimised, in line with the Group's Environmental Policy.

## Social issues

### Social policy

Concentric has adopted a social policy that is based on the UN's Universal Declaration of Human Rights, the UN Global Compact initiative, the International Labor Organisation's (ILO) Declaration on Fundamental Principles and Rights at Work and the OECD's guidelines for multinational enterprises.

Concentric's work in this area has focused on the implementation of policies as a part of existing procedures and guidelines. For example, the social policy has been integrated in the company's purchasing manual. Implementation work is on-going and continues to focus, specifically on the development and execution of action plans at division and unit levels.

### Concentric in the community

Concentric endeavours to contribute to the improvement of economic, environmental and social conditions by means of an open dialogue with relevant interest groups in the communities where Concentric has operations.

### Human rights

Concentric supports and respects the international conventions on human rights and make sure the Group is not complicit in human rights abuses.

### Forced and/or child labour

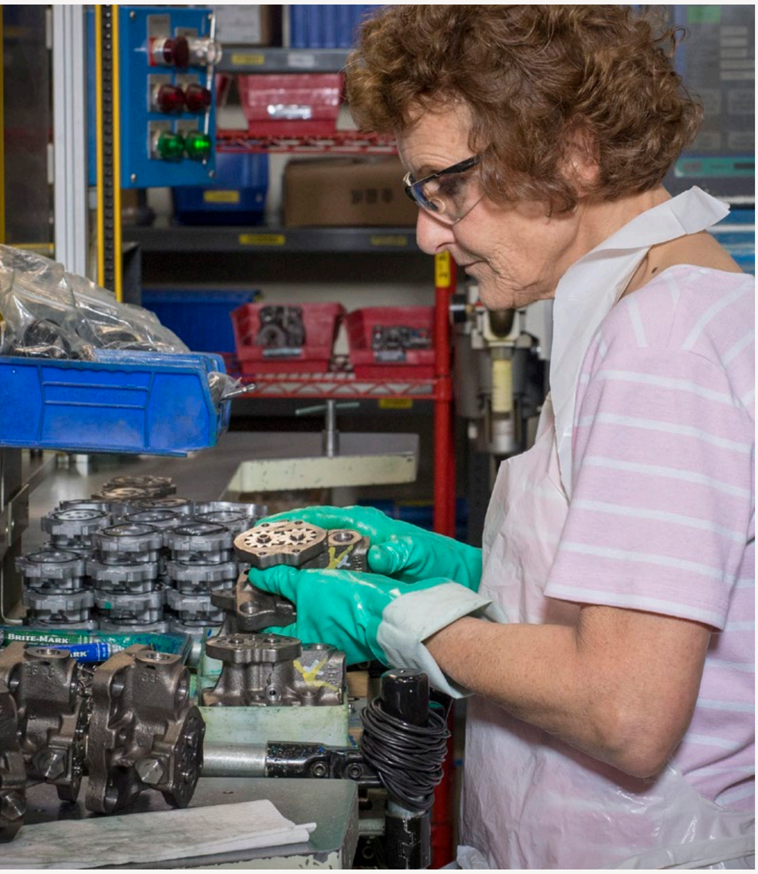
Concentric shall not engage in or support forced, bonded or compulsory labour, nor shall it require any form of deposit or confiscate identification papers from its employees. Employees are completely free to leave their employment after reasonable notice, as required by law and contract. Child labour is not tolerated. The minimum employment age is the age of completion of compulsory school, but never less than 15 years.

### Freedom of contract and association

Concentric ensures that all employees accept positions within the company of their own free will. Concentric respects the right of all employees to join an association to represent their interests as employees, to organise and to bargain collectively or individually. The Group shall respect the recognised unions. An employee's right to refrain from joining a union is equally respected. The Group shall ensure that all employees' representatives and relevant government authorities are notified of major changes in our operations as required by law.

### Work environment and health

Concentric offers a safe work environment at all of its workplaces and takes actions to prevent accidents and work-related injuries by minimising the risks in work environments to the



greatest possible extent. Concentric also invests in preventive healthcare for its employees. The company supports Employee Wellness programmes that have gained national recognition in the USA and other countries.

## Reports on violations

Reports on violations of this social policy can be submitted anonymously and confidentially to the local Head of Human Resources, Group VP of Human Resources or the Chairman of the Board of directors' in accordance with Concentric's whistle-blowing policy. Individuals who make reports in good faith will not suffer any repercussions or other negative consequences.

### *Employees*

Concentric's success is based on the competencies and abilities of its employees. Creating an environment to attract and retain the best employees is a high priority for Concentric. Every year, employees have the opportunity to participate in an employee survey and, should they wish, they can be part of the action teams that work on follow up action plans. Employees in various countries, with diverse cultural backgrounds, must be able to work together to create added value for the company, customers and shareholders.

## Personnel development and focus on the future

Concentric plans to continue recruiting for the future. A key feature of the Group's HR efforts is the annual Leadership Talent Review Programme, which is used to evaluate and develop the potential of our current talent along with addressing future needs for management/leadership skills and competence. The main purpose of this management tool is to ensure a long-term supply of qualified personnel, at both the corporate and the unit level, and to identify talent for growth opportunities.

## Equal opportunities

Concentric is committed to creating and maintaining a respectful workplace, free of harassment and where all individuals are treated with fairness, dignity and respect. All employees shall have equal opportunities based on competencies, experience and performance regardless of gender, race, religion, marital status, age, disability, sexual orientation, gender reassignment, nationality, political opinion, union affiliation, social background or ethnic origin. The Group has a zero tolerance policy as regards any form of discrimination, physical or verbal harassment, or illegal threats.

## Concentric employees by country[1)]

| Country | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Argentina | 84 | 89 | 127 | – | – |
| China | 18 | 21 | 21 | 30 | 33 |
| Germany | 190 | 200 | 219 | 206 | 207 |
| India | 173 | 171 | 174 | 203 | 228 |
| Sweden | 59 | 57 | 62 | 59 | 52 |
| UK | 182 | 182 | 193 | 212 | 212 |
| USA | 242 | 216 | 256 | 272 | 289 |
| Other | 3 | 3 | 3 | 3 | 4 |
| **Total** | **951** | **939** | **1,055** | **985** | **1,025** |

1) Calculated as full time equivalents (FTEs), including our 50% share of Alfdex AB per end of each year.

## Business ethics

Concentric applies high standards in terms of business ethics and integrity, and supports the efforts of national and international organisations to establish and maintain strict ethical standards for all companies. Concentric has established a reputation for corporate trustworthiness, based on consistently conducting business with integrity and in compliance with the laws and regulations governing its activities. Success in business depends on building and maintaining the trust of customers, shareholders, employees, governments and the general public.

## Accounting and reporting

All financial transactions shall be reported in line with generally accepted accounting practices, and the accounting records must show the nature of all transactions in a correct and non-misleading manner. Concentric shall report in a transparent and timely manner with the aim of conveying a true and fair view of the Group's performance, in line with the Group's Information Policy.

### Anti-corruption

Concentric shall not participate in or endorse any corrupt practices and shall not accept, facilitate or support money laundering. All representatives of Concentric shall conduct their private and other external activities and financial interests in a manner that does not conflict or appear to conflict with the interests of the Group.

### Customer offering, sales and marketing

Concentric shall ensure that its products meet applicable regulatory requirements, are designed with a focus on our core values of quality, reliability, safety, environmental care and delivering value for customers and are presented accurately.

### Fair competition practices

Concentric shall compete in a fair manner and with integrity and shall use legitimate methods to gather information about our competitors. The group shall not exchange information or enter into agreements or understandings with competitors, customers or suppliers in a way that improperly influences the market place or the outcome of a bidding process.

### Insider trading

Concentric employees and representatives who have access to non-public information that may affect the Concentric AB share price, are not permitted to buy or sell Concentric shares or any other financial instruments that relate to the Concentric share, such as futures or options. In addition, such individuals may not induce anyone else, by giving advice or in some other manner, to undertake such trading, in line with the Group's Insider Policy. As part of this policy, Concentric maintains a log book of insiders and liaises with Finansinspektionen in the event of any unusual share price activity which may lead to a potential investigation.

### Political involvement

Concentric shall observe neutrality with regard to political parties and candidates for public office.

### Supply chain

Concentric endeavours to use appropriate methods to evaluate and select suppliers based on their ability to meet the requirements of Concentric's social policies and other social principles, and document their continuous fulfilment of these requirements.

Our sourcing team aims at developing Concentric's suppliers as partners. We do this through selecting high performing suppliers that deliver the best possible products and superior services that add real business value for the Concentric Group, on both a global and regional basis. Our joint collaboration drives growth, profitability and continuous improvements focusing on customer success. The strong relationships and requirements are based upon Concentric's values and the high expectations of our customers.

To achieve these goals we have high expectations of our suppliers. We expect the highest standards on products and services where good management delivers state of the art quality from project planning through to delivery into our plants. We expect continuous improvement by involvement, contribution and collaboration to achieve our mutual goals, in respect of product quality, environmental sustainability and competitive costs.

Expectations of our plants are conveyed with all suppliers in support of our long held ambition for zero defects. Quality increasingly should no longer be seen as a number it must be an underlying principle in all aspects of our suppliers' business and simply be reflected in the products they supply to our plants.

Together with our suppliers, Concentric has a responsibility to reduce the environmental impacts from transport and other services. We expect suppliers to actively contribute and commit to the principle of reducing the environmental impact of present and future products through utilising their own environmental resource management and adopting environmental management systems such as ISO 14001.

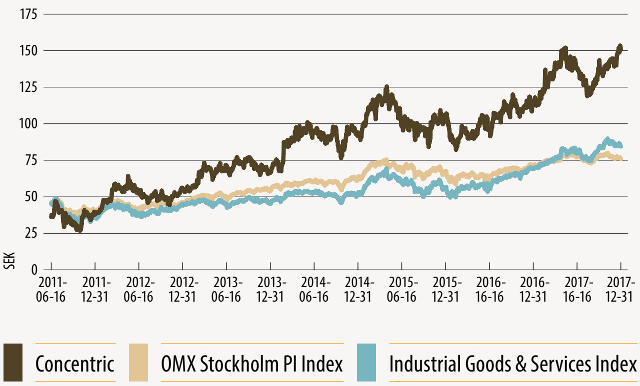
Suppliers to Concentric shall deploy and respect ethical standards throughout the supply chain in compliance with the Concentric Codes of Conduct and shall ensure these are implemented in their everyday business actions and decisions

One element of Concentric's vision is to be recognised as a credible and long-term supplier of first choice by customers in both on- and off-highway commercial vehicle industries. To achieve this and live up to our customers increasing demands regarding safety, environment, quality, time and cost we must maintain a process of continuous improvement. Our supplier community is an integral part of fulfilling these demands and, as such, continuous improvement must be a natural part of our supplier's management system and their daily work.

## THE CONCENTRIC SHARE

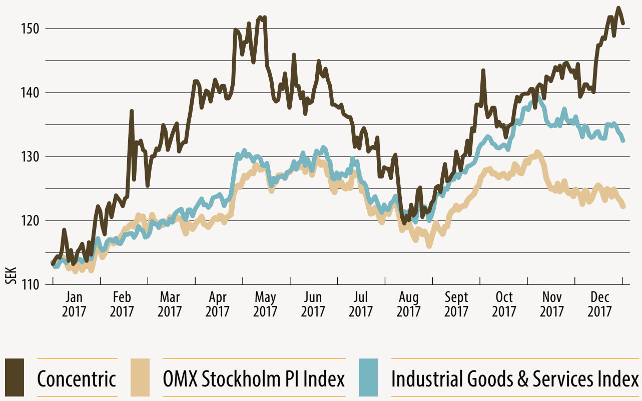
The Concentric share has been listed on the NASDAQ OMX Stockholm Exchange midcap list since June 16, 2011, and is traded under the ticker symbol COIC. The market capitalisation of Concentric at 31 December, 2017 amounted to MSEK 5,971 represented by 39,542,493 shares at a market price of SEK 151.00.

**Concentric share** (16 Jun 2011–31 Dec 2017)




Source: SIX

**Concentric share** (1 Jan 2017–31 Dec 2017)




### Price trend and trading

The price paid for the Concentric share rose 33 (6) percent in 2017 to SEK 151.00 (113.75) at year-end. The Industrial Goods & Services index rose 22 (22) percent and the OMX Stockholm PI Index rose 6 (6) percent during 2017. The highest price paid for the share during the year was registered at SEK 155.00 (120.00) and the lowest price was SEK 110.00 (82.25). Concentric's market value as of 31 December, 2017 was MSEK 5,971 (4,605). In 2017, a total of 11.3 (8.7) million Concentric shares were traded, corresponding to 28 (21) percent of the total number of shares. For the five years ending 31 December 2017, Concentric's shares have given a total annual average return to shareholders of 25 (26) percent. Total shareholder return for the year ended 31 December 2017 was 36 (10) percent.

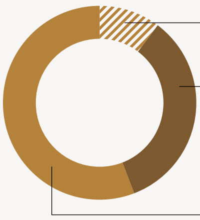
### Ownership structure

At the end of 2017, Concentric had a total of 7,934 (8,458) shareholders. Foreign shareholders accounted for approximately 34 (39) percent of the total number of shares. Swedish institutions accounted for the main part of Swedish ownership. At year-end, 56 (50) percent of the company was owned by legal entities and 10 (11) percent by private individuals.

### 10 largest shareholders, 29 December 2017

| Name | Votes capital, % | No. of shares |
|---|---|---|
| Lannebo fonder | 10.7 | 4,373,463 |
| Nordea Investment Funds | 10.5 | 4,299,705 |
| Swedbank Robur fonder | 10.4 | 4,256,264 |
| SEB Investment Management | 5.6 | 2,285,746 |
| Handelsbanken Fonder | 4.0 | 1,637,162 |
| Carnegie Fonder | 3.4 | 1,382,955 |
| EUROCLEAR BANK S.A/N.V, W8-IMY | 3.3 | 1,336,357 |
| CBNY-Norges Bank | 3.3 | 1,361,202 |
| DnB - Carlson Fonder | 3.1 | 1,278,180 |
| Fjärde AP-Fonden | 3.0 | 1,203,025 |
| **Total 10 largest external shareholders** | **57.3** | **23,414,059** |
| Total other external shareholders | 39.4 | 16,128,434 |
| **Total, excl own holding** | **96.7** | **39,542,493** |
| Own share holding | 3.3 | 1,329,507 |
| **Total shares** | **100.0** | **40,872,000** |

**Swedish and foreign shareholders**




## Distribution of shares, 29 December 2017

| No. of shares | No. of shareholders | % of shareholders | % of total share capital |
|---|---|---|---|
| 1–500 | 5,695 | 71.8 | 2.5 |
| 501–1,000 | 1,105 | 13.9 | 2.2 |
| 1,001–5,000 | 843 | 10.6 | 4.6 |
| 5,001–10,000 | 101 | 1.3 | 1.8 |
| 10,001–15,000 | 31 | 0.4 | 1.0 |
| 15,001–20,000 | 29 | 0.4 | 1.3 |
| > 20,001 | 130 | 1.6 | 86.6 |
| **Total** | **7,934** | **100.0** | **100.0** |

## Analysts monitoring Concentric

| Institution | Analyst |
|---|---|
| Danske Bank | Max Frydén |
| Handelsbanken Capital Market | Hampus Engellau |
| SEB Enskilda | Klara Jonsson |
| Swedbank Markets | Mats Liss |

## Incentive programmes

Concentric AB Annual General Meeting 2014–2017 have decided upon four long-term performance based incentive programmes, under which senior executives and key employees participating in the schemes are entitled to receive employee stock options that entitle them to acquire Concentric shares. The fair value of the options has been calculated according to the Black & Scholes-method.

In order to ensure and maximize the management's engagement in Concentric, allocation of employee stock options was conditioned upon the participants becoming shareholders in Concentric by their own investments of Concentric shares in the stock market.

Delivery of shares under the LTI programmes is conditional upon continuity of employment and holdings of these savings shares throughout the respective three year lock up period. All incentive programmes are equity-settled. Key data and parameters are included in the tables below. See also note 24 for the Group.

| **Employee stock options** | **LTI 2017** | **LTI 2016** | **LTI 2015** | **LTI 2014** |
|---|---|---|---|---|
| President and CEO | 68,800 | 102,240 | 85,360 | 78,400 |
| Other senior executives | 55,240 | 84,932 | 38,240 | 23,520 |
| **Total stock options** | **124,040** | **187,172** | **123,600** | **101,920** |
| | | | | |
| Employee stock options | 62,020 | 93,586 | 61,800 | 50,960 |
| Performance stock option 1 | 31,010 | 46,793 | 30,900 | 25,480 |
| Performance stock option 2 | 31,010 | 46,793 | 30,900 | 25,480 |
| **Total stock options (=Number of shares)** | **124,040** | **187,172** | **123,600** | **101,920** |
| | | | | |
| Criteria for performance stock option 1 | 2019 EPS ≥ SEK 8.00 | 2018 EPS ≥ SEK 10.00 | 2017 EPS ≥ SEK 7.50[1] | 2016 EPS ≥ SEK 6.00[1] |
| Criteria for performance stock option 2 | 2017–19 Average ROE ≥ 25% | 2016–18 Average ROE ≥ 25% | 2015–17 Average ROE ≥ 25%[1] | 2014–16 Average ROE ≥ 20%[1] |
| **Number of senior executives** | **6** | **6** | **3** | **5** |
| **Conditioned by own investment of shares** | **31,010** | **46,793** | **30,900** | **25,480** |

| **Changes in number of stock options** | **2017** | **2016** | **2015** | **2014** |
|---|---|---|---|---|
| Opening balance, 1 January | 412,692 | 340,880 | 403,320 | 286,880 |
| Granted | 124,040 | 187,172 | 123,600 | 115,920 |
| Granted LTI 2013 in 2014 | – | – | – | 20,520 |
| Options exercised | –101,200 | –115,360 | –157,760 | – |
| Lapsed LTI 2012 in 2014 | – | – | – | –20,000 |
| Lapsed LTI 2013 in 2015 | – | – | –14,280 | – |
| Lapsed LTI 2014 in 2015 | – | – | –14,000 | – |
| Lapsed LTI 2014 in 2017 | –720 | – | – | – |
| Lapsed LTI 2016 in 2017 | –13,080 | – | – | – |
| **Closing balance** | **421,732** | **412,692** | **340,880** | **403,320** |
| | | | | |
| Average exercise price, SEK | 110.80 | 79.75 | 96.55 | 80.10 |
| Average price per option, SEK | 29.28 | 25.73 | 24.88 | 23.78 |
| Risk free interest rate, % | 0.00 | 0.00 | 0.00 | 0.98 |
| Expected volatility[2], % | 29.0 | 30.00 | 28.00 | 28.00 |
| Assumed dividend during 3 year period, SEK | 11.35 | 10.14 | 10.92 | 9.57 |
| Average share price at grant date, SEK | 123.10 | 103.50 | 115.50 | 99.25 |
| Lock up duration of scheme, years | 3 | 3 | 3 | 3 |
| Personnel cost recognised in year 2017, MSEK | 1.5 | 2.0 | 2.1 | 0.4 |
| Annual cost of scheme, MSEK | 2.2 | 2.0 | 2.1 | 1.3 |
| **Total cost of scheme over 3 year vesting period, MSEK** | **6.6** | **6.0** | **6.4** | **3.9** |

[1] All criteria for the performance stock options were successfully achieved.
[2] The volatility applied in the valuation has been estimated based on the weighted average of the 100-day historical volatility for the shares traded on NASDAQ OMX Stockholm.



## Dividend policy

The dividend policy represents the endeavour to provide a high return to shareholders and the adaptation of the size of dividends according to Concentric's strategy, financial position and other financial targets, as well as risks that the Board of Directors regards as relevant. In accordance with Concentric's dividend policy, dividends should correspond to at least one third of the Group's consolidated after-tax profit over the course of a business cycle.

## Capital structure

The Group's objective in respect of the capital structure is to secure Concentric's ability to continue to conduct its operations so that it can generate a return for shareholders and value for other stakeholders and in order to maintain an optimal capital structure so that the cost of capital can be reduced. The Board currently uses the special dividends paid to shareholders and the repurchase of own shares to manage the Group's capital structure. Alternatively, the Board could look to repay capital to shareholders.

## Concentric's communication policy

Concentric's ambition is to communicate information internally and externally with the aim of maintaining confidence in and knowledge of the Group and its operations. The information should be correct, relevant and well-formulated and adapted to target groups, i.e. shareholders, capital markets, the media, employees, suppliers, customers, authorities and the general public.

Taking into account the requirements set in non-disclosure agreements that may occasionally be demanded by customers, the company may not always be at liberty to divulge the customer's identity and/or business in detail.

The official spokesman for the company is the President and CEO.

## Annual report available through Concentric's website

In consideration of the environment and costs, Concentric has opted not to print and distribute annual reports to shareholders. Annual reports and quarterly reports, as well as press releases, are available through the company's website www.concentricab.com.

## Data per share

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Basic earnings before items affecting comparability, SEK | 7.39 | 5.95 | 6.48 |
| Basic Earnings, SEK | 7.54 | 6.01 | 6.45 |
| Diluted Earnings, SEK | 7.52 | 6.00 | 6.44 |
| Return on equity, % | 37.0 | 32.2 | 31.7 |
| Dividend, SEK | 3.75[1)] | 3.50 | 3.25 |
| Own shares repurchased, SEK | 3.60 | 2.10 | 3.44 |
| Market price at year end, SEK | 151.00 | 113.75 | 107.00 |
| Equity, SEK | 22.36 | 21.18 | 20.46 |
| EBITDA multiple | 13.1 | 11.4 | 10.8 |
| EBIT multiple | 15.2 | 14.4 | 12.9 |
| P/E ratio | 19.7 | 18.7 | 16.6 |
| Payout ratio, % | 49.7 | 58.2 | 50.4 |
| Dividend yield, % | 2.5 | 3.1 | 3.0 |
| Dividend and buy-back yield, % | 4.9 | 4.9 | 6.3 |
| Basic average number of shares (000's) | 40,238 | 40,924 | 42,058 |
| Diluted average number of shares (000's) | 40,374 | 40,973 | 42,119 |
| No. of shares at 31 December (000's) | 39,542 | 40,482 | 41,180 |

[1)] Proposed dividend for consideration at the 2018 AGM

## GENERAL

The Board of Directors and the CEO of Concentric AB, corporate identity number 556828-4995, hereby present the annual consolidated and company accounts for the financial year 2017. The Company has its registered office in Stockholm, Sweden and its visiting and postal address at Strandgatan 2, 582 26 Linköping, Sweden. Unless otherwise stated, all amounts have been stated in SEK million ("MSEK"). Information in brackets refers to the preceding fiscal year. The terms "Concentric", "Group", and "Company" all refer to the Parent Company – Concentric AB – and its subsidiaries.

## OVERVIEW OF CONCENTRIC

### Group

Concentric produces and sells a range of products, based on its core technical competence in pumps, to OEMs, Tier 1-suppliers and Distributors. The main products are oil pumps, water pumps and fuel transfer pumps for diesel engines and hydraulic gear pumps, motors and systems for mobile equipment. Core products are developed together with customers, to provide custom solutions to their specific flow and pressure requirements, whilst achieving the customer's goals on reducing fuel consumption, noise levels and emissions. A typical product development period can be up to 3 years, and a typical product life is in excess of 10 years. Concentric's customers are spread globally, and their products principally serve four end-markets; industrial applications, trucks, agricultural machinery and construction equipment.

During 2017, Concentric had, on average, a total of 937 (1,011) employees at its sites in Argentina, China, Germany, India, United Kingdom, United States, and its sales offices in Brazil, France, Italy, Korea and Sweden.

### Operating Segments

Concentric has a global manufacturing presence, supported by central support and development functions. The Group is organised and reported on the basis of its two geographical segments, the Americas and Europe & RoW, with a regional focus on two main product groups, namely engine products and hydraulic products.

### Sales and Business Performance

Sales for the year, excluding revenues attributable to Alfdex AB[1], were MSEK 2,104 (2,004), up 5% year-on-year in absolute terms. Adjusting for the impact of currency (–1%), the underlying year-on-year sales increased for the full year by 6%.

Consolidated gross income increased to MSEK 652 (575), resulting in a gross margin of 31.0% (28.7%). Reported EBIT and EBIT margin amounted to MSEK 404 (341) and 19.2% (17.0) respectively.

[1] See Note 2 section c) Consolidation

### Americas

External sales for the year amounted to MSEK 1,055 (988). Sales were up 7% in absolute terms, and up 8% after adjusting for the impact of currency (–1%). Class 8 truck sales in North America showed the largest year-on-year growth, as the region continued to recover from the low point in 2015. Off-highway markets also showed improvement, especially hydraulic product sales for construction equipment. Whilst demand for agricultural machinery remained relatively low, there were also signs of improvement for heavier machinery, particularly in South America.

Reported EBIT and EBIT margin as a percentage of external sales amounted to MSEK 155 (147) and 14.7% (14.9) respectively. The underlying operating margin for the full year, excluding restructuring expenses and pension related items affecting comparability, was 14.7% (12.8). The improvement in the underlying operating margins for the year was primarily driven by the cost savings derived from the restructuring plans for both the USA and South American operations executed in the second half of 2016. CBE has enabled us to seamlessly increase our capacity and output across the region to meet the growing demands within our end markets and so maximise our operational and financial results.

### Europe & RoW

External sales for the year amounted to MSEK 1,266 (1,199). Sales were up 6%, both in absolute terms and in constant currency. European demand for medium- and heavy-duty trucks in 2017 showed steady improvement, in line with the trend of the previous year. India remained a strong market for Concentric, underpinned by the strengthening Indian economy. The end sectors of construction equipment and industrial applications also showed improvement across the region. Whilst demand for agricultural machinery remained relatively low, there were some signs of improvement for heavier machinery. Demand in our Chinese end-markets also showed some signs of improvement, especially for construction equipment.

Reported EBIT and EBIT margin as a percentage of external sales amounted to MSEK 250 (197) and 19.8% (16.4) respectively. The underlying operating margin for the year, excluding restructuring expenses and pension related items affecting comparability, was 19.1% (17.8). The improvement in the reported operating margins for year was primarily driven by the cost savings derived from the restructuring plans for European operations executed in the second half of 2016, together with the strong drop through achieved on the increased sales. CBE has enabled us to seamlessly increase our capacity and output across the region to meet the growing demands within our end markets and so maximise our operational and financial results.

## NET FINANCIAL ITEMS, TAXES AND NET EARNINGS

Net financial expenses for the year amounted to MSEK 13 (23), comprising net exchange gains of MSEK 1 (losses 6), net income arising from other interest of MSEK 2 (2) and net financial expenses in respect of net pension liabilities of MSEK 16 (19). Accordingly, consolidated income before taxation amounted to MSEK 391 (318) for the full year.

The Group's tax expenses for the fiscal year 2017 amounted to MSEK 88 (72). The Group's effective annual tax rate was 23% (23). Any movements in the group's underlying effective annual tax rate largely reflect the change in mix of taxable earnings across the various tax jurisdictions in which the group operates.

Earnings after taxation amounted to MSEK 303 (246). Basic and diluted earnings per share amounted to SEK 7.54 (6.01) and SEK 7.52 (6.00) respectively.

## CASH FLOW

Cash flow from operating activities for the full year amounted to MSEK 360 (409) which represents SEK 8.97 (9.99) per share.

## INVESTMENTS AND PRODUCT DEVELOPMENT

The Group's net investments in property, plant and equipment for the full year amounted to MSEK 13 (12).

Every year, the Group makes investments in development projects to maintain its market-leading products. Product development and application engineering expenses for the full year amounted to MSEK 48 (49), which represents 2.3% (2.4) of the Group's annual sales value.

## FINANCIAL POSITION AND LIQUIDITY

The carrying amount of financial assets and liabilities are considered to be reasonable approximations of their fair values. Financial instruments carried at fair value on the balance sheet consist solely of derivative instruments. As of 31 December 2017 the fair value of those derivative instruments that were assets was MSEK 2 (5), and the fair value of those derivative instruments that were liabilities was MSEK 0 (0). These fair value measurements belong to level 2 in the fair value hierarchy.

Following a final review of the actuarial assumptions used to value the Group's defined benefit pension plans, the total cumulative net remeasurement gains for the year was MSEK 58 (losses 59).

As a result, the Group's net debt at 31 December 2017 was MSEK 185 (300), comprising bank loans and corporate bonds of MSEK 178 (178) and net pension liabilities of MSEK 462 (560), net of cash amounting to MSEK 455 (438).

Shareholders' equity amounted to MSEK 875 (857), resulting in a gearing ratio of 21% (35).

On 22 December 2017, Concentric AB signed new financing agreements with its existing banks, securing a new term loan for a minimum tenor of 5 years in the amount of MSEK 175, to replace the existing fully drawn term loan in the same amount, and a new multi-currency revolving credit facility for a minimum of three years in the amount of MEUR 60 (approximately MSEK 590), to replace the exiting undrawn credit facility in the same amount which was due to expire.

## ACQUISITIONS

There were no acquisitions completed during 2017 or 2016.

## RELATED-PARTY TRANSACTIONS

Other than the routine transactions related to intra-group financing and cash pooling arrangements, no transactions have been carried out between Concentric AB and its subsidiary undertakings and any related parties that had a material impact on either the company's or the group's financial position and results. Over the last 5 years, the AGM has decided upon five long-term incentive plans for the management and key personnel.

## ENVIRONMENT AND CORPORATE SOCIAL RESPONSIBILITY

All of Concentric's sites are certified to ISO14001 and OHSAS18001 standard (the latter being a standard for occupational health and safety management systems). Concentric environmental programmes are characterised by continuous improvement, technical development and resource efficiency. Concentric's environmental policy covers all activities performed at Concentric sites. Concentric has adopted a social policy based on the UN's Universal Declaration of Human Rights, the UN Global Compact initiative, the International Labour Organisation's (ILO) basic principles on labour law and the OECD guidelines for multinational companies.

## EQUAL OPPORTUNITY

Concentric's commitment to employees is that all employees shall be treated with respect and be offered equal opportunities, be provided the conditions for a safe and healthy work environment and have the right to join an association to represent their interests.

## RISK AND RISK MANAGEMENT

A number of factors, not entirely controllable by Concentric, affect and may come to affect Concentric's business. Described below are some of the risk factors, which are considered to be of particular significance to Concentric's future development. The Board of Concentric AB bears an overriding responsibility for identifying, following up and managing all risks.

## INDUSTRY AND MARKET RISKS

### Competition and price pressure

Concentric operates in competitive markets, where price pressure is a natural feature. Stiffer competition and price pressure may impact negatively on the Group's operations, financial position and earnings. For example, customers may increasingly opt for products competing with the Concentric product range and it cannot be excluded that more intense competition may adversely affect Concentric's current margins.

Concentric manages this risk through innovation and product development, which maintain its market-leading products that solve its customers' problems and differentiate Concentric from the competition.

### Customers

Concentric is active in several different market segments and has a large number of customers distributed among several areas of operation. No single customer accounts for more than 20 percent of the Group's net sales. A loss of a major customer or the loss or delay of a major contract may have an adverse impact on the Group's sales and earnings. Moreover, if Concentric's customers do not meet their obligations or drastically reduce operations or terminate activities, the Group's sales and earnings may be negatively affected.

Concentric manages this risk by working closely with its customers to solve their problems and meet their needs, as well as undertaking annual surveys with all of its major customers.

### Raw materials and prices of raw materials

The Group depends directly or indirectly on a number of raw materials, semi-finished goods and conversion processes. The greatest exposure on raw materials relates to the supply of aluminium, various steel grades and cast iron. Concentric is also affected by changes in raw materials price levels. Concentric manages the risk of price changes by ensuring it has contractual material escalator agreements with all its major customers. However, where rising raw materials prices cannot be offset through higher prices for Concentric's products, the Group's operations, financial position and earnings may be adversely affected.

In addition, Concentric also makes regular assessments of its exposure to bought-in and semi-finished goods, such as bearings, gears, sintered gerotors, etc. If there were any interruptions to these supply chains due to quality and/or availability, this could impact the deliveries of Concentric products to its customers, which could have an adverse effect on the Group's operations, sales and earnings. Concentric manages this risk through annual supplier audits and by ensuring that there are at least dual supply arrangements in place for all key commodity groups.

## COMPANY-RELATED AND OPERATIONAL RISKS

### Production

Damage to production facilities caused, for example, by fire, in addition to manufacturing stoppages or disruptions in any part of the production process caused, for example, by breakdowns, weather conditions, geographic conditions, labour disputes, terrorist activities and natural disasters, may have adverse implications in the form of direct damage to property as well as interruptions that undermine the potential to meet obligations to customers. In turn, this may lead customers to select alternative suppliers. Accordingly, such disruptions or interruptions may impact negatively on the Company's operations, financial position and earnings.

Concentric employs the same production methodology across all of its sites and, for certain product lines, it conducts production of the same or very similar products at a number of plants, thus there is the potential to reduce the implications of an interruption by switching output to other plants in the Group to ensure continuity of supply to customers. Although, such action generally results in added costs which, in the short run, will have a negative impact on the Group's operations, financial position and earnings, given that the current capacity utilisation across the group is relatively low, the negative impact would be limited. In addition, the Group has insurance cover for property damage and business interruption.

### Product development

Requirements from users and legislators for higher safety, lower noise levels and reduced environmental impact result in higher demand for the products provided by Concentric. Accordingly, it is essential that the Group develops new products and continues to improve existing products to satisfy this demand so that market shares are not only maintained, but also increased.

Consequently, a key part of Concentric's strategy involves developing new products in those areas that the Group regards as important for growth and/or for defending market shares.

The development of new products always entails the risk that a product launch will fail for some reason, which could have significant consequences. It is the Group's policy to expense evolutionary product development projects, but since the Group capitalises certain costs for major new product development projects, a failed launch potentially would give rise to an impairment requirement and may adversely affect the Group's operations, financial position and earnings.

### Complaints, product recalls and product liability

Concentric is exposed to complaints in the event that the Group's products fail to function the way they should. In such cases, the Group may be obliged to rectify or replace the defective products.

Recalls pertain to cases where an entire production series or a large part has to be recalled from customers in order to rectify deficiencies. This occurs occasionally in Concentric's end-markets. The Group has no insurance covering recalls. The assessment is that the cost of such insurance would not be proportionate to the risk covered by the insurance. Concentric has historically not been affected by any major recalls of products. There is always a risk that customers demand that suppliers cover costs in addition to replacing the product, such as access and restoration costs associated with dismounting, assembly and other ancillary costs. If a product causes damage to a person or property, the Group could be liable to pay damages. A recall on a larger scale or a major product liability claim, may affect the Group's operations, financial position and earnings negatively. Concentric manages this risk through its internal processes regarding the receipt of goods from suppliers, employing Poka-yoke methodology for all of its manufacturing and testing procedures, as well as effective use of quality monitoring systems deployed at both suppliers and customers. In addition, the Group has insurance cover for general product liability, including access and restoration costs associated with replacing product in the field.

## LEGAL RISKS

### Intellectual property rights ("IPR")

Concentric invests significant resources in product development. To secure returns on these investments, the Group actively claims its rights and monitors competitors' activities closely. There is always a risk that competitors infringe on the Group's patents and other IPR. The risk of the marketing of unlicensed copies of the Group's products has increased in recent years, particularly in the Asian markets. If required, the Group protects its IPR through legal action. However, it cannot be guaranteed that Concentric will be able to defend its granted patents, trademarks and other IPR or that submitted registration applications will be approved. Accordingly, there can be no guarantee that the Group will receive trademark or similar legal protection in respect of "CONCENTRIC" in all relevant jurisdictions. Disputes regarding infringement of IPR can, just like disputes in general, be costly and time consuming and may adversely affect Group's operations, financial position and earnings. Concentric manages this IPR risk by engaging external legal advice to monitor potential infringements and act early. As a result, the Group has historically not been adversely affected by any IPR disputes.

In addition, the industries in which Concentric operates have displayed rapid technological progress in many respects. Accordingly, there is a risk that new technologies and products can be developed, which circumvent or surpass Concentric's IPR, as noted in the Product Development section.

### Disputes

Companies within the Group are occasionally involved in disputes in the ordinary course of business and are subject to the risk, similar to other companies operating in Concentric's market, of becoming subject to claims such as those in relation to contractual matters, product liability, alleged defects in delivery of goods and services, environmental issues and intellectual property rights. Such disputes and claims may prove time-consuming, disrupt normal operations, involve large amounts and result in significant costs. In addition, the outcome of complicated disputes may be difficult to foresee. Concentric manages this risk through the use of standard contractual terms wherever possible and engaging external legal advice when appropriate. The Group has historically not been adversely affected by any disputes.

## FINANCIAL RISKS

### Liquidity risk

The Group's liquidity risk is the risk that the Company will be unable to meet its immediate capital requirements either through holding sufficient cash and cash equivalents or through granted and unused credit facilities that can be utilised without conditions. The goal according to the Group's finance policy is that cash and cash equivalents and available credit facilities must total at least 5% of the rolling annual net sales for the Group at any point in time. These funds amounted to MSEK 1,046 (1,012) at year-end, corresponding to 50% (51) of the annual net sales.

### Interest rate risk

Interest rate risk is the risk that changes in interest rates will have a negative impact on the Group's financial position and earnings. The Group's only significant interest bearing asset is cash and liquid funds. Revenues and cash flow from operating activities are, in all significant respects, independent of changes in market interest rates. The Group's interest rate risk arises from its borrowings. As these borrowings are currently relatively small, the Group has decided not to purchase any derivatives to hedge this interest exposure. If interest rates increase or decrease by 1%, the direct impact on the yearly interest expense for Group borrowings (excluding pensions) will increase or decrease by MSEK 2 (2). Please refer to the sensitivity analysis in note 25 for indirect impact of interest rate movements on the Group's pension liabilities.

### Exchange rate risks

The following significant currency rates have been applied during the year:

| | Average rates | | Closing rates | |
|---|---|---|---|---|
| Currency | 2017 | 2016 | 2017 | 2016 |
| EUR | 9.6326 | 9.4704 | 9.8497 | 9.5669 |
| GBP | 10.9896 | 11.5664 | 11.1045 | 11.1787 |
| USD | 8.5380 | 8.5613 | 8.2322 | 9.0971 |

The table below shows the currency effect in SEK million on Net income for the year and Equity if the respective currency changes by 10%. The analysis assumes that all other variables, in particular interest rates, remain constant.

| | Net income for the year | | Equity | |
|---|---|---|---|---|
| Currency | 2017 | 2016 | 2017 | 2016 |
| EUR | 10 | 6 | 15 | 11 |
| GBP | 6 | 4 | 29 | 25 |
| USD | 22 | 15 | 31 | 30 |

Through its international operations, Concentric is exposed to exchange rate risks. Exchange rate risks refer to the risk of exchange rate fluctuations having an adverse impact on Group's consolidated income statement, balance sheet and/or cash flows. Foreign exchange exposure occurs in conjunction with goods and services being bought or sold in currencies other than the respective subsidiary's local currency (transaction exposure) and during conversion of the balance sheets and income statements of foreign subsidiaries into "SEK" (translation exposure). Moreover, the comparability of Concentric's result between periods is affected by changes in currency exchange rates.

### Transaction risks

In accordance with the Group's Treasury policy, 65% of the anticipated net flows for the estimated volumes during the forthcoming 12-month period should be hedged, with a permissible deviation of +/–15%. At 31 December, 2017, 61% (80) of the anticipated net flows was hedged via derivative instruments. The permissible deviation was temporarily exceeded to take advantage of the relatively good rates at the end of the year. The Group's Treasury policy governs the types of derivative instruments that can be used for hedging purposes as well as the counterparties with whom contracts may be signed. Currency forward contracts were used during 2016 to hedge invoiced and forecast currency flows. At 31 December 2017, these contracts had a net value of MSEK 175 (153) with a market value of MSEK nil (3).

### Translational risks

Concentric's operations give rise to extensive cash flows in foreign currency. The most important currencies in the Group's cash flow are SEK, USD, EUR and GBP. The effects of exchange rate movements have an impact on the Group's earnings when the income statements of foreign subsidiaries are translated to SEK. Since the Group's earnings are mainly generated outside of Sweden, the impact on the Group's consolidated income statement may be significant. In connection with translation of the net assets of non-Swedish subsidiaries into SEK, there is a risk that exchange rate fluctuations will affect the Group's consolidated balance sheet. If the measures Concentric undertakes to hedge and otherwise control the effects of exchange rate movements should prove not to be sufficient, Concentric's sales, financial position and earnings may be adversely affected.

### Credit risk

Credit risk arises when a party to a transaction cannot fulfil their obligations and thereby creates a loss for the other party. The risk that customers will default on payment for delivered products is minimised by conducting thorough checks of new customers and following up with payment behaviour reviews of existing customers, including robust credit stop procedures.

The Group's accounts receivable amounted to MSEK 183 (160) at year-end and are recognised at the amounts expected to be paid. Concentric customers are primarily major OEMs, engine manufacturers and hydraulics distributors. During 2017, no single customer accounted for more than 17% (17) of sales. The Group's customer losses are historically low and normally are less than 0.1% of sales.

### Changes in value of fixed assets

Concentric has substantial fixed assets, of which goodwill represents the largest part. The carrying value of goodwill is reviewed annually and tested as appropriate to identify any necessary impairment requirements. In the event that future tests regarding continuing changes in the value of tangible as well as intangible assets would lead to write-downs, this may have a substantial adverse effect on Concentric's financial position and earnings.

### Pension obligations

In the United States and the United Kingdom, funded defined benefit plans are operated with assets held separately from those of Concentric. The U.S. scheme is underfunded and Concentric therefore makes top-up payments, which are recognised to continue for at least a further 10 years. According to the latest report from the responsible actuary, the UK plans are sufficiently capitalised, even though there is currently a deficit. However, under the rules applicable to the UK plans, the supervisory authority may request that they be fully capitalised should an event take place having a significant negative effect on Concentric's ability to meet its pension commitments. The Company feels that there is no reason to assume that such a situation will arise, but it cannot be ruled out that the authority might assess the situation differently at some point in time. See also "Pension obligations" in note 25.

### Capital risk

The Group's objective in respect of the capital structure is to secure Concentric's ability to continue to conduct its operations so that it can generate a return for shareholders and value for other stakeholders and in order to maintain an optimal capital structure so that the cost of capital can be reduced. The Board currently uses the special dividends paid to shareholders and the repurchase of own shares to manage the Group's capital structure. Alternatively, the Board could look to repay capital to shareholders.

## SHARE-RELATED INFORMATION

### Ownership status

The Company's shares have been listed on Nasdaq OMX Stockholm since 16th June, 2011. Concentric AB had 7,934 (8,458) shareholders at the end of the financial year. The Company's largest shareholder was Lannebo Fonder 10.7% (10.9). There are three shareholders that hold in excess of 10% of the votes and capital of the company and they held together 31.6% (31.8).

### Share Capital, shares outstanding and rights

Since the listing date, there have been no new shares issued.

During 2017 Concentric AB sold 101,200 (115,360) of its own shares for MSEK 8 (7), representing 0.2% (0.3%) of the share capital of the company, to satisfy options granted under the company's LTI programmes which were exercised. The company also bought back 1,040,691 (813,480) of its own shares for a purchase price of MSEK 142 (85) representing 2.5% (2.0%) of the shares of the company. The total number of holdings of own shares at year-end 2017 was 1,329,507 (1,088,616), which represented 3.3% (2.6) of the total number of shares of the company.

The number of shares outstanding at year-end, excluding any dilution from share options, was 39,542,493 (40,481,984). All shares convey equal rights to a percentage of the Company's assets, profits and any surplus upon liquidation. Each share carries one vote and there is only one class of shares. There is no limit to the number of votes a shareholder may cast at the Annual General Meeting or with respect to transfer of shares. The Company is not aware of any agreements between shareholders which may limit the right to transfer shares. Further information about the Concentric AB share is provided on pages 58–61.

### Board Authorisations

At the last AGM in March 2017, the following board members were elected: Kenth Eriksson, Marianne Brismar, Anders Nielsen, Martin Sköld, Claes Magnus Åkesson, Martin Lundstedt and Susanna Schneeberger.

In addition, authorisation was provided to the board to resolve on the acquisition and transfer of own shares.

### Corporate Governance

Supported by Chapter 6, Section 8 of the Annual Accounts Act, Concentric AB has elected to prepare its Corporate Governance Report as a separate document from the Annual Report. The Corporate Governance Report, which, among other things includes an account of the Group's governance and work of the Board of Directors over the year, is presented on pages 116–125.

### Remuneration

The 2017 AGM adopted remuneration policies were as follows. The actual remuneration agreed during the year is detailed in note 8.

### Scope of the policies

The policies apply to remuneration and other terms of employment for the individuals who, while the policies are in effect, are members of Group management for Concentric AB, collectively referred to hereinafter as "executives".

The policies apply to agreements made according to AGM resolutions and to amendments to existing agreements made after this date. The Board of Directors shall have the right to depart from the policies if there is particular justification for doing so in individual cases. The policies shall be subject to annual review.

### Fundamental principles and forms of remuneration

It is of fundamental importance to the company and its shareholders that the guidelines for remuneration to senior executives, in both a short and long-term perspective, enable the company to attract and retain senior executives and other employees with excellent competence. To obtain this it is important to sustain fair and internally balanced terms that are at the same time competitive on the market with respect to structure, scope and compensation levels. The terms of employment for senior executives shall consist of a balanced combination of fixed salary, annual bonus, long-term incentive programme, pension and other benefits and terms for dismissal/severance payment.

The total annual monetary remuneration, i.e. fixed salary, bonus and other long-term monetary remuneration, shall be in accordance with market practice on the geographical market where the senior executive operates. The total level of the compensation will be evaluated annually to ensure that it is in line with market practice for corresponding positions within the relevant geographical market.

The remuneration should be based on performance. It should therefore consist of a combination of fixed salary and bonus, where the variable remuneration forms a rather substantial part of the total remuneration, but it is understood that the bonus is always capped to a pre-defined maximum amount.

### Principles for various types of remuneration

The remuneration system of the company consists of various forms of remuneration in order to create a well-balanced compensation that fosters and supports management and achievement of goals in both a short and long-term perspective.

### Fixed Pay

The fixed remuneration shall be individually determined based on the respective role and responsibility as well as the individual's competence and experience in the relevant position.

### Variable Pay

Senior executives have an annual bonus, payable after each year-end, which is structured as a variable part of the fixed salary. Bonus goals shall primarily be based on the outcomes of financial objectives for the entire company as well as clearly defined individual goals with respect to specific assignments. The latter is to ensure that the senior executive also focuses on non-financial targets of specific interest.

Bonus related financial objectives for the Group shall be established by the Board annually in order to ensure that they are in line with the Groups' business strategy and profit targets. The Board establishes the financial objectives for individual units proposed by the CEO.

The annual bonus as a component of total remuneration varies depending on position and may amount up to 50 percent of the fixed annual salary at full goal achievement. The bonus goals are constructed so that no bonus will be paid if a certain minimum performance level is not achieved. All bonus schemes within the organisation are discretionary and payable at the sole discretion of the management unless payment is guaranteed by an existing legal agreement or contract.

### Application of variable pay guidelines

Under pre-existing employment contracts, there are ongoing deviations from the variable pay guidelines outlined above in respect of the CEO and one other senior executive, whereby they continue to be entitled to an annual bonus of up to 80 percent of their fixed salary at full goal achievement.

### Long-term Incentive Programmes

In order to foster a long-term perspective in the decision making and to ensure long term achievement of goals, the Board has set up a long-term incentive programme. Remuneration in form of long-term incentive programmes shall be in accordance with market practice on each relevant market. Further details of the LTI programmes resolved at previous AGMs are provided in note 8.

### Pension Benefits

When entering into new pension agreements with senior executives who are entitled to pension, the pension shall be based on defined contribution plans. Senior executives retire in accordance with local regulations on pension. As a main principle, pension premiums are based solely on fixed salary. Certain adjustments may occur in individual cases in accordance with local market practice.

### Other

Other benefits, such as company car, compensation for healthcare and health and medical insurance, etc. shall form a minor part of the total compensation and shall correspond to what may be deemed common market practice in each geographical market.

### Terms of notice

The CEO has a maximum notice period of 12 months and other senior executives have a notice period of up to 6 months. Upon termination of employment by Concentric, a so-called termination agreement including severance pay may be made with senior executives on a discretionary basis or as required by law. Any such severance pay shall correspond to what may be deemed reasonable and common practice on the relevant geographical market, but not exceed 12 months' fixed salary.

In addition to the above described remunerations, agreements on additional remunerations may be made in exceptional situations, for example, when considered necessary to attract and retain key personnel or induce individuals to move to new places of service or accept new positions. Such special remunerations shall be limited in time and may not exceed 36 months' fixed salary. Further, the total remuneration must not exceed an amount equivalent to two times the remuneration the individual would have received in the absence of an agreement on special remunerations. Terms for dismissal and severance pay shall correspond to what may be deemed common market practice for each geographical market. When entering into new employment contracts, agreement may be made with senior executives on severance pay upon termination of employment by the Company, corresponding to a maximum of 12 months' fixed salary. Upon termination of employment, local practice in the geographical market where the senior executive operates shall be complied with.

## THE BOARD OF DIRECTORS' PREPARATION AND RESOLUTIONS RELATED TO PAY AND OTHER TERMS OF EMPLOYMENT FOR EXECUTIVES:

### Proposal on new executive remuneration policies

The Board of Directors will propose to the 2018 AGM that the above policies on executive remuneration shall apply until the 2019 AGM. Estimated costs for variable remuneration and LTI-schemes will be about MSEK 15 (including social security cost) for 2018.

## PROVISIONS OF THE ARTICLES OF ASSOCIATION:

### Appointment and Discharge of Directors and Amendments

There are no provisions in the Articles of Association on appointment and discharge of directors and amendment of the Articles of Association. In accordance with the provisions in the Company's Act, directors are elected by the AGM for the period extending until the close of the first AGM after that at which they were elected, and amendments to the Articles of Association are determined by resolution of a General Meeting of Shareholders.

## SIGNIFICANT AGREEMENTS

The Company is not party to any significant agreements that will take effect, be altered, or become null if control over the Company changes due to a public takeover bid. Nor are there any agreements between the Company and directors which require compensation if such persons resign, are terminated without reasonable cause, or their employment is terminated due to a public takeover bid in respect to shares in the company.

## CONTINGENT LIABILITIES

The Group's contingent liabilities amounted to MSEK 1 (1) at the balance sheet date.

## POST BALANCE SHEET EVENTS

There are no significant post balance sheet events to report.

## PARENT COMPANY

Net sales for the full year amounted to MSEK 50 (43), generating an operating income of MSEK 30 (44). The company also received the following income from subsidiaries and joint ventures during the current and previous years:

- Dividends amounting to MSEK 1,090 (125) arising from its wholly owned US subsidiary undertaking, Concentric US Finance 2 Limited, followed by a write-down of shares with MSEK 817. These transactions relate to a group reorganisation during the year.
- Dividends amounting to MSEK 469 (nil) arising from its wholly owned UK subsidiary undertaking, Concentric Pumps Limited.

- Group contribution amounting to MSEK 5 (7) arising from its wholly owned Swedish subsidiary undertaking, Concentric Skånes Fagerhult AB;
- Dividends amounting to MSEK 1 (12) arising from its 50% ownership in the Swedish joint-venture company, Alfdex AB.
- The cumulative net exchange rate gains and net interest expenses for the full year amounted to MSEK 64 (losses 52) and MSEK 5 (4) respectively.

## ACCOUNTING PRINCIPLES

The Group applies International Financial Reporting Standards (IFRS) to the consolidated accounts, as adopted by the European Commission for application within the European Union (see note 2 for more details).

## SUSTAINABILITY REPORT

According to the statutory requirements the Sustainability Report is prepared as a separate report and can be found on pages 50–57 and 128–135.

## OUTLOOK FOR 2018

Based upon the activity levels experienced towards the end of 2017 and considering the market indices weighted for our end markets, 2018 has the potential to support further growth. The adoption of higher technology solutions that reduce emissions will be an important contributor to this growth. As we look into the coming year, medium- and heavy-duty Truck markets seem capable of sustaining the current strong demand levels. The market outlook for Construction Equipment and Industrial Applications also appears stable. The global Agricultural Machinery market is still recovering but from a comparatively low base and this may offer further potential for growth. We have a great team in place that are highly motivated and look forward to the opportunities and challenges of 2018. Concentric remains well positioned both financially and operationally, to fully leverage our market opportunities.

## DIVIDEND POLICY

The Company's policy for distributing unrestricted capital to the shareholders remains unchanged, whereby at least one-third of annual after-tax profit over a business cycle is to be distributed to the shareholders through dividends taking into account the Group's anticipated financial status. However, due to the Group's strong earnings and financial position, the Board of Directors propose to the shareholders at the Annual General Meeting a total dividend of SEK 3.75 (3.50) per share for 2017. This corresponds to an ordinary dividend of SEK 2.50 (2.00) which equates to around 33% (33) of earnings per share, plus a special dividend of SEK 1.25 (1.50) associated with the Group's strong financial position.

## PROPOSED APPROPRIATION OF EARNINGS

As stated in the Parent Company balance sheet, the Annual General Meeting has the following funds at its disposal:

| Amounts in KSEK | |
|---|---|
| Profit brought forward | 853,728 |
| Net income for the year | 815,996 |
| **Total** | **1,669,724** |

The board of directors and the president propose that the funds of KSEK 1,669,724 be allocated as follows:

| Amounts in KSEK | |
|---|---|
| Dividend of SEK 3.75 per share to shareholders | 148,284 |
| Carried forward | 1,521,440 |
| **Total** | **1,669,724** |

## STATEMENT BY THE BOARD OF DIRECTORS CONCERNING THE PROPOSED DIVIDEND

The proposed dividend reduces the company's equity to assets ratio from 49 percent to 47 percent and the Group's equity to assets ratio from 42 percent to 37 percent. The company's and the group's non-restricted equity will be sufficient in relation to the nature, scope and risks of the business. In making this assessment, the board has considered, among other things, the company's and the group's growth historically, its budgeted growth and the financial situation. The board has evaluated the company's and the group's financial position and the company's and the group's possibilities to fulfil their obligations in the short and long-term perspective. The company's and the group's solvency are assessed to be good with regard to the business in which the group is active.

The dividend will not affect the company's or the group's ability to fulfil its respective payment obligations. The company and the group have access to both short and long-term credit facilities. These facilities may be utilised at short notice, for which reason the board assesses that the company's and the group's preparedness to handle both changes in the liquidity and unrecognised events are good.

The board takes the view that the company and the group have the requirements to take future business risk and also to bear possible losses. The dividend will not negatively affect the company's and the group's ability to make further commercially motivated investments in accordance with the board's plans.

In view of the above, and based on what the board is otherwise aware of, the board considers, after a comprehensive assessment of the financial position of the company and Group, the proposed dividend is in accordance with Chapter 17, Section 3, paragraphs 2 and 3 of the Swedish Companies Act. The Board considers, therefore, that the proposed dividend is justifiable in view of the requirements imposed by the nature, extent and risks associated with the equity of the company and its balance sheet, and the liquidity and financial position of both the parent company and the Group.

## Consolidated income statement

| | Note | 2017 | 2016 |
|---|---|---|---|
| Net sales | | 2,104 | 2,004 |
| Cost of goods sold | | –1,452 | –1,429 |
| **Gross income** | | **652** | **575** |
| Selling expenses | | –80 | –71 |
| Administrative expenses | | –158 | –145 |
| Product development expenses | | –48 | –49 |
| Share of net income in joint venture | 19 | 10 | 11 |
| Other operating income | 11 | 93 | 91 |
| Other operating expenses | 11 | –65 | –71 |
| **Operating income** | **4, 5, 7, 8, 9, 10, 17** | **404** | **341** |
| Financial income | 12 | 11 | 9 |
| Financial expenses | 12 | –24 | –32 |
| **Financial items – net** | | **–13** | **–23** |
| **Earnings before tax** | | **391** | **318** |
| Taxes | 13 | –88 | –72 |
| **Net income for the year** | | **303** | **246** |
| *Attributable to:* | | | |
| Parent Company shareholders | | 303 | 246 |
| Non controlling interest | | – | – |
| Basic earnings per share, SEK | 14 | 7.54 | 6.01 |
| Diluted earnings per share, SEK | 14 | 7.52 | 6.00 |
| Basic weighted average number of shares (000) | 14 | 40,238 | 40,924 |
| Diluted weighted average number of shares (000) | 14, 24 | 40,374 | 40,973 |

## Consolidated statement of comprehensive income

| | 2017 | 2016 |
|---|---|---|
| Net income for the year | 303 | 246 |
| **Other comprehensive income** | | |
| *Items that will not be reclassified to profit or loss:* | | |
| Remeasurement gains | 63 | 10 |
| Tax arising on remeasurement gains | –11 | –4 |
| Remeasurement losses | –5 | –69 |
| Tax arising on remeasurement losses | 1 | 10 |
| Decrease on tax receivables related to changed tax rate in the USA | –8 | – |
| Net remeasurement gains and losses in joint ventures | –1 | – |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Exchange rate differences related to liabilities to foreign operations | 93 | –51 |
| Tax arising from exchange rate differences related to liabilities to foreign operations | –14 | 11 |
| Cash-flow hedging | –1 | 4 |
| Tax arising from cash-flow hedging | – | –1 |
| Foreign currency translation differences | –129 | 59 |
| **Total other comprehensive income** | **–12** | **–31** |
| **Total comprehensive income** | **291** | **215** |

# Consolidated balance sheet

| | Note | 31-Dec-17 | 31-Dec-16 |
|---|---|---|---|
| **ASSETS** | | | |
| *Fixed assets* | | | |
| Goodwill | 15 | 592 | 615 |
| Other intangible fixed assets | 15 | 217 | 262 |
| Tangible fixed assets | 16, 17 | 130 | 150 |
| Share of net assets in joint venture | 19 | 27 | 19 |
| Deferred tax assets | 18 | 92 | 129 |
| Long-term receivables | 38 | 6 | 5 |
| **Total fixed assets** | | **1,064** | **1,180** |
| *Current assets* | | | |
| Inventories | 20 | 179 | 172 |
| Accounts receivable | 21, 38 | 183 | 160 |
| Short-term loans receivable from joint venture | 29, 38 | 6 | – |
| Other current receivables | 22, 38 | 86 | 86 |
| Cash and cash equivalents | 23, 38 | 455 | 438 |
| **Total current assets** | | **909** | **856** |
| **Total assets** | | **1,973** | **2,036** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| *Equity* | 24 | | |
| Share Capital | | 97 | 97 |
| Additional Contributed Capital | | 583 | 583 |
| Reserves | | 158 | 209 |
| Retained Earnings | | 37 | –32 |
| **Total equity** | | **875** | **857** |
| *Long-term liabilities* | | | |
| Pensions and similar obligations | 25, 34 | 462 | 560 |
| Deferred tax liabilities | 18 | 30 | 36 |
| Long-term interest-bearing liabilities | 26, 27, 34,38 | 176 | 177 |
| Other provisions | 30 | 6 | 7 |
| Other long-term liabilities | 38 | 4 | 4 |
| **Total long-term liabilities** | | **678** | **784** |
| *Current liabilities* | | | |
| Short-term interest-bearing liabilities | 26, 28, 34,38 | 2 | 1 |
| Short-term loans payable to joint venture | 29, 38 | – | – |
| Accounts payable | 26, 38 | 186 | 183 |
| Other provisions | 30 | 43 | 64 |
| Other current liabilities | 26, 31, 38 | 189 | 147 |
| **Total current liabilities** | | **420** | **395** |
| **Total equity and liabilities** | | **1,973** | **2,036** |

Information of pledged assets and contingent liabilities, see note 32

## Consolidated changes in shareholders' equity

| | Share capital | Additional contributed capital | Reserves: Hedging reserve | Reserves: Translation reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Opening balance January 1, 2016** | **97** | **583** | **–** | **187** | **–15** | **852** |
| *Components of Comprehensive Income* | | | | | | |
| Net income for the year | – | – | – | – | 246 | 246 |
| Other Comprehensive income | – | – | 3 | 19 | –53 | –31 |
| **Total comprehensive income** | **–** | **–** | **3** | **19** | **193** | **215** |
| | | | | | | |
| *Dividend* | – | – | – | – | –134 | –134 |
| Buy-back own shares | – | – | – | – | –85 | –85 |
| Sale of own shares to satisfy LTI 2013 options exercised | | | | | 7 | 7 |
| Long-term incentive plan | – | – | – | – | 2 | 2 |
| **Closing balance December 31, 2016** | **97** | **583** | **3** | **206** | **–32** | **857** |
| | | | | | | |
| **Opening balance January 1, 2017** | **97** | **583** | **3** | **206** | **–32** | **857** |
| *Components of Comprehensive Income* | | | | | | |
| Net income for the year | – | – | – | – | 303 | 303 |
| Other Comprehensive income | – | – | – 1 | – 50 | 39 | –12 |
| **Total comprehensive income** | **–** | **–** | **–1** | **–50** | **342** | **291** |
| | | | | | | |
| Dividend | – | – | – | – | –142 | –142 |
| Buy-back own shares | – | – | – | – | –142 | –142 |
| Sale of own shares to satisfy LTI 2014 options exercised | – | – | – | – | 8 | 8 |
| Long-term incentive plan | – | – | – | – | 3 | 3 |
| **Closing balance December 31, 2017** | **97** | **583** | **2** | **156** | **37** | **875** |

# Consolidated cash flow statement

| | Note | 2017 | 2016 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Earnings before tax | | 391 | 318 |
| Reversal of depreciation, amortisation and write-down of fixed assets | | 65 | 88 |
| Reversal of net income from joint venture | | –10 | –11 |
| Reversal of other non-cash items | 33 | 5 | –2 |
| Taxes paid | | –75 | –42 |
| **Cash flow from operating activities before changes in working capital** | | **376** | **351** |
| | | | |
| **Change in working capital** | | | |
| Inventories | | –16 | 34 |
| Current receivables | | –42 | 9 |
| Current liabilities | | 42 | 15 |
| **Change in working capital** | | **–16** | **58** |
| | | | |
| **Cash flow from operating activities** | | **360** | **409** |
| | | | |
| **Cash flow from investing activities** | | | |
| Investments in property, plant and equipment | | –13 | –12 |
| **Cash flow from investing activities** | | **–13** | **–12** |
| | | | |
| **Cash flow from financing activities** | | | |
| Dividend | | –142 | –134 |
| Dividend received from joint venture | | 1 | 12 |
| Buy-back of own shares | | –142 | –85 |
| Selling of own shares to satisfy LTI - options exercised | | 8 | 7 |
| New loans | 34 | 177 | 31 |
| Repayment of loans | 34 | –177 | –35 |
| Pension payments and other cash flows from financing activities | 34 | –50 | –29 |
| **Cash flow from financing activities** | | **–325** | **–233** |
| | | | |
| **Cash flow for the year** | | **22** | **164** |
| | | | |
| Cash and bank assets, opening balance | | 438 | 258 |
| Exchange-rate difference in cash and bank assets | | –5 | 16 |
| **Cash and bank assets, closing balance** | | **455** | **438** |

# Group notes

## Note 1  General information

Concentric AB (Parent Company) and its subsidiaries form the Concentric Group. Concentric offers innovative proprietary solutions to the global manufacturers of construction machinery, diesel engines and large trucks. The main focus is on products related to fuel efficiency and reduced emission.

Concentric AB, Corp. ID. No. 556828-4995 is a registered limited liability corporation with its registered office in Stockholm, Sweden. The visiting and postal address of the head office is Strandgatan 2, 582 26 Linköping, Sweden. The company is listed on the Nasdaq OMX Stockholm Mid-Cap list, since June 2011.

The annual report and the consolidated accounts were approved for publication by the board of directors on 26 March, 2018.

Unless otherwise stated, all amounts have been stated in SEK million ("MSEK"). Certain financial data has been rounded in this annual report. Where the sign "–" has been used, this either means that no number exists or the number has been rounded to zero.

## Note 2  Summary of important accounting principles

### New and amended standards and interpretations adopted by the Group

Amendments to IAS 7 "Statement of cash flows" is applied in the 2017 annual report. Disclosures are added regarding changes in financial liabilities that relate to financing activities, specifying for instance new loans, repayment of loans, investments/divestments of subsidiaries and foreign currency gains and losses.

None of the other IFRS and IFRIC interpretations endorsed by the EU are considered to have a material impact on the group.

### New standards, amendments and interpretations to existing standards that have been endorsed by EU but have not been early adopted by the Group

IFRS 9 – "Financial instruments". The effective date for IFRS 9 is January 1, 2018 and replaces IAS 39 Financial Instruments: Recognition and Measurement as the standard on recognition and measurement of financial instruments in IFRS. Compared with IAS 39, IFRS 9 primarily brings changes regarding classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting. IFRS 9 will not impact how Concentric classifies and measures financial assets and financial liabilities. The changes regarding hedge accounting will also not impact the Group. However, the transition to IFRS 9 will have an impact on the how Concentric makes provisions for trade receivables. IFRS 9 requires a loss allowance to be recognised for expected credit losses, while IAS 39 requires an impairment loss to be recognised only when there is objective evidence of impairment. Concentric has historically had low credit losses. Therefore, the loss allowance for trade receivables is estimated to increase by only 65 KSEK after tax as per 1 January 2018, due to the new impairment requirements in IFRS 9. This will be reported as an adjustment against opening retained earnings as per 1 January, 2018 since Concentric will use the option to not restate comparative figures.

IFRS 15 – "Revenue from contracts with customers". The effective date for IFRS 15 is January 1, 2018 and the standard replaces previous standards on revenue recognition in IFRS such as IAS 18 Revenue. The effects of IFRS 15 for Concentric are limited to how certain sales made with prompt payment discounts are accounted for. Under Concentric's current accounting principles, revenue is reduced by with the discount when it becomes known if the customer will use the discount. However, under IFRS 15 the prompt payment discounts constitute variable consideration and the standard requires variable consideration to be estimated when revenue from a sale is first recognised (provided certain conditions are met). The change in accounting principles will lead to a minor timing difference in recognising the discount from these sales.

Due to the minor impact of IFRS 15, Concentric has chosen to use the option in the standard of not restating comparative figures. Instead, the effect of the change in accounting principles will be reported as an adjustment to opening equity as per 1 January 2018. Concentric estimates that opening equity will be reduced by 53 KSEK after tax due to the change in accounting principles.

IFRS 16 – "Leases" sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 is effective from 1 January 2019. Concentric does not plan to apply IFRS 16 before the effective date. IFRS 16 replaces the previous leases Standard, IAS 17 "Leases", and related Interpretations.

IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

For Concentric, total assets and liabilities are expected to increase as a result of recognising leases on the balance sheet that are now classified as operational leases. This will affect operating income positively since the entire leasing fee for the period will not be included in operating income on leases that are currently classified as operational. However, depreciation and financial expenses will increase. Concentric currently does not have sufficient data to present a quantitative impact analysis. The effects upon transitioning to IFRS 16 will also depend on which of the various transition options that Concentric choose to apply.

**New standards, amendments and interpretations to existing standards that have not yet been endorsed**

IFRIC 22 – "Foreign Currency Transactions and Advance Consideration" The interpretation concerns situations where an entity pays or receives consideration in foreign currency in advance of the item it relates to – which may be an asset, an expense or income. IFRIC 22 clarifies that the resulting asset, expense or income should be recognised at the exchange rate which existed when the entity initially recognised the advance consideration. The effective date of IFRIC 22 is January 1, 2018 according to the IASB, but the interpretation has not yet been endorsed by the EU. Endorsement is expected in the first quarter of 2018.

None of IFRS and IFRIC interpretations that have not yet been endorsed are expected to have a material impact on the Group.

***a) Basis of preparation***

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the EU, RFR 1 "Additional rules for group accounting" and related interpretations issued by the Swedish Financial Reporting Board and the Swedish Annual Accounts Act. The basis of accounting and the accounting policies adopted in preparing these consolidated financial statements are consistent for all periods presented.

***b) Going concern***

The consolidated financial statements of the Group have been prepared on a going concern basis.

***c) Consolidation***

Subsidiaries are defined as all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquirer's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

*Consolidation of joint venture*

IFRS 11 classifies a joint arrangement as either a joint operation or a joint venture. In a joint operation the parties to the arrangement have direct rights to the assets and obligations for the liabilities. In such an arrangement, assets, liabilities, income and expenses shall be recognised in relation to the interest in the arrangement. A joint venture gives parties rights to the net assets and earnings relating to the arrangement. Under IFRS 11, an interest in a joint venture must be recognised using the equity method. This means that one-line consolidation is used; the share of net profit in the income statement and the share of equity in the balance sheet. The proportionate method is not permitted for joint ventures. Management has assessed that Concentric's interest in Alfdex constitutes a joint venture under IFRS 11.

While the company is using the equity method for the Group, the proportionate method is used for the segment reporting (see note 4).

*Non-controlling Interests*

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

***d) Translation of foreign currency***

The functional currency for the parent company is Swedish kronor (SEK) and also the presentation currency for the Group.

*Transactions and balance sheet items*

Transactions in foreign currency are translated into SEK using the exchange rates at the transaction date. Exchange gains and losses resulting from these transactions and the translation of monetary assets and liabilities at the closing rate are recognised in the consolidated income statement. Exchange rate gains or losses from transactions that fulfil the requirements for hedge accounting are recognised in the consolidated statement of comprehensive income.

*Subsidiaries*
The balance sheets and income statements of subsidiaries with a different functional currency than that of the Group's presentation currency are translated by translating assets and liabilities at the closing rate and income and expenses at the average rate during the year. Translation differences resulting from the translation of foreign subsidiaries' net assets at different rates on the opening and the closing dates are recognised directly in the translation reserves in OCI. Exchange rate differences on loans and other instruments that are used as hedging instruments for net investments in foreign currency are recognised directly in the translation reserves in OCI.

*Receivables and liabilities*
Receivables and liabilities in foreign currencies are valued at the year-end rate. Exchange gains and losses pertaining to operational currency flows are recognised in operating income. Exchange gains and losses on financial transactions are recognised as financial income or expense in the income statement.

### *e) Revenue recognition*
The Group's recognised net sales pertain mainly to revenues from sales of goods. Net sales are, if the occasion arises, reduced by the value of discounts granted and by returns. Revenue from the sale of goods is recognised when significant risks and rewards of ownership have been transferred to external parties, normally when the goods are delivered to the customer.

### *f) Leases*
*Lessee*
Leasing is classified in the consolidated financial statements as either finance or operating leases, depending on whether the company retains substantially all the risks and benefits associated with ownership of the underlying asset. A requirement for the reporting of financial leasing is that the fixed asset be posted as an asset item in the balance sheet and that the leasing obligation be recognised as a liability in the balance sheet. Fixed assets are depreciated according to plan over their useful life, while lease payments are recognised as interest expenses and amortisation of debt. Leasing agreements which are not financial are operating leases. No asset or liability items are recognised in the balance sheet in the case of operating leases. The lease payments of operating leases are expensed in the income statement on a straight-line basis over the term of the lease.

### *g) Tangible fixed assets*
Tangible fixed assets consist of buildings (offices, factories, and warehouses), land and land improvements, machines, tools and installations. These assets are measured at cost less depreciation and any impairment losses. Scheduled depreciation is based on the acquisition value and estimated economic life of the assets. The following depreciation rates are used:

- Buildings: 25–50 years
- Machinery and equipment: 3–10 years
- Heavy machinery: 20 years

Land is not depreciated. The assets' residual values and useful lives are reassessed every closing day and adjusted if needed. The tangible assets are free from any pledges or other encumbrances.

### *h) Intangible assets*
*Product Development*
Costs for developing new products are recognised as intangible fixed assets when the following criteria are met: it is likely that the assets will result in future financial benefits to the company; the acquisition value can be calculated reliably; the company intends to finish the asset and has technical and financial resources to complete its development. Documents to verify capitalisation of product development costs can consist of business plans, budgets or the company's forecasts of future earnings. The acquisition value is the sum of the direct and indirect expenses accruing from the point in time when the intangible asset fulfils the above criteria. Intangible assets are recognised at cost less accumulated amortisation taking into account any impairment losses. Amortisation begins when the asset becomes usable and is applied in line with the estimated useful life and in relation to the financial benefits that are recognised to be generated by the product development. The useful life is not normally assessed as exceeding five years.

*Brands, licenses and patents*
Brands, licenses and patents are recognised at cost less accumulated amortisation plus any impairment losses. Brands, licenses and patents, which are acquired through business acquisitions, are recognised at fair value on the day of acquisition. Brands, licenses and patents have a determinable useful life over which straight-line amortisation is applied to distribute the cost in the income statement. The recognised useful life of brands is estimated at 20 years. The recognised useful life of licenses and patents is estimated at 3–15 years.

*Customer relations*
Customer relations acquired through business combinations are recognised at fair value on the day of the acquisition and subsequently at cost less accumulated amortisation and any impairment losses. Customer relations have a determinable useful life estimated at 11–17 years. Straight-line amortisation is applied over the estimated useful life of customer relations.

*Software and IT systems*
Acquired software licenses and costs for the development of software that is recognised to generate future financial benefits for the Group for more than three years are capitalised and amortised over the recognised useful life (3–5 years).

*Goodwill*
The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

*Impairment*
The carrying amounts of Concentric'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. The recoverable amounts of units containing goodwill are not only estimated upon indication of impairment, but also once per year, at the same time of the year. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amount of other assets in the unit on a pro rata basis. 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, estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss in respect of goodwill is never reversed. In respect of other assets, an impairment loss is reversed if there is an indication that the loss has decreased or no longer exists and if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

***i) Financial instruments***
The Group classifies its financial instruments in the following categories:

Financial assets valued at fair value through profit or loss; loans and receivables; financial instruments held to maturity, and; financial assets available for sale. The classifications are based on the purpose of the acquired instrument. Management determines the classification of the instruments when they are first recognised.

*Loans and receivables*
Loans and receivables are non-derivative financial assets with established or determinable payments that are not listed on an active market. They occur when the Group supplies money, products or services directly to the customer without intending to trade the resulting claim. They are included in current assets, with the exception of items with due dates more than 12 months after the balance sheet date, which are classified as fixed assets. Financial assets in this category are recognised in the balance sheet at amortised cost.

*Financial liabilities*
Current and long-term interest-bearing liabilities are recognised in the balance sheet at amortised cost using the effective interest rate method.

Borrowings are recognised initially at fair value, net of transaction costs. Borrowings are subsequently stated at amortised cost and any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Bank overdraft facilities are recognised in the balance sheet as borrowings under current liabilities.

*Recognition of derivative instruments*
Derivative instruments are recognised in the balance sheet as of the trade date and are measured at fair value, both initially and during subsequent revaluations. The method used for recognising the profit or loss arising at every revaluation occasion depends on whether the derivative has been identified as a hedging instrument and, if this is the case, the nature of the hedged item. The Group identifies certain derivatives as either:

1) Hedging of the fair value of assets or liabilities;
2) Hedging of forecast flows (cash flow hedging) or
3) Hedging of net investment in a foreign operation.

To qualify for hedge accounting, certain documentation is required concerning the hedging instrument and its relation to the hedged item. The Group also documents goals and strategies for risk management and hedging measures, as well as an assessment of the hedging relationship's effectiveness in terms of countering changes in fair value or cash flow for hedged items, both when the hedging is first entered into and subsequently on an ongoing basis.

*Cash flow hedging*
Cash flow hedging is applied for future flows from sales. The portion of changes in the value of derivatives that satisfy the conditions for hedge accounting is recognised directly in OCI. The ineffective portion of profit or loss is recognised directly in the income statement, among financial items. The unrealised profit or loss that is accumulated in OCI is reversed and

recognised in the income statement when the hedged item affects profit or loss (for example, when the forecast sale that has been hedged actually occurs). If a derivative instrument no longer meets the requirements for hedge accounting, or is sold or terminated, what remains of any accumulated fair value in OCI, which is recognised in the income statement at the same time as the forecast transaction is finally recognised in the income statement. When a forecast transaction is no longer recognised to occur, the accumulated profit or loss recognised in equity is immediately transferred to the income statement.

*Hedging of net investments*

Accumulated gains/losses from revaluation of hedges of net investments that fulfil the conditions for hedge accounting are recognised in OCI. When operations are divested, the accumulated effects are transferred to the income statement and affect the company's net profit/loss from the divestment.

*Calculation of fair value*

Fair value of financial instruments that are traded in an active market (for example, publicly quoted derivative instruments, financial assets that are held for trade and financial assets that are held for sale) are based on the quoted market rate on the closing day. The quoted market rates used for the company's financial assets are the actual bid prices; quoted market rates used for financial liabilities are the actual asked prices. These instruments are categorised as level 1 in the fair value hierarchy. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2 of the fair value hierarchy. The only financial instruments that are measured at fair value are forward contracts which are categorised in level 2.

*Recognition and derecognition of financial instruments*

A financial asset or financial liability is recognised in the balance sheet when the company becomes a party according to the contractual terms. A receivable is recognised when the company has performed and a contractual obligation exists for the other party to pay, even if the bill has not been sent. Accounts receivable is recorded in the balance sheet when the invoice is sent. Liabilities are recognised when the counterparty has performed and there is a contractual obligation to pay, even if the invoice has not been received. Accounts payable is recognised when the invoice is received. A financial asset is removed from the balance sheet when the rights are realised, expires or the company loses control over them. The same applies to part of a financial asset. A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged or otherwise extinguished. The same applies to part of a financial liability.

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet only when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability at the same time. Purchases and sales of financial assets are recognised on the trade date. Trade date is the date on which the company commits to purchase or sell the asset.

***j) Inventories***

Inventories are valued at the lowest of the acquisition cost, in accordance with the first-in first-out principle and the net realisable value. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

***k) Impairment of financial assets***

Receivables are recorded to the amount that, after an individual assessment, are expected to be paid. The need for a provision is reviewed on an ongoing basis and is recognised when there is objective evidence that the due amounts will not be collected in full. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, negligence in making payments and the aging schedule of the debtor balances are indicators that the receivable is impaired.

***l) Cash and cash equivalents***

Cash and cash equivalents includes cash, cash in banks and other short-term investments that fall due in less than three months.

***m) Assets held for sale***

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less cost to sell.

***n) Provisions***

Provisions are recognised in the balance sheet when the Group has future obligations resulting from an event that is likely to result in expenses that can be reasonably estimated. Provisions for restructuring costs are recognised when the Group has presented a plan for carrying out the measures and the plan has been communicated to all affected parties. Provision for restructuring is calculated individually for each plan and consists of cost for redundancy of employees. Provision for warranty obligation is based on experiences of historical fulfilment of warranty obligations.

### *o) Employee benefits*

*Pension commitments*

The Group has both defined-contribution and defined-benefit pension plans. Administration of the plans is handled by a third party e.g. a fund management company, an insurance company or a bank. Defined-contribution plans mainly include retirement pensions, disability pensions and family pensions, and a defined contribution, normally expressed as a percentage of current salary, is paid to a separate legal entity.

The employee is responsible for the risk inherent in these plans and the Group does not have any further obligations if the fund's assets decline in value. No debt is recognised in the balance sheet. Contributions are expensed to the profit and loss account as incurred.

Defined-benefit plans state the amount an employee can expect to receive after retirement, calculated on the basis of factors such as age, length of service and future salary.

The debt recognised in the balance sheet pertaining to defined-benefit pension plans is the present value of the defined-benefit obligation on the balance sheet date less the fair value of the plan assets, including any remeasurement gains/losses. Defined-benefit pension obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of the obligations is determined by discounting the estimated future cash flow.

Fair value changes from plan assets are recognised in the income statement to the discount rate applied for discounting the matching defined benefit pension liabilities. The rest of the fair value changes of plan assets are recognised in OCI as remeasurements that are not recognised in the income statement.

The discount rate is the interest on balance sheet date on high quality corporate bonds, including mortgage bonds, with a maturity corresponding to the Group's pension obligations. When there isn't a viable market for such bonds, the market for government bonds with a similar maturity is used.

According to practice, Swedish Group companies calculate tax on pension costs by taking the difference between pension costs in accordance with IAS 19, and pension costs determined in accordance with local regulations.

*Share-based payment*

The Annual General Meeting 2012–2017 decided upon share-based payment plans for the Group in the form of incentive programmes directed at senior executives and key employees. The company obtains services from employees as compensation for equity instruments (options) in the Group. The fair value of the services is recognised as expense over the vesting period, meaning the period during which the stated vesting conditions are to be fulfilled. The fair value of the services is estimated as the fair value of the options on grant date. The total expense recognised is adjusted for any options being forfeited due to non-completion of the required service period; while expenses recognised do not take into consideration any effects of changes in the share price, including options not being exercised due to the share price being below the exercise price. For further information about the incentive programme, see note 8. Expenses for social charges related to the option programme are recognised according to the same principle, with the difference that the fair value is recalculated on each reporting date.

*Short-term employee benefits*

Short-term employee benefits are those expected to be settled wholly before twelve months after the end of the annual reporting period during which employee services are rendered, but do not include termination benefits. Examples include wages, salaries, profit-sharing and bonuses and non-monetary benefits paid to current employees. The undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in an accounting period is recognised in that period. The expected cost of short-term compensated absences is recognised as the employees render service that increases their entitlement or, in the case of non-accumulating absences, when the absences occur, and includes any additional amounts an entity expects to pay as a result of unused entitlements at the end of the period.

*Profit-sharing and bonus payments*

An entity recognises the expected cost of profit-sharing and bonus payments when, and only when, it has a legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the expected obligation can be made.

*Termination benefits*

A termination benefit liability is recognised at the earlier of the following dates:

- When the entity can no longer withdraw the offer of those benefits – additional guidance is provided on when this date occurs in relation to an employee's decision to accept an offer of benefits on termination, and as a result of an entity's decision to terminate an employee's employment.
- When the entity recognises costs for a restructuring under IAS 37 Provisions, Contingent Liabilities and Contingent Assets which involves the payment of termination benefits.

Termination benefits are measured in accordance with the nature of employee benefit, i.e. as an enhancement of other post-employment benefits, or otherwise as a short-term employee benefit or other long-term employee benefit.

### *p) Taxes*

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in OCI or directly in equity. In this case, the tax is also recognised in OCI or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts recognised to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are recognised to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### *q) Cash flow statement*

The cash flow statement is prepared using the indirect method. This means that the operating income is adjusted for transactions that do not entail receipts or disbursements during the period, and for any income and expenses referable to cash flows for investing or financing activities.

### *r) Government grants*

Government grants connected to the acquisition of fixed assets reduce the acquisition value of the particular assets. This means that the asset has been recognised at a net acquisition value, on which the size of depreciation has been based.

### *s) Earnings per share*

The calculation of basic earnings per share is based on consolidated net income attributable to the parent company shareholders and on the weighted average number of shares outstanding during the year. When calculating diluted earnings per share, the average number of shares outstanding is adjusted to take into account the dilutive effects of potential ordinary shares. During the recognised periods, potential ordinary shares comprise share options granted to senior executives and key employees. The options are dilutive if the exercise price is lower than the share price. Dilution is greater, the greater the difference between the exercise price and the share price. The exercise price is adjusted by an addition of the value of future services calculated as remaining cost to recognise in accordance with IFRS 2.

## Note 3 Important estimations and assumptions

The Consolidated Financial Statements contain estimations and assumptions about the future. These are based on both historical experience and expectations for the future. The areas with the highest risk for future adjustments of carrying amounts are mentioned below.

### Goodwill

During the year the Group's goodwill was tested for impairment. As at 31 December 2017, the total goodwill amounted to MSEK 592 (615). The testing was performed at the operating segment level. The Americas segment and the Europe and RoW segment constitute the Group's cash generating units. The goodwill value assigned to the Americas segment amounts to MSEK 204 (226) and to Europe and RoW segment amounts to MSEK 388 (389). The change between the years is due to different currency rates being used when translating the amount into SEK. The impairment testing is performed by discounting expected future cash flows translated into SEK, as determined in the individual segments business plans. The value is set in relation to the carrying amount of the segment's goodwill. Future cash flows are calculated on the basis of official market data relevant to Concentric's type of industry, while consideration is also taken for the Concentric's historical financial performance and future benefits from committed restructuring programmes.

The forecast period for testing of goodwill is five years and after the explicit forecast period, a residual value is assigned, which is assumed to represent the value of the business following the final year of the forecast period. In addition to the latest published end-market indices and historical performance, the group's forecasts are compiled using product sales plans, productivity initiatives, capital investment programmes and working capital targets prepared by each individual operating location. The key assumptions for the forecast of cash flows during the coming five years are sales growth, EBIT margin, level of working capital and capital expenditures. The residual value has been calculated on the basis of an assumption concerning a sustainable level for the free cash flow (after the forecast period) and the level of growth. The growth after the end of forecast period has been estimated at 2 (2) percent. The calculation of the residual value includes all future cash flows after the end of the forecast period. When discounting recognised future cash flows, a weighted average cost of capital after tax (WACC) of 6.7 percent (6.6) was used for the Europe and RoW segment and 7.6 percent (6.9) was used for the Americas segment. This corresponds to WACC before tax of 9.0 percent (9.1) for Europe and RoW segment, and 9.1 percent (9.5) for Americas segment. The weighted average cost of capital was calculated on the basis of the following assumptions:

- Risk-free interest rate: Ten year government bond market.
- Markets risk premium 6 percent (6).
- Beta: Established beta value for the Group's operating segments.
- Interest expense: Has been calculated as a weighted interest rate on the basis of the current debt instruments and gearing in the Group's operating segments, which is considered a good proxy for the long-term financing structure.
- Tax rate: According to the tax rates applying in the specific countries in that segment.

The impairment tests performed in 2017 did not reveal any need to impair goodwill. A reasonable possible change in any of the key assumptions would not lead to impairment.

### Income taxes

The Group pays tax in many different countries. Detailed calculations of future tax obligations are completed for each tax object within the Group. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

### Warranty reserves

The Group continuously assesses the value of the reserves in relation to the estimated need. The warranty reserve amounted to MSEK 41 (47) and represented 1.9 (2.3) percent of net sales as of December 31, 2017.

### Pensions

The pension liabilities recognised in the balance sheet are actuarial estimates based on annual assumptions and amounted to MSEK 462 (560) at year-end 2017. The principal assumptions are described in Note 25. At 31 December 2017, there was a decrease in the assumed discount rates used for the actuarial estimates of the defined benefit pension plans in UK, US and Sweden, which lead to remeasurement losses in the current reporting period. Given the sensitivity of the discount rate to these actuarial calculations, we have reviewed the impact of a +/0.5 percent change in the rates assumed. Our actuaries estimate that a 0.5 percent increase in the assumed discount rates used would decrease the present value of the Group´s defined benefit obligations by approximately MSEK 152 (155). Conversely, a 0.5 percent decrease in the assumed discount rates used would increase the present value of the Group´s estimated pension obligations by approximately MSEK 171 (174). Since the Group´s UK companies account for approximately 73 percent (73) of the Group´s total estimated defined benefit obligations, fluctuations in the UK discount rate would have the greatest impact.

## Note 4 Segment Reporting

Operating segments are reported in a manner that matches how internal reporting is submitted to the Group's highest executive decision maker, considering that it is at this level that the Group's earnings are monitored and strategic decisions are made. The Group has divided its operation into two reporting segments; the Americas, and Europe and the Rest of the World (RoW).

The operating segments derive their revenues from the development, manufacture and distribution of hydraulic lifting systems, drive systems for industrial vehicles and pumps for lubricants, cooling water and fuel in diesel engines.

The Americas segment comprises the Group's operation in the United States and Argentina. The Europe and the RoW segment comprise the Group's operation in Europe, India and China.

The evaluation of an operating segment's earnings is based on operating income or EBIT.

Assets and liabilities not allocated to segments are financial assets and liabilities.

No single customer accounts for more than 20 percent of the comprehensive income of the Group as a whole. The top two customers for the group contributed net sales in 2017 of MSEK 364 (340), or 17.3 percent (17.0) and MSEK 337 (302) or 16.0 percent (15.1) respectively. These two customers were supplied from both the Americas and Europe & ROW operating segments. The location of the customer forms the basis of sales by geographic area.

| | 2017 | 2016 |
|---|---|---|
| **Americas** | | |
| External net sales | 1,055 | 988 |
| Total net sales | 1,075 | 1,009 |
| Operating income | 155 | 147 |
| Operating margin (based on external sales), % | 14.7 | 14.9 |
| Operating margin (based on total sales), % | 14.4 | 14.6 |
| Assets | 508 | 598 |
| Liabilities | 274 | 307 |
| Capital employed | 292 | 343 |
| Return on capital employed, % | 47.7 | 38.4 |
| Net investments | 2 | 4 |
| Depreciation, amortisation and impairment losses | 25 | 27 |
| Number of employees, average | 341 | 375 |

| | 2017 | 2016 |
|---|---|---|
| **Europe & RoW** | | |
| External net sales | 1,266 | 1,199 |
| Total net sales | 1,379 | 1,288 |
| Operating income | 250 | 197 |
| Operating margin (based on external sales), % | 19.8 | 16.4 |
| Operating margin (based on total sales), % | 18.1 | 15.3 |
| Assets | 1,272 | 1,243 |
| Liabilities | 666 | 657 |
| Capital employed | 813 | 824 |
| Return on capital employed, % | 30.3 | 23.6 |
| Net investments | 21 | 8 |
| Depreciation, amortisation and impairment losses | 42 | 62 |
| Number of employees, average | 658 | 696 |

| | 2017 | 2016 |
|---|---|---|
| **Eliminations and unallocated items**[1] | | |
| Elimination of sales | –217 | –183 |
| Operating income | –1 | –3 |
| Assets | 193 | 195 |
| Liabilities | 158 | 215 |
| Capital employed | –75 | –84 |
| Net investments | –10 | – |
| Depreciation, amortisation and impairment losses | –2 | –1 |
| Number of employees, average | –62 | –60 |

[1] Eliminations and unallocated items include the elimination of the effects of using the proportional method for joint arrangements in the segment reporting for Europe & RoW. See also note 2 section c) Consolidation.

| | 2017 | 2016 |
|---|---|---|
| **Group** | | |
| Net sales | 2,104 | 2,004 |
| Operating income | 404 | 341 |
| Operating margin, % | 19.2 | 17.0 |
| Assets | 1,973 | 2,036 |
| Liabilities | 1,098 | 1,179 |
| Capital employed | 1,030 | 1,083 |
| Return on capital employed, % | 38.0 | 28.9 |
| Net investments | 13 | 12 |
| Depreciation, amortisation and impairment losses | 65 | 88 |
| **Number of employees, average** | **937** | **1,011** |

| | 2017 | 2016 |
|---|---|---|
| **Operating income (EBIT) per operating segment** | | |
| Americas | 155 | 147 |
| Europe & RoW | 250 | 197 |
| Not broken down by segments | –1 | –3 |
| **Total operating income (EBIT)** | **404** | **341** |
| Financial net | –13 | –23 |
| **Earnings before tax** | **391** | **318** |

| | 2017 | 2016 |
|---|---|---|
| **Sales by customer location – geographic area** | | |
| Total USA | 937 | 918 |
| Rest of North America | 39 | 20 |
| South America | 42 | 52 |
| Germany | 345 | 326 |
| UK | 92 | 124 |
| Sweden | 89 | 100 |
| Rest of Europe | 342 | 335 |
| Asia | 216 | 126 |
| Other | 2 | 3 |
| **Total** | **2,104** | **2,004** |

| | 2017 | 2016 |
|---|---|---|
| **Total net sales per product group** | | |
| Concentric branded Engine products | 1,085 | 1,080 |
| LICOS branded Engine products | 191 | 158 |
| Alfdex branded Engine products | 213 | 182 |
| Total Engine products | 1,489 | 1,420 |
| Total Hydraulics products | 828 | 766 |
| Eliminations | -213 | –182 |
| **Total Group** | **2,104** | **2,004** |

| | 2017 | 2016 |
|---|---|---|
| **Tangible assets by operating location** | | |
| USA | 31 | 46 |
| Germany | 33 | 38 |
| UK | 46 | 39 |
| South America | 8 | 11 |
| Other | 12 | 16 |
| **Total Group** | **130** | **150** |

| | 2017 | 2016 |
|---|---|---|
| **Intangible assets by operating location** | | |
| USA | 279 | 321 |
| Germany | 74 | 77 |
| UK | 456 | 479 |
| **Total Group** | **809** | **877** |

## Note 5 Costs distributed by type

| | 2017 | 2016 |
|---|---|---|
| Direct material costs | 1,019 | 984 |
| Personnel costs | 448 | 442 |
| Depreciation and amortisation | 65 | 88 |
| Other operating costs, net | 178 | 160 |
| **Total operating costs** | **1,710** | **1,674** |

## Note 6 Average number of employees

| | 2017 | 2016 |
|---|---|---|
| Women | 147 | 164 |
| Men | 790 | 847 |
| | **937** | **1,011** |

## Note 7 Salaries and other remuneration

| | 2017 | 2016 |
|---|---|---|
| Salaries and remuneration | 349 | 345 |
| Pension costs | 16 | 15 |
| Social security costs | 63 | 66 |
| External cost for temporary personnel | 13 | 7 |
| Other personnel costs | 7 | 9 |
| **Total personnel costs** | **448** | **442** |

Salaries and remuneration to the Board of Directors, CEO and site General Managers amounted to MSEK 26 (26). The Board of Directors, consists of 7 (7) members, of whom 2 (2) are women. For information on the individual remuneration paid to them and the CEO, refer to Note 8 for the Group.

## Note 8 Information on remuneration of Board of Directors, CEO and Executive Committee

| Amounts in SEK (thousands) | 2017 Directors' fees | 2017 Annual variable remuneration | 2017 Long-term variable remuneration | 2017 Pension | 2017 Total | 2016 Directors' fees | 2016 Annual variable remuneration | 2016 Long-term variable remuneration | 2016 Pension | 2016 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Board of Directors** | | | | | | | | | | |
| Stefan Charette, Chairman (16/17) | 131 | – | – | – | 131 | 518 | – | – | – | 518 |
| Kenth Eriksson, Chairman (17/18) | 480 | – | – | – | 480 | 297 | – | – | – | 297 |
| Marianne Brismar | 254 | – | – | – | 254 | 248 | – | – | – | 248 |
| Martin Lundstedt | 254 | – | – | – | 254 | 248 | – | – | – | 248 |
| Anders Nielsen | 229 | – | – | – | 229 | – | – | – | – | – |
| Susanna Schneeberger | 254 | – | – | – | 254 | 248 | – | – | – | 248 |
| Martin Sköld | 254 | – | – | – | 254 | 248 | – | – | – | 248 |
| Claes Magnus Åkesson | 328 | – | – | – | 328 | 322 | – | – | – | 322 |
| **Total Board of Directors** | **2,184** | **–** | **–** | **–** | **2,184** | **2,129** | **–** | **–** | **–** | **2,129** |

| | 2017 Basic salary/ Benefits in kind | 2017 Annual variable remuneration | 2017 Long-term variable remuneration | 2017 Pension | 2017 Total | 2016 Basic salary/ Benefits in kind | 2016 Annual variable remuneration | 2016 Long-term variable remuneration | 2016 Pension | 2016 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **President and CEO** | | | | | | | | | | |
| David Woolley | 4,991 | 3,794 | 5,105 | – | 13,890 | 5,124 | 2,079 | 1,690 | 90 | 8,983 |
| | | | | | | | | | | |
| **Other senior executives[1)]** | 13,000 | 3,170 | 1,484 | 784 | 18,438 | 10,702 | 2,810 | 1,395 | 530 | 15,437 |
| **Total** | **17,991** | **6,964** | **6,589** | **784** | **32,328** | **15,826** | **4,889** | **3,085** | **620** | **24,420** |

[1)] Other senior executives consisted of 6 (6) people, of whom 1 (1) is a woman.

## Note 8 (cont.) Incentive Programmes

Concentric AB Annual General Meeting 2014–2017 have decided upon four long-term performance based incentive programmes, under which senior executives and key employees participating in the schemes are entitled to receive employee stock options that entitles them to acquire Concentric shares. The fair value of the options has been calculated according to the Black & Scholes-method.

In order to ensure and maximise the management's engagement in Concentric, allocation of employee stock options was conditioned upon the participants becoming shareholders in Concentric by their own investment of Concentric shares in the stock market.

Delivery of shares under the LTI programmes is conditional upon continuity of employment and holdings of these savings shares throughout the respective three year lock up period. All incentive programmes are equity-settled. Key data and parameters are included in the tables below. See also note 24 for the Group.

| Employee stock options | LTI 2017 | LTI 2016 | LTI 2015 | LTI 2014 |
|---|---|---|---|---|
| President and CEO | 68,800 | 102,240 | 85,360 | 78,400 |
| Other senior executives | 55,240 | 84,932 | 38,240 | 23,520 |
| **Total stock options** | **124,040** | **187,172** | **123,600** | **101,920** |
| | | | | |
| Employee stock options | 62,020 | 93,586 | 61,800 | 50,960 |
| Performance stock option 1 | 31,010 | 46,793 | 30,900 | 25,480 |
| Performance stock option 2 | 31,010 | 46,793 | 30,900 | 25,480 |
| **Total stock options (=Number of shares)** | **124,040** | **187,172** | **123,600** | **101,920** |
| Criteria for performance stock option 1 | 2019 EPS ≥ SEK 8.00 | 2018 EPS ≥ SEK 10.00 | 2017 EPS ≥ SEK 7.50[1] | 2016 EPS ≥ SEK 6.00[1] |
| Criteria for performance stock option 2 | 2017–19 Average ROE ≥ 25% | 2016–18 Average ROE ≥ 25% | 2015–17 Average ROE ≥ 25%[1] | 2014–16 Average ROE ≥ 20%[1] |
| **Number of senior executives** | **6** | **6** | **3** | **5** |
| **Conditioned by own investment of shares** | **31,010** | **46,793** | **30,900** | **25,480** |

| Changes in number of stock options | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Opening balance, 1 January 2017 | 412,692 | 340,880 | 403,320 | 286,880 |
| Granted | 124,040 | 187,172 | 123,600 | 115,920 |
| Granted LTI 2013 in 2014 | – | – | – | 20,520 |
| Options LTI 2012 exercised in 2015 | – | – | –157,760 | – |
| Options LTI 2013 exercised in 2016 | – | –115,360 | – | – |
| Options LTI 2014 exercised in 2017 | –101,200 | – | – | – |
| Lapsed LTI 2012 in 2014 | – | – | – | –20,000 |
| Lapsed LTI 2013 in 2015 | – | – | –14,280 | – |
| Lapsed LTI 2014 in 2015 | – | – | –14,000 | – |
| Lapsed LTI 2014 in 2017 | –720 | – | – | – |
| Lapsed LTI 2016 in 2017 | –13,080 | – | – | – |
| **Closing balance, 31 December 2017** | **421,732** | **412,692** | **340,880** | **403,320** |
| | | | | |
| Average exercise price, SEK | 110.8 | 79.75 | 96.55 | 80.10 |
| Average price per option, SEK | 29.28 | 25.73 | 24.88 | 23.78 |
| Risk free interest rate, % | 0.00 | 0.00 | 0.00 | 0.98 |
| Expected volatility[2], % | 29.00 | 30.00 | 28.00 | 28.00 |
| Assumed dividend during 3 year period, SEK | 11.35 | 10.14 | 10.92 | 9.57 |
| Average share price at grant date, SEK | 123.10 | 103.50 | 115.50 | 99.25 |
| Lock up duration of scheme, years | 3 | 3 | 3 | 3 |
| Personnel cost recognised in year 2017, MSEK | 1.5 | 2.0 | 2.1 | 0.4 |
| Annual cost of scheme, MSEK | 2.2 | 2.0 | 2.1 | 1.3 |

1) All criteria for the performance stock options were successfully achieved.
2) The volatility applied in the valuation has been estimated based on the weighted average of the 100-day historical volatility for the shares traded on NASDAQ OMX Stockholm.

## Note 9 Auditing fees

| | 2017 | 2016 |
|---|---|---|
| **KPMG** | | |
| Audit assignments | 3 | 3 |
| Other assignments | – | – |
| | **3** | **3** |

## Note 10 Depreciation and Amortisation

| | 2017 | 2016 |
|---|---|---|
| Cost of goods sold | 34 | 38 |
| Administrative costs | 2 | 3 |
| Product development costs | 2 | 2 |
| Other operating expenses | 36 | 36 |
| Reversal of impairment of tangible assets | –9 | – |
| Impairment of tangible assets | – | 9 |
| | **65** | **88** |

## Note 11 Other operating income and expenses

| | 2017 | 2016 |
|---|---|---|
| *Other operating income* | | |
| Revenue from tooling etc | 6 | 6 |
| Income from royalty from joint venture | 46 | 40 |
| Reversal of impairment of tangible assets | 9 | – |
| Insurance claim settlement | 27 | – |
| Export incentives | 5 | 6 |
| Pension curtailment gains | – | 39 |
| | **93** | **91** |
| | | |
| *Other operating expenses* | | |
| Amortisation of acquisition related surplus values | 36 | 36 |
| Increase in restructuring reserve | – | 26 |
| Impairment of tangible assets | – | 9 |
| Write off of tax input credit | 2 | – |
| Warranty claim settlement | 27 | – |
| | **65** | **71** |

## Note 12 Financial items – Net

| | 2017 | 2016 |
|---|---|---|
| *Financial income* | | |
| Interest income, external | 10 | 9 |
| Foreign exchange rate gains, net | 1 | – |
| **Total Financial income** | **11** | **9** |
| | | |
| *Financial expenses* | | |
| Interest expenses, external | –3 | –3 |
| Pension financial expenses | –16 | –19 |
| Foreign exchange rate losses, net | – | –6 |
| Other financial items, external | –5 | –4 |
| **Total Financial expenses** | **–24** | **–32** |
| **Financial items – net** | **–13** | **–23** |

## Note 13 Taxes

| | 2017 | 2016 |
|---|---|---|
| Current tax | –81 | –50 |
| Deferred tax | –7 | –22 |
| **Total income tax** | **–88** | **–72** |

Deferred taxes relates mainly to pensions, provisions, intangible fixed assets and tax losses.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

| **Reconciliation of effective tax rate** | 2017 | 2016 |
|---|---|---|
| Earnings before tax (MSEK) | 391 | 318 |
| **Tax at applicable tax rate in Sweden, %** | **–22** | **–22** |
| Effect of different tax rates in foreign countries of operation, % | –9 | –6 |
| Effect of changes in tax rates, % | –2 | – |
| Non-tax deductible expenses , % | – | – |
| Non-taxable income, % | 8 | 6 |
| Tax attributable to prior years, % | – | 3 |
| Changes in temporary differences without corresponding capitalisation of deferred tax, % | – | –4 |
| Other permanent differences, % | 1 | 1 |
| Other timing differences, % | 2 | –1 |
| **Reported effective tax rate, %** | **–22** | **–23** |

## Note 14 Earnings per share

| | 2017 | 2016 |
|---|---|---|
| Net income for the year, KSEK | 303,591 | 245,989 |
| | | |
| Basic weighted average number of shares | 40,237,988 | 40,924,392 |
| Adjustments for the option programmes | 135,572 | 48,812 |
| **Diluted weighted average no of shares** | **40,373,560** | **40,973,204** |
| | | |
| **Basic earnings per share, SEK** | **7.54** | **6.01** |
| **Diluted earnings per share, SEK** | **7.52** | **6.00** |

## Note 15 Intangible fixed assets

| | Goodwill | Other intangible assets[1] | Capitalised development costs | Total |
|---|---|---|---|---|
| **Acquisition value** | | | | |
| Balance at 1 January 2016 | 636 | 590 | 34 | 1,260 |
| Investments | – | – | – | – |
| Sales/discards/reclassifications | – | – | – | – |
| Effect of movements in exchange rates | –16 | –14 | – | –30 |
| **Balance at 31 December 2016** | **620** | **576** | **34** | **1,230** |
| | | | | |
| Balance at 1 January 2017 | 620 | 576 | 34 | 1,230 |
| Investments | – | 3 | – | 3 |
| Sales/discards/reclassifications | – | – | – | – |
| Effect of movements in exchange rates | –23 | –20 | – | –43 |
| **Balance at 31 December 2017** | **597** | **559** | **34** | **1,190** |
| | | | | |
| **Accumulated depreciation and amortisation, including write-downs[2]** | | | | |
| Balance at 1 January 2016 | 5 | 284 | 34 | 323 |
| Depreciation and amortisation | – | 37 | – | 37 |
| Sales/discards/reclassifications | – | – | – | – |
| Effect of movements in exchange rates | – | –7 | – | –7 |
| **Balance at 31 December 2016** | **5** | **314** | **34** | **353** |
| | | | | |
| Balance at 1 January 2017 | 5 | 314 | 34 | 353 |
| Depreciation and amortisation | – | 38 | – | 38 |
| Sales/discards/reclassifications | – | – | – | – |
| Effect of movements in exchange rates | – | –10 | – | –10 |
| **Balance at 31 December 2017** | **5** | **342** | **34** | **381** |
| | | | | |
| **Carrying amounts** | | | | |
| **As at 31 December 2016** | **615** | **262** | **–** | **877** |
| **As at 31 December 2017** | **592** | **217** | **–** | **809** |

[1] The acquisition value of other intangible assets of MSEK 559 (576) relates to Customer relationships and contracts of MSEK 328 (340), Brand MSEK 114 (119), Technology MSEK 93 (96) and other intangible assets MSEK 24 (21).
[2] Accumulated write-downs amounted to MSEK 32 (32)

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## Note 16 Tangible fixed assets

| | Buildings and Leasehold buildings | Land and land improvements | Machinery and other technological investments | Equipment, tools and installations | Construction in progress and advances to suppliers | Total |
|---|---|---|---|---|---|---|
| **Acquisition value** | | | | | | |
| Balance at 1 January 2016 | 99 | 22 | 755 | 277 | 17 | 1,170 |
| Investments | 4 | – | 13 | 4 | –8 | 13 |
| Sales/discards/reclassifications | – | – | –3 | – | 1 | –2 |
| Effect of movements in exchange rates | 6 | 1 | 2 | 8 | –1 | 16 |
| **Balance at 31 December 2016** | **109** | **23** | **767** | **289** | **9** | **1,197** |
| | | | | | | |
| Balance at 1 January 2017 | 109 | 23 | 767 | 289 | 9 | 1,197 |
| Investments | – | – | 7 | 3 | 5 | 15 |
| Sales/discards/reclassifications | – | – | –2 | – | – | –2 |
| Effect of movements in exchange rates | –9 | – | –25 | –14 | –1 | –49 |
| **Balance at 31 December 2017** | **100** | **23** | **747** | **278** | **13** | **1,161** |
| | | | | | | |
| **Accumulated depreciation and amortisation, including write-downs[1)]** | | | | | | |
| Balance at 1 January 2016 | 75 | 10 | 642 | 256 | – | 983 |
| Depreciation and amortisation, including write-downs[2)] | 5 | 1 | 38 | 7 | – | 51 |
| Sales/discards/reclassifications | – | – | –3 | – | – | –3 |
| Effect of movements in exchange rates | 5 | – | 3 | 8 | – | 16 |
| **Balance at 31 December 2016** | **85** | **11** | **680** | **271** | **–** | **1,047** |
| | | | | | | |
| Balance at 1 January 2017 | 85 | 11 | 680 | 271 | – | 1,047 |
| Depreciation and amortisation, including reversal of write-downs[2)] | 5 | 1 | 17 | 6 | – | 29 |
| Sales/discards/reclassifications | – | 1 | –1 | – | – | – |
| Effect of movements in exchange rates | –9 | – | –24 | –12 | – | –45 |
| **Balance at 31 December 2017** | **81** | **13** | **672** | **265** | **–** | **1,031** |
| | | | | | | |
| **Carrying amounts** | | | | | | |
| **As at 31 December 2016** | **24** | **12** | **87** | **18** | **9** | **150** |
| **As at 31 December 2017** | **19** | **10** | **75** | **13** | **13** | **130** |

[1)] Accumulated write-downs amounted to MSEK nil (9). [2)] For write-downs see Note 10 and 11.

## Note 17 Operational leases

The Group's payment for operational non-terminable leasing agreements fall due as follows:

| | Premises | | Machinery | | Total | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| up to 1 year | 18 | 17 | 3 | 4 | 21 | 21 |
| 2–5 years | 41 | 40 | 5 | 9 | 46 | 49 |
| more than 5 years | 4 | 2 | – | 1 | 4 | 3 |
| **Total** | **63** | **59** | **8** | **14** | **71** | **73** |

Total leasing cost charged to income statement during 2017 totaled MSEK 22 (25). The leasing agreements primarily include rented premises and industrial machinery, but also include computers, office equipment, and vehicles.

## Note 18 Deferred Taxes

Deferred income tax receivables and liabilities are offset when there is a legally enforceable right to offset current taxes and when the deferred income tax receivables and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. See table opposite for the gross movement on deferred income taxes.

| | 2017 | 2016 |
|---|---|---|
| **At 1 January** | **93** | **102** |
| Income statement charge (note 13) | –7 | –22 |
| Tax charged directly to OCI | –32 | 16 |
| Re-classification to current taxes | 8 | –3 |
| Exchange differences | – | – |
| **At 31 December** | **62** | **93** |

Deferred income tax assets and liabilities are summarised in the tables below:

| **2017** | **Assets** | **Liabilities** | **Net** |
|---|---|---|---|
| Tax loss carry-forwards | 4 | – | 4 |
| Tangible fixed assets | 1 | –5 | –4 |
| Intangible assets | 4 | – | 4 |
| Provisions | 19 | – | 19 |
| Pension and similar obligations | 110 | – | 110 |
| Acquisition related surplus values | – | –58 | –58 |
| Other | –13 | – | –13 |
| Netting | –33 | 33 | – |
| **Net deferred tax receivables/tax liabilities** | **92** | **–30** | **62** |

| **2016** | **Assets** | **Liabilities** | **Net** |
|---|---|---|---|
| Tax loss carry-forwards | 25 | – | 25 |
| Tangible fixed assets | 1 | –9 | –8 |
| Intangible assets | 4 | – | 4 |
| Provisions | 16 | – | 16 |
| Pension and similar obligations | 129 | – | 129 |
| Acquisition related surplus values | 1 | –71 | –70 |
| Other | –2 | –1 | –3 |
| Netting | –45 | 45 | – |
| **Net deferred tax receivables/tax liabilities** | **129** | **–36** | **93** |

Deferred income tax receivables are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. All recognised tax loss carry-forwards have an expiry day exceeding ten years and there is no time-limit for tax loss carried forward in Sweden.

Unused tax losses and temporary differences for which no deferred tax asset is recognised amounted to MSEK 27 (27).

## Note 19 Shares of net assets in joint venture

| Company name | Corp. reg. no. | Reg'd office | Participations | % | 2017 | 2016 |
|---|---|---|---|---|---|---|
| Alfdex AB | 556647–7278 | Landskrona | 50,000 | 50% | 27 | 19 |

Alfdex AB is a joint venture with Alfa Laval Holding AB, and Concentric AB has 50% of the shares and voting rights. See also Note 8 for the Parent Company. The following amounts constitute 100% of the assets, liabilities, revenue and expenses in the joint venture. Adjustments to Concentric's accounting principles have been made.

| | 2017 | 2016 |
|---|---|---|
| **Income statement** | | |
| Net Sales | 426 | 366 |
| Cost of goods sold[1)] | –348 | –287 |
| **Gross income** | **78** | **79** |
| Operating expenses[1)] | –52 | –50 |
| **Operating income** | **26** | **29** |
| Financial items – net | – | – |
| **Earnings before tax** | **26** | **29** |
| Taxes | –7 | –7 |
| **Net income for the year** | **19** | **22** |
| | | |
| [1)] Depreciation and amortisation in Income Statement | –4 | –4 |

| | 2017 | 2016 |
|---|---|---|
| **Balance sheet** | | |
| Fixed assets | 19 | 9 |
| Current assets | 111 | 85 |
| Cash and bank | 42 | 19 |
| **Total assets** | **172** | **113** |
| | | |
| Equity | 54 | 38 |
| Pensions and similar obligations | 7 | 5 |
| Deferred tax liabilities | 3 | 1 |
| Current liabilities | 108 | 69 |
| **Total equity and liabilities** | **172** | **113** |

| **Movement in shares of net assets in joint venture** | | |
|---|---|---|
| **Share of net assets, Opening Balance** | **19** | **20** |
| Share of net income in joint venture | 10 | 11 |
| Dividend | –1 | –12 |
| Remeasurement loss, pensions | –1 | – |
| **Share of net assets, Closing Balance** | **27** | **19** |

### Note 20 Inventories

| | 2017 | 2016 |
|---|---|---|
| Raw materials | 124 | 121 |
| Semi-manufactured products | 23 | 23 |
| Finished products | 32 | 28 |
| | **179** | **172** |

### Note 21 Accounts receivable

| | 2017 | 2016 |
|---|---|---|
| Accounts receivable, gross | 184 | 161 |
| Provision for doubtful receivables | –1 | –1 |
| **Accounts receivable, net** | **183** | **160** |

| | | |
|---|---|---|
| Current receivable | 160 | 139 |
| *Overdue receivable:* | | |
| 1–30 days | 21 | 19 |
| 31–60 days | 1 | 1 |
| > 60 days | 1 | 1 |
| Sum of overdue receivable | 23 | 21 |
| **Accounts receivable, net** | 183 | 160 |

| **Provision for doubtful receivable** | | |
|---|---|---|
| Provision on January 1 | 1 | 2 |
| Change in provision for anticipated losses, net | – | –1 |
| **Provision on December 31** | **1** | **1** |

The year's net cost for doubtful accounts receivables amounted to MSEK 0 (0).

### Note 22 Other current receivables

| | 2017 | 2016 |
|---|---|---|
| VAT | 20 | 12 |
| Tax receivables | 19 | 18 |
| *Prepaid expenses and accrued income* | | |
| Rents and insurance | 6 | 6 |
| Accrued income | 5 | 4 |
| Other prepaid expenses | 10 | 19 |
| Derivative instruments | 1 | 5 |
| Other current receivables | 25 | 22 |
| | **86** | **86** |

The financial instruments recognised at fair value in the balance sheet belong to Level 2 in the fair value hierarchy, meaning that their fair value is determinable, directly or indirectly, from observable market data.

Claims related to income tax, VAT and other taxes of MSEK 39 (30) are not included in Note 38 regarding financial assets.

### Note 23 Cash and cash equivalents

| | 2017 | 2016 |
|---|---|---|
| Bank accounts and cash | 322 | 313 |
| Deposits | 133 | 125 |
| **Cash and cash equivalents** | **455** | **438** |

## Note 24 Shareholders' equity

See also notes 8 and 14 for the Group and note 12 for the parent company.

### Share capital

Refers to the share capital in the parent company.

### Additional contributed capital

Refers to equity contributed by the owners. Total contribution from Haldex AB during 2010–2011 was MSEK 680, of which MSEK 97 has been issued as share capital. The remaining amount, MSEK 583, is reported as additional contributed capital.

### Reserves

Translation reserve consists of foreign currency translation differences, arising from translation of the Group's foreign entities' financial reports, that have been prepared in a currency different to the Group's currency; Swedish kronor. Reserves also contain the gains and losses from hedges of net investments.

Hedge reserve consists of the fair value of the hedge instruments, i.e. forward contracts at the end of the period, that have not yet been recognised in the income statement. The Group applies hedge accounting, as defined in IAS39. Gains and losses on derivative instruments are recognised in the hedging reserve to the extent that the hedge is effective. Gains and losses are released to profit and loss at the same time as the hedged item impacts earnings.

### Retained earnings

Retained Earnings includes earnings and other comprehensive income for the year, plus the surplus/deficit in earnings carried forward in the Group, net of any shareholder distributions, either through dividends or own share buy-backs, and any LTI related equity adjustments.

### Capital management

The Group's objective in respect of the capital structure is to secure Concentric's ability to continue to conduct its operations so that it can generate a return for shareholders and value for other stakeholders and in order to maintain an optimal capital structure so that the cost of capital can be reduced. To manage the capital structure, the Group could change the dividend paid to the shareholders, repay capital to shareholders, issue new shares or sell assets in order to reduce debt.

Capital is defined as Equity and refers to the equity attributable to the owners of shares in the parent company.

Shareholders' equity amounted to MSEK 875 (857), resulting in a gearing ratio of 21 percent (35).

Cash dividend decided by the Annual General Meeting 2017 was SEK 3.50 (3.25) per share or total of MSEK 141.7 (133.8). The Company's policy for distributing unrestricted capital to the shareholders remains unchanged, whereby at least one-third of annual after-tax profit over a business cycle is to be distributed to the shareholders through dividends taking into account the Group's anticipated financial status. However, due to the Group's earnings and strong financial position, the Board of Directors propose to the shareholders at the Annual General Meeting a total dividend of SEK 3.75 (3.50) per share for the financial year 2017. This corresponds to an ordinary dividend of SEK 2.50 (2.00), which equates to around 33 percent (33) of the earnings per share, plus a special dividend of SEK 1.25 (1.50) associated with the Group´s strong financial position.

Annual General Meeting 2014–2017 have decided upon four long-term performance based incentive programmes under which a number of senior executives and key employees participated in the schemes, entitled them to receive employee stock options that entitles them to acquire Concentric shares. For further details see note 8 for the Group.

During 2017 Concentric AB sold 101,200 (115,360) of its own shares, representing 0.2 percent (0.3) of the share capital of the company.

During 2017 Concentric AB bought back 1,040,691 (813,480) of its own shares, representing 2.5 percent (2.0) of the shares of the company. The total number of holdings of its own shares at year-end 2017 was 1,329,507 (1,088,616), which represented 3.3 percent (2.6) of the total number of shares of the company. Of the total number of own holdings have 93,000 shares been transferred to an Employee Share Ownership Trust. The repurchase is made on the purposes determined by the Annual General Meeting, i.e. in order to increase the flexibility for the board in connection to potential future corporate acquisitions, as well as to be able to improve the company's capital structure and to cover costs for, and enable delivery of shares in accordance with the option programmes.

On 22 December 2017, Concentric AB signed new financing agreements with its existing banks, securing a new term loan for a minimum tenor of 5 years in the amount of MSEK 175, to replace the existing fully drawn term loan in the same amount, and a new multi-currency revolving credit facility for a minimum of three years in the amount of MEUR 60, to replace the existing undrawn credit facility in the same amount which was due to expire.

Some of the loan agreements in the Group contain financial covenants which the Group must comply with. The covenants are net debt in relation to EBITDA and in relation to Equity. At the year-end Concentric AB fulfilled these covenants with broad margins.

No changes in the capital management have been made during the year. The amount of available unused credit facilities at year-end was EUR million 60 (60), or about MSEK 590 (574).

## Note 25 Pensions and similar obligations

| | 2017 | 2016 |
|---|---|---|
| Defined Benefit Plans | 462 | 560 |

| | Defined Benefit Obligation | | Fair value of plan assets | | Net defined benefit liability | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| **Balance at 1 January** | **2,057** | **2,023** | **–1,497** | **–1,459** | **560** | **564** |
| *Included in Income Statement:* | | | | | | |
| Current Service Cost | 8 | 12 | – | – | 8 | 12 |
| Settlement | – | –39 | – | – | – | –39 |
| Interest Cost | 58 | 72 | –43 | –53 | 15 | 19 |
| | **66** | **45** | **–43** | **–53** | **23** | **–8** |
| *Included in Other Comprehensive Income:* | | | | | | |
| Remeasurement loss (gain) | 61 | 187 | –119 | –128 | –58 | 59 |
| Effect of movements in exchange rates | –37 | –112 | 26 | 100 | –11 | –12 |
| | **24** | **75** | **–93** | **–28** | **–69** | **47** |
| *Other:* | | | | | | |
| Contributions paid by the employer | – | – | –51 | –43 | –51 | –43 |
| Benefits paid | –80 | –86 | 79 | 86 | –1 | – |
| | **–80** | **–86** | **28** | **43** | **–52** | **–43** |
| **Balance at 31 December** | **2,067** | **2,057** | **–1,605** | **–1,497** | **462** | **560** |
| *Represented by plans in:* | | | | | | |
| Sweden | 45 | 39 | – | – | 45 | 39 |
| Germany | 194 | 189 | –86 | –81 | 108 | 108 |
| UK | 1,507 | 1,494 | –1,304 | –1,207 | 203 | 287 |
| USA | 321 | 335 | –215 | –209 | 106 | 126 |
| **Balance at 31 December** | **2,067** | **2,057** | **–1,605** | **–1,497** | **462** | **560** |

### Overview of the Group's Defined Benefit Plans

Below you can find descriptions of the defined benefit plans in each country. Concentric has defined-benefit plans for pensions in Sweden, Germany, UK and USA. The pensions under these plans are based mainly on final salary. Contribution-based plans are also found in these countries, Net remeasurement gains on pension obligations and plan assets were MSEK 58 (losses 59) during 2017.

These plans expose the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market risk.

The return on plan assets recognised in the income statement totalled MSEK 43 (53), while the actual return was MSEK 58 (72). The plan assets consist primarily of shares, interest-bearing securities and shares in mutual funds.

### Sweden pension plans

There are 3 different defined benefit plans in Sweden, of which 2 minor plans correspond to 11 percent (11) of the pension's liability. The obligations for the major plan that Concentric Group have within the ITP 2-plan are lifelong retirement pensions. The benefits in the lifelong pensions are established by different percentages in different salary intervals. The salary intervals are established in relation to the income base amount. The plan is based on final salary. The plan is closed for new employees and is unfunded. The minimum funding target is decided by PRI Pensionsgaranti, this is mandatory in order to stay in the system and get insurance for the pension liability.

As of 31 December 2017 the Defined Benefit Obligation ("DBO") amounted to MSEK 45 (39), corresponding to 2 percent (2) of the Group's total obligations.

The average duration of the DBO at the period ending 31 December 2017 is 18 (19) years.

The best estimate of pensions to be paid by the group for the year commencing 1 January 2018 is MSEK 1 (1).

## Germany pension plan

This defined benefit plan is a direct pension promise according to the German Company Pensions Act. Benefits which originate from the direct pension promise are partially funded via pledged reinsurance contracts. The plan also comprises lump-sum payments in case of death during employment and optional old-age benefits based on employee contributions, which are both set up as so-called direct insurance promises. These parts of the promise are also reported as part of the defined benefit plan and the direct insurance contracts are considered as plan assets.

The plan has been closed to new entrants since 2005. In December 2016, the Group gave notice of its intention to close the plan to further service accrual, effective from 31 March 2017.

The plan grants employee benefits to entitled employees in case of reaching the retirement age and in case of disability. In case of death of the entitled employee, benefits are granted to the surviving dependents.

The normal retirement age is reached at the age of 65. The old-age benefit plan formula represents a so-called average final-pay plan. The pension amount depends on the creditable years of service and the highest average pensionable salary during five consecutive years of service within the last ten years of service before retirement.

The company holds plan assets in the form of direct insurance and pledged re-insurance contracts. Certain benefits that are funded by direct insurance contracts are fully funded (100% asset liability matching).

The remaining benefits that are funded through re-insurance contracts are only partially funded according to IAS 19.

As no market quotation exists for direct insurance and re-insurance policies in an active market, the fair value at the balance sheet date is derived from the so-called active value, which has been notified by the insurance company.

A curtailment gain amounting to MSEK 7 was recognised in 2016 relating to those members made redundant as part of the restructuring plan, effective 31 December 2016. There were no curtailment gains arising from the notice to close the plan to further service accrual. No curtailment gains have been recognised in 2017.

As of 31 December 2017 the DBO amounted to MSEK 194 (189), corresponding to 9 percent (9) of the Group's total obligations. The fair value of the plan assets amounted to MSEK 86 (81). Net defined benefit liability amounted to MSEK 108 (108).

The average duration of the DBO at the period ending 31 December 2017 is 20 (20) years.

The best estimate of contributions to be paid by the Group to the plan for the year commencing 1 January 2018 is MSEK 5 (5).

## UK pension plans

The Group sponsors two defined benefit plans, which are separately funded and provide benefits linked to each members' final pay at the earlier of their date of leaving or retirement. Both plans are closed to new entrants and further service accrual.

These plans operate separate Trustee administered funds holding the pension plan assets to meet long term pension liabilities for about 2,000 past employees. The level of retirement benefit is linked to changes in inflation up to retirement.

The plans are subject to the funding legislation outlined in the Pensions Act 2004. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension plans in the UK.

The Trustees of the plans are required to act in the best interest of the plan's beneficiaries. The appointment of the Trustees is determined by the plan's trust documentation. It is policy that at least half of all Trustees should be nominated by the members.

It is the policy of the Trustees and the group to review the investment strategy at the time of each funding valuation. The Trustees' investment objectives and the processes undertaken to measure and manage the risks inherent in the plan investment strategy are documented in the plan's Statement of Investment Principles.

There have been no plan amendments, curtailments or settlements in the accounting period.

As of 31 December 2017 the DBO amounted to MSEK 1,507 (1,494), corresponding to 73 percent (73) of the Group's total obligations. The fair value of the plan assets amounted to MSEK 1,304 (1,207). Net defined benefit liability amounted to MSEK 203 (287).

The average duration of the DBO at the period ending 31 December 2017 is 18 (18) years.

The best estimate of regular contributions to be paid by the Group to the plans for the year commencing 1 January 2018 is MSEK 26 (31).

## USA pension plans

During 2017 the Group sponsored 2 (3) different defined benefit plans in the USA which comprised both pensions and other post-retirement benefits.

The Retiree Health Plan ("RHP") was closed, effective 31 December 2016.

The Defined Benefit Pension Plan ("DBPP") is equivalent to 99 percent (99) of the total pension liability and the Supplementary Executive Retirement Plan ("SERP") corresponds to 1 percent (1). All plans are frozen in the sense that no new participants are allowed to enter the plans.

The benefits provided under the DBPP are based on annual salary earned over the career as contrasted with a final average salary earned over the last few years before retirement. As such, the design controls the growth of benefit obligations very carefully. The number of participants in the RBPP has been declining since 2006 as beneficiaries pass away and some active participants leave employment.

The benefits for the SERP are fixed and will not change.

The DBPP Plan has a Trust by which benefits are financed. The investment manager has established a Statement of Investment Objectives which has been signed by the Trustees. Virtually all investments are made in highly diversified, passively managed mutual funds. The investment manager consults every month with the Trustees and the actuary to make certain that all parties understand and agree with the investment strategy. The investments are conservative, with preservation of capital being a very important component of the strategy. If there is an imminent financial threat, the investment manager, the actuary and all Trustees have the ability to call an emergency meeting to discuss the issue with the others. Inflows into the Trust from corporate contributions continue to exceed the outflow of pension benefits.

A curtailment gain amounting to MSEK 32 was recognised in 2016 following the closure of the RHP, effective 31 December 2016. No curtailment gains have been recognised in 2017. There have been no other amendments or settlements in the plans during the accounting period.

As of 31 December 2017 the DBO amounted to MSEK 321 (335), corresponding to 16 percent (17) of the Group's total obligations. The fair value of the plan assets amounted to MSEK 215 (209). Net defined benefit liability amounted to MSEK 106 (126).

The average duration of the DBO at the period ending 31 December 2017 is 14 (14) years.

The best estimate of contributions to be paid by the Group to the plans for the year commencing 1 January 2018 is MSEK 12 (12).

| **Total pension costs** | **2017** | **2016** |
|---|---|---|
| Pensions vested during the period | 8 | 12 |
| Interest on obligations | 58 | 72 |
| Calculated return on plan assets | –43 | –53 |
| Settlement | – | –39 |
| **Pension costs, defined-benefit plans** | **23** | **–8** |
| Pension costs, defined-contribution plans | 7 | 3 |
| **Total pension costs** | **30** | **–5** |

| | | | | | **Total** | |
|---|---|---|---|---|---|---|
| **DBO remeasurement losses (gain) arising from** | **Sweden** | **Germany** | **UK** | **USA** | **2017** | **2016** |
| Experience adjustment | 1 | – | – 6 | –5 | –10 | –30 |
| Demographic assumptions | – | – | – 20 | – | –20 | –61 |
| Financial assumptions | 4 | – | 66 | 21 | 91 | 278 |
| **Total DBO remeasurement losses (gains)** | **5** | **–** | **40** | **16** | **61** | **187** |

| | **Defined Benefit Obligation** | | | | **Total** | |
|---|---|---|---|---|---|---|
| **Members, percent** | **Sweden** | **Germany** | **UK** | **USA** | **2017** | **2016** |
| Active members | 2 | 54 | – | 14 | 7 | 8 |
| Deferred members | 69 | 17 | 52 | 48 | 49 | 46 |
| Pensioners | 29 | 29 | 48 | 38 | 44 | 46 |

| | **Fair value of plan assets** | | | | **Total** | |
|---|---|---|---|---|---|---|
| **Instruments** | **Sweden** | **Germany** | **UK** | **USA** | **2017** | **2016** |
| Equity instruments [1] | – | – | 795 | 103 | 898 | 724 |
| Debt instruments [1] | – | – | 199 | 80 | 279 | 316 |
| Property [1] | – | – | 94 | 28 | 122 | 94 |
| Cash and cash equivalents | – | – | 10 | 2 | 12 | 65 |
| **SUM** | **–** | **–** | **1,098** | **213** | **1,311** | **1,199** |
| | | | | | | |
| Insurance policies | – | 86 | 206 | 2 | 294 | 298 |
| **Total** | **–** | **86** | **1,304** | **215** | **1,605** | **1,497** |

[1] All instruments have quoted prices in active markets.

| Actuarial assumptions 2017, percent | Sweden | Germany | UK | USA |
|---|---|---|---|---|
| Discount rate | 2.40 | 1.85 | 2.50 | 3.75 |
| Recognised salary increase | 2.50 | 2.00 | N/A | N/A |
| Recognised inflation | 1.90 | 1.85 | 2.20 | 2.00 |
| Turnover, personnel | 2.00 | 1.60 | N/A | N/A |

| Actuarial assumptions 2016, percent | Sweden | Germany | UK | USA |
|---|---|---|---|---|
| Discount rate | 2.60 | 1.85 | 2.80 | 4.25 |
| Recognised salary increase | 2.50 | 2.00 | N/A | N/A |
| Recognised inflation | 1.50 | 1.85 | 2.30 | 2.00 |
| Turnover, personnel | 2.00 | 1.60 | N/A | N/A |

*Sensitivity analysis*

Reasonably possible changes at the reporting date to the one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the DBO by the amounts shown below.

| 31 December 2017 | Sweden | | Germany | | UK | | USA | |
|---|---|---|---|---|---|---|---|---|
| Defined Benefit Obligation | Increase | Decrease | Increase | Decrease | Increase | Decrease | Increase | Decrease |
| Discount rate (0.5% movement) | –3.3 | 3.7 | –17.5 | 20.2 | –109.9 | 123.3 | –20.9 | 23.2 |
| Future salary growth (0.5% movement) | 0.2 | –0.2 | 4.7 | –4.4 | N/A | N/A | N/A | N/A |
| Future pension growth (0.5% movement) | 3.4 | –3.1 | 13.3 | –12.1 | 21.0 | –18.5 | N/A | N/A |
| Future mortality (+/– 1 year) | 1.6 | –1.5 | 8.5 | –8.7 | 54.4 | –53.7 | 0.8 | –0.8 |

## Note 26 Maturity analysis for financial liabilities

| | 0–6 months | | 7–12 months | | 13–60 months | | >60 months | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Nominal amount** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Term loan | – | – | – | – | 175 | 175 | – | – | 175 | 175 |
| Loans related to finance leases | – | – | – | 1 | 1 | 1 | – | – | 1 | 2 |
| Other long-term liabilities | – | – | 1 | – | 2 | 4 | 1 | – | 4 | 4 |
| Short-term interest-bearing liabilities | 2 | 1 | – | – | – | – | – | – | 2 | 1 |
| Short-term loans payable to joint venture | – | – | – | – | – | – | – | – | – | – |
| Derivative liabilities | – | – | – | – | – | – | – | – | – | – |
| Accounts payable | 186 | 183 | – | – | – | – | – | – | 186 | 183 |
| Other current liabilities | 135 | 108 | – | – | – | – | – | – | 135 | 108 |
| **Total financial liabilities** | **323** | **292** | 1 | 1 | **178** | **180** | **1** | – | **503** | **473** |
| | | | | | | | | | | |
| Expected total future interest payments | 1 | 1 | 1 | 2 | 10 | 5 | – | – | 12 | 8 |

## Note 27 Long-term interest-bearing liabilities

| | **2017** | **2016** |
|---|---|---|
| Term loan | 175 | 175 |
| Loans related to finance leases | 1 | 2 |
| | **176** | **177** |

For further details see note 15 for the Parent Company.

## Note 28 Short-term interest-bearing liabilities

| | **2017** | **2016** |
|---|---|---|
| Other short-term loans | 2 | 1 |
| | **2** | **1** |

These short-term loans relate to overdraft positions within local bank accounts held outside the Group's cash pooling arrangements.

## Note 29 Short-term loans receivable and payable, joint venture

| | **2017** | **2016** |
|---|---|---|
| Accounts receivable from Alfdex AB | 6 | – |
| Accounts payable to Alfdex AB | – | – |
| Loans to Alfdex AB | – | – |
| | **6** | **–** |

## Note 30 Other provisions

| | Acquisition related provisions | Provision for share based payments | Total long-term provisions |
|---|---|---|---|
| **Opening balance January 1, 2017** | **4** | **3** | **7** |
| Provisions | – | 2 | 2 |
| Utilisation of provision | – | –2 | –2 |
| Exchange rate differences | –1 | – | –1 |
| **Closing balance December 31, 2017** | **3** | **3** | **6** |

| | Warranty reserves | Restructuring reserves | Total short-term provisions |
|---|---|---|---|
| **Opening balance January 1, 2017** | **47** | **17** | **64** |
| Provisions | 10 | – | 10 |
| Utilisation of provision | –14 | –15 | –29 |
| Exchange rate differences | – 2 | – | – 2 |
| **Closing balance December 31, 2017** | **41** | **2** | **43** |

## Note 31 Other liabilities

| | 2017 | 2016 |
|---|---|---|
| Liabilities for VAT and social security costs | 1 | 2 |
| Tax liabilities | 53 | 37 |
| Derivative instruments | – | – |
| *Accrued expenses:* | | |
| Personnel costs | 46 | 43 |
| Other accrued expenses | 67 | 46 |
| Other current liabilities | 22 | 19 |
| | **189** | **147** |

The financial instruments recognised at fair value in the balance sheet belong to Level 2 in the fair value hierarchy, meaning that their fair value is determinable, directly or indirectly, from observable market data.

Liabilities for income tax, VAT and other tax liabilities of MSEK 54 (39) are not included in Note 26 and 37 related to financial liabilities.

## Note 32 Pledged assets and contingent liabilities

| | 2017 | 2016 |
|---|---|---|
| Contingent liabilities | 1 | 1 |

## Note 33 Reversal of other non-cash items

| | 2017 | 2016 |
|---|---|---|
| Reversal of financial pension expenses | 16 | 19 |
| Reversal of curtailment gains, pensions | – | –39 |
| Provision to/Release of restructuring reserve | – 15 | 15 |
| Reversal of cost for LTI-schemes | 4 | 5 |
| Other | – | –2 |
| | **5** | **–2** |

## Note 34 Reconciliation of interest-bearing liabilities from financing activities

| | Loans | Pension[1] | Total |
|---|---|---|---|
| **Opening balance January 1, 2017** | 178 | 560 | 738 |
| Cash flow | – | –52 | –52 |
| Other non-cash items | – | –46 | –46 |
| **Closing balance December 31, 2017** | **178** | **462** | **640** |

[1] For additional information, see Note 25 – Pension and similar obligations.


## Note 35 Investments in subsidiaries

There were no acquisitions or divestments during 2017.

## Note 36 Related party transactions

The Parent Company is a related party to its subsidiaries and associated companies. Transactions with subsidiaries and associated companies occur on commercial market terms. Remuneration to senior executives is presented in Note 8. See also Note 2 for the Parent Company.

No transactions have been carried out between Concentric AB and its subsidiary undertakings and any related parties that had a material impact on either the company's or the group's financial position and results. In total, the AGM have decided upon six long-term incentive plans for the management and key personnel since the independent listing of Concentric AB.

## Note 37 Events after balance-sheet date

There were no significant post balance sheet events to report.

## Note 38 Categories of financial assets and financial liabilities and disclosures of fair value

The carrying amount of financial assets and liabilities are considered to be reasonable approximations of fair value for each class of financial assets and financial liabilities. The Group's interest bearing liabilities have floating base interest rates. Hence, changes in the base interest rate do not materially affect the fair value of the liabilities. Furthermore, there has not been any change in credit spread during the year that in Concentric's view would materially impact fair value. Accounts receivable and payable are all short-term and therefore their carrying amounts are also considered to be reasonable approximations of their fair values. The table below shows the carrying amount of financial assets and financial liabilities per measurement category in IAS39. For a description of the Group's exposures to financial risks, and its financial risk management, please see pages 65–66 in the Board of Directors' report.

| | Note | Derivatives used for hedging 2017 | 2016 | Loans and receivables 2017 | 2016 | Total 2017 | 2016 |
|---|---|---|---|---|---|---|---|
| **Financial assets at fair value** | | | | | | | |
| Other current receivables | | | | | | | |
| – Foreign currency derivatives | 22 | 1 | 5 | – | – | 1 | 5 |
| **Financial assets not at fair value** | | | | | | | |
| Long-term receivables | | – | – | 6 | 5 | 6 | 5 |
| Accounts receivable | 21 | – | – | 183 | 160 | 183 | 160 |
| Short-term loans receivable from joint venture | 29 | – | – | 6 | – | 6 | – |
| Other current receivables | 22 | – | – | 46 | 50 | 46 | 50 |
| Cash and cash equivalents | 23 | – | – | 455 | 438 | 455 | 438 |
| **Total financial assets** | | **1** | **5** | **696** | **653** | **697** | **658** |

| | Note | Derivatives used for hedging 2017 | 2016 | Financial liabilities at amortised cost 2017 | 2016 | Total 2017 | 2016 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities at fair value** | | | | | | | |
| Other current liabilities | | | | | | | |
| – Foreign currency derivatives | 31 | – | – | – | – | – | – |
| **Financial liabilities not at fair value** | | | | | | | |
| Long-term interest-bearing liabilities | 27 | – | – | 176 | 177 | 176 | 177 |
| Other long-term liabilities | | – | – | 4 | 4 | 4 | 4 |
| Short-term interest-bearing liabilities | 28 | – | – | 2 | 1 | 2 | 1 |
| Short-term loans payable to joint venture | 29 | – | – | – | – | – | – |
| Accounts payable | 26 | – | – | 186 | 183 | 186 | 183 |
| Other current liabilities | 31 | – | – | 135 | 108 | 135 | 108 |
| **Total financial liabilities** | | **–** | **–** | **503** | **473** | **503** | **473** |

The fair values of the foreign currency derivatives belong to Level 2 in the fair value hierarchy, meaning that their fair values are determined directly or indirectly from observable data. The fair values of the derivatives financial are based on valuations received from the financial institution that is the counterparty to each contract.

## Parent company income statement

| | Note | 2017 | 2016 |
|---|---|---|---|
| Net sales | 2 | 50 | 43 |
| Operating costs | 2, 3, 4 | –20 | –20 |
| Other operating income | 2 | 27 | 21 |
| Other operating costs | 2 | –27 | – |
| **Operating income** | | **30** | **44** |
| | | | |
| Income from shares in subsidiaries | 5 | 747 | 132 |
| Income from shares in joint venture | 5 | 1 | 12 |
| Interest income and similar items | 5 | 66 | 2 |
| Interest expenses and similar items | 5 | –7 | –58 |
| **Financial items – net** | | **807** | **88** |
| | | | |
| **Earnings before tax** | | **837** | **132** |
| | | | |
| Taxes | 6 | –21 | 1 |
| **Net income for the year** | | **816** | **133** |

## Statement of comprehensive income in parent company

| | 2017 | 2016 |
|---|---|---|
| Net income for the year | 816 | 133 |
| Other comprehensive income | – | – |
| **Total comprehensive income** | **816** | **133** |

# Parent company balance sheet

| | Note | 2017 | 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| Shares in subsidiaries | 7 | 3,175 | 2,433 |
| Shares in joint venture | 8 | 10 | 10 |
| Long-term loans receivable from subsidiaries | 9 | 9 | 8 |
| Deferred tax assets | 6 | 3 | 24 |
| **Total financial fixed assets** | | **3,197** | **2,475** |
| Other current receivables | 10 | 5 | 3 |
| Short-term loans receivable from joint ventures | | 6 | – |
| Short-term loans receivable from subsidiaries | | 142 | 80 |
| Cash and cash equivalents | 11 | 228 | 249 |
| **Total current assets** | | **381** | **332** |
| **Total assets** | | **3,578** | **2,807** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| Share Capital | 12 | 97 | 97 |
| **Total restricted equity** | | **97** | **97** |
| Retained earnings | | 854 | 997 |
| Total comprehensive income | | 816 | 133 |
| **Total unrestricted equity** | 21 | **1,670** | **1,130** |
| **Total Shareholders' equity** | | **1,767** | **1,227** |
| Pensions and similar obligations | 13 | 18 | 18 |
| Long-term interest-bearing liabilities | 14, 15 | 175 | 175 |
| Long-term loans payable to subsidiaries | 14 | 1,597 | 1,362 |
| **Total long-term liabilities** | | **1,790** | **1,555** |
| Accounts payable | 14 | – | 1 |
| Short-term loans payable to subsidiaries | 14 | 17 | 18 |
| Other current liabilities | 14, 16 | 4 | 6 |
| **Total current liabilities** | | **21** | **25** |
| **Total equity and liabilities** | | **3,578** | **2,807** |

## Changes in shareholders’ equity in parent company

| | Share capital | Retained earnings | Total equity |
|---|---|---|---|
| **Opening balance at January 1, 2016** | **97** | **1,209** | **1,306** |
| Net income for the year | – | 133 | 133 |
| Other comprehensive income | – | – | – |
| **Total comprehensive income for the year** | **–** | **133** | **133** |
| **Transactions with shareholders** | | | |
| Dividend | – | –134 | –134 |
| Sale of own shares to satisfy LTI 2013 options exercised | – | 7 | 7 |
| Buy-back own shares | – | –85 | –85 |
| **Total transactions with shareholders** | **–** | **–212** | **–212** |
| **Closing balance at December 31, 2016** | **97** | **1,130** | **1,227** |

| | Share capital | Retained earnings | Total equity |
|---|---|---|---|
| **Opening balance at January 1, 2017** | **97** | **1,130** | **1,227** |
| Net income for the year | – | 816 | 816 |
| Other comprehensive income | – | – | – |
| **Total comprehensive income for the year** | **–** | **816** | **816** |
| **Transactions with shareholders** | | | |
| Dividend | – | –142 | –142 |
| Sale of own shares to satisfy LTI 2014 options exercised | – | 8 | 8 |
| Buy-back own shares | – | –142 | –142 |
| **Total transactions with shareholders** | **–** | **–276** | **–276** |
| **Closing balance at December 31, 2017** | **97** | **1,670** | **1,767** |

# Parent company cash flow statement

| | Note | 2017 | 2016 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Earnings before tax | | 837 | 132 |
| Reversal of non-cash items | 18 | –807 | 46 |
| **Cash flow from operating activities before changes in working capital** | | **30** | **178** |
| | | | |
| **Change in working capital** | | | |
| Current receivables | | –7 | – |
| Current liabilities | | –1 | –2 |
| **Change in working capital** | | **–8** | **–2** |
| | | | |
| **Cash flow from operating activities** | | **22** | **176** |
| | | | |
| **Cash flow from investing activities** | | | |
| Long-term loan to subsidiaries | | –3 | – |
| Investments in subsidiaries | 19 | – | –19 |
| **Cash flow from investing activities** | | **–3** | **–19** |
| | | | |
| **Cash flow from financing activities** | | | |
| Dividend | | –142 | –134 |
| Buy-back own shares | | –142 | –85 |
| Sale of own shares | | 8 | 7 |
| New loans received | 20 | 175 | 31 |
| Repayment of loans | 20 | –176 | –31 |
| New loans from subsidiaries | 20 | 237 | 201 |
| **Cash flow from financing activities** | | **–40** | **–11** |
| | | | |
| **Cash flow for the period** | | **–21** | **146** |
| | | | |
| Cash and bank assets, opening balance | | 249 | 103 |
| **Cash and bank assets, closing balance** | | **228** | **249** |

# Parent company notes

## Note 1 Accounting principles

The Annual Report for the Parent company has been prepared in accordance with Swedish Annual Accounts Act (Årsredovisningslagen) and the Swedish Financial Reporting Board RFR 2 – Financial reporting for legal entities (Redovisning för juridiska personer).

According to the rules stated in RFR 2, the Parent Company, in the annual report for the legal entity, must apply all EU-approved IFRS and statements to the extent possible within the framework of the Annual Accounts Act, and taking into account the relationship between reporting and taxation. This recommendation specifies the exceptions from IFRS that are permissible and the necessary supplementary information.

The Parent Company´s accounting principles correspond to those for the Group with the exceptions listed below.

### a) New Accounting principles

None of the IFRS or IFRIC interpretations which are mandatory for the first time for the financial year beginning January 1, 2017 have had a significant impact on the Parent Company´s Income Statement or Balance Sheet. Neither IFRS 9, 15 or 16 will have any significant effect on the Parent Company's balance sheet or income statement.

### b) Group Contribution

According to the "main principle", group contributions paid by the parent company shall be accounted for as investments in subsidiaries and group contributions received shall be accounted for as a dividend (financial income) and included in the item income from shares in subsidiaries. As an alternative, both group contribution received and paid by the parent company can be reported as appropriations. The parent company is reporting group contributions received as a dividend.

### c) Shares in subsidiaries and associated companies

Shares in subsidiaries and associated companies are carried at cost less any impairment. The cost includes acquisition related costs. Dividends received are recorded as financial income. When there is an indication that stocks and shares in subsidiaries or associated companies decreased in value, an estimate of its recoverable amount is set. If this is lower than the carrying amount a write down is done. Impairment losses are recognised in the items Income from shares in subsidiaries and Income from shares in associated companies.

### d) Financial instruments

Due to the connection between accounting and taxation, the rules for financial instruments and hedge accounting in IAS 39, is not applied for in the parent company as a legal entity. In the parent company financial fixed assets are valued at cost less impairment and financial current assets at the lower of cost or market value. The cost of debt instrument is adjusted for the accrual difference between what was originally paid, net of transaction costs, and the amount payable at maturity.

### d) Pension obligations

Pensions are recognised according to the Swedish Act Tryggandelagen in the parent company, but according to IAS 19 for the Group.

## Note 2 Net sales/Other operating income

### Inter-company transactions/ Related party transactions

Of the parent company's net sales, MSEK 50 (43) pertained to subsidiaries and associated companies, while purchases from subsidiaries amounted to MSEK 4 (4).

All transactions in the parent company with related parties occur on commercial market terms. See also note 34 for the Group.

### Insurance compensation

During the year, the company has received insurance compensation of MSEK 27 (21) for a customer claim. The same amount has also been paid to the customer.

## Note 3 Auditing fees

| | 2017 | 2016 |
|---|---|---|
| Audit assignments, KPMG | 1 | 1 |
| | **1** | **1** |

## Note 4 Salaries and other remuneration

| Amounts in SEK (thousands) | 2017 | 2016 |
|---|---|---|
| Salaries and remuneration | 3,677 | 3,805 |
| *of which Board of Directors* | *2,184* | *2,129* |
| Pension costs | 249 | 482 |
| Social security costs | 1 116 | 1,142 |
| Other personnel cost | 121 | 99 |
| **Total personnel costs** | **5,163** | **5,528** |

The Board of Directors, consists of 7 members (7), of whom 2 are women (2). For information on the individual remuneration paid to them and the CEO, refer to Note 7–8 for the Group.

The average number of employees in the parent company was 2 (2).

The CEO is employed by Concentric Pumps Ltd (formerly Plc) in the UK and the cost for the CEO and CFO related to shareholder's services in the parent company, has been invoiced and amounted to KSEK 4,719 (4,238).

Provision according to Tryggandelagen was KSEK 27 (241). See also Note 13, Pensions.

## Note 5 Financial items – Net

| | 2017 | 2016 |
|---|---|---|
| *Income from shares in subsidiaries* | | |
| Group contribution from subsidiaries | 5 | 7 |
| Dividend from Concentric Pumps Ltd | 469 | – |
| Dividend from Concentric Finance 2 Ltd | 1,090 | 125 |
| Write-down of shares in Concentric US Finance 2 Ltd | –817 | – |
| | **747** | **132** |
| *Income from shares in joint venture* | | |
| Dividend from Alfdex AB | 1 | 12 |
| | | |
| *Interest income and similar items* | | |
| Interest income, external | – | – |
| Interest income from subsidiaries | 2 | 2 |
| Foreign exchange rate gains | 64 | – |
| | **66** | **2** |
| *Interest expenses and similar items* | | |
| Interest expenses, external | –2 | –3 |
| Interest expenses to subsidiaries | –1 | – |
| Foreign exchange rate gains/losses | – | –52 |
| Pension financial expenses | –1 | –1 |
| Other financial items, external | –3 | –2 |
| | **–7** | **–58** |
| **Financial items – net** | **807** | **88** |

## Note 6 Taxes

| | 2017 | 2016 |
|---|---|---|
| Current tax | – | – |
| Deferred tax | –21 | 1 |
| Total income tax | –21 | **1** |
| | | |
| **Reconciliation of effective tax rate** | | |
| Earnings before tax | 837 | 132 |
| Tax at applicable tax rate, % | –22 | –22 |
| Non-taxable dividend from subsidiaries and associated companies, % | 41 | 23 |
| Non-tax deductible write-downs in subsidiaries, % | –22 | – |
| Non-tax deductible expenses, % | – | – |
| **Reported effective tax rate, %** | **–3** | **1** |
| | | |
| Total deferred tax assets related to tax loss carried forward | 3 | 24 |

Deferred tax assets are recognized for tax loss carried forward to the extent that the realisation of the related tax benefit through future taxable profit is probable. Calculated tax losses for 2017 amounted to MSEK 3 (24).

## Note 7 Shares in subsidiaries

| Company name | Corp, Reg. No. | Reg'd office | Participations | % | 2017 | 2016 |
|---|---|---|---|---|---|---|
| Concentric Pumps Ltd (formerly Plc) | | UK | 518,397 | 100 | 1,556 | 1,556 |
| Concentric Americas, Inc. | | US | 1,000 | 100 | – | – |
| Concentric Argentina Ltd | | UK | 1 | 100 | 38 | 38 |
| Concentric US Finance 2 Ltd | | UK | 100 | 100 | – | 817 |
| Concentric Skånes Fagerhult AB | 556105-8941 | Örkelljunga, Sweden | 30,000 | 100 | 22 | 22 |
| Concentric Innovations AB | 556908-4535 | Stockholm, Sweden | 50,000 | 100 | 1,559 | – |
| Concentric SAS | | France | 10 | 100 | – | – |
| Concentric Korea LLC | | South Korea | 12,000 | 100 | – | – |
| Concentric Srl | | Italy | 10,000 | 100 | – | – |
| | | | | | **3,175** | **2,433** |

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### Indirect Investments in principal trading subsidiaries

| Company name | Reg'd office | % |
|---|---|---|
| Concentric Itasca, Inc. | US | 100 |
| Concentric Rockford, Inc | US | 100 |
| Concentric Chivilcoy SA | Argentina | 100 |
| Concentric Birmingham Ltd | UK | 100 |
| Concentric Hof GmbH | Germany | 100 |
| LICOS Trucktec GmbH | Germany | 100 |
| Concentric Pumps Pune (Pvt) Ltd | India | 100 |
| Concentric Pumps (Suzhou) co, Ltd | China | 100 |

| Changes in shares in subsidiaries | 2017 | 2016 |
|---|---|---|
| Opening balance, acquisition value | 2,439 | 2,420 |
| Concentric Innovations AB | 1,559 | – |
| Concentric Argentina Ltd | – | 19 |
| **Closing Balance, acquisition value** | **3,998** | **2,439** |
| | | |
| Opening balance, write-downs | – 6 | – 6 |
| Concentric US Finance 2 Ltd. | – 817 | – 6 |
| **Closing Balance, write-downs** | **–823** | **–6** |
| **Closing Balance, carrying amount** | **3,175** | **2,433** |

The above changes relate to a group reorganisation undertaken during 2017.

### Note 8 Shares in joint venture

| Company name | Corp, Reg. No | Reg'd office | Participations | % | 2017 | 2016 |
|---|---|---|---|---|---|---|
| Alfdex AB | 556647–7278 | Landskrona | 50,000 | 50% | 10 | 10 |

Alfdex AB is a joint venture with Alfa Laval Holding AB, and Concentric AB has 50 percent of the shares and voting rights. Alfdex's product is based on separation technology for cleaning of crankcase gases in diesel engines for vehicles, electric generators and ships. Concentric ABs share of profit for 2017 is MSEK 10 (11) and share of equity per year-end 2017 is MSEK 27 (19). See also Note 19 for the Group.

### Note 9 Long-term loans receivable from subsidiaries

| | 2017 | 2016 |
|---|---|---|
| Total loans | 9 | 8 |
| of which reported as short-term loans | – | – |
| **Long-term loans** | **9** | **8** |

The loans relate primarily to USD-loans amounting to 930,000 (540,000). Maturity date 31 July 2019. New USD-loans during the year amounted to 390,000.

The GBP-loan has been repaid in full during the year. At the end of previous year the loan was amounting to 175,000. The balance sheet item consists also of two minor loans of EUR 100,000 (100,000). Maturity date 29 January 2020,

The interest rate on the USD-loan was 7.1 percent (6.8) and on the EUR-loans 1.5 percent (1.5) as of 31 December 2017.

Average rates during the year on the GBP loan was 2.3 percent (2.4), on the EUR-loans 1.5 percent (1.7) and on the USD-loan 6.9 percent (6.4).

Both long-term loans from subsidiaries and and short-term receivables from subsidiaries are classified as loans and receivables.

### Note 10 Other current receivables

| | 2017 | 2016 |
|---|---|---|
| Prepaid insurance premiums | 1 | 1 |
| Prepaid interest costs | 3 | 1 |
| Other prepaid expenses | 1 | 1 |
| | **5** | **3** |

### Note 11 Cash and cash equivalents

| | 2017 | 2016 |
|---|---|---|
| Bank accounts and cash | 228 | 249 |

## Note 12 Share capital

See also note 14, Earnings per share, and note 24, Shareholder´s equity, for the Group.

| Changes in share capital | Number of shares | Quota value | Total |
|---|---|---|---|
| **Number of registered shares:** | | | |
| **Opening balance January 1, 2016** | **42,852,500** | **2.27** | **97,275,175** |
| Retirement of repurchased own shares April 6, 2016 | –1,281,900 | 2.27 | –2,909,913 |
| Bonus share issue April 6, 2016 | | | 2,909,942 |
| **Closing balance December 31, 2016** | **41,570,600** | **2.34** | **97,275,204** |
| | | | |
| Retirement of repurchased own shares April 9, 2017 | –698,600 | 2.34 | –1,634,724 |
| Bonus share issue April 9, 2017 | – | – | 1,634,880 |
| **Closing balance December 31, 2017** | **40,872,000** | **2.38** | **97,275,360** |
| | | | |
| **Number of outstanding shares:** | | | |
| Number of registered shares December 31, 2015 | 42,852,500 | – | – |
| Number of own shares December 31, 2015 | –1,672,396 | – | – |
| **Number of outstanding shares December 31, 2015** | **41,180,104** | **–** | **–** |
| | | | |
| Number of registered shares December 31, 2016 | 41,570,600 | | |
| Number of own shares December 31, 2016 | –1,088,616 | – | – |
| **Number of outstanding shares December 31, 2016** | **40,481,984** | **–** | **–** |
| | | | |
| Number of registered shares December 31, 2017 | 40,872,000 | – | – |
| Number of own shares December 31, 2017 | –1,329,507 | – | – |
| **Number of outstanding shares December 31, 2017** | **39,542,493** | **–** | **–** |

| | 2017 | 2016 |
|---|---|---|
| **Number of average outstanding shares** | **40,237,987** | **40,924,392** |
| Number of shares adjusted for ongoing option programs | 135,572 | 48,812 |
| **Number of average outstanding shares, after dilution** | **40,373,559** | **40,973,204** |

The cash dividend decided by the Annual General Meeting 2017 was SEK 3.50 (3.25) per share or total of MSEK 141.7 (133.8). The AGM 2017 also resolved to retire 698,600 of the company´s own repurchased shares. During 2017 Concentric AB sold 101,200 (115,360) of its own shares, representing 0.2 percent (0.3) of the shares of the company.

During 2017 Concentric AB bought back 1,040,691 (813,480) of its own shares, representing 2.5 percent (2.0) of the shares of the company. The total number of holdings of its own shares at year-end 2017 was 1,329,507 (1,088,616), which represented 3.3 percent (2.6) of the total number of shares of the company. Of the total number of own holdings have 93,000 shares been transferred to an Employee Share Ownership Trust.

Annual General Meeting 2014–2017 have decided upon four long-term performance based incentive programmes, under which a number of senior executives and key employees participating in the schemes, entitled them to receive employee stock options that are entitled them to acquire Concentric shares. For further details, see note 8 for the Group.

## Note 13 Pensions and similar obligations

| | 2017 | 2016 |
|---|---|---|
| FPG/PRI pension plan | 18 | 18 |

Pension obligation is a defined-benefit plan and is recognised according to Tryggandelagen.

See also note 4, Salaries and other remuneration.

| | 2017 | 2016 |
|---|---|---|
| **Opening Balance, 1 January** | **18** | **17** |
| Provision according to Tryggandelagen, Personnel cost | – | 1 |
| Provision according to Tryggandelagen, Financial cost | 1 | 1 |
| Payment | –1 | –1 |
| **Closing Balance, 31 December** | **18** | **18** |

## Note 14 Maturity analysis for financial liabilities

| | 0–6 months | | 7–12 months | | 13–60 months | | >60 months | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Nominal amount** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Pensions and similar obligations | – | – | – | – | – | – | 18 | 18 | 18 | 18 |
| Term loan | – | – | – | – | 175 | 175 | – | – | 175 | 175 |
| Long-term loans payable to subsidiaries | – | – | – | – | – | – | 1,597 | 1,362 | 1,597 | 1,362 |
| Short-term loans payable to subsidiaries | 17 | 18 | – | – | – | – | – | – | 17 | 18 |
| Accounts payable and other current liabilities | 3 | 5 | – | – | – | – | – | – | 3 | 5 |
| **Total financial liabilities** | **20** | **23** | **–** | **–** | **175** | **175** | **1,615** | **1,380** | **1,810** | **1,578** |
| | | | | | | | | | | |
| Expected total future interest payments | 1 | 1 | 1 | 2 | 10 | 5 | – | – | 12 | 8 |

## Note 15 Long-term interest-bearing liabilities

| | 2017 | 2016 |
|---|---|---|
| Term loan | 175 | 175 |

On 22 December, 2017, Concentric AB signed new financing agreements with its existing banks, securing a new term loan for a minimum tenor of 5 years in the amount of MSEK 175, to replace the existing fully drawn term loan in the same amount, and a new multi-currency revolving credit facility for a minimum of three years in the amount of MEUR 60 (approximately MSEK 590), to replace the existing undrawn credit facility in the same amount which was due to expire.

The interest rate on the Term loan was 1.50 percent (1.50) as of 31 December 2017. The average interest rate on the liability during 2017 was 1.52 percent (1.57).

Available unused amount on credit facilities at year-end was EUR 60m (EUR 60m), or about MSEK 590 (574).

## Note 16 Other current liabilities

| | 2017 | 2016 |
|---|---|---|
| Accrued interest cost | – | 1 |
| VAT | 1 | 2 |
| Other accrued expenses | 3 | 3 |
| | **4** | **6** |

Liabilities for VAT of MSEK 1 (2) are not included in note 14 related to financial liabilities.

## Note 17 Contingent liabilities

| | 2017 | 2016 |
|---|---|---|
| **General collateral guarantee for subsidiaries** | | |
| Loan | 46 | 53 |
| Operational leasing commitment | 46 | 54 |
| | **92** | **107** |

The above commitments are not expected to result in any payments. General guarantee regarding the loan is for the operations in China and Argentina. The leasing commitments are for the operations in Rockford and Itasca in the US.

### Note 18 Reversal of non-cash items

| | 2017 | 2016 |
|---|---|---|
| Financial exchange rate differences | –64 | 52 |
| Dividend from Concentric Pumps Ltd | –469 | – |
| Dividend from Concentric Finance 2 Ltd | –1,090 | – |
| Write-down of shares in Concentric US Finance 2 Ltd | 817 | – |
| Other non-cash items | –1 | –6 |
| | **–807** | **46** |

### Note 19 Investments in subsidiaries

| | 2017 | 2016 |
|---|---|---|
| Investments in Concentric Argentina Ltd | – | –19 |
| **Net investments** | **–** | **–19** |

Concentric Argentina Limited was formed in 2015 for the investment in Chivilcoy, Argentina. The acquisition value amounted to MSEK 19. During 2016 an additional capital contribution of MSEK 19 was made. See also note 34 for the Group.

### Note 20 Reconciliation of liabilities from financing activities

| | External Loans | Loans to subsidiaries | Total |
|---|---|---|---|
| Opening balance, January 1, 2017 | 176 | 1,362 | 1,538 |
| Cash flow | –1 | 237 | 236 |
| Other non-cash items | – | –2 | –2 |
| **Closing Balance, December 31, 2017** | **175** | **1,597** | **1,772** |

### Note 21 Proposed Appropriation of Earnings

The Annual General Meeting has the following funds at its disposal:

| **Amounts in KSEK** | |
|---|---|
| Profit brought forward | 853,728 |
| Net income for the year | 815,996 |
| **Total** | **1,669,724** |

The Annual General Meeting has the following funds at its disposal:

| **Amounts in KSEK** | |
|---|---|
| Dividend of 3.75 per share to the shareholders | 148,284 |
| Carried forward | 1,521,440 |
| **Total** | **1,669,724** |

The Board of Directors and the President declare that the consolidated financial statements have been prepared in accordance with IFRS, as adopted by the EU, and give a fair view of the Group's financial position and results of operations. The financial statements of the Parent Company have been prepared in accordance with generally accepted accounting principles in Sweden and give a fair view of the Parent Company's financial position and results of operations. The Board of Directors' Report for the Concentric Group and the Parent Company provides a fair view of the development of the Group's and the Parent Company's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

*Stockholm 26 March, 2018*

**Kenth Eriksson**
Chairman of Board

**Marianne Brismar**
Member of the Board

**Anders Nielsen**
Member of the Board

**Martin Lundstedt**
Member of the Board

**Martin Sköld**
Member of the Board

**Claes Magnus Åkesson**
Member of the Board

**Susanna Schneeberger**
Member of the Board

**David Woolley**
President and CEO

*Our audit report was submitted on 26 March, 2018*
*KPMG AB*

**Anders Malmeby**
Authorised Public Accountant

*To the general meeting of the shareholders of Concentric AB (publ), corp. id 556828-4995*

# Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of Concentric AB (publ) for the year 2017, except for the corporate governance statement on pages 116–125 and the sustainability report on pages 50–57 and 128–135. The annual accounts and consolidated accounts of the company are included on pages 62–111 in this document.

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 2017 and its financial performance and cash flow 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 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 116–125 and the sustainability report on pages 50–57 and 128–135. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

***Revenue***
*See accounting principles provided within Group note 2(e) on page 76 in the annual account and consolidated accounts for detailed information and description of the matter.*

**Description of key audit matter**

The Group's commercial terms agreed with customers determine the point at which revenue can be recognised. As these commercial terms can be complex and vary between components of the Group, a detailed review is required by the Group to identify the appropriate timing of revenue recognition in each case. The most significant risk is that the recognition of revenue does not reflect when the Group actually transfers the risks and rewards of ownership.

**Response in the audit**

Our audit procedures included making our own independent assessment of the appropriate point in time to recognise revenue. Those assessments were compared to the actual accounting treatment applied by the Group for a selection of significant revenue transactions. In doing so, focusing on the periods immediately prior to and after the year end, we obtained customer purchase orders, shipping documentation and sales invoices and identified the commercial terms agreed with the customer before comparing the actual timing of revenue recognition with our expectation.

***Warranty provisions***
*See disclosure and accounting principles provided within Group notes 2(n), 3 and 30 on pages 78, 81 and 99 in the annual account and consolidated accounts for detailed information and description of the matter.*

**Description of key audit matter**

Certain of the Group's products incorporate the right to return infield failures under a pre-agreed warranty policy with its customers. The warranty periods offered vary between the components of the Group and markets (in line with commercial terms agreed with the customer). Determination as to whether to recognise a provision and the amount of the provision to be recognised requires the Group to make judgments and estimates that are inherently subjective, including the likelihood of claims arising, the number of parts affected and the cost of rectification of those parts.

**Response in the audit**

Our audit procedures included, discussions with the Group as to current and historical quality issues and known or expected warranty claims, corroboration of these discussions through inspection of credit notes and reading board minutes and, where available, inspection of customer correspondence regarding known warranty issues. For specific provisions, we assessed the calculation of the provision taking into account available supporting documentation such as customer correspondence and operational management cost estimates. We challenged the Group's judgments made in determining the Group's provisions. We also considered the adequacy of the Group's disclosures.

*Valuation of goodwill (Group) and Participations in group companies (parent company)*
*See disclosure and accounting principles provided within Group notes 2(h), 3 and 15 on pages 76, 80–81, and 88 in the annual account and consolidated accounts for detailed information and description of the matter.*

**Description of key audit matter**
The Group's balance sheet includes goodwill, principally arising from historical acquisitions. The risk is that the goodwill allocated to cash generating units ('CGU') is not recoverable and should be impaired. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgemental areas for our audit.

The Group annually carries out an impairment assessment of goodwill using a value-in-use model which is based on the net present value of the forecast earnings of the cash-generating unit ('value-in-use'). This is calculated using certain assumptions around discount rates, growth rates and cash flow forecasts.

A similar impairment assessment is performed by the parent company for the ownership in subsidiaries ("Shares in subsidiaries") where the conditions are similar to the ones described above for goodwill.

**Response in the audit**
Our procedures included assessing the key assumptions applied by the Group in determining the recoverable amounts of each CGU. In particular, we:

- considered the consistency and appropriateness of the allocation of businesses and related goodwill balances into CGUs;
- considered the underlying assumptions in determining the cash flows and growth assumptions applied with reference to historical forecasting accuracy and wider macro environment conditions;
- challenged the assumptions used in the calculation of the discount rates used by the Group, including comparisons with external data sources and consideration of the potential risk of management bias;
- performed our own sensitivity analysis, including a reasonably possible reduction in assumed growth rates and cash flows to identify areas to focus our procedures on.

We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions appropriately reflected the risks inherent in the valuation of goodwill.

*Pensions*
*See disclosure and accounting principles provided within Group notes 2(o), 3 and 25 on pages 79, 81 and 94–97 in the annual account and consolidated accounts for detailed information and description of the matter.*

**Description of key audit matter**
The Group's share of the pension schemes' net deficit was MSEK 462. Given the size of the schemes, small changes in assumptions and estimates used to value the Group's retirement benefit obligations have a significant impact on the Group's share of the retirement benefit obligations.

**Response in the audit**
We challenged the key assumptions supporting the Group's retirement benefit obligations valuation, with input from our own actuarial specialists. This included a comparison of the discount rate, inflation and life expectancy assumptions used against externally derived data.

We considered the adequacy of the Group's disclosures in respect of the key assumptions, including the sensitivity of the deficit to changes.

### Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–61 and 126–140. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they 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.

In preparing the annual accounts and consolidated accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

# Report on other legal and regulatory requirements

## Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Concentric AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general 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.

## Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

## 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. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organisation and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organisation is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

## Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a 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.

## The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 116–125 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR´s auditing standard RevU 16 The auditor´s examination of the corporate governance statement. This means that our 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 auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts are in accordance with the Annual Accounts Act.

## The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the sustainability report on pages 50–57 and 128–135, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR:s auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Concentric AB (publ) by the general meeting of the shareholders on the 30 mars 2017. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 2012.

*Stockholm 26 March, 2018*
KPMG AB
**Anders Malmeby**
Authorised Public Accountant

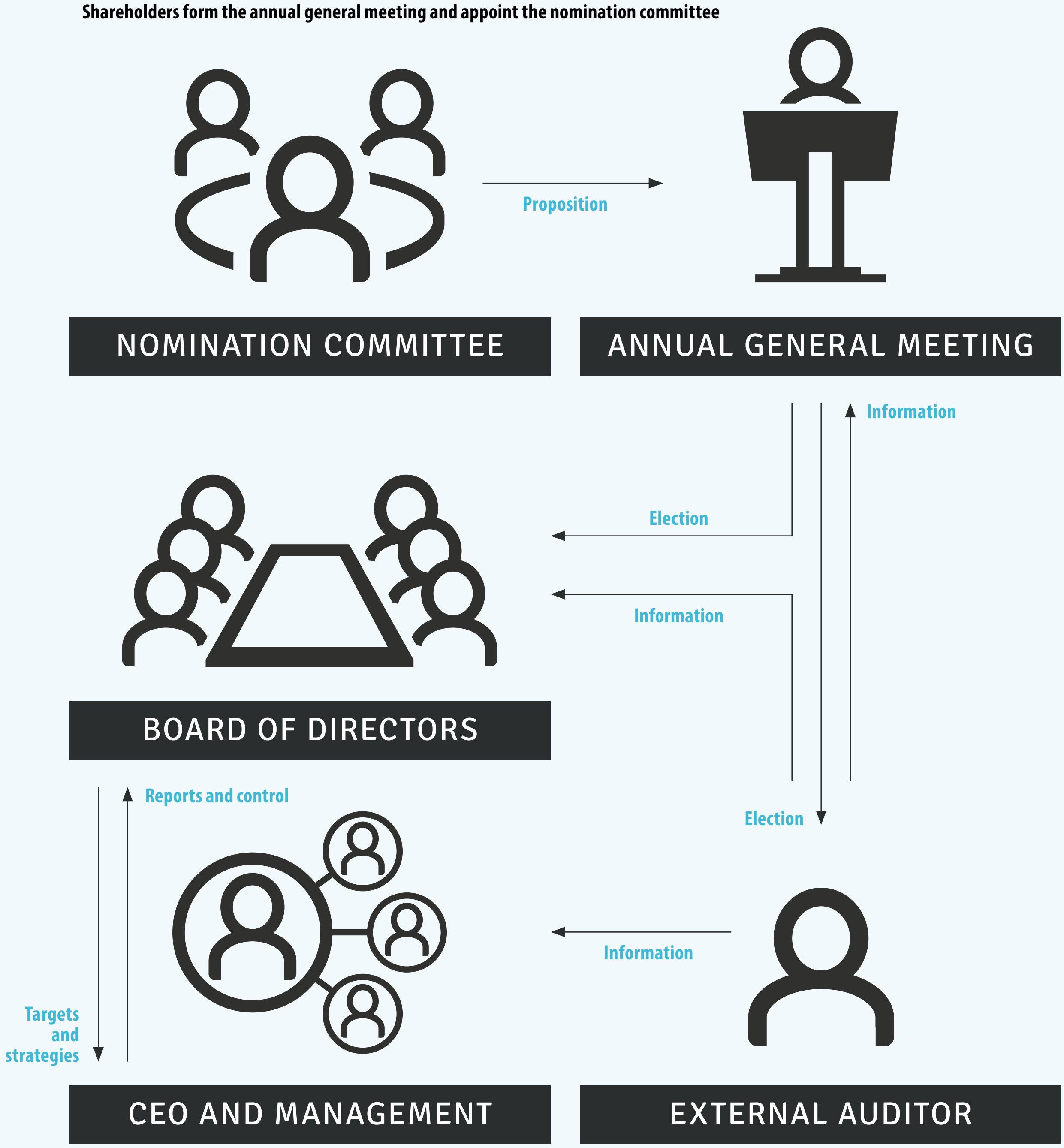
# CORPORATE GOVERNANCE IN CONCENTRIC

Concentric AB is a publicly traded Swedish limited liability company that was listed on June 16, 2011. Corporate governance in Concentric proceeds from the Swedish Companies Act, other applicable laws and regulations, NASDAQ OMX Stockholm's Rule Book for Issuers and the Swedish Code of Corporate Governance ("the Code"). The basis for good corporate governance at Concentric is clear goals, strategies and values that are well understood by the company's employees.

**Foundation for corporate governance within Concentric**

Concentric sees good corporate governance, risk management and internal control as key elements in a successful business and to maintain confidence among customers, shareholders, authorities and other stakeholders.

**Shareholders form the annual general meeting and appoint the nomination committee**




**External control system**
The Swedish Companies Act, other applicable legislation and regulations for publicly traded companies, NASDAQ OMX Stockholm's Rule Book for Issuers, and the Code.

**Internal control system**
The Articles of Association, Operating Procedures of the Board of Directors, Instructions for the President, the Concentric Code of Conduct and the Treasury Policy, along with a number of other Group policies and manuals that contain rules as well as recommendations that specify principles and provide guidance for the Group's operations and employees.

## Shareholders and Annual General Meeting

The shareholders exercise their influence by participating in the Annual General Meeting (and, as the case may be, at Extraordinary General Meetings), which is Concentric's supreme decision-making body. The Annual General Meeting is held in Stockholm, Sweden, every calendar year before the end of June. Extraordinary General Meetings are held when necessary. The Annual General Meeting resolves on a number of issues, such as the Articles of Association, the adoption of the income statement and balance sheet, the appropriation of the Company's profit or loss and the discharge from liability towards the Company for the Board members and the CEO, composition of the Nomination Committee, the election of Board members (including the Chairman of the Board) and auditor, remuneration to the Board members and the auditor, principles for remuneration and employment terms for the CEO and other senior executives and any amendments to the Articles of Association.

Notice to attend the Annual General Meeting, as well as Extraordinary General Meetings at which amendments to the Articles of Association are to be addressed, are issued not earlier than six weeks and not later than four weeks prior to the meeting. Notice to attend other Extraordinary General Meetings is issued not earlier than six weeks and not later than three weeks prior to the meeting. Notices are published in the Official Swedish Gazette (Post- och Inrikes Tidningar) and on the Company's website. An announcement that notice has been issued is simultaneously published in Dagens Nyheter.

To be entitled to participate in a General Meeting, shareholders must be recorded in the share register maintained by Euroclear Sweden five weekdays prior to the meeting and provide notification of their intention to attend the meeting not later than the date stipulated in the notice convening the meeting. Such date must not be a Sunday, other public holiday, Saturday, Midsummer Eve, Christmas Eve or New Year's Eve and must not occur earlier than the fifth weekday prior to the meeting.

Shareholders may attend the AGM in person or by proxy and may be accompanied. Shareholders are able to register for the AGM in several different ways: by telephone, email or letter.

Shareholders wishing to have an issue brought before the AGM must submit a written request to that effect to the Board of Directors. Any such requests must reach the Board of Directors no later than seven weeks prior to the AGM to ensure that the issue can be included in the notice.

## Nomination Committee

Concentric's Annual General Meeting resolves on principles for the appointment of members of the Nomination Committee and the Committee's work. The Nomination Committee's assignment includes the preparation and presentation of proposals for the election of members of the Board of Directors, the Chairman of the Board, the Chairman of General Meetings and auditor as well as proposals regarding the remuneration of Board members, members of any Board Committees and fees to the auditor.

The 2017 Annual General Meeting resolved that the Nomination Committee shall consist of four members, representing each of the four largest shareholders. The names of these four members and the shareholders they represent will be announced via a press release and on Concentric's web site at least six months before the Annual General Meeting, based on the shareholdings immediately prior to such announcement.

The members' term of office will end when a new Nomination Committee has been appointed. Provided that the members of the Nomination Committee do not agree otherwise, the member representing the largest shareholder is to be appointed chairman of the Committee. If a shareholder that has appointed a member of the Nomination Committee during the Committee's term of assignment no longer is one of the four largest shareholders, the member representing such shareholder may be replaced by a representative of the shareholder that instead has become one of the four largest shareholders.

A shareholder that has appointed a member of the Nomination Committee may also replace such representative with a new member. No remuneration is to be paid to members of the Nomination Committee.

The Nomination Committee's proposals are presented in the notice convening the Annual General Meeting and on Concentric's web site. In conjunction with the issuance of the notice convening the Annual General Meeting, the Nomination Committee shall publish on Concentric's web site a statement in support of its proposal to the Board. At least one member

of the Nomination Committee shall attend the Annual General Meeting in order to present and account of the work performed by the Nomination Committee and present and state the reasons for the Nomination Committee's proposals.

## Composition of the Board of Directors

Under the Articles of Association, Concentric's Board shall consist of not less than three and not more than seven members elected each year by the Annual General Meeting for the period up until the next Annual General Meeting.

None of the Group's senior executives or employee representatives were members of the Board in 2017. However, Concentric's CEO participates in Board meetings and the Group's CFO serves as the Board's secretary. Other salaried employees attend Board meetings in connection with the presentation of particular issues.

When electing the Board of Directors, the aim is to ensure that the Board as a whole, for the purpose of its work, possesses the requisite knowledge of and experience in the social, business and cultural conditions of the regions and markets in which the main activities of the Concentric Group are carried out. According to the Code, which Concentric follows, the composition of the Board should be appropriate to the Company's operations, phase of development and other relevant circumstances. The Board members elected by the General Meeting shall collectively exhibit the necessary diversity and breadth of qualifications, experience and background. Concentric use section 4.1 in the Code as its diversity policy, which for example means that the Company shall strive for gender balance on the Board. The Chairman of the Board shall discuss the Company's requirements regarding the competence, experience and background of its Board members with the Nomination Committee. The Nomination Committee shall report on its work and explain its proposals at the Annual General Meeting and shall publish a reasoned statement in support of its proposals on Concentric's website.

Pursuant to requirements of the Code, more than half of the members of the Board elected by the General Meeting must be independent of the Company and senior management. This requirement does not apply to any employee representatives.

A director's independence is to be determined by a general assessment of all factors that may give cause to question the individual's independence of the Company or its senior management, such as recent employment with the Company or a closely related company. At least two of the members of the Board who are independent of the Company and its senior management are also to be independent in relation to the Company's major shareholders.

In order to determine such independence, the extent of the member's direct and indirect relationships with major shareholders is to be taken into consideration. Major shareholders, as defined in the Code, are shareholders who directly or indirectly control 10 percent or more of the shares or voting capital in the Company.

## Responsibility and work of the Board

The duties of the Board are set forth in the Swedish Companies Act, the Company's Articles of Association and the Code. In addition to this, the work of the Board is guided by Operating Procedures that the Board adopts every year. The Operating Procedures govern the division of work and responsibility among the Board, its Chairman and the CEO. The Board sets operational goals and strategies and is responsible for the Group's organisation and the management of its affairs, developing and monitoring the overall strategies, deciding on major acquisitions, divestments and investments, ongoing monitoring of operations and adoption of interim and year-end reports. The Board is also responsible for ongoing evaluation of management, as well as systems for monitoring and internal controls of the Group's financial reporting and position. Moreover, the Board ensures that the Company's external disclosure of information is characterised by openness and that it is accurate, relevant and clear. During Board meetings, the following items regularly appear on the agenda: the Group's performance and position, the business status, organisational matters, monthly accounts, external communication, disputes, acquisitions and divestments, major business agreements, development projects and investments.

From a sustainability perspective, the Board continuously evaluates economic, environmental and social aspects of the Group's performance and reviews specific issues such as work-related injuries, energy consumption and Code of Conduct adherence.

## Responsibilities of the Chairman of the Board

The Chairman, in collaboration with the CEO, monitors the Group's operations and performance, prepares and chairs Board meetings. The Chairman is also responsible for ensuring that the Board evaluates its work each year.

## CEO and Senior Management

The CEO is responsible for the day-to-day management and development of the Company in accordance with applicable legislation and regulations, including the rules of NASDAQ OMX Stockholm and the Code, and the instructions and strategies determined by the Board.

The CEO ensures that the Board is provided with objective and relevant information required in order for the Board to make well-informed decisions. Furthermore, the CEO monitors compliance with the targets, policies and strategic plans of the Company and the Group that have been adopted by the Board, and is responsible for keeping the Board informed of the Company's development between Board meetings.

The CEO leads the work of the senior management team, which is responsible for overall business development. In addition to the CEO, the senior management comprises the CFO, the heads of geographical regions, and the heads of product engineering and development and the Group VP of Human Resources, a total of seven persons including the CEO.

## External audit

The Annual General Meeting elects the external auditor for a period of one year at a time. The auditor reviews the Annual Report, the accounts, the corporate governance report, as well as the administration of the Board and the CEO, and follows an audit schedule set in consultation with the Audit Committee. In connection with the audit, the auditor shall report its observations to senior management for reconciliation and then to the Board. The report to the Board takes place after the conclusion of the audit of the administration and the review of the hard close accounts and in conjunction with the adoption of the Annual Report.

The Board meets with the auditor once a year, where the auditor reports its observations directly to the Board without the presence of the CEO and the CFO. Finally, the auditor attends the Annual General Meeting and briefly describes the auditing work and the recommendations in the Audit Report.

## Steering instruments

### External

Steering instruments that form the basis for Corporate Governance in Concentric primarily include the Swedish Companies Act, other applicable legislation and regulations for publicly traded companies, NASDAQ OMX Stockholm's Rule Book for Issuers, and the Swedish Code.

### Internal

Internal binding steering instruments include the Articles of Association adopted by the Annual General Meeting, and documents approved by the Board that include the Operating Procedures of the Board of Directors, Instructions for the President, the Concentric Code of Conduct and the Treasury Policy. In addition, the Group has a number of other policies and manuals that contain rules as well as recommendations that specify principles and provide guidance for the Group's operations and employees.

## Operating Procedures of the Board of Directors

The Operating Procedures regulate the Board of Directors' internal division of work, the line of decision within the Board of Directors, the procedural rules for Board meetings and the duties of the Chairman of the Board. The work of the Board follows a fixed procedure aimed at ensuring that the Board of Directors' information requirements are met.

## Instructions for the President

The Instructions for the President establishes the boundaries for the President's responsibility for the operational administration, the forms for reporting to the Board of Directors and what this shall contain, requirements for internal steering instruments and matters that require the approval of the Board of Directors or that notification be provided to the Board of Directors.

Concentric AB is a publicly traded Swedish limited liability company with its registered office in Stockholm, Sweden. With no exceptions, Concentric complies with the Swedish Code of Corporate Governance and hereby submits its Corporate Governance report for 2017. The report has been prepared in accordance with the Swedish Companies Act.

## Shareholders

Concentric has been listed on the NASDAQ OMX Stockholm Stock Exchange since June 16, 2011. The share capital in Concentric AB at 31 December, 2017 totals MSEK 97.3 (97.3), represented by 39,542,493 (40,481,984) outstanding shares. Each share carries equal voting right and dividend rights.

The number of Concentric's shareholders at 31 December, 2017 amounted to 7,934 (8,458), with Lannebo Fonder representing the largest owner with 10.7% (10.9) of the share capital. Swedish ownership totalled 66% (61) at year end 2017. Information concerning ownership is updated each month on Concentric's website, www.concentricab.com.

## Annual General Meeting 2017

Concentric's Annual General Meeting was held in Stockholm on 30 March, 2017. The following board members were re-elected: Claes Magnus Åkesson, Marianne Brismar, Kenth Eriksson, Martin Lundstedt, Susanna Schneeberger and Martin Sköld. The meeting elected Anders Nielsen.

In total, 139 shareholders participated at the Annual General Meeting. These represented 52.21% of the shares in Concentric.

## Resolutions

The minutes of the meeting are available on Concentric's web site, www.concentricab.com. The resolutions passed include the following:

- The meeting resolved that the Board would comprise seven members with no deputies. Claes Magnus Åkesson, Marianne Brismar, Kenth Eriksson, Martin Lundstedt, Susanna Schneeberger and Martin Sköld were all re-elected for the period until the Annual General Meeting in 2018. The AGM also elected Anders Nielsen as a new director. Stefan Charette declined re-election. The meeting elected Kenth Eriksson as chairman of the board.
- It was decided that the registered accounting firm KPMG AB shall be auditor until the end of the annual general meeting 2018.
- It was decided that the Chairman of the Board will receive SEK 540,000, and that other members of the Board of Directors will receive SEK 255,000 as remuneration for work on the board. Additional consideration shall be paid with SEK 50,000 to the chairman of the Compensation Committee and the Chairman of the Audit Committee shall receive SEK 75,000.
- Fees to the auditor in respect of services performed are proposed to be paid against approved account.
- A resolution was taken, in accordance with the board's proposal, on a dividend of SEK 3.50 per share.
- A resolution was taken on a performance based incentive programme.
- A resolution was taken on directed issue of warrants and approval of transfer of warrants.
- A resolution was taken on authorisation of the board to resolve on acquisition and transfer of own shares either directly or indirectly, via an employee stock option trust, to participants in the performance based incentive programme.
- A resolution was taken on delivery of shares under LTI 2017 to participants resident in the United Kingdom to take part in a Joint Share Ownership Plan ("JSOP").
- A resolution was taken to retire 698,600 of the company's own repurchased shares. The retirement of shares was carried out through a reduction of share capital with retirement of shares and a subsequent bonus issue to restore the share capital. Altogether, the resolution resulted in the number of shares outstanding being reduced by 698,600 and the share capital being increased by SEK 156.


### Nomination Committee for the 2018 Annual General Meeting

In accordance with a decision by the 2017 Annual General Meeting, the four largest shareholders have each appointed a representative to form the Nomination Committee for the 2018 Annual General Meeting. Based on the ownership structure as of 30 September, 2017, these shareholders were:

Lannebo Fonder, Nordea AB, Swedbank Robur and SEB Fonder. Combined, they represented 37.2% of the voting rights in Concentric AB per 31 December 2017. The shareholders' representatives who will comprise members of the 2018 Nomination Committee are: Göran Espelund (Chairman) of Lannebo Fonder, Erik Durhan, Nordea AB, Marianne Nilsson, Swedbank Robur and Johan Strandberg, SEB Fonder.

The composition of the Nomination Committee was disclosed through a press release and a posting on Concentric's website, on 24 October, 2017. The company's shareholders were given the opportunity to submit opinions and proposals to the Nomination Committee via e-mail to the address specified on the company's website, under the heading Investors – Governance – Corporate Governance in Concentric – AGM 2018.

The Nomination Committee's work during its mandate included the following:

- Studied an evaluation of the Board's work.
- Reviewed competence needs and discussed the Board's composition in the light of Concentric's strategies.
- Nominated Board members.
- Verified the candidates' independence.
- Presented remuneration proposals for the Board (including performance based incentive programmes) and the Auditor.
- Reviewed and issued a proposal on the principles for appointing the Nomination Committee for the 2017 AGM.

### Board of Directors Independence

The Board's assessment of the members' independence, in relation to the Company, its senior management and major Shareholders, is presented in "Board of Directors" on page 126. All Board members are considered to be independent of the Company, its senior management and major Shareholders. Consequently, the Company meets the independence requirements of the Code.

### Work of the Board

The Board of Directors held a statutory meeting immediately following the Annual General Meeting.

During 2017, the Board of Directors held a total of 9 meetings. The main issues addressed were:

- Reviewing relevant policies, procedures and instructions for the group.
- Reviewing external communications, including interim reports and financial statements for the group and parent company.

- Reviewing budget and strategic plans, including proposals for development projects, significant capital investments and major business agreements.
- Reviewing the group's capital structure and ongoing financing arrangements.
- Appraising acquisition opportunities.
- Ongoing monitoring of the group's operations, including evaluating economic, environmental and social aspects of the Group's performance, end-market developments, organisational matters, monthly accounts, disputes and the overall performance of management.

### Auditor

At the 2017 Annual General Meeting, the registered accounting firm KPMG AB was elected as auditors for the period until the 2018 AGM is held.

Authorised Public Accountant Anders Malmeby was reappointed the company's auditor-in-charge. Anders Malmeby has been an Authorised Public Accountant since 1986, and is also the elected auditor of the listed companies Bravida Holding AB and East Capital Explorer AB. Anders Malmeby has no other assignments in other companies that are associated with Concentric's largest owners or President.

### Compensation and Audit Committee tasks

Under the Code and the Swedish Companies Act, the Board is to establish a Compensation Committee and an Audit Committee within its own ranks, or, alternatively, the tasks of such committees should be performed by the entire Board.

In the inaugural Board meeting directly following each AGM, separate committees were established. The main tasks undertaken during the separately convened Compensation Committee meetings were to prepare Board resolutions on issues concerning principles for remuneration, remunerations and other terms of employment for the senior executives, to monitor and evaluate programmes for variable remuneration for senior executives, and to monitor and evaluate the application of the guidelines for remuneration to senior executives resolved upon by the Annual General Meeting as well as remuneration structures and levels. During 2017, there were 3 Compensation Committee meetings.

The principal tasks undertaken during the separately convened Audit Committee meetings were to monitor the Company's financial reporting, to monitor the efficiency of the Company's internal controls, internal audits and risk management in respect of the financial reporting, to keep itself informed regarding audit of the annual report and group accounts, and to review and monitor the impartiality and independence of the auditor, paying special attention to whether the auditor provides the Company with services other than auditing services. During 2017, there were 6 audit Committee meetings.

### Remuneration of the Board of Directors

Fees to the Board members elected by the General Meeting are resolved upon by the General Meeting after proposals from the Compensation Committee. The 2017 Annual General Meeting resolved that fees totalling SEK 2,195,000 will be paid for the period up until the end of the 2018 Annual General Meeting and be distributed among the Board members as set out in the table on page 125. The remuneration to the Board is fixed, with no variable component.

### Guidelines

The terms of employment for senior executives shall consist of a balanced combination of fixed salary, annual bonus, long-term incentive programme, pension and other benefits and terms for dismissal/severance payment.

The total annual monetary remuneration, i.e. fixed salary, bonus and other long-term monetary remuneration, shall be in accordance with market practice on the geographical market where the senior executive operates. The total level of the compensation will be evaluated annually to ensure that it is in line with market practice for corresponding positions within the relevant geographical market.

The remuneration should be based on performance. It should therefore consist of a combination of fixed salary and bonus, where the variable remuneration forms a rather substantial part of the total remuneration.

When entering into new pension agreements with senior executives who are entitled to pension, the pension shall be based on defined contribution plans in accordance with local regulations on pension. As a main principal, pension premiums are based solely on fixed salary. Certain adjustments may occur in individual cases in accordance with local market practice.

### Incentive programme

In order to foster a long-term perspective in the decision-making and to ensure long term achievement of goals, the AGM resolved on a long-term incentive programme, LTI 2017, consistent with previous years.

The programme shall comprise up to 6 senior executives, including the CEO, and other key employees within the Concentric Group. In order to participate in LTI 2017, the participants must make their own investments in Concentric shares in the stock market. Each Concentric share acquired under LTI 2017 will entitle the participants to two free employee stock options, where each, after a three year lock-up period, will entitle the participant to acquire one Concentric share at a price of 98.50 SEK and 147.50 SEK respectively.

For more information about the Company's LTI schemes, see Group note 8 on pages 84–85.

## Internal controls

The Board's responsibility for internal controls is regulated by the Swedish Companies Act, the Swedish Annual Accounts Act and the Code. Information on the main components of the Company's systems for internal controls and risk management relating to the financial reporting must be disclosed annually in the Company's corporate governance report.

The processes for internal control, risk assessment, control activities and monitoring regarding the financial reporting are designed to ensure reliable overall financial reporting and external financial statements in accordance with IFRS, applicable laws and regulations and other requirements for companies listed on NASDAQ OMX Stockholm. This process involves the Board, senior management and personnel.

### Control environment

The Board has specified a set of instructions and working plans regarding the roles and responsibilities of the CEO and the Board. The manner in which the Board monitors and ensures the quality of the internal controls is documented in the Operating Procedures of the Board and Concentric's Treasury Policy.

The Board also has a number of established basic guidelines, which are important for its work on internal control activities. This includes monitoring performance against plans and prior years and overseeing various issues such as the internal audit routines and accounting principles applied by the Group. The responsibility for maintaining an effective control environment and internal control over financial reporting is delegated to the CEO, although the ultimate responsibility rests with the Board. Other executives at various levels have in turn responsibilities within their respective areas of operation. Senior management regularly reports to the Board according to established routines. Defined responsibilities, instructions, guidelines, manuals and policies together with laws and regulations form the control environment. All employees are accountable for compliance with these guidelines.

### Risk assessment and control activities

The Company operates a COSO model (developed by the Committee of Sponsoring Organisation of the Treadway Com-

mission) for the identification and assessment of risks in all areas. These risks are reviewed regularly by the Board and include both the risk of losing assets as well as irregularities and fraud. Designing control activities is of particular importance to enable the Company to prevent and identify shortcomings. Assessing and controlling risks also involves the management for each reporting unit, where monthly business review meetings are held. The CEO, the CFO, and local and regional management participate in the meetings. Minutes are kept for these meetings.

### Information and communication

Guidelines and manuals used in the Company's financial reporting are communicated to the employees concerned. There are formal as well as informal information channels to the senior management and to the Board for information from the employees identified as significant. Guidelines for external communication are designed to ensure that the Company applies the highest standards for providing accurate information to the financial market.

### Evaluation, monitoring and reporting

The Board regularly evaluates the information provided by senior management. The Board receives regular updates of the Group's development between its meetings. The Group's financial position, its strategies and investments are discussed at every Board meeting. The Board is also responsible for the follow-up of the internal control activities. This work includes ensuring that measures are taken to deal with any inaccuracy and to follow-up suggestions for actions emerging from the internal and external audits. The Company operates an annual control self-assessment process for the evaluation of risk management and internal control activities. This assessment includes reviewing the application of established routines and guidelines. The key findings from this annual assessment process, together with the status of any actions regarding the Company's internal control environment, are reported to the Board. The external auditor also regularly reports to the Board.



### Meetings attended 2017

| Board | Board | Audit Committee | Compensation Committee | 2017/18 Board Fees (SEK) |
|---|---|---|---|---|
| Stefan Charette [1] | 2 | 2 | 1 | – |
| Kenth Eriksson [2] [3] | 9 | 4 | 3 | 540,000 |
| Marianne Brismar | 9 | 6 | – | 255,000 |
| Susanna Schneeberger | 9 | – | – | 255,000 |
| Anders Nielsen [4] | 7 | – | 2 | 305,000 |
| Martin Sköld | 9 | – | – | 255,000 |
| Claes Magnus Åkesson [5] | 9 | 6 | – | 330,000 |
| Martin Lundstedt | 5 | – | – | 255,000 |
| | | | | **2,195,000** |

[1] Chairman of the Board 2016/2017 [2] Chairman of the Board 2017/2018 [3] Chairman of the Compensation Committee 2016/2017 [4] Chairman of the Compensation Committee 2017/2018
[5] Chairman of the Audit Committee

| Amounts in KSEK | Basic salary/ Benefits in kind | Annual variable remuneration | Long term variable remuneration | Pension | 2017 Total |
|---|---|---|---|---|---|
| President and CEO David Woolley | 4,991 | 3,794 | 5,105 | – | 13,890 |
| Other senior executives | 13,000 | 3,170 | 1,484 | 784 | 18,438 |
| Total | 17,991 | 6,964 | 6,589 | 784 | 32,328 |

For guidelines on remuneration see pages 67–68.

# THE BOARD

**KENTH ERIKSSON**
Chairman of the Board 2017
and member since 2010
Born 1961

M.Sc. Civil Engineering and MBA.

Partner of Athanase Industrial Partners, a value investor in public companies. Previously CEO of Tradimus AB and prior to that, several other positions within the Electrolux Group. Kenth left Electrolux in 2000 as Vice President and Head of Business Area Refrigeration in Electrolux's European household appliances operations. Member of the Board of Addtech AB and Technology Nexus AB.

Shareholding in Concentric: 45,175 shares.
*Independent in relation to the Company, the senior Management and to major shareholders.*

**CLAES MAGNUS ÅKESSON**
Member since 2010
Born 1959

B.Sc. Business Administration.

CFO of listed residential developer JM AB since 1998. Claes Magnus has a broad international experience from different treasury and controller positions at Ericsson 1987–1998. Boardmember of Handicare Group AB and has several board assignments within the JM Group.

Shareholding in Concentric: 8,000 shares.
*Independent in relation to the Company, the senior Management and to major shareholders.*

**MARIANNE BRISMAR**
Member since 2010
Born 1961

M.Sc. Pharmacy and B.Sc Business Administration.

Senior partner of Intercept AB. President and CEO of fork lift truck manufacturer Atlet AB 1995–2007. Prior to that, several other positions within the Atlet Group. The Group was sold to Nissan Material Handling in 2007. Board member of Almi Företagspartner AB, Axel Johnson International AB, Creades AB, Semcon AB and JOAB AB.

Shareholding in Concentric: 31,440 shares.
*Independent in relation to the Company, the senior Management and to major shareholders.*

**MARTIN LUNDSTEDT**
Member since 2012
Born 1967

M.Sc.Industrial Engineering and Management.

President and CEO of the Volvo Group. Previously President and CEO of Scania Group. Joined Scania in 1992 as a trainee. Martin Lundstedt has held various managerial positions within engine production and engine development. In 2001, Martin Lundstedt became Managing Director of Scania Production in Angers, France. Appointed Head of product marketing and member of the Executive Board in 2005. He was appointed Senior Vice President and Head of Trucks in 2006 and in 2007, he became head of franchise and factory sales. Chairman of Permobil AB and Partex Marking Systems AB. Member of Teknikföretagen.

Shareholding in Concentric: 0 shares.
*Independent in relation to the Company, the senior Management and to major shareholders.*

**ANDERS NIELSEN**
Member since 2017
Born 1962

M.Sc. Industrial Engineering and Management.

Chief Technology Officer at Volkswagen Truck & Bus Group, responsible for the Research & Development activities associated with the brands of Scania, MAN and Volkswagen Caminhões e Ônibus, including the Group's minority stake in Navistar, since 2016. Previously CEO of MAN Truck & Bus AG 2012–2015. Anders' career began at Scania in 1987, culminating with his appointment to the Board of Scania AB as Head of Production and Logistics in 2010. Member of the Board of Haldex AB 2015–2017.

Shareholding in Concentric: 0 shares.
*Independent in relation to the Company, the senior Management and to major shareholders.*

**SUSANNA SCHNEEBERGER**
Member since 2015
Born 1973

M.Sc. International Business Administration and MBA European Affairs.

Executive Vice President, Konecranes Corporation Previously Vice President & Managing Director of Terex Material Handling (DEMAG) 2015–2017 VP Sales & Marketing at Trelleborg Industrial Solutions between 2012–2015; Director of Strategic Business Development at Trelleborg AB between 2007–2012; Director of Strategy & Markets and Head of European Marketing at Opentext/IXOS Software between 2002–2006, as well as further leading commercial roles internationally. Previous Board assignments include Rosengård Invest AB, EFL and Partnership Foundation Lund University, ManTec Trelleborg Energy Excellence AB.

Shareholding in Concentric: 0 shares.
*Independent in relation to the Company, the senior Management and to major shareholders.*

**MARTIN SKÖLD**
Member since 2010
Born 1973

Ph D Business Administration, M.Sc. Industrial management and Business Administration, and B.Sc. Innovation Engineering.
Ph D Innovation and Operations Management at Stockholm School of Economics.

Director and member of the Foundation IMIT. Chairman of Vedum Kök & Bad AB and Kvänum Kök AB. Corporate advisor for multinational corporations and assignments within family firm businesses manufacturing trailers for the heavy truck industry, and a wholesale dealer for heavy trailer spare parts.

Shareholding in Concentric: 400 shares.
*Independent in relation to the Company, the senior Management and to major shareholders.*

# GROUP MANAGEMENT

### DAVID WOOLLEY
President and Chief Executive Officer
Born 1962

B.Sc. Metals Technology.

David Woolley has been Group CEO of Concentric since 2011. David has long experience of Concentric's business and was Managing Director of the subsidiary Concentric Ltd from 2002 until Haldex acquired Concentric plc. Subsequently David was responsible for the business with respect to diesel engine pumps in the UK and India and was Head of region Europe and RoW 2010–2011.

Shareholding in Concentric: 89,500 shares.

### MARCUS WHITEHOUSE
Chief Financial Officer
Born 1971

Fellow of the Association of Chartered and Certified Accountants.

Marcus Whitehouse joined Concentric as Group CFO in January 2018 from JCB, where he had worked for the last 10 years, most recently as Director of Group Finance. At JCB, Marcus held a number of senior financial roles leading strategy and operational improvements for the international manufacturer. Prior to joining JCB, Marcus worked for Linpac (PE owned), the Huntsman Group (NYSE) and Albright & Wilson PLC (LSE).

Shareholding in Concentric: 0 shares.

### DAVID BESSANT
Head of region Europe and RoW
Born 1971

B.Sc. Accountancy and Financial Analysis, FCA.

David Bessant was appointed Senior Vice President, Head of region Europe and the Rest of the World in November 2017 and had been Group CFO of Concentric since 2010. Prior to joining Concentric in 2009, David had more than 7 years of experience from listed and private equity financed multinational groups in the automotive sector. David has also spent over 10 years at KPMG (Audit and Advisory), in his last role as Senior Manager. His previous roles include Group Financial Controller at Wagon Plc and Group Financial Controller at TMD.

Shareholding in Concentric: 21,200 shares.

### MARTIN BRADFORD
Head of region Americas
Born 1962

B.Sc. Metals Technology.

Martin Bradford was appointed as Senior Vice President, Head of region Americas in January 2013. Martin joined Concentric in 2008 as General Manager for the US Hydraulics business. Prior to joining Concentric, Martin managed manufacturing businesses based in Europe, the Middle East and America during his career.

Shareholding in Concentric: 9,590 shares.

### CHRISTINE KELLY
Head of Group Human Resources
Born 1966

Chartered MCIPD and Certified Diploma in Accounting and Finance.

Christine Kelly was appointed Vice President of Group Human Resources in August 2014. Prior to joining Concentric, Christine had over 20 years of experience as a human resource professional, most recently as Human Resources Director for the EMEA region of Brady Corporation (listed on NYSE) 2006–2014.

Shareholding in Concentric: 2,023 shares.

### WILLIAM PIZZO
Head of Hydraulic Products Engineering & Development
Born 1967

B.Sc. Mechanical Engineering and MBA.

William Pizzo has been Head of Hydraulic Products Engineering & Development since 2008. Prior to joining Concentric, he was General Manager of Chicago Panel & Truss and before that held senior positions at Amtec Precision and Molded Products, SPX – Filtran and Illinois Tool Works.

Shareholding in Concentric: 10,500 shares.

### PAUL SHEPHERD
Head of Engine Products Engineering & Development*
Born 1975

B.Eng (Hons) degree in Mechanical Engineering.

Paul Shepherd was appointed Head of Engine Products Engineering & Development in February 2017 and is a fellow of the Institute of Mechanical Engineers and a Chartered Engineer. Paul has been with Concentric since April 2005, most recently in the role of Director, Advanced Research & Development. Prior to joining Concentric, Paul had senior design roles with Cosworth Racing Ltd and Perkins Engines.

Shareholding in Concentric: 220 shares.

* David Williams previously held this role up until his resignation in February 2017.

# SUSTAINABILITY REPORTING – GRI

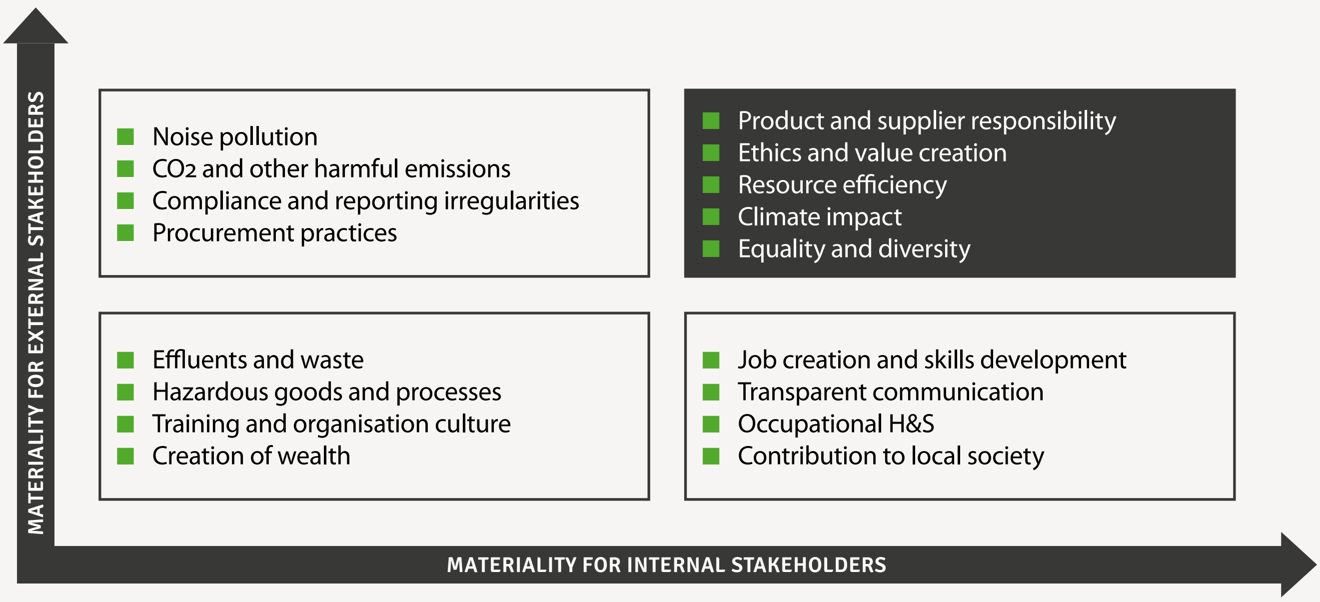
Concentric describes its work with sustainability and reports on fulfilment of financial, environment and social goals and indicators in Sustainability Report on pages 50–57 of the annual report. It follows the GRI's guidelines (GRI G4 Core) and reports the achieved results for the accounting period given our commitments, strategies and sustainability governance. The aim is to measure, report and take responsibility for what we have achieved in our work toward sustainability with respect to both our internal and our external stakeholders.

### Scope of the report

Sustainability Report refers to the 2017 financial year and encompasses the operations of the entire Group, including subsidiaries. Concentric's ambition is to provide a comprehensive account of its sustainability work and clearly present both negative and positive developments. The sustainability work draws on the policies and guidelines governing the manner in which the business is conducted based on the commitments we have made, for example, to Global Compact. We use a materiality analysis in order to determine the issues that are the most important and thus should be included in the work and the report taking into consideration Concentric's operations and our external and internal stakeholders. We have addressed both the standard and relevant specific disclosures and provided an index of these disclosures by GRI code with a page reference on pages 132–134.

### Materiality analysis

The materiality analysis is a method used to identify the issues within sustainability that are essential for the company. It is based on a compilation of information from in-depth interviews with key staff members, survey responses from identified stakeholders, internal investigations and standards, de facto-standards and legislative requirements in the area of sustainability. The information is evaluated based upon the opportunities and risks of different sustainability aspects in Concentric's operations – for long-term value creation both within the Group and the wider society. The results of this evaluation have identified significant sustainability aspects which form the basis for Concentric's sustainability work and what should be reported.



# Concentric's management approach to sustainability

| Material Aspects of Sustainability | Key Risks and Why Material | Governance | Follow-up through GRI Indicator Aspects for Stakeholders |
|---|---|---|---|
| Ethics and Value Creation (DMA Economic Performance & Procurement Practices) | ▪ Reputational loss<br>▪ Legal cost of breaches<br>▪ Reduced shareholder value<br><br>Concentric's long-term profitability is fundamental to value creation | ▪ Ethical guidelines<br>▪ Code of Conduct<br>▪ Reporting of violations based upon Concentric's values and policies<br>▪ Whistle-blowing policy<br>▪ Financial targets<br>▪ Monthly business reviews<br>▪ Risk management process | G4-EC1 Direct economic value generated, distributed and retained<br><br>G4-EC9 Proportion of expenditure with local suppliers |
| Product Responsibility & Climate Impact (DMA Product and Service Labelling and Emissions) | ▪ Long-term viability of organisation<br>▪ Impact on society<br>▪ Legal cost of breaches<br>▪ Reduced shareholder value<br><br>Concentric develops innovative engine and hydraulic pumps which increase efficiency and reduce emissions, thereby reducing the impact on the climate of Trucks and Off-highway mobile equipment | ▪ Environmental policy<br>▪ ISO/TS 16949 Quality Control Systems<br>▪ Customer surveys<br>▪ Product design tollgate process<br>▪ FMEA<br>▪ Durability and performance testing<br>▪ Emissions legislation testing both for On- and Off-highway vehicles | G4-PR5 Results of measuring customer satisfaction |
| Responsible Suppliers (DMA Supplier Environmental and Human Rights Assessment) | ▪ Reputational loss<br>▪ Impact on society<br>▪ Continuity of supply<br><br>It is strategically important that the large quantities of materials purchased for Concentric's pumps are manufactured under responsible conditions | ▪ Social policy<br>▪ Code of Conduct for suppliers<br>▪ ISO/TS 16949 Quality Control Systems<br>▪ ISO 14001 Environmental Management System<br>▪ Supplier selection and assessment procedures<br>▪ Supplier days/visits and on-site audits | G4-EN32 Environmental performance indicators<br><br>G4-HR10 Supplier Human Rights |
| Work Environment (DMA Occupational Health and Safety) | ▪ Safety of employees<br>▪ Legal cost of breaches<br>▪ Reduced shareholder value from lower productivity<br><br>The work environment within Concentric's manufacturing operations is exposed to many different risks for accidents and other work-related injuries | ▪ Accident and injury statistics<br>▪ Clock card records<br>▪ Skills matrices<br>▪ Training and development plans<br>▪ Preventative healthcare and Employee Wellness programmes<br>▪ 6S methodology<br>▪ OHSAS 18001<br>▪ Internal and external audits | G4-LA Scope of injuries, injury frequency, lost days, absenteeism and total number of work-related fatalities by region |
| Diversity and Equal Opportunity (DMA Diversity and Equal Opportunity) | ▪ Reputational loss (employer brand)<br>▪ Lack of innovation<br>▪ Unfair treatment of employees<br><br>Legal costs from breaches in human rights<br><br>We believe that a long-term employment policy should offer a workplace that is both characterised by and protects equality and diversity | ▪ Code of Conduct<br>▪ Employee handbook<br>▪ Recruitment procedures<br>▪ Equality targets<br>▪ Nomination committee | G4-10 & G4-LA 12 Breakdown by age and gender of all employees, including the composition of governance bodies |
| Resource Efficiency (DMA Materials and Energy) | ▪ Impact on society<br><br>Reduced shareholder value from lower efficiency<br><br>It is strategically important that Concentric's operations, which use large quantities of materials and consume significant energy, strive to become more efficient and reduce their impact on the climate | ▪ Environmental policy<br>▪ ISO/TS 16949 Quality Control Systems<br>▪ ISO 14001 Environmental Management System<br>▪ Continuous improvement and Lean manufacturing methodologies driven by Concentric Business Excellence programme | G4-EN1 Recycled materials used by weight<br><br>G4-EN3 Energy consumption (total gas and electricity) |

# Facts and key performance indicators for sustainability

| GRI Reference | Stakeholder | Key Performance Indicator | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|---|
| **ETHICS & VALUE CREATION** | | | **Americas** | **Europe & RoW** | **Group** | **Americas** | **Europe & RoW** | **Group** |
| Direct economic value generated, G4-EC1 | Customer | Revenues generated from the sale of engine and hydraulic products | 1,055 | 1,266 | 2,104 | 988 | 1,199 | 2,004 |
| Direct economic value distributed, G4-EC1 | Suppliers | Operating costs: procurement of goods and services, including depreciation and amortisation | –709 | –714 | –1,258 | –666 | –711 | –1,221 |
| | Employees | Wages, salaries, pensions and other benefits, including competence development | –190 | –296 | –448 | –175 | –291 | –442 |
| | Financial Institutions | Interest and similar items related to providers of capital | –77 | 64 | –13 | –74 | 51 | –23 |
| | The State | Tax expenses and other payments made to government | –24 | –58 | –82 | –27 | –48 | –72 |
| | Shareholders | Own share buy-backs and proposed dividends | n/a | n/a | –290 | n/a | n/a | –227 |
| Direct economic value retained, G4-EC1 | Shareholders | Earnings/(deficit) retained after own share buy-backs & proposed dividends | n/a | n/a | 13 | n/a | n/a | 19 |
| Procurement practices, G4-EC9 | Suppliers | Proportion of expenditure with local suppliers[1] | 53% | 52% | 53% | 39% | 57% | 49% |
| **RESPONSIBLE SUPPLIERS** | | | | | | | | |
| Environmental performance indicators, G4-EN32 | Suppliers | Percentage of new suppliers that were screened using environmental criteria[2] | 100% | 100% | 100% | 100% | 100% | 100% |
| Supplier Human Rights, G4-HR10 | Suppliers | Percentage of new suppliers that were screened using human rights criteria[2] | 100% | 100% | 100% | 100% | 100% | 100% |
| **WORK ENVIRONMENT** | | | **Women** | **Men** | **Total** | **Women** | **Men** | **Total** |
| Work-related injuries and frequency, G4-LA6 | Employees | Work-related injuries that caused at least one day of absence expressed as the number of incidents relative to the total days worked for all employees | | | 5<br>227,091 days | | | 14<br>241,933 days |
| Lost days, G4-LA6 | Employees | Total number of absence days due to work-related injuries as a percentage of the total days worked for all employees | | | 0.02% | | | 0.2% |
| Absenteeism, G4-LA6 | Employees | Total number of all absence days as a percentage of total days worked for all employees | 0.9% | 1.2% | 1.1% | 3.9% | 2.7% | 2.9% |
| Work-related fatalities, G4-LA6 | Employees | Total number | 0 | 0 | 0 | 0 | 0 | 0 |

[1] Definition of local supplier based upon ability to deliver from the supplier's manufacturing premises to Concentric's facility using road transportation only.
[2] Percentages from October 2016 onwards, following introduction of formal procedures to screen new suppliers using environmental and human rights criteria.
[3] Age and gender distribution excludes employees of joint ventures (Alfdex AB) and any part-time/temporary workers employed through agencies.

GRI

| GRI Reference | Stakeholder | Key Performance Indicator | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|---|
| **DIVERSITY & EQUAL OPPORTUNITY** | | | **Women** | **Men** | **Total** | **Women** | **Men** | **Total** |
| Age and gender distribution, G4-10 & G4-LA12 | Wage earners[3)] | ≤ age 25 | 4 | 39 | 43 | 1 | 17 | 18 |
| | | age 26–35 | 11 | 71 | 82 | 5 | 79 | 84 |
| | | age 36–45 | 19 | 104 | 123 | 22 | 82 | 104 |
| | | age 46–55 | 16 | 110 | 126 | 18 | 109 | 127 |
| | | ≥ age 56 | 29 | 115 | 144 | 23 | 98 | 121 |
| | | **Total number** | **79** | **439** | **518** | **69** | **385** | **454** |
| | Salaried employees[3)] | ≤ age 25 | 3 | 39 | 42 | 2 | 67 | 69 |
| | | age 26–35 | 11 | 109 | 120 | 9 | 111 | 120 |
| | | age 36–45 | 11 | 41 | 52 | 14 | 46 | 60 |
| | | age 46–55 | 18 | 39 | 57 | 22 | 47 | 69 |
| | | ≥ age 56 | 11 | 36 | 47 | 12 | 30 | 42 |
| | | **Total number** | **54** | **264** | **318** | **59** | **301** | **360** |
| | Managers | age 26–35 | – | 12 | 12 | 2 | 8 | 10 |
| | | age 36–45 | 1 | 36 | 37 | 1 | 41 | 42 |
| | | age 46–55 | 4 | 21 | 25 | 7 | 30 | 37 |
| | | ≥ age 56 | 2 | 11 | 13 | 1 | 16 | 17 |
| | | **Total number** | **7** | **80** | **87** | **11** | **95** | **106** |
| | Executives | age 36–45 | – | – | – | – | 1 | 1 |
| | | age 46–55 | 1 | 3 | 4 | 1 | 5 | 6 |
| | | ≥ age 56 | – | 2 | 2 | – | – | – |
| | | **Total number** | **1** | **5** | **6** | **1** | **6** | **7** |
| | Board of Directors | age 36–45 | 1 | 1 | 2 | 1 | 2 | 3 |
| | | age 46–55 | – | 2 | 2 | 1 | 2 | 3 |
| | | ≥ age 56 | 1 | 2 | 3 | – | 1 | 1 |
| | | **Total number** | **2** | **5** | **7** | **2** | **5** | **7** |

| | | | | |
|---|---|---|---|---|
| **RESOURCE EFFICIENCY** | | | | |
| Recycled materials used by weight, G4-EN1 | Society | Percentage of recycled material by weight used within grey iron and aluminium | 25.9% | 24.8% |
| Energy consumption, G4-EN3 | Society | Group consumption of gas and electricity | 11.38 kWh/MSEK Sales | 11.81 kWh/MSEK Sales |

## 2017 GRI Index

The intention is for the GRI Index to be used as a cross-reference list to find where in the annual report the information is located. In some cases supplementary or complete answers to a question are provided in the comment field of the index table. The information in the Sustainability Report has not been reviewed by a third party. Other calculations of indicators and key performance indicators have not been reviewed by an external party, with the exception of those that are included in the legal section of the annual report.

### Standard disclosures

| GRI code | Description/ indicator | Reference | Page | External assurance |
|---|---|---|---|---|
| **STRATEGY AND ANALYSIS** | | | | |
| G4-1 | Statement from the CEO | CEO Letter | 14–17 | |
| **ORGANISATIONAL PROFILE** | | | | |
| G4-3 | Name of the organisation | Board of Directors' Report | 62 | |
| G4-4 | Primary brands, products, and/or services | Engine Products<br>Hydraulic Products | 26–27<br>30–31 | |
| G4-5 | Location of organisation's headquarters | Addresses | 140 | |
| G4-6 | Countries where the organisation operates | Summary<br>Group Note 4 Segment Reporting | Front flap<br>81–82 | |
| G4-7 | Nature of ownership and legal form | The Concentric Share | 58–61 | Yes |
| G4-8 | Markets served | End-Markets | 44–49 | |
| G4-9 | Scale of the reporting organisation | Board of Directors' Report<br>Consolidated Income Statement<br>Consolidated Balance Sheet | 62–69<br>70<br>71 | Yes |
| G4-10 | Total workforce by employment type, employment contract and gender | Concentric employees by country (FTEs)<br>Group Note 6 Average number of employees<br>Facts and key performance indicators for sustainability | 55<br>83<br>130–131 | |
| G4-11 | Percentage of employees covered by collective bargaining agreements | 50% of employees in the group are covered by collective agreements | | |
| G4-12 | Organisation's supply chain | Supply Chain | 57 | |
| G4-13 | Significant changes during the reporting period regarding size, structure, ownership or supply chain | Board of Directors' Report<br>Group Note 35 Investments in subsidiaries | 62–69<br>100 | Yes |
| G4-14 | Description of how the company addresses the precautionary principle | Sustainability Report | 50–57 | |
| G4-15 | Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or endorses | UN's Global Compact<br>US SuperTruck Program | | |
| G4-16 | Memberships in organisations and/or national or international advocacy organisations | Malcolm Baldrige, Investors in Excellence & European Foundation for Quality Management | | |
| **IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES** | | | | |
| G4-17 | Operational structure, units, business areas, subsidiaries and joint ventures | Parent Note 7 Shares in subsidiaries<br>Foundation of corporate governance | 107<br>117 | Yes |
| G4-18 | Definition of report content and relevant sustainability aspects | Sustainability Report<br>Scope of the GRI report | 50–57<br>128 | |
| G4-19 | Material aspects identified in the process for defining report content | Concentric's group-wide aspects and targets in sustainability | 51 | |
| G4-20 | Aspect boundaries within the organisation | Materiality analysis | 128 | |
| G4-21 | Aspect boundaries outside the organisation | Materiality analysis | 128 | |

| GRI code | Description/ indicator | Reference | Page | External assurance |
|---|---|---|---|---|
| **STAKEHOLDER ENGAGEMENT** | | | | |
| G4-24 | Stakeholder groups | Stakeholder engagement | 52 | |
| G4-25 | Identification and selection of stakeholders | Stakeholder engagement | 52 | |
| G4-26 | Approaches to stakeholder engagement | Stakeholder engagement | 52 | |
| G4-27 | Key topics raised through stakeholder engagement | Stakeholder engagement | 52 | |
| **REPORT PROFILE** | | | | |
| G4-28 | Reporting period | Board of Directors' Report | 62 | |
| G4-29 | Date of most recent previous report | 2016 Annual Report, published in 2017 | | |
| G4-30 | Reporting cycle | Scope of the GRI report | 128 | |
| G4-31 | Contact point for the report | Board of Directors & Group CEO | | |
| G4-32 | Table showing information for all parts of the GRI's standard disclosures | 2017 GRI Index | 132–133 | |
| G4-33 | Policy and current practice for external assurance | 2017 GRI Index | 132 | |
| **GOVERNANCE** | | | | |
| G4-34–55 | Corporate Governance | Integrated governance processes<br>Corporate Governance in Concentric | 50<br>128–135 | Yes |
| **ETHICS & INTEGRITY** | | | | |
| G4-56–58 | Values, principles, standards and norms of behaviour | Values<br>Social issues | 9<br>54–57 | |

## Specific standard disclosures

| GRI code | Description/ indicator | Reference | Page | External assurance |
|---|---|---|---|---|
| G4-DMA | Disclosure on management approach | Concentric's management approach to sustainability | 128 | |
| **ECONOMIC PERFORMANCE INDICATORS** | | | | |
| G4-EC1 | Direct economic value generated and distributed | Consolidated Income Statement<br>Consolidated Balance Sheet | 70<br>71 | Yes |
| G4-EC3 | Defined benefit plan obligations | Group Note 25 Pensions and similar obligations | 94–97 | Yes |
| G4-EC9 | Procurement practices | Facts and key performance indicators for sustainability | 130 | |
| **ENVIRONMENTAL PERFORMANCE INDICATORS** | | | | |
| G4-EN1 | Materials used by weight, analysed between renewable and non-renewable | Facts and key performance indicators for sustainability | 131 | |
| G4-EN3 | Energy consumption within organisation | Facts and key performance indicators for sustainability | 131 | |
| G4-EN32 | Percentage of new suppliers that were screened using environmental criteria | Facts and key performance indicators for sustainability | 130 | |
| **SUPPLIER HUMAN RIGHTS** | | | | |
| G4-HR10 | Percentage of new suppliers that were screened using human rights criteria | Facts and key performance indicators for sustainability | 130 | |
| **EMPLOYMENT CONDITIONS AND WORK CONDITIONS** | | | | |
| G4-LA6 | Rates of injuries, lost days, absenteeism, and number of work related fatalities | Facts and key performance indicators for sustainability | 130 | |
| G4-LA12 | Composition of governance bodies and breakdown of other employee types according to gender and age group | Facts and key performance indicators for sustainability | 131 | |
| **SOCIETY** | | | | |
| G4-SO3 | Number and percentage of operations assessed for risks related to corruption | 100% of the group's operations were assessed and no significant risks related to corruption were identified | | |
| G4-SO7 | Number of pending/completed legal actions brought for anti-competitive behaviour, anti-trust and/or monopoly practices | None | | |
| **PRODUCT RESPONSIBILITY** | | | | |
| G4-PR2 | Number of incidence of non-compliance with regulations concerning the health and safety impacts of products provided to customers during their life cycle | None | | |
| G4-PR5 | Results of measuring customer satisfaction | Concentric's group-wide aspects and targets in sustainability | 51 | |

## Global Compact

Although Concentric has not signed the UN's Global Compact, the social and environmental policies adopted by Concentric are based upon the founding ten principles, thereby clearly demonstrating the group's position on issues related to human rights, labour law, accountability for the environment and anti-corruption.

| Ten principles of the UN's Global Compact | Reference | Page |
|---|---|---|
| **HUMAN RIGHTS** | | |
| 1. Support and respect the protection of internationally proclaimed human rights in the spheres the company can influence | Social policy | 54 |
| 2. Make sure that the company is not complicit in human rights abuses | Human rights | 54 |
| **LABOUR LAW** | | |
| 3. Uphold freedom of association and the effective recognition of the right to collective bargaining | Freedom of contract and association | 54 |
| 4. Elimination of all forms of forced and compulsory labour | Forced labour | 54 |
| 5. Effective abolition of child labour | Child labour | 54 |
| 6. Elimination of discrimination in respect of employment and occupation | Equal opportunities | 55 |
| **ENVIRONMENT** | | |
| 7. Support a precautionary approach to environmental challenges | Sustainability Report | 50–57 |
| 8. Undertake initiatives to promote greater environmental responsibility | Sustainability Report | 50–57 |
| 9. Encourage the development and diffusion of environmentally friendly technologies | Sustainability Report | 50–57 |
| **ANTI-CORRUPTION** | | |
| 10. Work against corruption in all its forms, including extortion and bribery | Anti-corruption | 57 |

# Reconciliation alternative performance measures (APM)

| Underlying EBIT or operating income | 2017 | 2016 |
|---|---|---|
| **Operating income** | **404** | **341** |
| Restructuring cost related to the acquisition of GKN Pumps | – | 26 |
| Other restructuring cost | –1 | – |
| Impairment of (reversal)/write-down tangible assets | –8 | 9 |
| Curtailment gains, pensions | – | –39 |
| **Underlying operating income** | **395** | **337** |
| Net Sales | 2,104 | 2,004 |
| **Operating margin (%)** | **19.2** | **17.0** |
| **Underlying operating margin (%)** | **18.7** | **16.8** |

| Underlying EBITDA or Operating income before amortisation and depreciation | 2017 | 2016 |
|---|---|---|
| **EBIT or Operating income** | **404** | **341** |
| Operating amortisation/depreciation | 37 | 43 |
| Amortisation of purchase price allocation | 36 | 36 |
| Impairment of (reversal)/write-down tangible assets | –8 | 9 |
| **EBITDA or Operating income before amortisation and depreciation** | **469** | **429** |
| **Underlying EBITDA or Underlying Operating income before amortisation and depreciation** | **468** | **416** |
| Net Sales | 2,104 | 2,004 |
| **EBITDA margin (%)** | **22.3** | **21.4** |
| **Underlying EBITDA margin (%)** | **22.2** | **20.8** |

| Net income before items affecting comparability | 2017 | 2016 |
|---|---|---|
| **Net income** | **303** | **246** |
| Items affecting comparability after tax | –6 | –2 |
| **Net income before items affecting comparability** | **297** | **244** |
| Basic average number of shares (000) | 40,238 | 40,924 |
| **Basic earnings per share** | **7.54** | **6.01** |
| **Basic earnings per share before items affecting comparability** | **7.39** | **5.95** |

| Net debt | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Pensions and similar obligations | 462 | 560 |
| Long-term interest-bearing liabilities | 176 | 177 |
| Short-term interest-bearing liabilities | 2 | 1 |
| **Total interest-bearing liabilities** | 640 | 738 |
| Cash and cash equivalents | –455 | –438 |
| **Total Net Debt** | **185** | **300** |
| Net Debt, excluding pension obligations | –277 | –260 |

| Capital employed | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| **Total Assets** | **1,973** | **2,036** |
| Interest bearing financial assets | –6 | –6 |
| Cash and Cash Equivalents | –455 | –438 |
| Tax assets | –111 | –146 |
| **Non-interest bearing assets (excl taxes)** | **1,401** | **1,446** |
| Non-interest bearing liabilities (incl taxes) | –454 | –436 |
| Tax liabilities | 83 | 73 |
| **Non-interest bearing liabilities (excl taxes)** | **–371** | **–363** |
| **Total Capital Employed** | **1,030** | **1,083** |

| Working capital | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Accounts receivable | 183 | 160 |
| Short-term loans receivable from joint venture | 6 | – |
| Other current receivables | 86 | 86 |
| Inventory | 179 | 172 |
| **Working capital assets** | **454** | **418** |
| Accounts payable | –186 | –183 |
| Other current payables | –232 | –210 |
| **Working capital liabilities** | **–418** | **–393** |
| **Total Working Capital** | **36** | **25** |

# Glossary

| | |
|---|---|
| 5S | Method to organise a work space for efficiency and effectiveness by identifying and storing the items used, maintaining the area and items, and sustaining the new order |
| Americas | Americas operating segment comprising the Group's operations in the USA and South America |
| Axle cooling | Heat Exchanger to control the temperature of the axle gear train |
| Baler | Farm machinery used to compress a cut and raked crop (such as hay, straw, or silage) into compact bales that are easy to handle, transport and store |
| BRIC countries or emerging markets | Brazil, Russia, India and China |
| CAN bus | Controller Area Network that connects all the modules working throughout the vehicle so that they can work together to run effectively and efficiently |
| CV | Commercial Vehicle |
| DC Pack Lift/lower | Integrated unit comprising of direct current motor, hydraulic pump and reservoir |
| ECU | Engine Control Unit |
| Europe & RoW | Europe and the rest of the world operating segment comprising the Group's operations in Europe, India and China |
| Fan drive | Hydraulic motor used for driving cooling fan |
| Fuel transfer pump | Pump to lift the fuel from the fuel tank to the high pressure system |
| Gerotor pump | Type of positive displacement pump |
| Hydraulic hybrid system | Hydraulic propulsion system for vehicles |
| Hydraulic power pack | Integrated unit comprising of DC motor, hydraulic pump and reservoir |
| Hydraulic pump | Positive displacement pump for pumping hydraulic fluids such as oil |
| Implement pump | Hydraulic pump used for auxiliary vehicle functions |
| LTI | Long term incentive |
| Net investments in fixed assets | Fixed asset additions net of fixed asset disposals and retirements |
| OEM s | Original Equipment Manufacturers |
| Off-highway | Collective term for industrial applications, agricultural machinery and construction equipment end-markets |
| Oil mist separator | Product that recycles oil from crankcase gases |
| Order backlog | Customer sales orders received which will be fulfilled over the next three months |
| Piston pump | Positive displacement pump that utilises a moving piston to displace the fluid |
| Poka-Yoke methodology | A method to prevent mistakes from occurring |
| PPM | Parts Per Million defect rate |
| Primary pump | Main pump used in a multi circuit configuration |
| R&D expenditure | Research and development expenditure |
| Secondary circuit pump | Secondary pump used in a multi circuit configuration |
| Seeder motor | Hydraulic motor used for blowing seed into seeding device for planting |
| Steering pump | Hydraulic pump used to provide hydraulic power to a vehicle steering system |
| Tier 1, Tier 2-supplier | Different levels of sub suppliers, typical within the automotive industry |
| Variable flow oil pump | Oil pump with controllable flow capacity |
| Variable flow water pump | Water pump with controllable flow capacity |

# Definitions

| Key figures | Definition/Calculation | Purpose |
|---|---|---|
| Book-to-bill | Total sales orders received and booked into the order backlog during a three month period, expressed as a percentage of the total sales invoiced during that same three month period | Book-to-bill is used as an indicator of the next quarter's net sales in comparison to the sales in the current quarter. |
| CAGR | Compound annual growth rate | |
| Capital employed | Total assets less interest bearing financial assets and cash and cash equivalents and non-interest bearing liabilities, excluding any tax assets and tax liabilities | Capital employed measures the amount of capital used and serves as input for return on capital employed. |
| Dividend yield | Dividend divided by market price at year end | |
| Drop-through rate | Year-on-year movement in operating income as a percentage of the year-on-year movement in net sales | This measure shows operating leverage of the business, based on the marginal contribution from the year-on-year movement in net sales. |
| EBITDA | Earnings before interest, taxes, depreciation and amortisation | EBITDA is used to measure the cash flow generated from operating activities, eliminating the impact of financing and accounting decisions. |
| EBITDA margin | EBITDA as a percentage of net sales | EBITDA margin is used for measuring the cash flow from operating activities. |
| EBIT or Operating income | Earnings before interest and tax | This measure enables the profitability to be compared across locations where corporate taxes differ and irrespective the financing structure of the company. |
| EBIT or Operating margin | Operating income as a percentage of net sales | Operating profit margin is used for measuring the operational profitability. |
| EBIT or EBITDA multiple | Market value at year end plus net debt divided by EBIT or EBITDA | |
| EPS | Earnings per share, net income divided by the average number of shares | The earnings per share measure the amount of net profit that is available for payment to its shareholders per share. |
| Equity per share | Equity at the end of the period divided by number of shares at the end of the period. | Equity per share measures the net-asset value backing up each share of the company's equity and determines if a company is increasing shareholder value over time. |
| Gearing ratio | Ratio of net debt to shareholders' equity | The net gearing ratio measures the extent to which the company is funded by debt. Because cash and overdraft facilities can be used to pay off debt at short notice, this is calculated based on net debt rather than gross debt. |
| Gross margin | Net sales less cost of goods sold, as a percentage of net sales | Gross margin measures production profitability. |
| Net debt | Total interest-bearing liabilities, including pension obligations less liquid funds | Net debt is used as an indication of the ability to pay off all debts if these were to fall due simultaneously on the day of calculation, using only available cash and cash equivalents. |
| Pay-out ratio | Dividend divided by EPS | |
| P/E ratio | Market value at year-end divided by net earnings | |
| ROCE | Return on capital employed; EBIT or Operating income as a percentage of the average capital employed over a rolling 12 months | Return on capital employed is used to analyse profitability, based on the amount of capital used. The leverage of the company is the reason that this metric is used next to return on equity, because it not only includes equity, but takes into account other liabilities as well. |
| ROE | Return on equity; net income as a percentage of the average shareholders' equity over a rolling 12 months | Return on equity is used to measure profit generation, given the resources attributable to the parent company owners. |
| Sales growth, constant currency | Growth rate based on sales restated at prior year foreign exchange rates | This measurement excludes the impact of changes in exchange rates, enabling a comparison on net sales growth over time. |
| Structural growth | Sales growth derived from new business contracts, i.e. not from changes in market demand or replacement business contracts | Structural changes measure the contribution of changes in group structure to net sales growth. |
| "Underlying" or "before items affecting comparability" | Adjusted for restructuring costs, impairment, pension curtailment gains/losses and other specific items (including the taxation effects thereon, as appropriate) | Enabling a comparison of operational business. |
| Working capital | Current assets excluding cash and cash equivalents, less non-interest-bearing current liabilities | Working capital is used to measure the company's ability, besides cash and cash equivalents, to meet current operational obligations. |

# Shareholder information

### Concentric's web site for investors

www.concentricab.com contains information about the company, the share and insider information as well as archives for reports and press releases.

### The Annual Report on www.concentricab.com

Concentric has chosen not to distribute its Annual Report to shareholders to minimize cost and environmental impact. Annual reports, quarterly reports and press releases are available on the Concentric's web site for investors.

### Reporting calendar for 2018

| | |
|---|---|
| *Annual General Meeting* | *3 May, 2018* |
| *Interim report January – March 2018* | *3 May, 2018* |
| *Interim report January – June 2018* | *24 July, 2018* |
| *Interim report January – September 2018* | *30 October, 2018* |

### Annual General Meeting

Annual General Meeting for the fiscal year 2017 will be held in Kreugersalen at 12.00 CET on Thursday, 3 May, 2018 at Tändstickspalatset, Västra Trädgårdsgatan 15, Stockholm.

### Participation in 2018 Annual General Meeting

Shareholders who wish to participate in the Annual General Meeting must be registered in the share register maintained by Euroclear Sweden AB as of Thursday, 26 April, 2018. Notification must be made no later than Thursday, 26 April, 2018. Proxies and representatives of a legal person are asked to submit documents of authorisation prior to the General Meeting.

In order to participate in the Annual General Meeting, shareholders with nominee registered shares must request their bank or broker to have their shares temporarily owner registered with Euroclear Sweden as of Thursday, 26 April, 2018, and the bank or broker should therefore be notified in due time before said date.

### Notification

Concentric AB, Strandgatan 2, 582 26 Linköping,
by telephone +46 766 104 004,
by e-mail to info@concentricab.com or
through Concentric's website.

On giving notice of attendance, the shareholder shall state:

- name
- personal identity number or equivalent (corporate identity number)
- address, telephone number
- shareholding

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