ANNUAL REPORT 2018

TECHNOLOGY
INNOVATION
SUSTAINABILITY

CONCENTRIC

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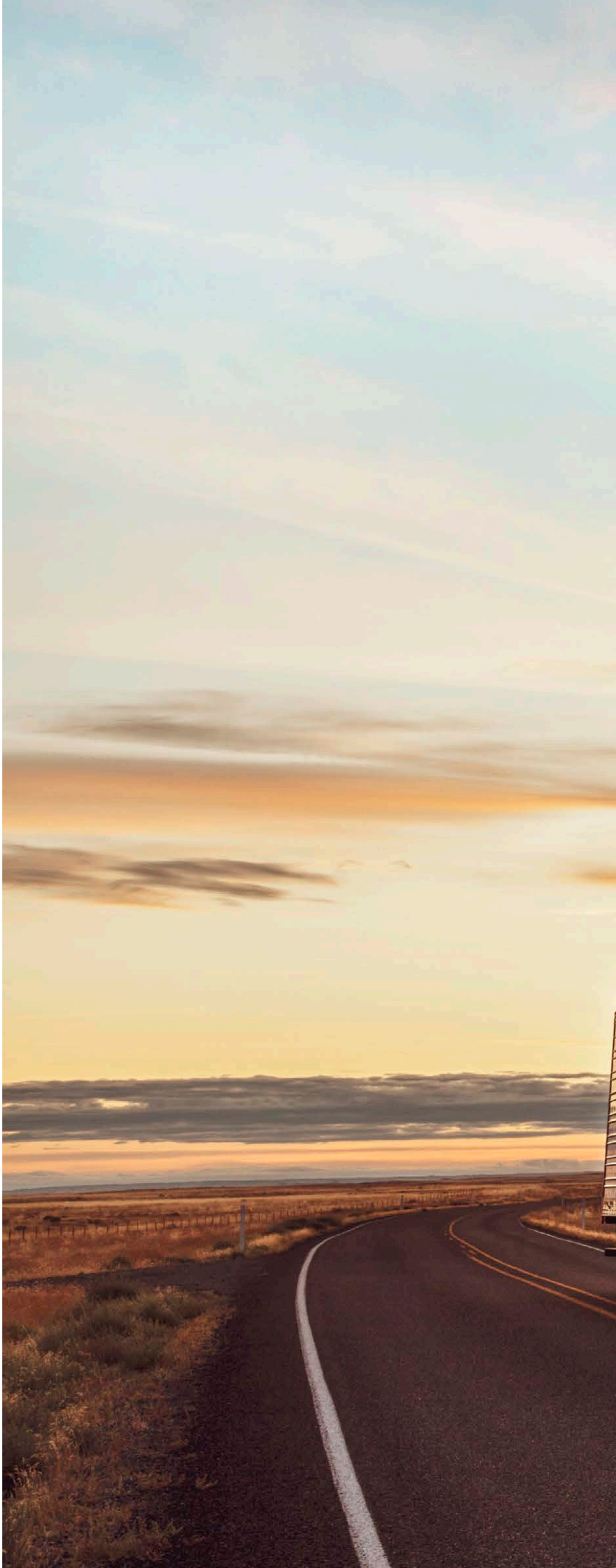
[1)] The statutory annual report encompasses pages 62–107. Unless otherwise stated, all amounts have been stated in SEK million. Certain financial data has been rounded in this annual report. Where the sign "–" has been used, this either means that no number exists or the number rounds to zero.



We are Concentric

We have a rich heritage of business excellence within fluid dynamics and fluid power technologies that spans nearly 100 years. Through the years, we have listened to our customers, understanding their needs and the challenges they face from changes in the world around them.

Our innovative solutions and products embody the best of technology, engineering expertise and market knowledge. Each and every product and solution bears testimony to the fact that we never compromise on cost-efficiency, reliability and quality. Our aim remains to provide our customers with **Technology** and **Innovation** to create a **Sustainable** future.

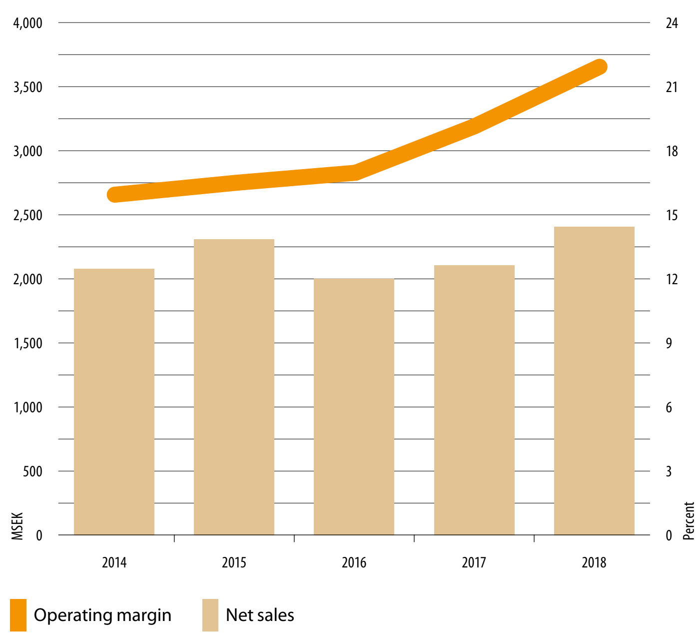
Our people go the extra mile to ensure that we provide value in every situation, achieving the highest performance and productivity every step of the way. While doing our utmost to help achieve a greener, smarter, more effective environment.

Welcome to our world

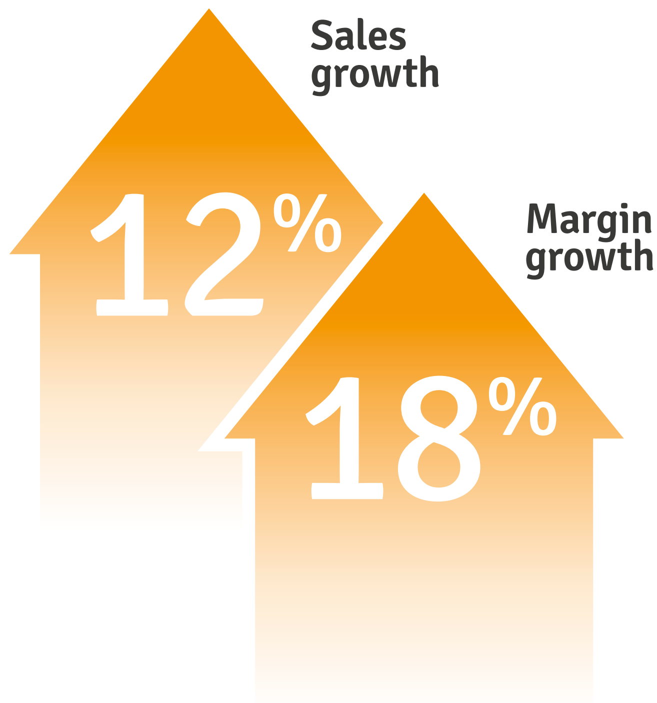
Highlights of 2018

Net sales for the year were MSEK 2,410 (2,104), up 12% year-on-year after adjusting for +3% currency impact. Underlying operating margin improved to 22.1% (18.7), adjusting for end of contract terms and pension related items affecting comparability.

Sales and operating margins



2018 was another record year for Concentric in terms of the highest operating margin achieved.



Sales and Margin growth calculated on a constant currency basis and before items affecting comparability.

Key figures, amounts in MSEK unless otherwise specified	2018	2017	2016	2015	2014
Net sales	2,410	2,104	2,004	2,306	2,078
Organic sales growth, constant currency, %	12	6	–10	–8	3
Operating income before items affecting comparability	525	395	337	382	333
Operating margin before items affecting comparability, %	22.1	18.7	16.8	16.6	16.0
Operating income	529	404	341	381	333
Operating income, %	21.9	19.2	17.0	16.5	16.0
Net income for the year	405	303	246	271	241
Cash flow from operating activities	554	360	409	366	340
Diluted earnings per share, SEK	10.27	7.52	6.00	6.44	5.53
Basic earnings per share, SEK	10.30	7.54	6.01	6.45	5.54
Dividends, SEK	4.25[1)]	3.75	3.50	3.25	3.00
Net debt	12	185	300	488	528
Gearing (Debt/equity) ratio, %	1	21	35	57	65
Return on equity, %	41.6	37.0	32.2	31.7	29.6
Market capitalisation	4,628	5,971	4,605	4,406	3,942

[1)] Proposed dividend for consideration at the 2019 AGM.

Net sales by product line*

Engine

Trucks	Construction	Industrial	Agriculture
61%	16%	8%	15%

Engine products accounted for 64% of Group revenues in 2018, with the US & European truck markets driving volumes in this area.

Hydraulic

Trucks	Construction	Industrial	Agriculture
14%	35%	45%	6%

Hydraulic products accounted for 36% of Group revenue in 2018, with Construction and Industrial as the major growth drivers.

Net sales by region*

Customer location

North America	Germany	Rest of Europe	Asia
43%	18%	17%	8%
United Kingdom	**Sweden**	**South America**	**Other**
7%	6%	2%	0%

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 9% of the Group's sales.

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

Net sales – Group

Sales for the year were up year-on-year by 12% adjusting for the impact of currency +3%. The increased activity levels in the year reflect the strong demand experienced across our core regions of North America and Europe. The end sectors of Construction Equipment and Agricultural Machinery also showed improvement in all geographical areas. In our emerging markets, India in particular has been strong in 2018, aided by progressive government policies and continuing infrastructure investment.

Operating income – Group

The reported operating income and margin for the year amounted to MSEK 529 (404) and 21.9% (19.2) respectively. This included the following specific items:

- MSEK 29 gain in the fourth quarter associated with end of contract terms with a global OEM customer.
- MSEK 25 pension costs following a recent ruling in the British courts equalising historical benefits between men and women.

Adjusting for the net effect of these items, the operating margin before items affecting comparability for 2018 was 22.1% (18.7). The increase in profitability was primarily driven by a strong drop through on the increased sales, achieved due to a positive product mix and good cost control across the organisation. The CBE program is embedded in the business and has again delivered positive results for the Group.

Concentric in brief

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 our customer's products.

End-markets

45% Trucks

22% Construction

21% Industrial

12% Agriculture

Vision

Deliver sustainable growth for every application in the markets we serve.

This 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 and end-markets.

Mission

Innovate new products to meet our customer's needs and manufacture quality products cost effectively.

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

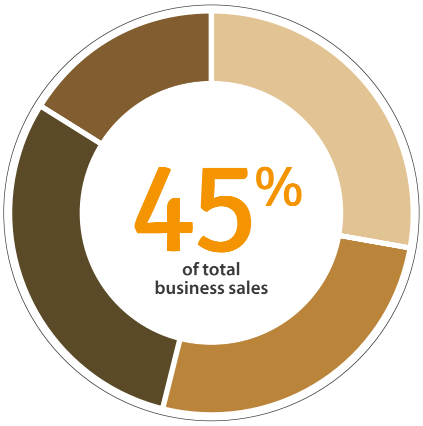
Values

Business excellence in all we do
Performance • Process • Change

Customer focus
Sustainable products • Customer satisfaction

Achievement through our people
Integrity • Teamwork • Resilience • Openness

Americas



End-market

Trucks	Construction	Industrial	Agriculture
28%	26%	30%	16%

External net sales

1,184 MSEK (45%)

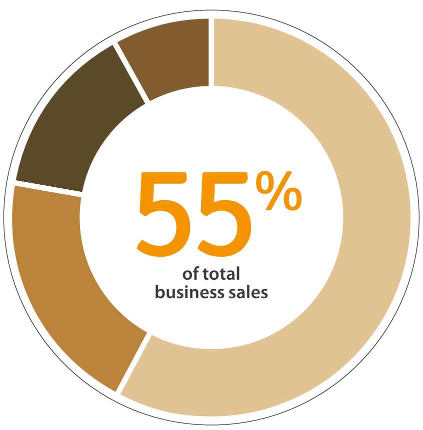
Operating income

215 MSEK (41%)

Average number of employees

354 (35%)

Europe and RoW



End-market

Trucks	Construction	Industrial	Agriculture
58%	20%	14%	8%

External net sales

1,477 MSEK (55%)

Operating income

312 MSEK (59%)

Average number of employees

671 (65%)

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.

Financial targets

Organic sales growth

Constant currency (annually)

6% above market

5 YEAR TARGET 2015–2019

- 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 and penetrate new market niches and/or end-markets.

5% above indices

2018 ACHIEVEMENT

Overall, market indices* suggested production rates, blended to the Group's end-markets and regions, were up **7%** year-on-year. Concentric's actual sales for 2018, including revenues attributable to Alfdex, were up significantly versus these indices at **12%** year-on-year, adjusting for currency. There has been growth in all our end application sectors and all geographic regions, in particular the North America truck market.

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

Operating margin

≥16%

5 YEAR TARGET 2015–2019

- 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.

22%

2018 ACHIEVEMENT

The reported operating margin for 2018 increased to **21.9%** (19.2). Adjusting for end of contract terms and pension related items affecting comparability, the underlying operating margin improved to 22.1% (18.7). This was driven by a strong drop through on the increased sales, whilst core CBE disciplines which are embedded in the business and have again delivered positive results for the Group this year.

Dividend payout ratio

33%

5 YEAR TARGET 2015–2019

- Track record of delivering strong shareholder returns through special dividends and buy-backs.
- 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.
- Total dividends (ordinary + special) declared for 2014–18 have equated to an average payout ratio of **49% (54)** of net income.

41%

2018 ACHIEVEMENT

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 3.00 (2.50) per share for the 2018 fiscal year, plus a special dividend of SEK 1.25 (1.25). As noted above, the Company has also repurchased own shares during the year amounting to MSEK 146 (142), which corresponds to a further shareholder distribution in the year of SEK 3.79 (3.60) per share.

Gearing

(Net debt/equity)

≥50%

5 YEAR TARGET 2015–2019

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

1%

2018 ACHIEVEMENT

The indebtedness decreased to MSEK 12 (185), including the revaluation of pension liabilities which recognised net remeasurement losses of MSEK 44 (gains 58) at year end. The low gearing ratio was supported by the continued strong cash flow derived from operating activities of MSEK 554 (360), which was also used to fund dividend payments and further own share buybacks in 2018.

Review of 2018

CEO David Woolley shares his reflections on Concentric's flexible business model and how it has adapted to a year of strong global demand; and the changing business environment driven by legislation and electrification to create a sustainable future.

Sales development

Group sales for the full year 2018 were up 12% year-on-year in constant currency. We achieved growth in all four end markets that we serve and across all geographical regions, and Group sales exceeded the published market indices by five percentage points. The continued strong demand is evident in both our core regions, North America and Europe, as well as in our four end markets, most notably in trucks, construction equipment and agriculture. The largest end market for Concentric continued to be trucks, representing 45% of the Group's sales, and sales are primarily concentrated to North America and Europe. The North American economy in particular, is driving the strong year-on-year growth in the medium- and heavy-duty truck market. European demand for trucks showed steady growth but not to the extent seen in 2017. Construction equipment, agricultural machinery and industrial applications also showed steady improvement across most regions. So overall, we are pleased with the Group's sales development during the year.

India in particular has been a strong market for Concentric in 2018 as the economy has been aided by progressive government policies and continued investment in infrastructure. As a result, Concentric performed well in all end markets and in particular in the trucks and construction equipment sectors.

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, and
- Achieve absolute customer satisfaction

We use a number of key business metrics in order to measure progress on these objectives and I am pleased to see that we have made improvements across the board. The employee and customer surveys reported a fifth consecutive year of improved results, demonstrating Concentric's ability to seek and more importantly act upon feedback from key stakeholders and I am especially proud of the Group's quality and delivery performance. The CBE-programme has enabled the teams to increase capacity and output across the globe in an efficient way by leveraging our operational cost base whilst meeting our customer's quality and delivery expectations.

The CBE-programme has continued to improve the Group's profitability and the reported operating margin for the full year increased to 21.9% (19.2) with an operating income drop through rate of just over 40%. The CBE-programme has also achieved improvements in working capital, most notably lower stock levels, thereby reducing the working capital as a % of annualised sales to –1.2% (1.7). A strong trading performance and good cash management has reduced the Group's net debt position to MSEK 12 (185) and the gearing ratio to 1% (21).

Significant events during 2018

The decision by a global OEM customer to dual source components during 2019 was a disappointment even though the customer remains a significant account for Concentric. However, dual sourcing also offered opportunities as OEM's supply chains came under increasing pressure to meet the market demands, enabling Concentric to secure new business with new customers.

The breakthrough into the China medium- and heavy-duty truck market by Alfdex, our 50:50 joint venture with Alfa Laval, was a significant achievement. China's "Blue Sky" initiative and specifically the introduction of China-6 regulations as of 1st July 2019, is expected to result in the replacement of one million heavy-duty trucks. The Alfdex-separator is

» Our markets, particularly in North America and Europe, have grown year-on-year and our full year Group sales were 5 percentage points ahead of the published market indices. «

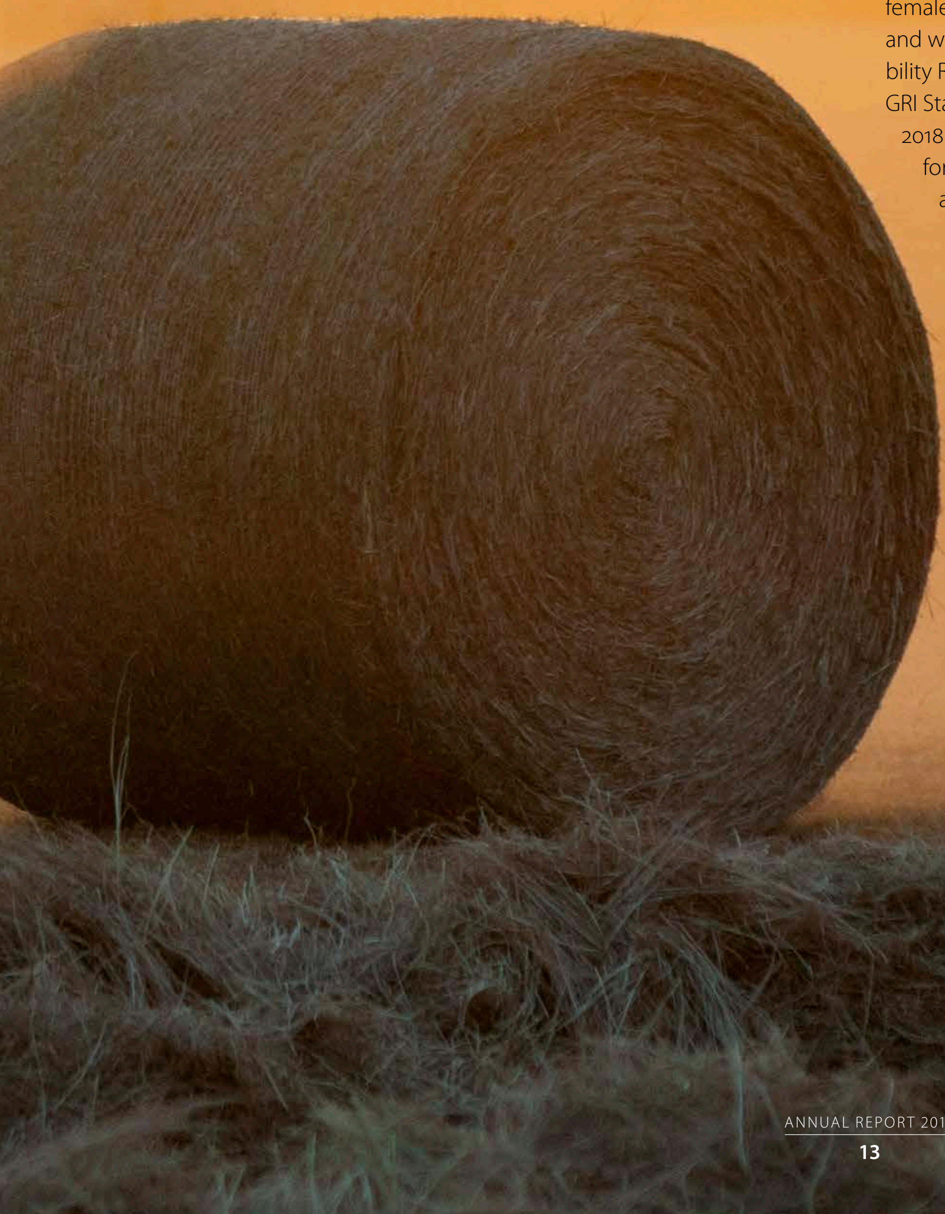
the most widely used solution for active cleaning of crankcase gases in truck engines and has been selected by most truck manufacturers in North America, Europe and Japan. Alfdex will expand its China facility and the plant is expected to have completed its ramp-up of volumes in Q4–19.

Technology: Accelerated development of electric and hybrid vehicles and machines

Concentric already has world-class technology that is well recognised in the areas of diesel engines and hydraulic systems in both on- and off-highway markets.

Legislative forces that drive reduced emissions has been a recurring theme over the past decade, but in 2018 we saw OEMs stepping up their development activity for both electric and hybrid vehicles. Concentric has 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. It is pleasing to see that Concentric has extended its strong reputation in technology and innovation to the growing market of electric and hybrid vehicles.

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 third 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 stakeholders. The aim is to ensure a holistic approach 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. Yet another important aspect of limiting the environmental impact of our products is through the efficient use of energy and raw materials in production. 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 25.9% to 26.1% 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 2018 towards our operational goal as the share of female wage earners increased to 17.4%, which is up from 15.3% in 2017 and well on the way to our target of 22% by 2025. Concentric's Sustainability Report, is prepared inspired by, but is not fully compliant with the GRI Standards updated per 1 January 2018. Therefore we report the year 2018 as "GRI-referenced" and include the outcomes of the group's efforts on sustainability and environmental matters, see pages 36–43 and 112–119.

Outlook

Based upon the activity levels experienced towards the end of 2018 and considering the market indices weighted for our end markets, 2019 has the potential to offer continued growth across most of our end markets and geographies. The medium- and heavy-duty truck market seems capable of sustaining the current strong demand levels in the near term. The market outlook for construction equipment and industrial applications also appears stable. The global agricultural machinery market has continued to grow during 2018, most notably in the emerging markets and a similar trend is expected to continue to 2019.

A unique position

Engine 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.
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.
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.

... 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.

Hydraulic products

E-products

DRIVING FORCES

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

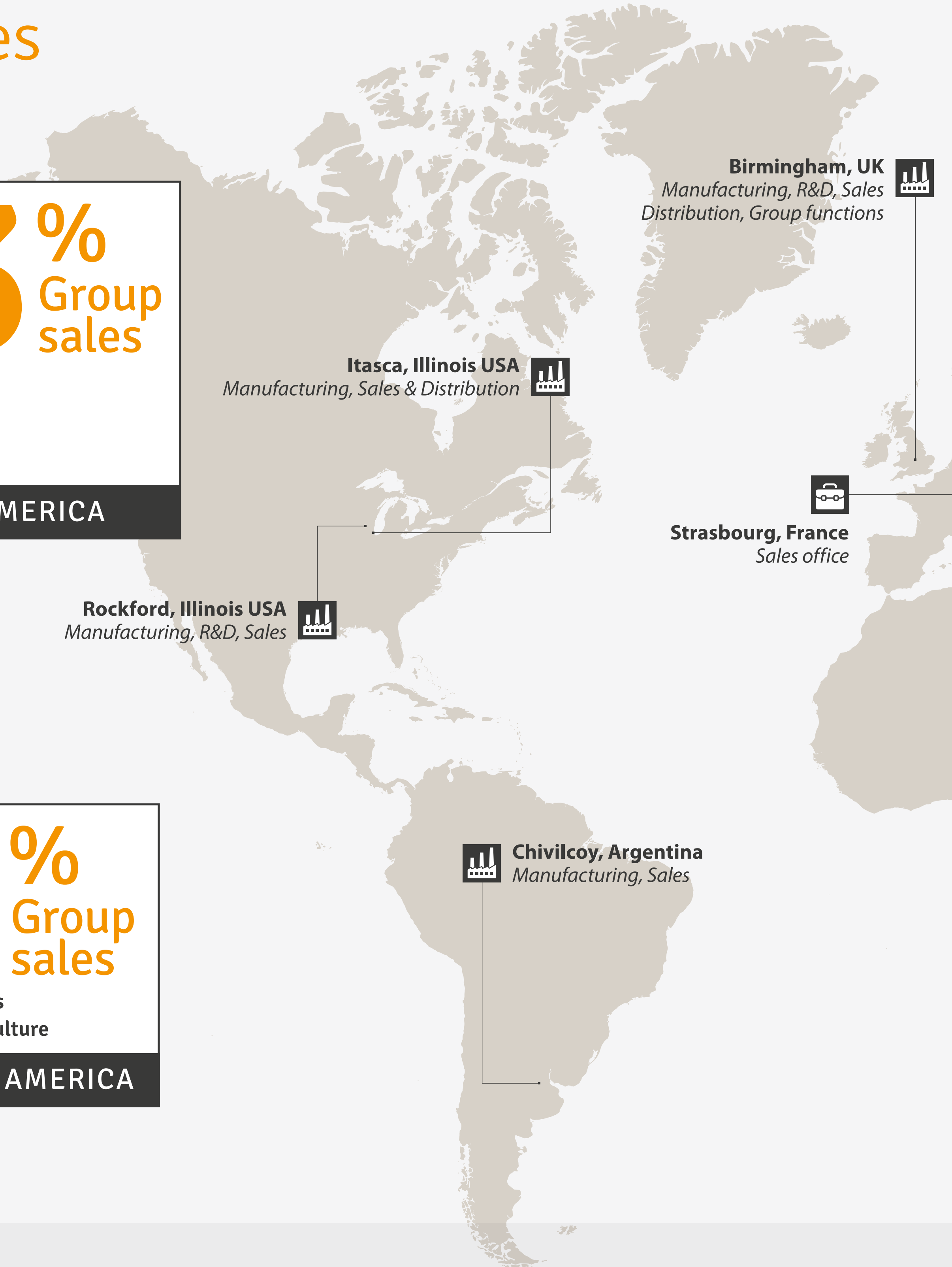
- Concentric's hydraulic products occupy leading niche positions in a very fragmented market, where the technology included in the product is more advanced and requires absolute reliability together with customer specific options.
- Concentric has innovative products that address the key market drivers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

OUR PROPOSITION

- Expand the distributor network, particularly in Europe and Asia.
- 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.

- 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.

Global sales



43% Group sales

12% Trucks
11% Construction
13% Industrial
7% Agriculture

NORTH AMERICA

2% Group sales

1% Trucks
1% Agriculture

SOUTH AMERICA

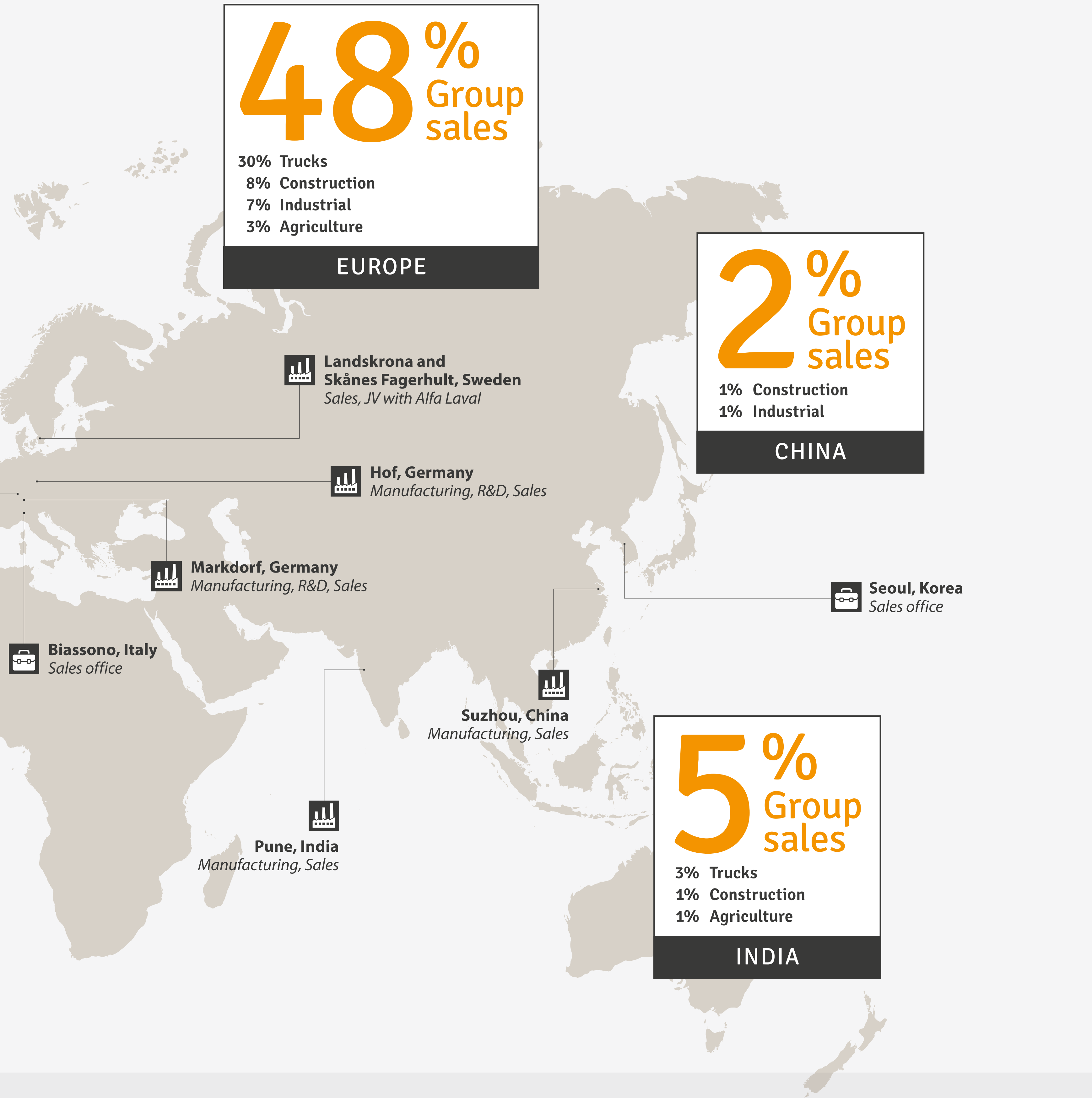
END-MARKETS

Trucks

Concentric sells both directly to the Truck OEMs and also via Tier 1 diesel engine manufacturers. Products are typically used in the medium- and heavy-duty truck market.

Construction

Concentric provides pumping solutions used in a wide range of mobile construction equipment, including engine pumps, hydraulic fan drives and ancillary hydraulic pumps.



Industrial

Industrial applications encompass a wide variety of uses, from forklifts for the retail trade to heavy machines used in the mining industry.

Agriculture

Concentric primarily sells directly to the OEMs of agricultural machinery, providing products for tractors and other speciality equipment.

Trucks

The global medium- and heavy-duty truck market grew +6% in 2018 and the 5 year forecast excluding China is to grow by CAGR +0.5%, the China forecast is to decline over the same period by a CAGR of –3%.

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 +2.4% in Europe, +0.6% in South America and decline by –1.3% in North America, –0.2% in India. Production in China is actually expected to fall by –11.2% in 2019 and then remain broadly flat thereafter.

North America

Market indices published at year-end indicated that North American production of diesel engines for medium- heavy-duty trucks increased year-on-year by +21%. Concentric's actual sales of engine and hydraulic products for trucks were actually up +28% year-on-year in constant currency largely reflecting the cyclical nature of the truck market.

Europe

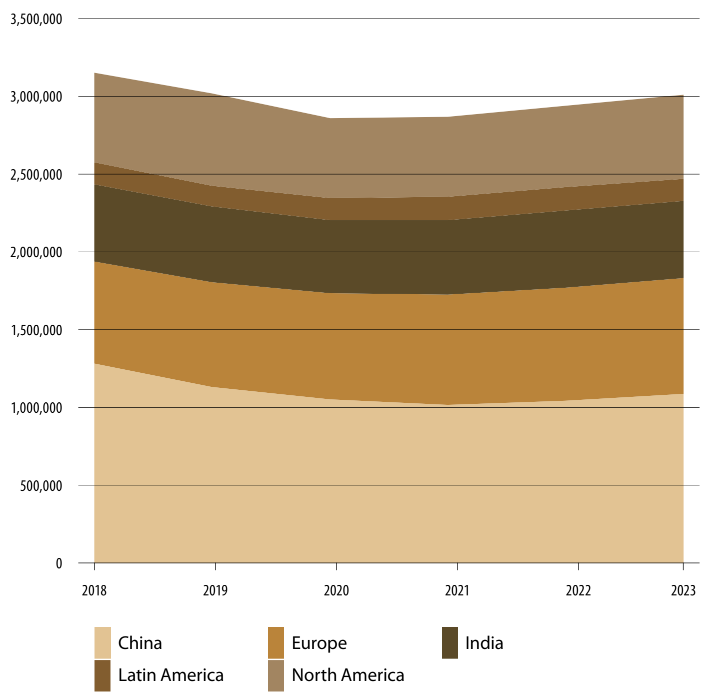
European market indices for the production of diesel engines for medium- heavy-duty trucks increased year-on-year by +4%. Concentric's actual sales of engine and hydraulic products for trucks increased largely in line with the market, growing by +10% year-on-year in constant currency.

Emerging markets

Market indices for the production of diesel engines in India and South America for medium-heavy trucks increased significantly year-on-year by +27% and +33% respectively, and were down –7% for China. Concentric's actual sales in constant currency outperformed the market in both India and South America, however, Concentric's exposure to trucks in these emerging markets remained relatively low at approximately 3% of the Group's total net sales for 2018.

Forecast market volume

Diesel engines (0.8–2.75 ltr/cylinder)



Source: Power Systems Research, January 2019 update.

Construction

The global construction equipment market grew +11% in 2018 and the forecast is to grow by a CAGR of +2% over the next 5 years. Growth rates remain strong in South America and India, increasing over the forecast period by +6% and +8% respectively.

Based on the forecast production of diesel engines over the next 5 years, construction equipment is expected to grow by a CAGR of +1.9% in North America, +0.8% in Europe, +5.6% in South America and +7.9% in India. Production in China is expected to grow by +3.9% in 2019 and then continue to grow at +1.5% per annum thereafter, equating to a CAGR of +2.5% over the next 5 years.

North America

Market indices published at year-end indicated that North American production volumes for construction equipment increased year-on-year by +5% for diesel engines and +14% for hydraulic equipment. Concentric's actual sales of engine and hydraulic products for construction equipment were actually up +2% year-on-year in constant currency, reflecting the applications and customer mix.

Europe

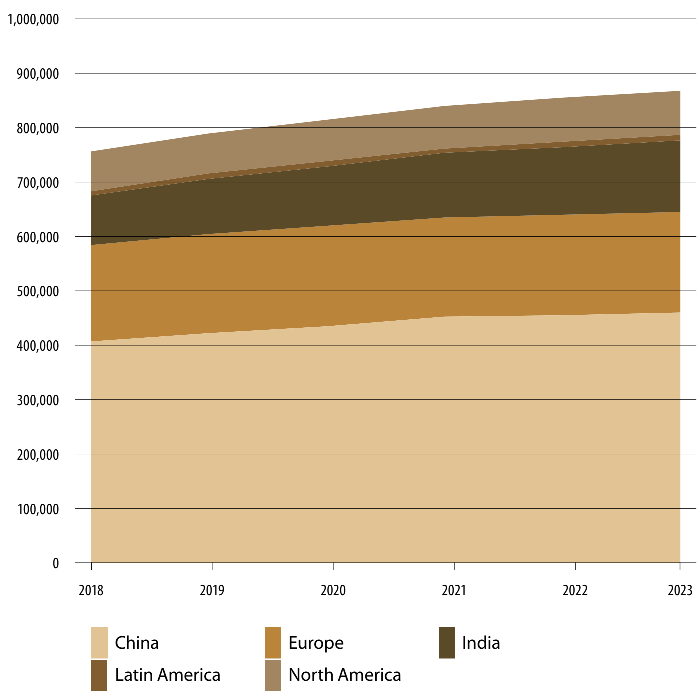
European market indices for the production of diesel engines and hydraulic equipment for the construction market were up +6% and +1% year-on-year respectively. Concentric's actual sales of engine and hydraulic products for construction equipment were up +12% year-on-year in constant currency, largely 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 +16%, +15% and +13% respectively. However, Concentric's exposure to construction equipment in these emerging markets remained very low at approximately 3% of the Group's total net sales for 2018.

Forecast market volume

Diesel engines (0.8–2.75 ltr/cylinder)



Source: Power Systems Research, January 2019 update.

21% of the Group's net sales

Industrial

The industrial sector is forecast to grow steadily over the next 5 years in all geographic regions, based upon the forecast production of diesel engines.

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 two largest territories are expected to grow by a CAGR of +1.1% in North America and +1.0% in Europe.

North America

Market indices published at year-end indicated that North American production volumes for industrial applications increased year-on-year by +5% for diesel engines and +11% for lift trucks. Concentric's actual sales of engine and hydraulic products for industrial applications were up +6% year-on-year in constant currency, reflecting the customer mix of these sales.

Europe

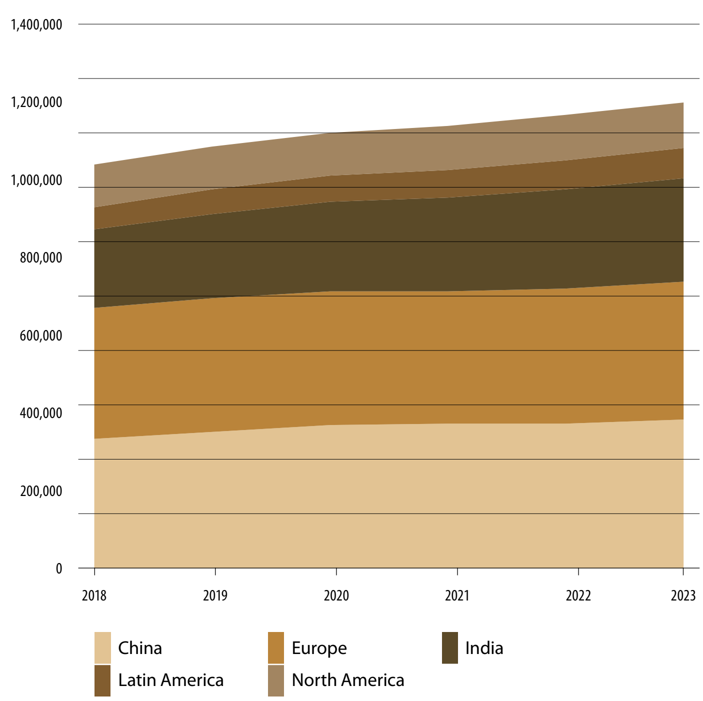
European market indices increased year-on-year by +7% for the production of diesel engines and by +1% for lift trucks for the industrial applications market. Concentric's actual sales of engine and hydraulic products for industrial applications were up +5% year-on-year in constant currency, again reflecting the customer mix of these sales.

Emerging markets

Market indices for the production of diesel engines in South America, India and China for industrial applications increased year-on-year by +2%, +7% and +14% respectively. However, Concentric's exposure to industrial applications in these emerging markets remained very low at approximately 1% of the Group's total net sales for 2018.

Forecast market volume

Diesel engines (0.8–2.75 ltr/cylinder)



Source: Power Systems Research, January 2019 update.

12% of the Group's net sales

Agriculture

The global agricultural machinery market grew +6% in 2018 and the forecast is to grow by a CAGR of +4% over the next 5 years. Again, similar to the construction equipment market, growth rates in South America and India remain strong, increasing over the forecast period by +9% and +7% respectively.

Based on the forecast production of diesel engines over the next 5 years, agricultural machinery is expected to grow by a CAGR of +4.3% in North America, +1.3% in Europe, +8.9% in South America, +6.6% in India and +2.9% 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 +5%. Concentric's actual sales for agricultural machinery increased year-on-year by +14% in constant currency, reflecting both the mix of customers and applications associated with these sales.

Europe

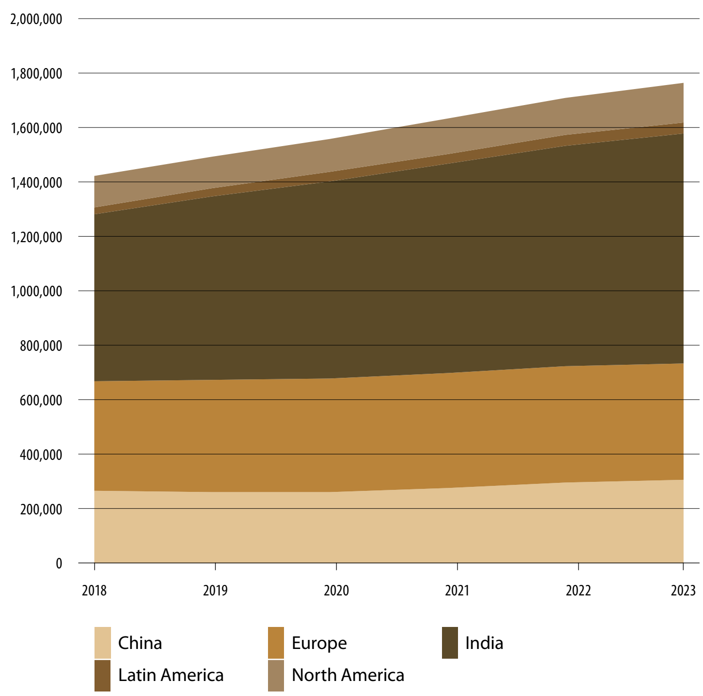
European market indices for production of diesel engines for agricultural machinery increased year-on-year by +3%. Concentric's actual sales of engine and hydraulic products for agricultural machinery increased year-on-year by +22% due to the mix of customers and applications associated with these sales.

Emerging markets

Market indices for the production of diesel engines for agricultural machinery increased year-on-year by +13% in South America, +17% in India, and were down –11% China. However, Concentric's exposure to agricultural machinery in these emerging markets remained very low at approximately 2% of the Group's total net sales for 2018.

Forecast market volume

Diesel engines (0.8–2.75 ltr/cylinder)



Source: Power Systems Research, January 2019 update.

Technology and innovation

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

Driving forces

- Environment and legislation
- Increased fuel efficiency
- Global infrastructure growth
- Size reduction and reliability
- Energy efficiency
- Environmental impact
- Total cost of ownership

Engine products

Alfdex oil mist separator

CRANKCASE VENTILATION

LOWER EMISSIONS

The Alfdex oil mist separator is a unique product that uses the centrifugal separation technique to prevent unclean ventilated crankcase gases returning to the inlet of diesel engines or being emitted to the environment.

The advantage of an oil-driven separator is that there already is a surplus of oil flow available from the engine's lubrication pump, and this is more than sufficient to drive the separator. Using oil to drive the unit also guarantees that the bearings are properly lubricated throughout the separator's service life, which is the same as the lifetime of the engine.

Alfdex technology is the global market leader for crankcase gas ventilation.

Variable flow oil pump

VARIABLE FLOW TECHNOLOGY

FUEL EFFICIENCY

Concentric's variable flow oil pump has an energy-efficient design that provides variable flow lubrication for the new generation of engines thus reducing fuel consumption by as much as 3%.

Concentric's fully variable flow water pump can reduce fuel consumption further, by as much as another 2%.

No OEM supplier has fully variable flow oil pumps currently in serial production. Therefore, Concentric is focussed on development contracts with customers to launch variable flow technology on their next generation of engine platforms.

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.

E-products

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. The product offering includes FERRA and CALMA series pumps which offer both size and noise reduction. Our products are focussed on improving the efficiency of hydraulic systems and reducing emissions.

E-products

Concentric supplies several key technologies for the fast growing electro-mobility 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 is ready to support this growth with advanced technology and the expertise to tailor it to meet our customers' needs.

Hydraulic products

Electro Hydraulic Steering

POWER CONSUMPTION

ENERGY EFFICIENCY

The Concentric Electric Hydraulic Steering (EHS) 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.

FERRA series

POWER DENSITY

SIZE REDUCTION

The FERRA series pumps offer increased power density and delivers higher durability within a 20–30% smaller space claim. The two piece cast iron design is extremely robust across a broad temperature range and offer installation flexibility due to the compact design as compared to conventional designs. Further expansion of the FERRA series product line continues in development.

CALMA series

ENVIRONMENTAL IMPACT

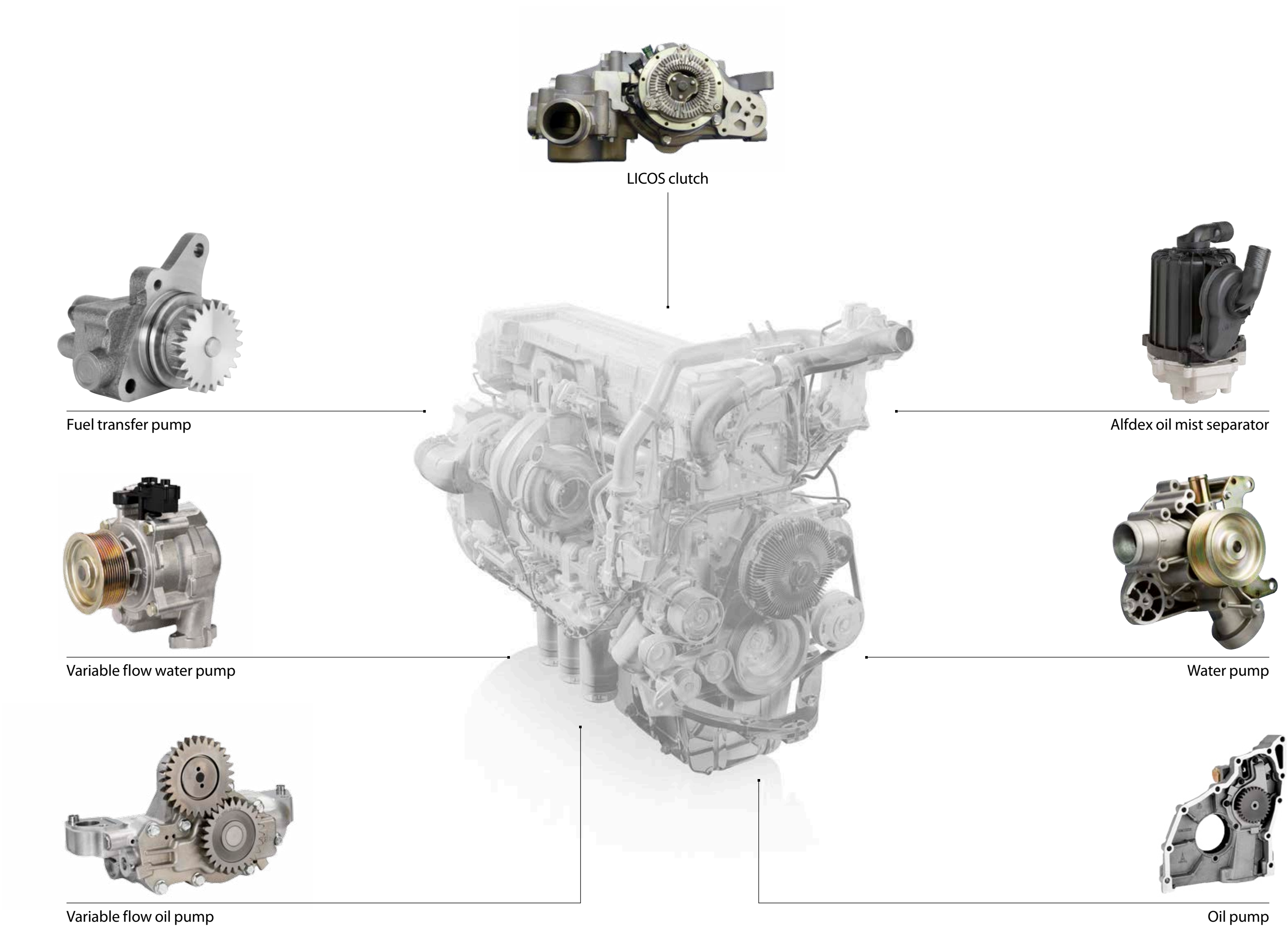
NOISE REDUCTION

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% which can deliver up to 8–10 dB lower noise levels. Further expansion of the CALMA series product line continues in development.

E-products

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.



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.

Driving forces

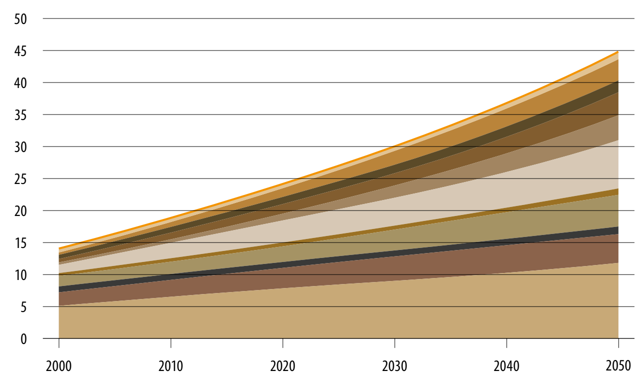
Increased freight activity

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

Trillions (10^{12}) of tonne-kilometers/year



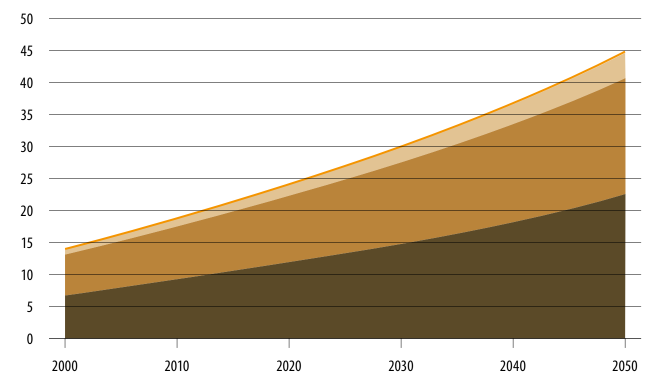
Average annual growth rates

	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

Trillions (10^{12}) of tonne-kilometers/year



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%** of the building stock 2010 – an area the size of Austria, at a **annual growth rate of 4.2%** from 2010 to 2025.
- Over **2.5 times** of the level in 2010 of port infrastructure needed to meet rising container shipping demand. Container traffic will grow at a compound **annual rate of 7.2%** from 2010 to 2025.
- **4.4%** annual GDP growth in cities globally 2010 to 2025.

Fuel efficiency

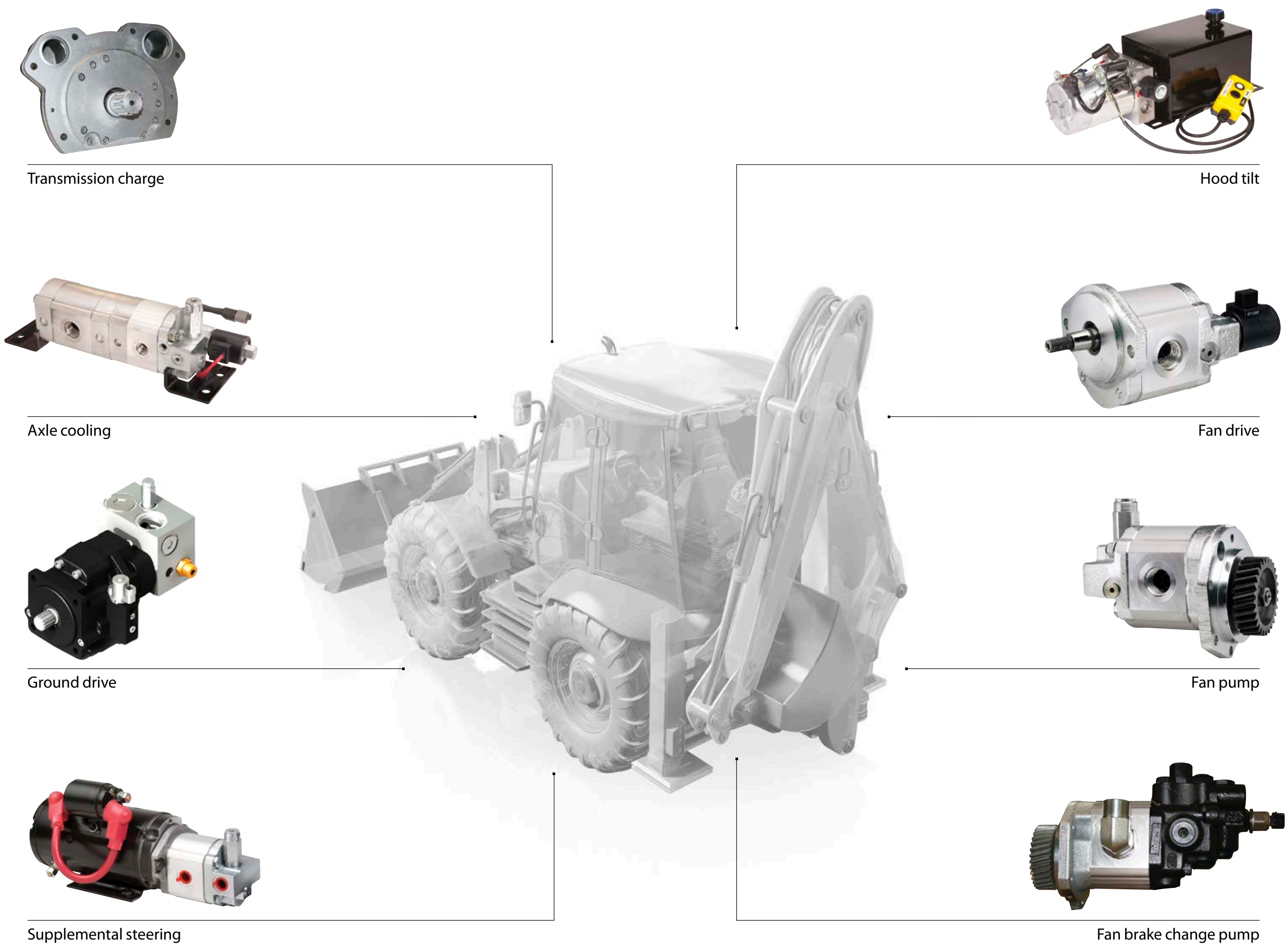
The US Environmental protection agency (EPA) have proposed greenhouse gas (GHG) emissions and fuel efficiency standards for medium- and heavy-duty vehicles. The proposed standards will cover model years 2021 to 2027. The engines for these models are currently being developed and our new technology is 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% for the whole vehicle and 4% for the engine alone. A 4% reduction in CO_2 at today's fuel prices is equivalent to a fuel saving of approximately 2,400 Euros per year for the average Class 8 heavy-duty truck.

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 pay-back 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.

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.

Driving forces

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 and thereby lowering the resulting noise emitted.

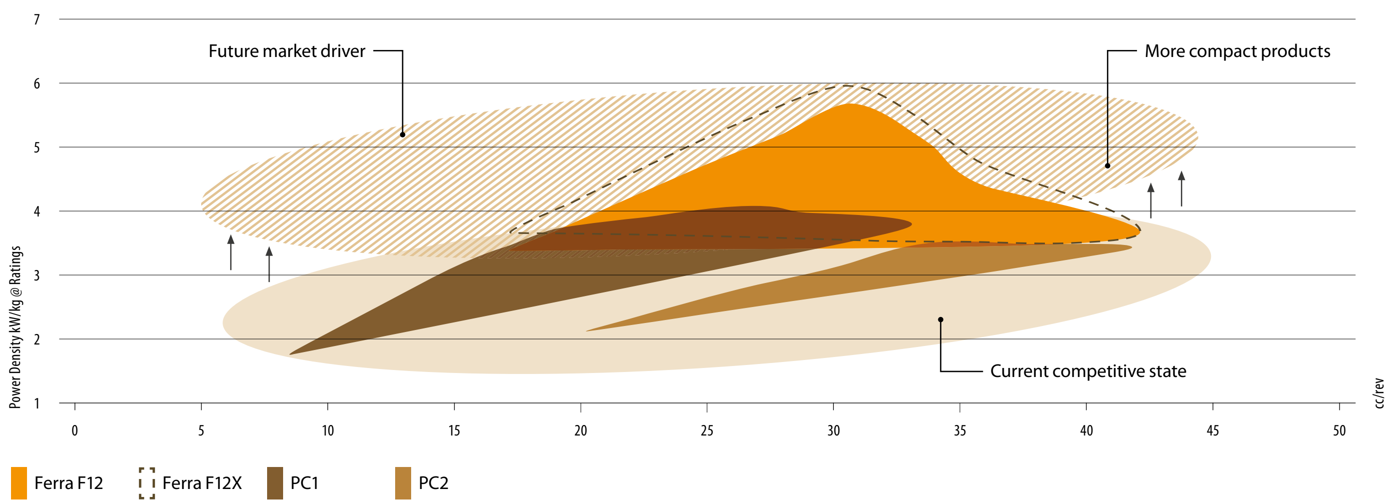
Energy efficiency

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. 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 to 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.

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.

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.

Advantages of power-on-demand

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 start-up 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 start-up.

In addition to these benefits, improved pump reliability is anticipated through extended pump life, which is accomplished by only running the unit when work cycles 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 supplies 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 is ready to support this growth with advanced technology and the expertise to tailor it to meet our customers' needs.

Concentric is 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 minimisation 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. We are 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.

Driving forces

Total cost of ownership (TCO)

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 (Figure 1). The light-coloured shade behind each point indicates how early a specific use case can potentially break even.

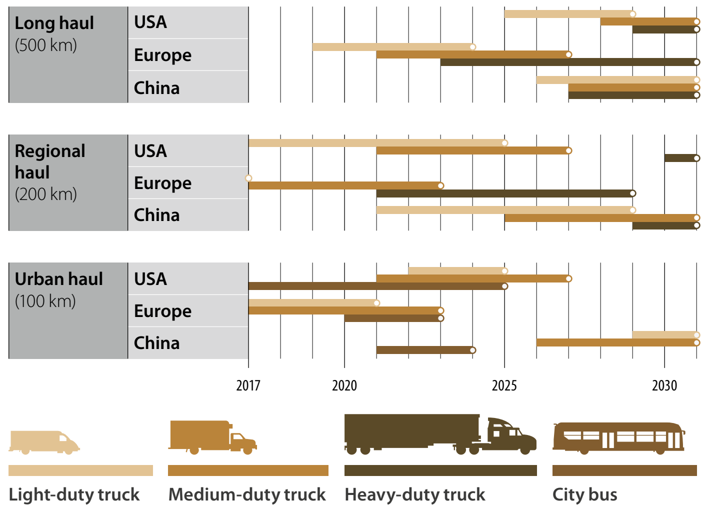
Medium average daily distances show the earliest TCO break-even point. Urban city buses will break even earliest in the heavy-duty segment. Electric city buses, an adaptation of a purpose-built Heavy duty truck (HDT), could break-even the earliest in the HDT segment, between 2023 and 2025 for the average application. In China in 2016, the share of new EV bus sales already exceeded 30% due to regulatory considerations. By 2030, EV city buses could reach about 50% if municipalities enact conducive policies. City and urban bus segments are likely to experience some of the highest Battery electric commercial vehicles (BECV) penetration levels in Europe and the United States. The break-even 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.

Figure 1
Timing of battery electric vehicle total cost of ownership parity with diesel vehicle
Year achieved range



Source: McKinsey Center for Future Mobility

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 high-light 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 (Figure 2).

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.

Figure 2
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
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
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

[1] Depending on region, example shown, Europe.
Source: McKinsey Center for Future Mobility

Milestones on the road to the powertrain of the future

The global automotive industry is racing ahead towards the next generation of smart, efficient and sustainable transportation and mobility. Emerging technologies and innovations shape a new reality: revolutionising and speeding up the way people and goods move and how off-highway industrial applications achieve reduction in operating costs and emissions while scaling performance and efficiency.

Digitalisation, e-commerce, hybridisation, electro-mobility, automated driving, smart systems and infrastructure, and new logistical concepts and practices are among the initiatives already shaping the way both businesses and citizens approach mobility and transport.

As we enter this new and exciting era, it is vital that we build a firm understanding of the tensions dominating the scene. Today, factors like logistics business models and the rapid growth and expansion of megacities are transforming the truck and commercial vehicle industry as much as the off-road commercial vehicle industry. Emission regulations and the rising demand for environmentally sensitive urban development are driving the electrification of smaller construction equipment like excavators and wheel loaders.

On the agricultural front, the current focus appears to be on smaller driverless tractors, electric farmyard and other vehicles like telehandlers and all-terrain vehicles. The focus is also on safer electrical interfaces between agricultural equipment, replacing mechanical power take offs and some hydraulics.

As we push ahead and rise above the churn, we at Concentric stand steadfast in our vision of achieving success for our customers and ourselves. To this end, our strength is in the fact that we have the competence, knowledge and drive to understand the changes occurring in our industry. And to adapt to them, swiftly and smoothly. We have our finger on the pulse of change, and we have the global resources and local presence to adapt swiftly and smoothly.

As always for Concentric, evolution and change are truly catalysts for innovation and subsequent growth and expansion.

At the crossroads of technology

Today's globalised economy sheds light on the fact that commercial road transport is an essential aspect of production. Through its highly functional, reliable and door-to-door service, road transport is a vital means of connecting businesses to all the world's markets. In this context, the diesel world is very much alive and well, still being the predominant generator of revenue and profits.

At the same time, new technologies are increasingly emerging and making their impact on OEMs' product and investment strategies. As diesel efficiency optimisation gets increasingly challenging, we will rely on alternative powertrains like battery electric, hydrogen/fuel cell, CNG/LNG, synthetic fuels, and biofuels.

Steady drive toward electrification

Electrification will undoubtedly continue to dominate the conversation as it impacts both on- and off-highway systems and vehicles. The technology will be the industry reality, but not in the near future, with the exception of efforts for full electrification to meet inner city zero emission and ultra-low emission zones standards. This is because, much as we have come to accept that electric powertrains have numerous advantages over traditional mechanical and hydraulic powertrains, there are still important challenges to be overcome for long-term commercial success. One major

The changing global dynamics are transforming the industry landscape with the entrance of new players as well as the adoption of new roles and strategies amongst established OEMs.

hurdle, for example, is the maximum distance that a vehicle can cover before the battery has to be plugged in and recharged. Then of course, there is the issue of actual battery weight in long-haul vehicles, where a battery could easily weigh several tons.

The optimisation of overall systems and sub-systems presents tremendous potential, whereby the entire electrified machinery system is developed to deliver heightened performance and lower operational costs. The electrification of transmissions systems and axles, for example, is presenting opportunities for the range of Concentric electric pumps in the engines division. At the same time, the electrification of steering systems remains a big opportunity for Concentric's hydraulics business area.

In this mix of emerging opportunities, we can also take into account developments in other industries that will contribute to advancements in the hybrid on- and off-highway market. These include fuel-saving technologies and innovative hybrid drive systems.

Moreover, cheaper and more efficient components will emerge, reducing battery cost and increased energy usage, with the potential to accelerate the technology transfer between on-road and non-road industries, enabling benefits like noise reduction, energy savings and emission reductions.

The challenges of change

Needless to say, the industry will have to adapt to continuous change, both from within, as well as from pressures faced due to the dynamics of operating in an increasingly connected world. Internally, issues that could arise include increasing competition from new and emerging fronts, cost implications, strong technology orientation, and the ever-increasing transportation of people and goods around the globe. External pressure points that can and will impact the industry include environmental regulations, economic megatrends and even emerging concepts of mobility and transportation.

One of the most daunting challenges is emissions regulations. The transportation industry accounts for over 20% of total CO_2 emissions. In order to reduce overall CO_2 emissions, the medium/heavy truck sector will have to play its role. Recently, governments have been driving specific programs to reduce commercial vehicle emissions. OEMs have made significant efforts to fulfil the resultant requirements and will continue to do so.

Concentric is at the forefront of technology agility, adapting our pumps to current and emerging industry needs. In this way, we view change as the pathway to new opportunities. Our pumps are designed to enable customer-specific solutions. We work closely with OEMs and Tier-1 suppliers to adapt our pumps in order to deliver to their specific requirements. We believe this change in technology will present opportunities for Concentric to increase both the number of pumps on a vehicle and the value of those pumps, increasing our value proposition and our share of wallet.

Traditional mechanical oil and water pumps are developed to deliver variable flow, via hydraulic or electronic control, thus offering reduced emissions and greater noise reduction.

Focus on emission reduction

Europe and the US have been driving the implementation of stricter standards. Looking ahead, the international community is expected to take further steps toward introducing harmonised, binding emissions targets. Countries like China and India are now driving strong, concerted programs, determined to achieve significant results in reducing emissions.

The primary focus of heavy vehicle emissions regulations has so far been on substances such as nitrogen oxides (NOx), carbon monoxide (CO), hydrocarbons (HC) and particulate matter (PM). That said, the truck industry now expects a further raft of regulations centred on CO_2 emissions and fuel efficiency. Standards due to be introduced are already necessitating huge expenditure on powertrain and exhaust after-treatment technologies to reduce emissions.

Here, Concentric is in pole position to provide the right technology for achieving emission reduction efficiently. A case in point is China. The country recently launched the "Blue Sky" initiative to improve their air quality in line with the China-6 regulation. The plan covers many emission sources, where heavy duty trucks are one important subset. The largest engine manufacturer in China turned to Concentric for the solution to their challenge.

Our Alfdex oil mist separator is one of the leading technologies used to meet the world's most exacting emissions standards. The Alfdex oil mist separator delivers leading-edge crankcase ventilation which enables lower emissions to be achieved. It is the most widely used solution for active cleaning of crankcase gases in truck engines. Alfdex has received its first orders in China, the most significant being from Weichai Power – the largest engine manufacturer in China that also manufactures heavy trucks. This represents a significant breakthrough into the China medium- and heavy-duty truck market for Concentric.

Streamlining the ICE powertrain

Internal Combustion Engines (ICEs) are inherently inefficient, with efficiency varying between 18–40% due to friction losses, pumping losses and wasted heat. Improvements to the conventional ICE powertrain focus above all on minimising energy losses.

Broadly speaking, there are three main ways to do this: optimise the engine's thermodynamic efficiency, e.g. improve combustion by using high-pressure injection systems;

reduce mechanical friction in the engine and the entire vehicle; or optimise the interplay between the various elements of the powertrain, i.e., engine, transmission and drivetrain.

Concentric has developed key technologies to enable our customers to deliver value in their operating areas. These technologies are embedded in, for example, our engines and hydraulics product ranges that include highly efficient, variable flow pumps that employ 'power on demand' logic to facilitate energy efficiency as well as our clutched pump applications.

Big on engine downsizing

The leading trend in the industry is to generate more power from less space, or in other words, engine downsizing. This will lead to a reduction in the number of cylinders and a decrease in displacement while maintaining the power output that consumers demand.

In order to gain efficiencies and power output, better control systems are a necessity. Consequently, valve train and fuel delivery systems are heavily controlled and optimised to meet emissions and fuel economy targets.

Concentric's Ferra series pumps are developed to meet these requirements, offering power density and built to deliver higher durability within a 20–30% smaller space claim.

Reduced weight, more mileage

The importance of downsizing, direct injection and other technologies, has clearly influenced another key area. OEMs are now expanding their limits to gain more mileage per litre of fuel through weight reduction.

It is estimated that every 50kg of weight reduced from an average 1,500kg vehicle cuts CO_2 emissions by 4–5 grams. Frost & Sullivan studies indicate that a vehicle with an average weight of 1,500kg has the potential to lose up to 35% of its weight by 2020, consequently causing powertrains to be about 8% lighter than existing offerings.

The key areas of the powertrain on which OEMs will focus their weight reduction efforts will be engine, transmission, exhaust, fuel system, casing, batteries and motors. Studies reveal that it is possible to reduce about 100kg in the medium term, enabling savings of about 8g CO_2. The key drift in material technology is likely to happen with heavier engine components like cradles, engine blocks, cylinder heads and gears.

Eliminating noise, vibration and harshness

Engine innovations such as stop-start systems, hybrid and plug-in hybrid technology, cylinder deactivation and turbocharging technologies increase the noise, vibration and harshness challenges on a vehicle, due to the variations in the layout and transfer path.

Such challenges are leading to innovations in engine mount and quiet technologies, with a view of providing cities with sustainable, quiet, fully-electric or hybrid trucks and construction equipment utilised in noise sensitive and residential built-up areas.

The impact of noise, from the viewpoint of both the machine operator and those exposed to noise at worksites, is attracting the attention of legislators. Concentric's Calma series has been developed to reduce outlet pressure pulsation by 75%, which has the propensity to deliver up to 8–10 dB lower noise levels.

Inroads into global markets

General economic situations are expected to drive heavy vehicle manufacturing developments in different regions. The world's largest market, China, will not grow as fast as in the past, but Asia in general will remain the engine of global truck demand. India is poised to oust the United States from the number two spot by the end of the decade, although some uncertainties remain. Africa, too, should grow on average faster than the global market, though it will still take time to catch up with other markets. In both Asia and Africa, improving infrastructure, rising urbanisation, and a more professional logistics sector will create demand for bigger and more sophisticated trucks alongside the traditional low-price segment.

A landscape in transformation

The changing global dynamics are transforming the industry landscape with the entrance of new players as well as the adoption of new roles and strategies amongst established OEMs. New opportunities present themselves, and Concentric is in pole position to capitalise on these trends, equipped with a profound knowledge base, global expertise and experience.

It is now more than ever important for manufacturers to understand the industry moving forward – the implications of change, technologies and competition. For instance, while multiple players are already competing in battery electric vehicles, the hydrogen/fuel cell space is significantly less crowded. Regionally speaking, monitoring where competition is coming from, e.g., Chinese players potentially becoming active in other regions, will also be important.

Leveraging on partnerships

Awareness and understanding of the changing competitive environment can help OEMs make strategic decisions, making it a wise move for vehicle manufacturers to leverage partnerships. Fundamental shifts to the ecosystem mean that today's competitors could well be tomorrow's partners and vice versa.

Industry players would benefit by being receptive to new alliances and collaborations that reach beyond the traditional borders. Making inroads and capturing value from autonomous driving and connectivity, for example, will require sound collaboration with suppliers, and even more so, with technology and software players.

China for example has a new and increasing list of companies and OEMs. Similarly, there are emerging lists of companies emerging in various markets where Concentric is active and eager to expand. Changing technologies and the demand for new and innovative products and solutions will present brand new opportunities for Concentric to penetrate new OEMs, both in existing and even more so, in emerging new markets.

Signposts along the road

Global and regional players will be on the lookout for niche companies as possible acquisition targets, while niche firms will also seek to join up with other niche players in the hunt for global reach, market access, and scale. Concentric has strong ambitions to grow through mergers and acquisitions in various markets around the world.

By 2030, there will be more global truck makers. Several players in emerging markets have the potential to outgrow their current positions as regional giants or niche players, while the current group of regional giants will shrink.

Implementation of EU regulatory frameworks should allow regular truck platooning on all major European roads by 2025. This is a first step towards the use of fully autonomous vehicles.

Technological development of advanced alternative fuels like biofuels and fuel cell development is expected to speed up, aided by a long-term legislative framework which could include incentives, quotas, etc. These alternate fuel options could very well present new and additional pump and flow control opportunities to Concentric as we apply our innovative engineering expertise to this landscape.

The steady improvement of the diesel powertrain is expected to continue.

Hybrid vehicles will contribute more to long-haul transport. This includes the use of on-demand hybrid systems to provide auxiliary power.

Sustainability report

Sustainability efforts constitute an integral part of Concentric's operations and is something we consider when engaging with all our stakeholders. The aim is to ensure a holistic approach 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 inspired by, but is not fully compliant with the GRI Standards updated per 1 January 2018. Therefore we report the year 2018 as "GRI-referenced" and include the outcomes of the Group's efforts on sustainability and environmental matters, see pages 112–119.

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 2019 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 annually 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 2018	Results 2017
Ethics and Value Creation	**General** 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 **UN's Sustainable Development Goals** 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%	**22.1%**	**18.7%**
			Gearing (Net Debt/Equity) should amount to 50% ≥ 150%	**1%**	**21%**
			Dividends should correspond to at least one third of the Group's consolidated after-tax profit over the course of a business cycle	**41%**	**49%**
			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** 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 **UN's Sustainable Development Goals** No.9: Promote inclusive and sustainable industrialisation and foster innovation 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** 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	**3.67**	**3.54**
Responsible Suppliers	**General** 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 **UN's Sustainable Development Goals** No. 8: Promote sustainable economic growth	Concentric promotes social responsibility in its operations and value chain	**Procedure** Concentric evaluates and approves all material suppliers from a sustainability perspective, including environmental and human rights criteria[1)]	**100%**	**100%**
Equality and Diversity	**General** A workplace that offers diversity and equal opportunity **UN's Sustainable Development Goals** 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	**16.1%**	**15.1%**
			Increase the number of female wage earners to 22% by 2025	**17.4%**	**15.3%**
			No. of human rights claims brought against Concentric	**0**	**0**
Resource Efficiency	**General** A resource efficient society **UN's Sustainable Development Goals** 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.	**26.1%**	**25.9%**
			Improve operating efficiency by reducing energy consumption (kWh per MSEK 1 of sales value)	**10.45**	**11.38**

Concentric's operations in 2018 distributed by stakeholder, based on the Company's income statement.

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.

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.

Amounts in MSEK

Customers	Sales of engine and hydraulic products	**2,410**
Suppliers	Procurement of goods and services as well as depreciation, amortisation	**–1,394**
Employees	Wages, social expenses and competence development	**–487**
Financial Institutions	Interest	**–14**
The State	Taxes	**–110**
Shareholders	Net income	**405**

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

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.

Concentric Business Excellence

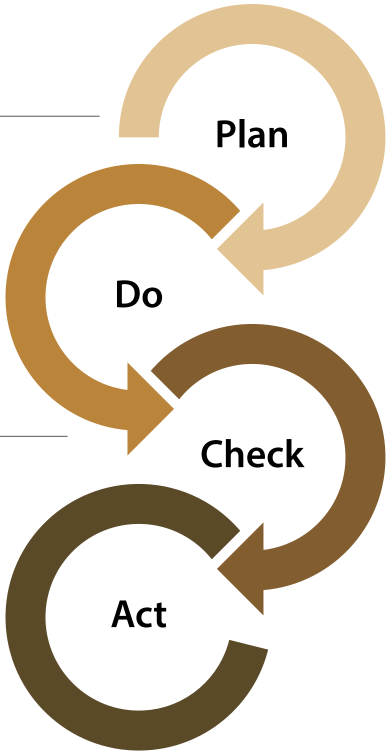
Concentric's Business Excellence programme ("CBE") underpins the Group's approach to sustainability in everything we do.

Plan
Design and communicate clear targets

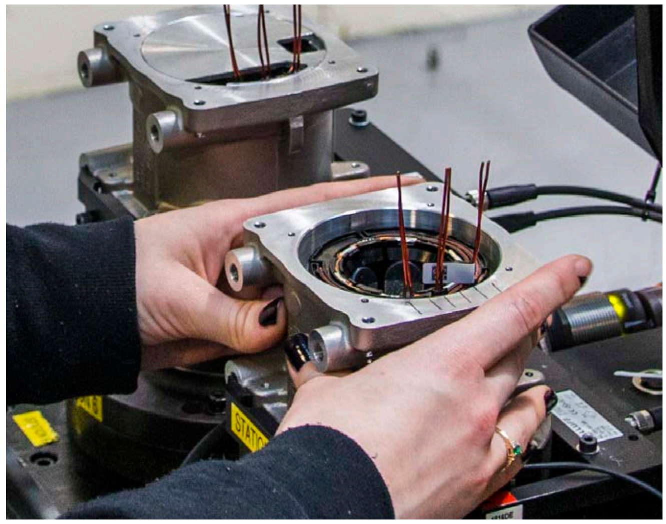
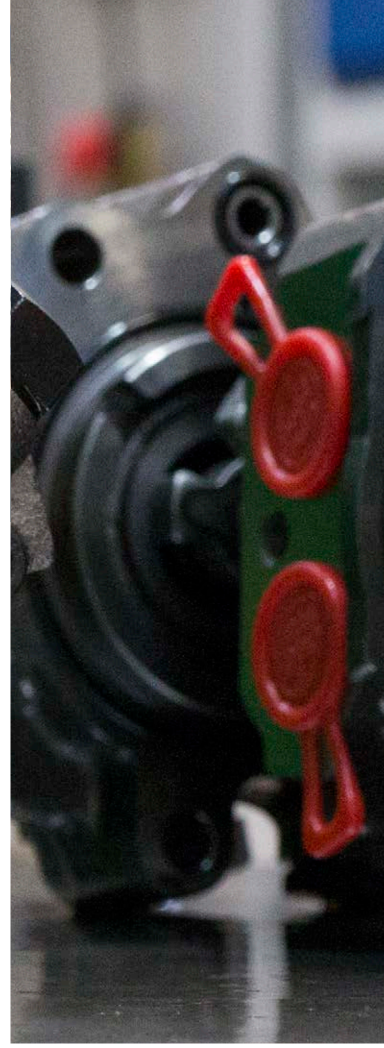
Do
Implement improvement activities

Check
Obtain feedback and analyse results

Act
Formulate action plan for continuous improvement





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

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 focussed 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.

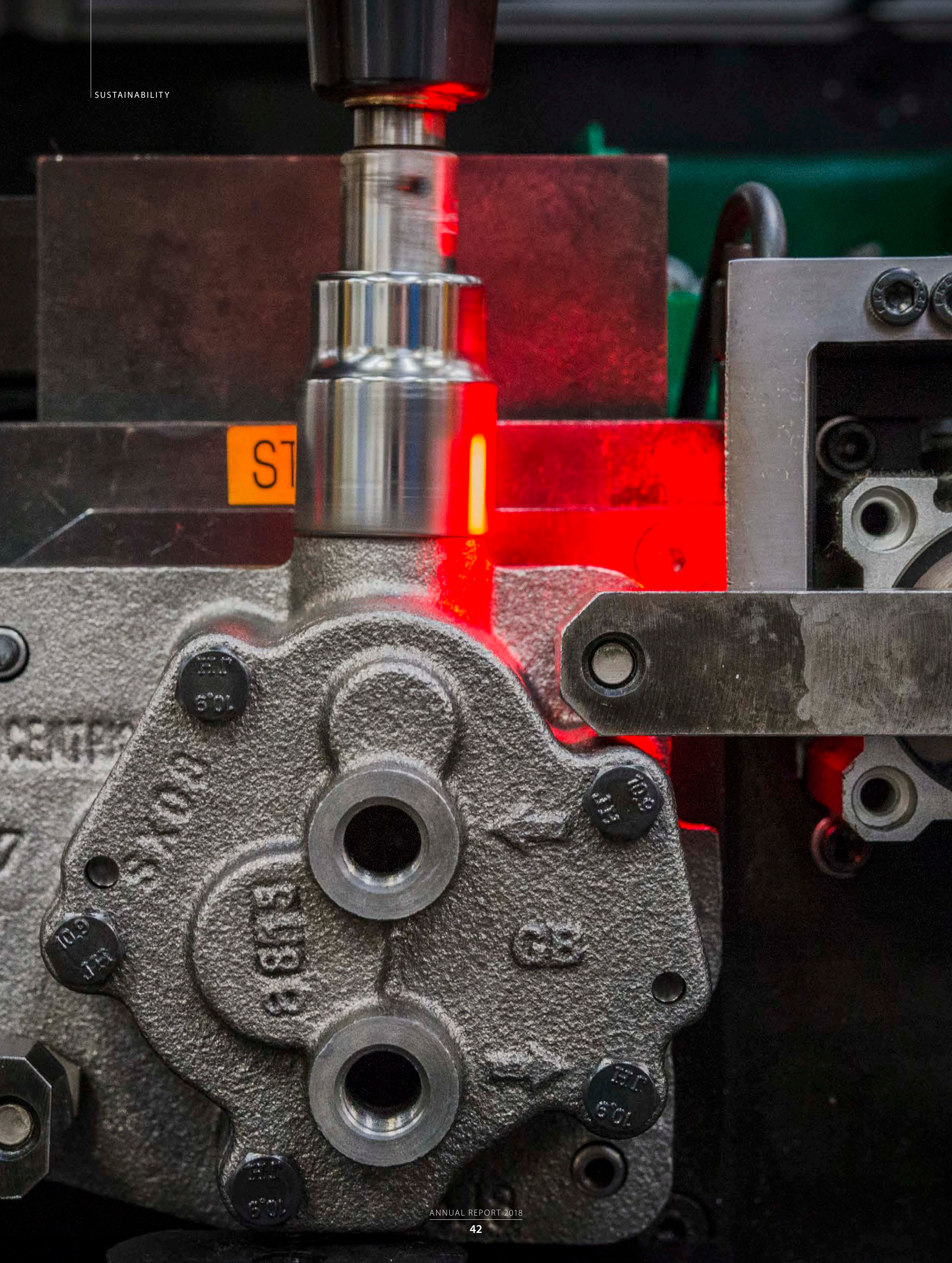
Equal opportunities

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	2018	2017	2016	2015	2014
Argentina	83	84	89	127	–
China	19	18	21	21	30
Germany	199	190	200	219	206
India	169	173	171	174	203
Sweden	70	59	57	62	59
UK	182	182	182	193	212
USA	243	242	216	256	272
Other	1	3	3	3	3
Total	966	951	939	1,055	985

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.

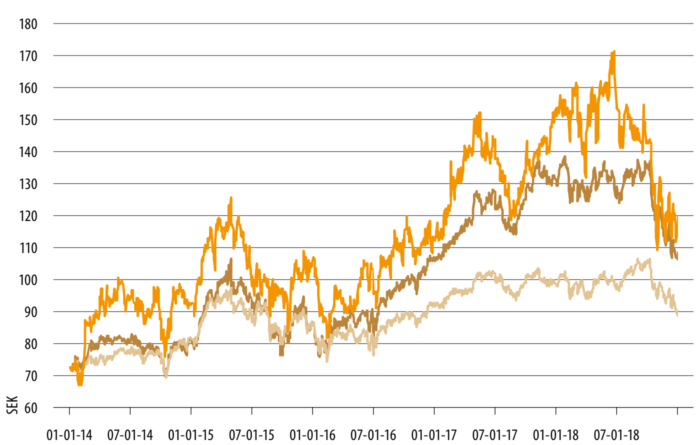
Suppliers to Concentric shall deploy and respect ethical standards throughout the supply chain in compliance with the Concentric Codes of Conduct and shall ensure these are implemented in their everyday business actions and decisions.

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

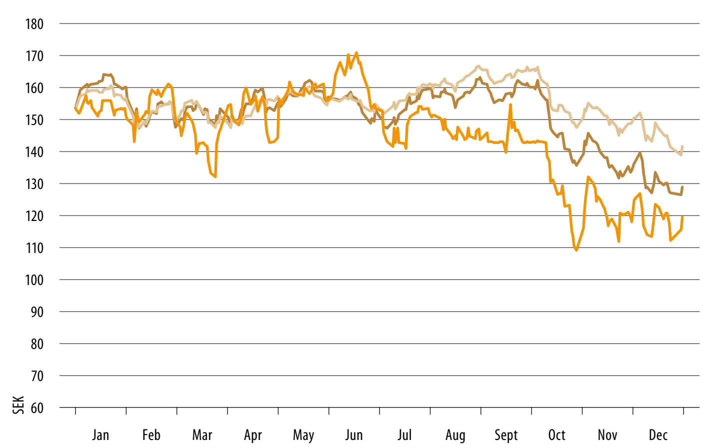
The Concentric share has been listed on the NASDAQ OMX Stockholm Exchange midcap list since June 16, 2011, and is traded under the ticker symbol COIC. The market capitalisation of Concentric at 31 December, 2018 amounted to MSEK 4,628 represented by 38,632,564 shares at a market price of SEK 119.80.

Share value (1 January 2014–31 December 2018)



Source: SIX

Share value (1 January 2018–31 December 2018)



Source: SIX

Data per share

	2018	2017	2016	2015	2014
Basic earnings before items affecting comparability, SEK	10.22	7.39	5.95	6.48	5.54
Basic Earnings, SEK	10.30	7.54	6.01	6.45	5.54
Diluted Earnings, SEK	10.27	7.52	6.00	6.44	5.53
Return on equity, %	41.6	37.0	32.2	31.7	29.6
Dividend, SEK	4.25[1)]	3.75	3.50	3.25	3.00
Own shares repurchased, SEK	3.79	3.60	2.10	3.44	3.49
Market price at year end, SEK	119.80	151.00	113.75	107.00	93.00
Equity, SEK	26.55	22.36	21.18	20.46	19.13
EBITDA multiple	7.7	13.1	11.4	10.8	10.7
EBIT multiple	8.8	15.2	14.4	12.9	13.3
P/E ratio	11.4	19.7	18.7	16.6	16.8
Payout ratio, %	41.3	49.7	58.2	50.4	54.2
Dividend yield, %	3.5	2.5	3.1	3.0	3.2
Dividend and buy-back yield, %	6.7	4.9	4.9	6.3	7.0
Basic average number of shares (000's)	39,322	40,238	40,924	42,058	43,421
Diluted average number of shares (000's)	39,456	40,374	40,973	42,119	43,523
No. of shares at 31 December (000's)	38,633	39,542	40,482	41,180	42,392

1) Proposed dividend for consideration at the 2019 AGM

Price trend and trading

The price paid for the Concentric share fell –21% (+33) in 2018 to SEK 119.80 (151.00) at year-end. The Industrial Goods & Services index fell –16% (+22) and the OMX Stockholm PI Index fell–8% (+6) during 2018. The highest price paid for the share during the year was registered at SEK 171.00 (155.00) and the lowest price was SEK 109.40 (110.00). Concentric's market value as of 31 December, 2018 was MSEK 4,628 (5,971). In 2018, a total of 9.4 (11.3) million Concentric shares were traded, corresponding to 23% (28) of the total number of shares. For the five years ending 31 December 2018, Concentric's shares have given a total annual average return to shareholders of 14% (25). Total shareholder return for the year ended 31 December 2018 was negative –19% (+36).

Analysts monitoring Concentric

Institution	Analyst
Danske Bank	Max Frydén
SEB Enskilda	Klara Jonsson
Kepler Cheuvreux	Mats Liss

Incentive programmes

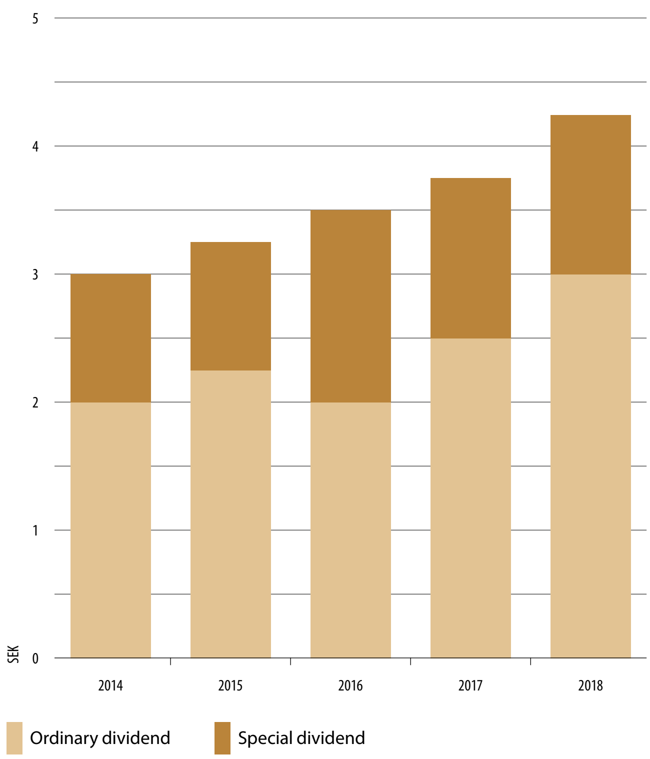
Concentric AB Annual General Meeting 2015–2018 have decided upon four long-term performance based incentive programmes, under which senior executives and key employees participating in the schemes are entitled to receive employee stock options that entitle them to acquire Concentric shares. The fair 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.

Dividend development



Dividend development per share for FY 2014–2018. Table shows proposed dividend for 2018.

Ownership structure

The distribution of shares remained consistent during 2018, 58% (57) of the total number of shares are held by ten investors. Swedish entities and individuals hold 66% of the total number of shares, whilst the remaining 34%, half are held by either US or UK investors.

Ownership

At the end of 2018, Concentric had a total of 7,934 (8,458) shareholders. Foreign shareholders accounted for approximately 34% (39) of the total number of shares. Swedish institutions accounted for the main part of Swedish ownership. At year-end, 56% (50) of the Company was owned by legal entities and 10% (11) by private individuals.

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.

Swedish and foreign shareholders

Shareholders

Individuals (Swedish)	Foreign	Legal entities (Swedish)
9.6%	33.6%	56.8%

Distribution of shares, 28 December 2018

No. of shares	No. of shareholders	% of shareholders	% of total share capital
1–500	5,529	73.3	2.4
501–1,000	1,010	13.4	2.1
1,001–5,000	755	10.0	4.2
5,001–10,000	79	1.1	1.5
10,001–15,000	31	0.4	1.0
15,001–20,000	21	0.3	0.9
> 20,001	114	1.5	87.9
Total	**7,539**	**100.0**	**100.0**

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

10 largest shareholders, 28 December 2018

Name	Votes capital, %	No. of shares
Swedbank Robur Fonder	10.6	4,226,264
Lannebo Fonder	10.4	4,163,999
Nordea Investment Funds	9.1	3,655,350
SEB Investment Management	6.2	2,464,236
Fjärde AP-Fonden	4.7	1,885,081
Euroclear Bank S.A/N.V, W8-IMY	4.2	1,702,081
Handelsbankens Fonder	3.9	1,566,304
CBNY-Norges Bank	3.4	1,361,718
Öhman Fonder (Earlier DnB - Carlson Fonder)	3.2	1,300,736
Länsförsäkringar Fondförvaltning AB	2.5	994,528
Total 10 largest external shareholders	**58.2**	**23,320,297**
Total other external shareholders	38.3	15,312,267
Total, excl own holding	**96.5**	**38,632,564**
Own share holding	3.5	1,398,536
Total	**100.0**	**40,031,100**

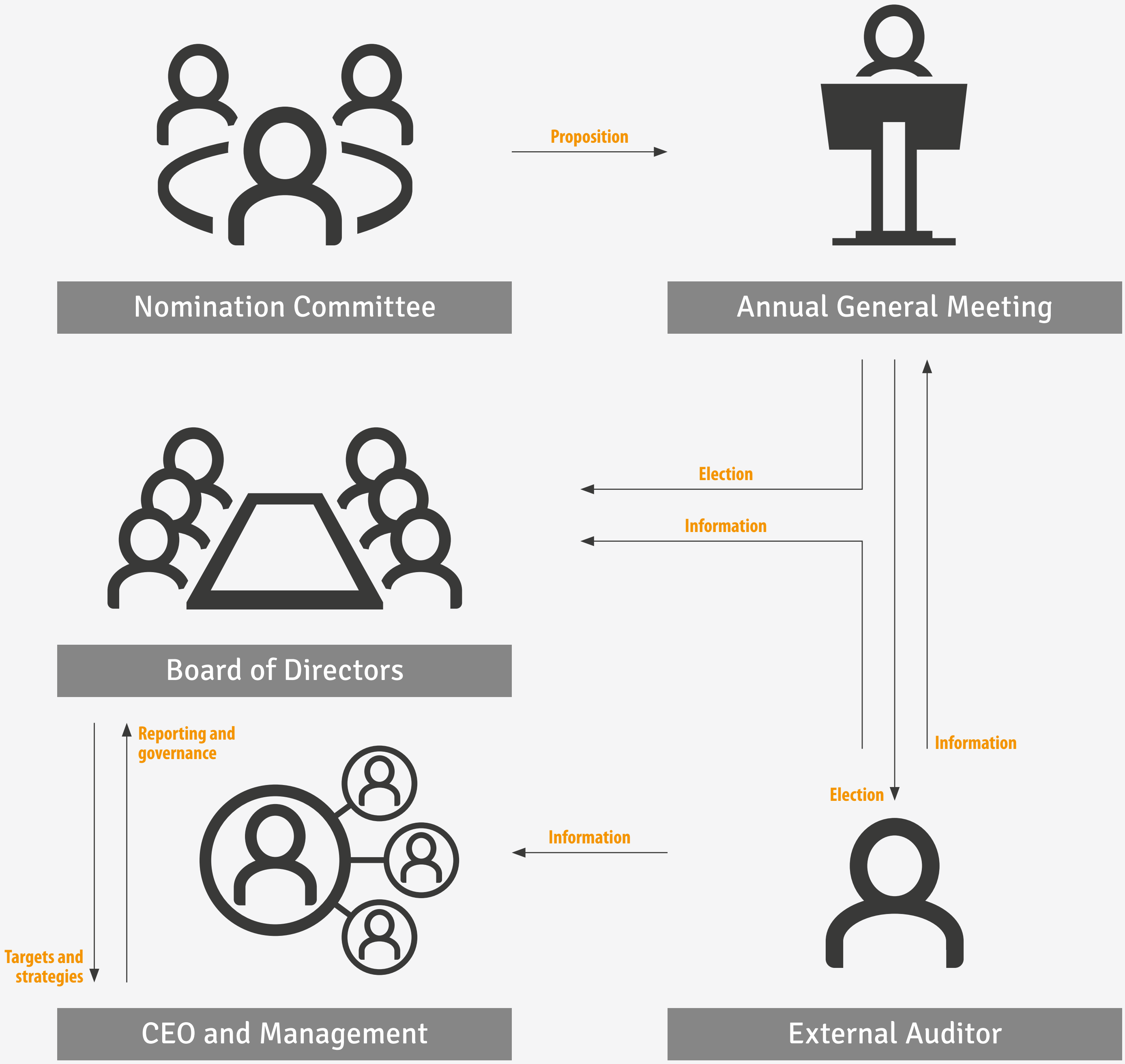
Corporate governance in Concentric

Concentric AB is a publicly traded Swedish limited liability company. 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.

Annual General Meeting

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 2018. The report has been prepared in accordance with the Swedish Companies Act.

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.

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, 2018 totals MSEK 97.3 (97.3), represented by 38,632,564 (39,542,493) outstanding shares, excluding own shares. Each share carries equal voting right and dividend rights.

The number of Concentric's shareholders at 31 December, 2018 amounted to 7,539 (7,934), with Swedbank Robur Fonder representing the largest owner with 10.6% (10.4) of the share capital. Swedish ownership totalled 66% (66) at year end 2018. Information concerning ownership is updated each month on Concentric's website, *www.concentricab.com*.

Annual General Meeting 2018

Concentric's Annual General Meeting was held in Stockholm on 3 May, 2018. The following board members were re-elected: Claes Magnus Åkesson, Marianne Brismar, Kenth Eriksson, Martin Lundstedt, Susanna Schneeberger, Martin Sköld and Anders Nielsen.

In total, 95 shareholders participated at the Annual General Meeting. These represented 55.37% of the registered shares in Concentric and 57.24% of the outstanding shares, excluding the own shares.

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, Martin Sköld and Anders Nielsen were all re-elected for the period until the Annual General Meeting in 2019. 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 2019.
- It was decided that the Chairman of the Board will receive SEK 560,000, and that other members of the Board of Directors will receive SEK 265,000 as remuneration for work on the board. Additional consideration shall be paid with SEK 75,000 to the chairman of the Compensation Committee and the members of the Compensation Committee shall receive SEK 30,000. The Chairman of the Audit Committee shall receive SEK 100,000 and the members of the Audit Committee shall receive SEK 50,000.
- 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 3.75 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 2018 to participants resident in the United Kingdom to take part in a Joint Share Ownership Plan ("JSOP").
- A resolution was taken to retire 840,900 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 840,900 and the share capital being increased by SEK 213.

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 2018 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.

Nomination Committee for the 2019 Annual General Meeting

In accordance with a decision by the 2018 Annual General Meeting, the four largest shareholders have each appointed a representative to form the Nomination Committee for the 2019 Annual General Meeting. Based on the ownership structure as of 31 August, 2018, these shareholders were:

- Lannebo Fonder, Nordea AB, Swedbank Robur and SEB Fonder. Combined, they represented 36.3% of the voting rights in Concentric AB per 31 December 2018.

The shareholders' representatives who will comprise members of the 2019 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 28 September, 2018. 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 2019.

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 2018 AGM.

Board of Directors

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, a total of six persons including the CEO.

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.

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 60. 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 2018, the Board of Directors held a total of 8 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.

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 ten 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 2018. 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% or more of the shares or voting capital in the Company.

Meetings attended 2018

Board member	Board	Audit Committee	Compensation Committee	2018/19 Board Fees (SEK)
Kenth Eriksson [1]	8	5	3	640,000
Anders Nielsen [2]	8	–	3	340,000
Claes Magnus Åkesson [3]	8	6	–	365,000
Marianne Brismar	8	6	–	315,000
Martin Lundstedt	5	–	–	265,000
Martin Sköld	7	–	–	265,000
Susanna Schneeberger	7	–	–	265,000
				2,455,000

1) Chairman of the Board
2) Chairman of the Compensation Committee
3) Chairman of the Audit Committee

Compensation Committee

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 2018, 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 2018, 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 2018 Annual General Meeting resolved that fees totalling SEK 2,455,000 will be paid for the period up until the end of the 2019 Annual General Meeting and be distributed among the Board members as set out in the table on page 55. 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, which is capped to a percentage of fixed annual salary, 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 programmes

Concentric AB Annual General Meeting 2014–2018 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.

Incentive programme 2018

The AGM resolved on a long-term incentive programme, LTI 2018, consistent with previous years.

The programme comprise 6 senior executives, including the CEO, and other key employees within the Concentric Group. In order to participate in LTI 2018, the participants made their own investments in Concentric shares in the stock market. Each Concentric share acquired under LTI 2018 entitled 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 116.70 SEK and 175.10 SEK respectively.

For more information about the Company's LTI schemes, see Group note 8 on page 83.

Amounts in KSEK	Basic salary/ Benefits in kind	Annual variable remuneration	Long term variable remuneration	Pension	2018 Total
President and CEO David Woolley	5,307	3,261	2,569	–	11,137
Other senior executives	11,867	4,361	1,636	644	18,508
Total	**17,174**	**7,622**	**4,205**	**644**	**29,645**

For guidelines on remuneration see pages 67–68.

Audit Committee

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.

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.

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 Commission) 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.

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. Chairman of the Board of Almi Företagspartner AB. Board member of Axel Johnson International AB, Creades AB, Semcon AB, GreenCarriers AB, Axis Communications AB and JOAB AB.

Shareholding in Concentric: 31,440 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.

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.

Susanna Schneeberger
Member since 2015
Born 1973

M.Sc. International Business Administration and MBA European Affairs.

Executive Board Member and Chief Digital Officer at KION Group. Previously Executive Vice President at Konecranes Corporation and CEO at DEMAG Cranes & Components 2015–2018, as well as global roles within the Trelleborg Group 2007–2014. Earlier experience includes multiple commercial managerial positions internationally. Boardmember of Hempel A/S.

Shareholding in Concentric: 0 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.

The 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: 110,000 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: 1,600 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: 23,000 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.

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: 944 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.

Board of Directors' report

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 2018. 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; trucks, construction equipment, industrial applications and agricultural machinery.

During 2018, Concentric had, on average, a total of 1,024 (937) employees at its sites in Argentina, China, Germany, India, United Kingdom, United States, and its sales offices in 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, were MSEK 2,410 (2,104), up 15% year-on-year in absolute terms. Adjusting for the impact of currency (+3%), the underlying year-on-year sales increased for the full year by 12%.

Consolidated gross income increased to MSEK 817 (652), resulting in a gross margin of 34% (31.0%). Reported EBIT and EBIT margin amounted to MSEK 529 (404) and 21.9% (19.2) respectively.

Americas

External sales for the year amounted to MSEK 1,184 (1,054). Sales for the full year were up 13% adjusting for the impact of currency (–1%). Diesel engine product sales in our North American end-markets were up year-on-year, linked to the increased demand for medium- and heavy-duty trucks. Sales of hydraulic products also showed strong year-on-year growth driven by increased demand in the truck market, agricultural machinery and construction equipment sectors. Demand in South America continued to show signs of improvement across all end market applications.

Reported EBIT and EBIT margin as a percentage of external sales amounted to MSEK 215 (155) and 18.1% (14.7) respectively. The underlying operating margin for the full year, before items affecting comparability was 15.8% (14.7). The year on year improvement in operating margins has not been as strong as Europe & ROW primarily due to additional warranty provisions made during the year.

Europe & RoW

External sales for the year amounted to MSEK 1,477 (1,263). Sales were up year-on-year by 12% after adjusting for the impact of currency (+5%). Sales growth has been particularly strong in the agricultural machinery and construction equipment markets for the full year. Demand in our India off-highway end market continues to remain strong under the Government's progressive economic policies targeted at infrastructure development and growth.

Reported EBIT and EBIT margin as a percentage of external sales amounted to MSEK 312 (250) and 21.1% (19.8) respectively. The underlying operating margin for the year, excluding items affecting comparability, was 22.8% (19.1). The CBE program 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.

Significant events during 2018

The decision by a global OEM customer to dual source components during 2019 was a disappointment even though the customer remains a significant account for Concentric. However, dual sourcing also offered opportunities as OEM's supply chains came under increasing pressure to meet the market demands, enabling Concentric to secure new business with new customers.

The breakthrough into the China medium- and heavy-duty truck market by Alfdex, our 50:50 joint venture with Alfa Laval, was a significant achievement. China's "Blue Sky" initiative and specifically the introduction of China-6 regulations as of 1st July 2019, is expected to result in the replacement of one million heavy-duty trucks. The Alfdex-separator is the most widely used solution for active cleaning of crankcase gases in truck engines and has been selected by most truck manufacturers in North America, Europe and Japan. Alfdex will expand its China facility and the plant is expected to have completed its ramp-up of volumes in Q4–19.

Net financial items, taxes and net earnings

Net financial expenses for the year amounted to MSEK 14 (13), comprising of pension financial expenses of MSEK 13 (16) and other net interest expenses of MSEK 1 (income 3). Accordingly, consolidated income before taxation amounted to MSEK 515 (391) for the full year.

The Group's tax expenses for the fiscal year 2018 amounted to MSEK 110 (88). The Group's effective annual tax rate was 21% (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 405 (303). Basic and diluted earnings per share amounted to SEK 10.30 (7.54) and SEK 10.27 (7.52) respectively.

Cash flow

Cash flow from operating activities for the full year amounted to MSEK 554 (360) which represents SEK 14.02 (8.97) per share.

Investments and product development

The Group's net investments in property, plant and equipment for the full year amounted to MSEK 19 (13).

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 50 (48), which represents 2.1% (2.3) 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 2018 the fair value of those derivative instruments that were assets was MSEK 3 (2), 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 losses for the year was MSEK 44 (gains 58).

As a result, the Group's net debt at 31 December 2018 was MSEK 12 (185), comprising bank loans and corporate bonds of MSEK 181 (178) and net pension liabilities of MSEK 514 (462), net of cash amounting to MSEK 683 (455).

Shareholders' equity amounted to MSEK 1,026 (875), resulting in a gearing ratio of 1% (21).

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 617), to replace the existing undrawn credit facility in the same amount which was due to expire.

Acquisitions

There were no acquisitions completed during 2018 or 2017.

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 break- downs, 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 1,300 (1,046) at year-end, corresponding to 54% (50) 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	**2018**	**2017**	**2018**	**2017**
EUR	**10.2567**	**9.6326**	**10.2753**	**9.8497**
GBP	**11.5928**	**10.9896**	**11.3482**	**11.1045**
USD	**8.6921**	**8.5380**	**8.9710**	**8.2322**

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	**2018**	**2017**	**2018**	**2017**
EUR	**13**	**10**	**15**	**15**
GBP	**8**	**6**	**24**	**29**
USD	**24**	**22**	**28**	**31**

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, 2018, 62% (61) 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 the year to hedge invoiced and forecast currency flows. At 31 December 2018, these contracts had a net value of MSEK 155 (175) with a market value of MSEK 3 (2).

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 215 (183) 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 2018, no single customer accounted for more than 19% (17) of sales. The Group's customer losses are historically low and normally are less than 0.1% of sales.

The Group also has a credit exposure in cash and cash equivalents. As per December 31, 2018 the Group had 440 MSEK placed in banks with a long term rating from Moody's of Aa2 - Aa3, 46 MSEK in banks with a Moody's rating of A1-A3 and 192 MSEK in banks with a Moody's rating (or equivalent) of Baa2-Baa3. The remaining 5 MSEK of cash and cash equivalents was placed in various banks with different ratings.

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.

Share-related information

Ownership status

The Company's shares have been listed on Nasdaq OMX Stockholm since 16th June, 2011. Concentric AB had 7,539 (7,934) shareholders at the end of the financial year. The Company's largest shareholder was Swedbank Robur Fonder 10.6% (Lannebo Fonder 10.7). At year-end there were two (three) shareholders that hold in excess of 10% of the votes and capital of the Company and they held together 21.0% (31.6).

Share capital, shares outstanding and rights

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

During 2018 Concentric AB sold 123,600 (101,200) of its own shares for MSEK 12 (8), representing 0.3% (0.2%) 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 1,033,529 (1,040,671) of its own shares for a purchase price of MSEK 146 (142) representing 2.6% (2.5) of the shares of the Company. The total number of holdings of own shares at year-end 2018 was 1,398,536 (1,329,507), which represented 3.5% (3.3) of the total number of shares of the Company.

The number of shares outstanding at year-end, excluding any dilution from share options, was 38,632,564 (39,542,493). 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 44–47.

Board authorisations

At the last AGM in May 2018, the following board members were re-elected: Kenth Eriksson, Anders Nielsen, Claes Magnus Åkesson, Marianne Brismar, Martin Lundstedt, Martin Sköld, 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 48–59.

Remuneration

The 2018 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 remuneration

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 remuneration

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% 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% 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 2019 AGM that the above policies on executive remuneration shall apply until the 2020 AGM. Estimated costs for variable remuneration and LTI-schemes will be about MSEK 15 (15), including social security cost, for 2019.

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 57 (50), generating an operating income of MSEK 37 (30). The Company also received the following income from subsidiaries and joint ventures during the current and previous years:

- Dividends amounting to MSEK nil (1,090) arising from its wholly owned US subsidiary undertaking, Concentric US Finance 2 Limited, followed by a write-down of shares with MSEK 817. Transactions last year related to a Group reorganisation.
- Dividends amounting to MSEK nil (469) arising from its wholly owned UK subsidiary undertaking, Concentric Pumps Limited.
- Group contribution amounting to MSEK 5 (5) arising from its wholly owned Swedish subsidiary undertaking, Concentric Skånes Fagerhult AB;
- Dividends amounting to MSEK 2 (1) arising from its 50% ownership in the Swedish joint-venture company, Alfdex AB.
- The cumulative net exchange rate losses and net interest expenses for 2018 amounted to MSEK 86 (gains 64) and MSEK 10 (5) 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 36–43 and 112–118.

Outlook for 2019

Based upon the activity levels experienced towards the end of 2018 and considering the market indices weighted for our end markets, 2019 has the potential to offer continued growth across most of our end markets and geographies. The medium- and heavy-duty truck market seems capable of sustaining the current strong demand levels in the near term. The market outlook for construction equipment and industrial applications also appears stable. The global agricultural machinery market has continued to grow during 2018, most notably in the emerging markets and a similar trend is expected to continue to 2019.

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 4.25 (3.75) per share for 2018. This corresponds to an ordinary dividend of SEK 3.00 (2.50) which equates to around 29% (33) of earnings per share, plus a special dividend of SEK 1.25 (1.25) 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	1,387,084
Net income for the year	–40,858
Total	**1,346,226**

The board of directors and the president propose that the funds of KSEK 1,346,226 be allocated as follows:

Amounts in KSEK	
Dividend of SEK 4.25 per share to shareholders	164,188
Carried forward	1,182,038
Total	**1,346,226**

Statement by the Board of Directors concerning the proposed dividend

The proposed dividend reduces the Company's equity to assets ratio from 38% to 35% and the Group's equity to assets ratio from 46% to 42%. 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.

Concentric Group

Consolidated income statement

	Note	2018	2017
Net sales		2,410	2,104
Cost of goods sold		–1,593	–1,452
Gross income		**817**	**652**
Selling expenses		–95	–80
Administrative expenses		–153	–158
Product development expenses		–50	–48
Share of net income in joint venture	19	14	10
Other operating income	11	62	93
Other operating expenses	11	–66	–65
Operating income	**4, 5, 7, 8, 9, 10, 17**	**529**	**404**
Financial income	12	11	11
Financial expenses	12	–25	–24
Financial items – net		**–14**	**–13**
Earnings before tax		**515**	**391**
Taxes	13	–110	–88
Net income for the year		**405**	**303**
Attributable to:			
Parent Company shareholders		405	303
Non controlling interest		–	–
Basic earnings per share, SEK	14	10.30	7.54
Diluted earnings per share, SEK	14	10.27	7.52
Basic weighted average number of shares (000)	14	39,322	40,238
Diluted weighted average number of shares (000)	14, 24	39,456	40,374

Consolidated statement of comprehensive income

	2018	2017
Net income for the year	405	303
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Remeasurement gains	2	63
Tax arising on remeasurement gains	–1	–11
Remeasurement losses	–46	–5
Tax arising on remeasurement losses	9	1
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	–94	93
Tax arising from exchange rate differences related to liabilities to foreign operations	18	–14
Cash-flow hedging	1	–1
Tax arising from cash-flow hedging	–	–
Foreign currency translation differences	135	–129
Total other comprehensive income	**24**	**–12**
Total comprehensive income	**429**	**291**

Consolidated balance sheet

	Note	31-Dec-18	31-Dec-17
Assets			
Fixed assets			
Goodwill	15	620	592
Other intangible fixed assets	15	190	217
Tangible fixed assets	16, 17	112	130
Share of net assets in joint venture	19	39	27
Deferred tax assets	18	132	92
Long-term receivables	38	5	6
Total fixed assets		**1,098**	**1,064**
Current assets			
Inventories	20	169	179
Accounts receivable	21, 38	215	183
Short-term loans receivable from joint venture	29, 38	–	6
Other current receivables	22, 38	69	86
Cash and cash equivalents	23, 38	683	455
Total current assets		**1,136**	**909**
Total assets		**2,234**	**1,973**
Shareholders' equity and liabilities			
Equity	24		
Share Capital		97	97
Additional Contributed Capital		583	583
Reserves		218	158
Retained Earnings		128	37
Total equity		**1,026**	**875**
Long-term liabilities			
Pensions and similar obligations	25, 34	514	462
Deferred tax liabilities	18	24	30
Long-term interest-bearing liabilities	26, 27, 34, 38	176	176
Other provisions	30	4	6
Other long-term liabilities	26, 38	4	4
Total long-term liabilities		**722**	**678**
Current liabilities			
Short-term interest-bearing liabilities	26, 28, 34, 38	5	2
Short-term loans payable to joint venture	29, 38	–	–
Accounts payable	26, 38	192	186
Other provisions	30	71	43
Other current liabilities	26, 31, 38	218	189
Total current liabilities		**486**	**420**
Total equity and liabilities		**2,234**	**1,973**

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, 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
Opening balance January 1, 2018	97	583	2	156	37	875
Components of Comprehensive Income						
Net income for the year	–	–	–	–	405	405
Other Comprehensive income	–	–	1	59	–36	24
Total comprehensive income	–	–	1	59	369	429
Dividend	–	–	–	–	–148	–148
Buy-back own shares	–	–	–	–	–146	–146
Sale of own shares to satisfy LTI 2015 options exercised	–	–	–	–	12	12
Long-term incentive plan	–	–	–	–	4	4
Closing balance December 31, 2018	97	583	3	215	128	1,026

Consolidated cash flow statement

	Note	2018	2017
Cash flow from operating activities			
Earnings before tax		515	391
Reversal of depreciation, amortisation and write-down of fixed assets		73	65
Reversal of net income from joint venture		–14	–10
Reversal of other non-cash items	33	43	5
Taxes paid		–90	–75
Cash flow from operating activities before changes in working capital		527	376
Change in working capital			
Inventories		17	–16
Current receivables		–3	–42
Current liabilities		13	42
Change in working capital		27	–16
Cash flow from operating activities		554	360
Cash flow from investing activities			
Investments in property, plant and equipment		–19	–13
Cash flow from investing activities		–19	–13
Cash flow from financing activities			
Dividend		–148	–142
Dividend received from joint venture		2	1
Buy-back of own shares		–146	–142
Selling of own shares to satisfy LTI - options exercised		12	8
New loans	34	3	177
Repayment of loans	34	–1	–177
Pension payments and other cash flows from financing activities	34	–44	–50
Cash flow from financing activities		–322	–325
Cash flow for the year		213	22
Cash and bank assets, opening balance		455	438
Exchange-rate difference in cash and bank assets		15	–5
Cash and bank assets, closing balance		683	455

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 12 March, 2019.

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

IFRS 9 – "Financial instruments"

The effective date for IFRS 9 is January 1, 2018 and has replaced 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.

Classification and measurement of financial assets and financial liabilities

As of December 31, 2017 all of the Group's financial assets were classified as "Loans- and receivables" under IAS 39, except for derivatives assets. The assets that were classified as "Loans and receivables" under IAS 39 are measured at amortised cost under IFRS 9 as they are held in a business model whose objective is to collect the contractual cash flows and because the assets only give rise to payments of principal and interest. Hence, IFRS 9 has not impacted how these assets are measured. IFRS 9 has also not impacted how the Group measures its financial liabilities. The carrying amounts of financial assets and financial liabilities as of January 1, 2018 corresponds with their carrying amounts as of December 31, 2017, see note 38.

Impairment of financial assets

IFRS 9 requires a loss allowance to be recognised for expected credit losses, while IAS 39 required 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 increased by only KSEK 65 after tax as per 1 January 2018, due to the new impairment requirements in IFRS 9. This has been reported as an adjustment against opening retained earnings as per 1 January, 2018 since Concentric used the option to not restate comparative figures.

Hedge accounting

The Group uses currency derivatives to hedge foreign exchange risk in sales. The hedges are identified as cash flow hedges. IFRS 9 has not impacted how these hedges are reported.

IFRS 15 – "Revenue from contracts with customers"

The effective date for IFRS 15 is January 1, 2018 and the standard replaced previous standards on revenue recognition in IFRS such as IAS 18 Revenue.

Sale of goods

The majority of the Group's revenue from contracts with customers are from the sale of goods. Revenue from the sales are recognised when the goods are delivered to the customer, which is when control is transferred to the customer and the performance obligation in the contract is satisfied as defined in IFRS 15. This was also how revenue from sale of goods were reported under previous accounting principles and IFRS 15 has therefore not impacted how the Group reports revenue from sale of goods.

Design and development

The Group also has some revenue that arise from design and development services. Product development creates a specialised asset that does not have an alternative use to Concentric and the Group also has an enforceable right to payment for performance completed to date. Revenue from product development is therefore recognised over time as the requirements in IFRS 15.35c are met. Revenue from sale of pre-production and off-production prototypes are recognised when control transfers to the customer (i.e. upon delivery). This is consistent with how revenue from design and development services was recognised under previous principles.

Variable consideration – prompt payment discounts

Some of the Group's facilities offer prompt payment discounts. Under previous accounting principles, the gross amount was recognised upfront and reversed against revenue if the discount was taken.

Under IFRS 15, prompt payment discounts constitute variable consideration, which mean that the outcome of the discount is estimated as part of the transaction price when revenue is first recognised (provided certain conditions are met). The effect of this change in accounting principles is very limited for the Group and promted an adjustment to opening equity of KSEK 53 as of January 1, 2018. Due to the minor impact of IFRS 15, Concentric has chosen to use the option in the standard of not restating comparative figures.

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.

IFRIC 22 do not have any material impact on the Group.

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 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. 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 will 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 will apply the so called "modified retrospective approach" when transitioning to IFRS 16. Comparatives for 2018 will therefore not be restated. The Group has furthermore opted to measure the right of use asset at an amount equal to the lease liability upon transition to IFRS 16 on January 1, 2019, and adjusted for any prepaid or accrued lease payments related to the leases. Concentric will also apply the exceptions for low value leases and short term leases in IFRS 16.

Fixed assets and financial liabilities in the balance sheet will increase by MSEK 71 per January 1, 2019 due to the implementation of IFRS 16 (excluding adjustments to the right-of-use asset due to any prepaid or accrued lease payments).

In the income statement for 2019, operating income before amortisation and depreciation will increase with MSEK 22, operating income with MSEK 1 and the income before tax will decrease with MSEK 1.

Cash flow from operating activities will increase in 2019 with MSEK 20 and financing activities will have a negative impact with MSEK 20.

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

None of the new standards, amendments and interpretations issued but not yet endorsed by the EU is expected to have any 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 reduced by the value of discounts granted and by returns. Revenue from the sale of goods are normally recognised when the goods are delivered to the customer, which is when the customer obtains control over the goods and Concentric satisfies the performance obligation in the contract with the customer.

The Group also has some revenue that arise from design and development services. Product development creates a specialised asset that does not have an alternative use to Concentric and the Group also has an enforceable right to payment for performance completed to date. Revenue from product development is therefore recognised over time as the requirements in IFRS 15.35c are met. Revenue from sale of pre-production and off-production prototypes are recognised when control transfers to the customer (i.e. upon delivery).

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

Initial measurement
Financial assets and financial liabilities are initially measured at fair value including transaction costs that are directly attributable to their acquisition or issue. However, trade receivables (that do not have a significant financing component) are measured at their transaction price as defined in IFRS 15.

Classification and subsequent measurement of financial assets
All the Group's financial assets, except for derivative assets (see separate section below), are measured at amortised cost since the assets are held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows and the contractual terms of the assets give rise only to payments of principal and interest on the principal amount outstanding. They are included in current assets, with the exception of items with are due dates more than 12 months after the balance sheet date, which are classified as fixed assets.

Classification and subsequent measurement of financial liabilities
All the Group's financial liabilities, except for derivative liabilities (see separate section below), are measured at amortised cost using the effective interest rate method. 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.

Classification of financial instrument prior to January 1, 2018
Prior to the introduction of IFRS 9 as of January 1, 2018 all financial assets (except derivative assets) were categorized as "Loans- and receivables" and measured at amortised cost. Similarly, all financial liabilities (except for derivative liabilities) were measured at amortised cost. Derivative assets were measured at fair value.

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 reclassified 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

For trade receivables and contract assets, the Group recognises a loss allowance at an amount that is equal to the expected credit losses over the lifetime of the receivable. The Group makes an individual assessment of the expected credit loss for receivables where there is objective evidence that the due amounts will not be collected in full. For other receivables, the Group makes a loss allowance for expected credit losses based on loss statistics that is regularly updated to ensure that the loss reserve is forwards looking. Receivables are reported net of the allowance for expected credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due and the cash flows that the Group expects to receive.)

Impairment of financial assets prior to January 1, 2018

Prior to the introduction of IFRS 9 in January 1, 2018 impairment of financial assets was, in accordance with IAS 39, made only if there was objective evidence of impairment.

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 2012–2018 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.

t) Hyperinflationary economy

Concentric has operations in Argentina. During the third quarter 2018, Argentina was declared a hyperinflationary economy under the criteria in IAS 29. Concentric has assessed the impact of making the adjustments required by IAS 29 and has concluded that the impact on the Group's financial statements is non-material due to the limited extent of the operations in Argentina compared with the Group as a whole. The Group continues to monitor the situation in Argentina.

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 2018, the total goodwill amounted to MSEK 620 (592). 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 223 (204) and to Europe and RoW segment amounts to MSEK 397 (388). 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 7.2% (6.7) was used for the Europe and RoW segment and 7.9% (7.6) was used for the Americas segment. This corresponds to WACC before tax of 8.5% (9.0) for Europe and RoW segment, and 10.0% (9.1) 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% (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 2018 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 67 (41) and represented 2.8% (1.9) of net sales as of December 31, 2018.

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% change in the rates assumed. Our actuaries estimate that a 0.5% 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% 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% (73) of the Group´s total estimated defined benefit obligations, fluctuations in the UK discount rate would have the greatest impact.

NOTE 4

Segments and revenue

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% of the comprehensive income of the Group as a whole. The top two customers for the Group contributed net sales in 2018 of MSEK 464 (364), or 19.3% (17.3) and MSEK 341 (337) or 14.1% (16.0) 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.

	Americas		Europe & RoW[1)]		Elims–Adjs		Group	
	2018	2017	2018	2017	2018	2017	2018	2017
Total net sales	1,202	1,075	1,600	1,379	–392	–350	2,410	2,104
External net sales	1,184	1,054	1,477	1,263	–251	–213	2,410	2,104
Operating income	215	155	312	250	2	–1	529	404
Operating margin, %	18.1	14.7	21.1	19.8	n/a	n/a	21.9	19.2
Financial income and expense	–	–	–	–	–14	–13	–14	–13
Earnings before tax	215	155	312	250	–12	–14	515	391
Assets	521	508	1,314	1,272	399	193	2,234	1,973
Liabilities	283	274	724	666	201	158	1,208	1,098
Capital employed	289	292	715	721	–2	17	1,002	1,030
Return on capital employed, %	75.9	47.7	41.7	33.9	n/a	n/a	51.3	38.0
Net investments in property, plant and equipment	2	2	24	21	–7	–10	19	13
Depreciation, amortization and write-downs	23	25	53	42	–3	–2	73	65
Number of employees, average	354	341	671	658	–70	–62	956	937

1) Including the joint venture company Alfdex AB.

Disaggregation of revenue

Segment external sales reporting by geographic location of customer	Americas		Europe & RoW[1]		Elims/Adjs		Group	
	2018	2017	2018	2017	2018	2017	2018	2017
USA	1,053	936	4	–	–	–	1,057	937
Rest of North America	31	31	12	8	–	–	43	39
South America	35	41	2	1	–	–	37	42
Germany	11	7	385	338	–	–	396	345
UK	19	13	151	79	–	–	170	92
Sweden	–	–	105	89	–	–	105	89
Rest of Europe	8	9	381	333	–	–	389	342
Asia	22	16	183	200	–	–	205	216
Other	5	1	3	1	–	–	8	2
Total Group	**1,184**	**1,054**	**1,226**	**1,049**	**–**	**–**	**2,410**	**2,104**

[1] Excluding the joint venture company Alfdex AB.

Total sales by product groups	Americas		Europe & RoW[1]		Elims/Adjs		Group	
	2018	2017	2018	2017	2018	2017	2018	2017
Concentric branded Engine products	655	573	593	510	–	–	1,248	1,083
LICOS branded Engine products	–	–	227	191	–	–	227	191
Alfdex branded Engine products	–	–	251	213	–251	–213	–	–
Total Engine products	655	573	1,071	914	–251	–213	1,475	1,274
Total Hydraulics products	529	481	406	349	–	–	935	830
Total Group	**1,184**	**1,054**	**1,477**	**1,263**	**–251**	**–213**	**2,410**	**2,104**

[1] Including the joint venture company Alfdex AB.

Revenues from contracts with customers

Total amount of revenue from contracts with customers under IFRS 15 corresponds with reported net sales for the Group. The Group does not have any performance obligations that are part of a contract that has an original expected duration of more than one year. Therefore, no information is provided concerning transaction price allocated to unsatisfied performance obligations as is permitted by IFRS 15.

Contract balances

The Group's contract balances consisted of accounts receivable and contract assets in the form of accrued income. For a specification of opening and closing balances of account receivables, see note 21. Accrued income is specified in note 22.

	2018	2017
Tangible assets by operating location		
USA	27	32
Germany	29	33
UK	42	46
South America	4	9
Asia	10	10
Total Group	**112**	**130**

	2018	2017
Intangible assets by operating location		
USA	290	279
Germany	71	74
UK	449	456
Total Group	**810**	**809**

NOTE 5

Costs distributed by type

	2018	2017
Direct material costs	1,126	1,019
Personnel costs	487	448
Depreciation and amortisation	73	65
Other operating costs, net	209	178
Total operating costs	**1,895**	**1,710**

NOTE 6

Average number of employees

	2018	2017
Women	157	147
Men	799	790
	956	**937**

NOTE 7

Salaries and other remuneration

	2018	2017
Salaries and remuneration	387	349
Pension costs	15	16
Social security costs	69	63
External cost for temporary personnel	9	13
Other personnel costs	7	7
Total personnel costs	**487**	**448**

Salaries and remuneration to the Board of Directors, CEO and site General Managers amounted to MSEK 23 (22). 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

	2018					2017				
Amounts in SEK (thousands)	Directors' fees	Annual variable remuneration	Long-term variable remuneration	Pension	Total	Directors' fees	Annual variable remuneration	Long-term variable remuneration	Pension	Total
Board of Directors										
Stefan Charette, Chairman (16/17)	–	–	–	–	–	131	–	–	–	131
Kenth Eriksson, Chairman (17/19)	615	–	–	–	615	480	–	–	–	480
Marianne Brismar	300	–	–	–	300	254	–	–	–	254
Martin Lundstedt	262	–	–	–	262	254	–	–	–	254
Anders Nielsen	332	–	–	–	332	229	–	–	–	229
Susanna Schneeberger	262	–	–	–	262	254	–	–	–	254
Martin Sköld	262	–	–	–	262	254	–	–	–	254
Claes Magnus Åkesson	357	–	–	–	357	328	–	–	–	328
Total Board of Directors	**2,390**	**–**	**–**	**–**	**2,390**	**2,184**	**–**	**–**	**–**	**2,184**

	2018					2017				
Amounts in SEK (thousands)	Basic salary /Benefits in kind	Annual variable remuneration	Long-term variable remuneration	Pension	Total	Basic salary /Benefits in kind	Annual variable remuneration	Long-term variable remuneration	Pension	Total
President and CEO										
David Woolley	5,307	3,261	2,569	–	11,137	4,991	3,794	5,105	–	13,890
Other senior executives[1]	11,867	4,361	1,636	644	18,508	13,000	3,170	1,484	784	18,438
Total	**17,174**	**7,622**	**4,205**	**644**	**29,645**	**17,991**	**6,964**	**6,589**	**784**	**32,328**

[1] Other senior executives consisted of 5 (6) people, of whom – (1) is a woman.

Employee stock options	LTI 2018	LTI 2017	LTI 2016	LTI 2015
President and CEO	61,480	68,800	102,240	85,360
Other senior executives	38,860	51,840	67,160	38,240
Total stock options	**100,340**	**120,640**	**169,400**	**123,600**

Employee stock options	50,170	60,320	84,700	61,800
Performance stock option 1	25,085	30,160	42,350	30,900
Performance stock option 2	25,085	30,160	42,350	30,900
Total stock options (=Number of shares)	**100,340**	**120,640**	**169,400**	**123,600**

Criteria for performance stock option 1	2020 EPS ≥ SEK 10.00	2019 EPS ≥ SEK 8.00	2018 EPS ≥ SEK 10.00	2017 EPS ≥ SEK 7.50[1]
Criteria for performance stock option 2	2018–20 Average ROE ≥ 25%	2017–19 Average ROE ≥ 25%	2016–18 Average ROE ≥ 25%	2015–17 Average ROE ≥ 25%[1]
Number of senior executives	**6**	**5**	**4**	**3**
Conditioned by own investment of shares	**30,580**	**29,380**	**41,350**	**30,900**

Changes in number of stock options	2018	2017	2016	2015
Opening balance, 1 January	421,732	412,692	340,880	403,320
Granted	104,740	124,040	187,172	123,600
Options exercised	–123,600	–101,200	–115,360	–157,760
Lapsed LTI 2013	–	–	–	–14,280
Lapsed LTI 2014	–	–720	–	–14,000
Lapsed LTI 2016	–4,692	–13,080	–	–
Lapsed LTI 2017	–3,400	–	–	–
Lapsed LTI 2018	–4,400	–	–	–
Closing balance	**390,380**	**421,732**	**412,692**	**340,880**

Average exercise price, SEK	131.30	110.80	79.75	96.55
Average price per option, SEK	24.60	29.28	25.73	24.88
Risk free interest rate, %	0.00	0.00	0.00	0.00
Expected volatility[2], %	28.00	29.00	30.00	28.00
Assumed dividend during 3 year period, SEK	11.25	11.35	10.14	10.92
Average share price at grant date, SEK	142.40	123.10	103.50	115.50
Lock up duration of scheme, years	3	3	3	3
Personnel cost recognised in year 2018, MSEK	1.0	2.2	2.0	0.9
Annual cost of scheme, MSEK	1.6	2.2	2.0	2.1
Total cost of scheme over 3 year vesting period, MSEK	**4.9**	**6.6**	**6.0**	**6.4**

[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

	2018	2017
KPMG		
Audit assignments	3	3
Other assignments	–	–
	3	**3**

NOTE 10
Depreciation and Amortisation

	2018	2017
Cost of goods sold	32	34
Administrative costs	2	2
Product development costs	2	2
Other operating expenses	37	36
Reversal of impairment of tangible assets	–	–9
	73	**65**

NOTE 11
Other operating income and expenses

	2018	2017
Other operating income		
Revenue from tooling etc	1	6
Income from royalty from joint venture	53	46
Reversal of impairment of tangible assets	–	9
Insurance claim settlement	–	27
Export incentives	5	5
Gain on sale of fixed assets	1	–
Other income	2	–
	62	**93**
Other operating expenses		
Amortisation of acquisition related surplus values	37	36
UK pension benefit, equalisation (GMP)	25	–
End of Customer contract provisions	4	–
Write off of tax input credit	–	2
Warranty claim settlement	–	27
	66	**65**

NOTE 12
Financial items – Net

	2018	2017
Financial income		
Interest income, external	11	10
Foreign exchange rate gains, net	–	1
Total Financial income	**11**	**11**
Financial expenses		
Interest expenses, external	–3	–3
Pension financial expenses	–13	–16
Foreign exchange rate losses, net	–4	–
Other financial items, external	–5	–5
Total Financial expenses	**–25**	**–24**
Financial items – net	–14	–13

NOTE 13
Taxes

	2018	2017
Current tax	–128	–81
Deferred tax	18	–7
Total income tax	**–110**	**–88**

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	2018	2017
Earnings before tax (MSEK)	515	391
Tax at applicable tax rate in Sweden, %	–22	–22
Effect of different tax rates in foreign countries of operation, %	–2	–9
Effect of changes in tax rates, %	–	–2
Non-tax deductible expenses , %	–1	–
Non-taxable income, %	5	8
Tax attributable to prior years, %	–3	–
Utilisation of previously unrecognised tax losses, %	1	–
Other permanent differences, %	–	1
Other timing differences, %	1	2
Reported effective tax rate, %	–21	–22

NOTE 14
Earnings per share

	2018	2017
Net income for the year, KSEK	405,112	303,591
Basic weighted average number of shares	39,321,659	40,237,988
Adjustments for the option programmes	134,015	135,572
Diluted weighted average no of shares	**39,455,674**	**40,373,560**
Basic earnings per share, SEK	10.30	7.54
Diluted earnings per share, SEK	10.27	7.52

NOTE 15
Intangible fixed assets

	Goodwill	Other intangible assets[1]	Capitalised development costs	Total
Acquisition value				
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 2018	597	559	34	1,190
Balance at 1 January 2017	597	559	34	1,190
Investments	–	–	–	–
Sales/discards/reclassifications	–	–	–	–
Effect of movements in exchange rates	28	26	–	54
Balance at 31 December 2018	625	585	34	1,244
Accumulated depreciation and amortisation, including write-downs[2]				
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 2018	5	342	34	381
Balance at 1 January 2017	5	342	34	381
Depreciation and amortisation	–	37	–	37
Sales/discards/reclassifications	–	–	–	–
Effect of movements in exchange rates	–	16	–	16
Balance at 31 December 2018	5	395	34	434
Carrying amounts				
As at 31 December 2017	**592**	**217**	**–**	**809**
As at 31 December 2018	**620**	**190**	**–**	**810**

[1] The acquisition value of other intangible assets of MSEK 585 (559) relates to Customer relationships and contracts of MSEK 343 (328), Brand MSEK 120 (114), Technology MSEK 98 (93) and other intangible assets MSEK 24 (24).
[2] Accumulated write-downs amounted to MSEK 32 (32).

NOTE 16

Tangible fixed assets

	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 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
Balance at 1 January 2018	100	23	747	278	13	1,161
Investments	1	–	11	4	3	19
Sales/discards/reclassifications	–4	–1	2	–1	–4	–8
Effect of movements in exchange rates	6	1	35	11	–1	52
Balance at 31 December 2018	103	23	795	292	11	1,224
Accumulated depreciation and amortisation, including write-downs[1]						
Balance at 1 January 2017	85	11	680	271	–	1,047
Depreciation and amortisation, including 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
Balance at 1 January 2018	81	13	672	265	–	1,031
Depreciation and amortisation, including reversal of write-downs[2]	5	1	25	5	–	36
Sales/discards/reclassifications	–1	–2	–	–2	–	–5
Effect of movements in exchange rates	6	1	32	11	–	50
Balance at 31 December 2018	91	13	729	279	–	1,112
Carrying amounts						
As at 31 December 2017	**19**	**10**	**75**	**13**	**13**	**130**
As at 31 December 2018	**12**	**10**	**66**	**13**	**11**	**112**

[1] Accumulated write-downs amounted to MSEK nil (nil).
[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	
	2018	2017	2018	2017	2018	2017
up to 1 year	15	18	3	3	18	21
2–5 years	35	41	7	5	42	46
more than 5 years	18	4	–	–	18	4
Total	**68**	**63**	**10**	**8**	**78**	**71**

Total leasing cost charged to income statement during 2018 totaled MSEK 24 (22). 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.

	2018	2017
At 1 January	62	93
Income statement charge (note 13)	18	–7
Tax charged directly to OCI	26	–32
Re-classification to current taxes	–1	8
Exchange differences	3	–
At 31 December	**108**	**62**

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

2018	**Assets**	**Liabilities**	**Net**
Tax loss carry-forwards	16	–	16
Tangible fixed assets	–	–4	–4
Intangible assets	–	–	–
Provisions	21	–	21
Pension and similar obligations	109	–	109
Acquisition related surplus values	–	–41	–41
Other	8	–1	7
Netting	– 22	22	–
Net deferred tax receivables/tax liabilities	**132**	**–24**	**108**

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	92	–	110
Acquisition related surplus values	–	–58	–58
Other	5	–	–13
Netting	–33	33	–
Net deferred tax receivables/tax liabilities	**92**	**–30**	**62**

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 15 (27).

NOTE 19
Shares of net assets in joint venture

Company name	Corp. reg. no.	Reg'd office	Participations	%	2018	2017
Alfdex AB	556647–7278	Landskrona	50,000	50%	39	27

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.

	2018	2017
Income statement		
Net Sales	502	426
Cost of goods sold[1)]	–412	–348
Gross income	**90**	**78**
Operating expenses[1)]	–52	–52
Operating income	**38**	**26**
Financial items – net	–	–
Earnings before tax	**38**	**26**
Taxes	–10	–7
Net income for the year	**28**	**19**
[1)] Depreciation and amortisation in Income statement	–5	–4

	2018	2017
Movement in shares of net assets in joint venture		
Share of net assets, opening balance	**27**	**19**
Share of net income in joint venture	14	10
Dividend	–2	–1
Remeasurement loss, pensions	–	–1
Share of net assets, closing balance	**39**	**27**

	2018	2017
Balance sheet		
Fixed assets	31	19
Current assets	124	111
Cash and bank	35	42
Total assets	**190**	**172**
Equity	77	54
Pensions and similar obligations	8	7
Deferred tax liabilities	5	3
Current liabilities	100	108
Total equity and liabilities	**190**	**172**

NOTE 20
Inventories

	2018	2017
Raw materials	116	124
Semi-manufactured products	20	23
Finished products	33	32
	169	**179**

NOTE 21
Accounts receivable

	2018	2017
Accounts receivable, gross	216	184
Provision for doubtful receivables	–1	–1
Accounts receivable, net	**215**	**183**
Current receivable	178	160
Overdue receivable:		
1–30 days	27	21
31–60 days	4	1
> 60 days	6	1
Sum of overdue receivable	37	23
Accounts receivable, net	**215**	**183**
Provision for doubtful receivable		
Provision on January 1	1	1
Change in provision for anticipated losses, net	–	–
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

	2018	2017
VAT	14	20
Tax receivables	22	19
Prepaid expenses and accrued income		
Rents and insurance	6	6
Accrued income	3	5
Other prepaid expenses	9	10
Derivative instruments	3	1
Other current receivables	12	25
	69	**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 36 (39) are not included in Note 38 regarding financial assets.

NOTE 23
Cash and cash equivalents

	2018	2017
Bank accounts and cash	470	322
Deposits	213	133
Cash and cash equivalents	**683**	**455**

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 1,026 (875), resulting in a gearing ratio of 1% (21).

Cash dividend decided by the Annual General Meeting 2018 was SEK 3.75 (3.50) per share or total of MSEK 148.3 (141.7). 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 4.25 (3.75) per share for the financial year 2018. This corresponds to an ordinary dividend of SEK 3.00 (2.50), which equates to around 29% (33) of the earnings per share, plus a special dividend of SEK 1.25 (1.25) 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 2018 Concentric AB sold 123,600 (101,200) of its own shares, representing 0.3% (0.2) of the share capital of the Company.

During 2018 Concentric AB bought back 1,033,529 (1,040,691) of its own shares, representing 2.6% (2.5) of the shares of the Company. The total number of holdings of its own shares at year-end 2018 was 1,398,536 (1,329,507), which represented 3.5% (3.3) of the total number of shares of the Company. Of the total number of own holdings have 188,020 (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 617 (590).

NOTE 25

Pensions and similar obligations

	2018	2017
Defined benefit plans	514	462

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2018	2017	2018	2017	2018	2017
Balance at 1 January	**2,067**	**2,057**	**–1,605**	**–1,497**	**462**	**560**
Included in Income statement:						
Current service cost	7	8	–	–	7	8
UK pension benefit, equalisation (GMP)	25	–	–	–	25	–
Interest Cost	56	58	– 44	–43	12	15
	88	**66**	**– 44**	**–43**	**44**	**23**
Included in Other Comprehensive Income:						
Remeasurement loss (gain)	– 94	61	138	–119	44	– 58
Effect of movements in exchange rates	71	–37	– 52	26	19	–11
	– 23	**24**	**86**	**–93**	**63**	**–69**
Other:						
Contributions paid by the employer	–	–	– 53	–51	– 53	–51
Benefits paid	– 91	–80	89	79	– 2	–1
	– 91	–80	36	28	– 55	–52
Balance at 31 December	**2,041**	**2,067**	**– 1,527**	**–1,605**	**514**	**462**
Represented by plans in:						
Sweden	46	45	–	–	46	45
Germany	200	194	– 91	–86	109	108
UK	1,466	1,507	– 1,216	–1,304	250	203
USA	329	321	– 220	–215	109	106
Balance at 31 December	**2,041**	**2,067**	**– 1,527**	**–1,605**	**514**	**462**

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, Great Britain and USA. The pensions under these plans are based mainly on final salary. Contribution-based plans are also found in these countries. Net remeasurement losses on pension obligations and planned assets were MSEK 44 (58 gains) during 2018.

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 totaled MSEK 44 (43), while the actual return was MSEK 56 (58). The plan assets consist primarily of shares, interest-bearing securities and shares in mutual funds.

Sweden pension plans

There are 3 different plans in Sweden, of which 2 minor plans correspond to 11% (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 2018 the pension obligation amounted to MSEK 46 (45), corresponding to 2% (2) of the Group's total obligations.

The average duration of the defined benefit obligation at the period ending 31 December 2018 is 18 (19) years.

The best estimate of pensions to be paid by the Group for the year commencing 1 January 2019 is MSEK 1 (1).

Germany pension plan

This pension plan is a so-called direct pension promise according to the German Company Pensions Act. As such, it is a defined benefit plan according to IAS 19. 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. From 31 March 2017, the plan has been closed to further service accrual.

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 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.

No curtailment gains have been recognised in 2018. There were no curtailment gains arising from the notice to close the plan to further service accrual.

As of 31 December 2018 the pension obligation amounted to MSEK 200 (194), corresponding to 10% (10) of the Group's total obligations. The fair value of the plan assets amounted to MSEK 91 (89). Net defined benefit liability amounted to MSEK 109 (108).

The average duration of the defined benefit obligation at the period ending 31 December 2018 is 20 (20) years.

The best estimate of contributions to be paid by the Group to the plan for the year commencing 1 January 2019 is MSEK 5 (5).

UK pension plans

The Group sponsors two plans, which are funded and provide benefits which are 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.

On 26 October 2018, the High Court of Justice of England and Wales issued a judgment in a claim between Lloyds Banking Group Pension Trustees Limited (the claimant) and Lloyds Bank plc (defendant) that UK pension schemes should equalise pension benefits for men and women for the calculation of their guaranteed minimum pension liability (GMP). The judgment concluded that the claimant has a duty to amend their pension schemes to equalise benefits and provided comments on the method to be adopted to equalise the benefits. This court ruling impacts the majority of companies with a UK defined benefit pension plan that was in existence before 1997. For the UK Pension Scheme an estimate was made of the impact of equalisation which increased the pension liabilities by MSEK 25 with a corresponding charge to other operating costs in the income statement.

As of 31 December 2018 the pension obligation amounted to MSEK 1,466 (1,507), corresponding to 72% (73) of the Group's total obligations. The fair value of the plan assets amounted to MSEK 1,216 (1,304). Net defined benefit liability amounted to MSEK 250 (203).

The average duration of the defined benefit obligation at the period ending 31 December 2018 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 2019 is MSEK 26 (26).

USA pension plans

During 2018 the Group sponsored 2 (2) different plans in USA which comprised both pensions and other post-retirement benefits.

The Retiree Health Plan was closed, effective 31 December 2016.

The Defined Benefit Plan is equivalent to 99% (99) of the total pension liability and the SERP-plan (Supplementary Executive Retirement Plan) corresponds to 1% (1). Both plans are frozen in the sense that no new participants are allowed to enter the plans.

The benefits under the Pension Plan 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 Plan design controls the growth of benefit obligations very carefully. The number of participants in the Plan has been declining since 2006 as beneficiaries pass away and some active participants leave the Company.

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

The defined benefit Pension 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 of the Plan. Virtually all investments are made in highly diversified, passively managed mutual funds. The investment manager consults every month with the Plan 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.

No curtailment gains have been recognised in 2018. There have been no other amendments or settlements in the plans during the accounting period.

As of 31 December 2018 the pension obligation amounted to MSEK 329 (321), corresponding to 16% (16) of the Group's total obligations. The fair value of the plan assets amounted to MSEK 220 (215). Net defined benefit liability amounted to MSEK 109 (106).

The average duration of the defined benefit obligation at the period ending 31 December 2018 is 14 (14) years.

The best estimate of contributions to be paid by the Group to the plans for the year commencing 1 January 2019 is MSEK 13 (11).

Total pension costs	**2018**	**2017**
Pensions vested during the period	7	8
Interest on obligations	56	58
Calculated return on plan assets	–44	–43
Settlement	25	–
Pension costs, defined benefit plans	**44**	**23**
Pension costs, defined-contribution plans	8	7
Total pension costs	**52**	**30**

					Total	
DBO remeasurement losses (gain) arising from	**Sweden**	**Germany**	**UK**	**USA**	**2018**	**2017**
Experience adjustment	–1	–	5	–	4	–10
Demographic assumptions	–	2	–10	–	–8	–20
Financial assumptions	1	– 4	– 66	–22	–91	91
Total DBO remeasurement losses (gains)	–	–2	–71	–22	–94	61

	Defined Benefit Obligation				**Total**	
Members, %	**Sweden**	**Germany**	**UK**	**USA**	**2018**	**2017**
Active members	2	54	–	14	8	7
Deferred members	65	15	52	45	47	49
Pensioners	33	31	48	41	45	44

	Fair value of plan assets				**Total**	
Instruments	**Sweden**	**Germany**	**UK**	**USA**	**2018**	**2017**
Equity instruments[1]	–	–	675	134	809	898
Debt instruments[1]	–	–	249	71	320	279
Property[1]	–	–	86	12	98	122
Cash and cash equivalents	–	–	12	2	14	12
Sum	–	–	**1,022**	**219**	**1,241**	**1,311**
Insurance policies	–	91	194	1	286	294
Total	–	**91**	**1,216**	**220**	**1,527**	**1,605**

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

Actuarial assumptions 2018, %	**Sweden**	**Germany**	**UK**	**USA**
Discount rate	2.35	1.95	2.80	4.25
Recognised salary increase	3.00	2.00	n/a	n/a
Recognised inflation	2.00	1.85	2.20	2.00
Turnover, personnel	2.00	1.60	n/a	n/a

Actuarial assumptions 2017, %	**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

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 2018	Sweden		Germany		UK		USA	
Defined Benefit Obligation	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
Discount rate (0.5% movement)	–3.6	4.1	–17.6	20.4	–100.8	111.6	–20.0	22.1
Future salary growth (0.5% movement)	0.3	–0.3	4.7	–4.4	n/a	n/a	n/a	n/a
Future pension growth (0.5% movement)	3.8	–3.4	13.6	–12.3	32.4	–16.4	n/a	n/a
Future mortality (+/– 1 year)	1.8	–1.8	8.9	–9.0	51.8	–52.1	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	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Term loan	–	–	–	–	175	175	–	–	175	175
Loans related to finance leases	–	–	–	–	1	1	–	–	1	1
Other long-term liabilities	–	–	1	1	2	2	1	1	4	4
Short-term interest-bearing liabilities	5	2	–	–	–	–	–	–	5	2
Short-term loans payable to joint venture	–	–	–	–	–	–	–	–	–	–
Derivative liabilities	–	–	–	–	–	–	–	–	–	–
Accounts payable	192	186	–	–	–	–	–	–	192	186
Other current liabilities	121	135	–	–	–	–	–	–	121	135
Total financial liabilities	**318**	**323**	**1**	**1**	**178**	**178**	**1**	**1**	**498**	**503**
Expected total future interest payments	1	1	1	1	8	10	–	–	10	12

NOTE 27

Long-term interest-bearing liabilities

	2018	2017
Term loan	175	175
Loans related to finance leases	1	1
	176	**176**

For further details see note 15 for the Parent Company.

NOTE 28

Short-term interest-bearing liabilities

	2018	2017
Other short-term loans	5	2
	5	**2**

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

	2018	2017
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, 2018	**3**	**3**	**6**
Provisions	–	1	1
Utilisation of provision	–	–2	–2
Exchange rate differences	–1	–	–1
Closing balance December 31, 2018	**2**	**2**	**4**

	Warranty reserves	Restructuring reserves	Total short-term provisions
Opening balance January 1, 2018	**41**	**2**	**43**
Provisions	30	2	32
Utilisation of provision	–5	–	–5
Exchange rate differences	1	–	1
Closing balance December 31, 2018	**67**	**4**	**71**

NOTE 31
Other liabilities

	2018	2017
Liabilities for VAT and social security costs	1	1
Tax liabilities	96	53
Derivative instruments	–	–
Accrued expenses:		
Personnel costs	44	46
Other accrued expenses	67	67
Other current liabilities	10	22
	218	**189**

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 97 (54) are not included in Note 26 and 37 related to financial liabilities.

NOTE 32
Pledged assets and contingent liabilities

	2018	2017
Contingent liabilities	1	1

NOTE 33
Reversal of other non-cash items

	2018	2017
Reversal of financial pension expenses	13	16
Reversal of UK pension benefit, equalisation	25	–
Provision to/Release of restructuring reserve	2	– 15
Reversal of cost for LTI-schemes	4	4
Other	–1	–
	43	**5**

NOTE 34
Reconciliation of interest-bearing liabilities from financing activities

	Loans	Pension[1)]	Total
Opening balance January 1, 2018	178	462	640
Cash flow	3	–55	–52
Other non-cash items	–	107	107
Closing balance December 31, 2018	**181**	**514**	**695**

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

NOTE 35
Investments in subsidiaries

There were no acquisitions or divestments during 2018.

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 seven 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 IFRS 9 (and in IAS39 for 2017). 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 2018	Derivatives used for hedging 2017	Financial assets measured at amortised cost 2018	Loans and receivables 2017	Total 2018	Total 2017
Financial assets at fair value							
Other current receivables							
– Foreign currency derivatives	22	3	1	–	–	3	1
Financial assets not at fair value							
Long-term receivables		–	–	5	6	5	6
Accounts receivable	21	–	–	215	183	215	183
Short-term loans receivable from joint venture	29	–	–	–	6	–	6
Other current receivables	22	–	–	30	46	30	46
Cash and cash equivalents	23	–	–	683	455	683	455
Total financial assets		**3**	**1**	**933**	**696**	**936**	**697**

	Note	Derivatives used for hedging 2018	Derivatives used for hedging 2017	Financial liabilities at amortised cost 2018	Financial liabilities at amortised cost 2017	Total 2018	Total 2017
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	176	176	176
Other long-term liabilities		–	–	4	4	4	4
Short-term interest-bearing liabilities	28	–	–	5	2	5	2
Short-term loans payable to joint venture	29	–	–	–	–	–	–
Accounts payable	26	–	–	192	186	192	186
Other current liabilities	31	–	–	121	135	121	135
Total financial liabilities		**–**	**–**	**498**	**503**	**498**	**503**

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.

Hedge accounting is applied for the derivatives that are used to foreign currency transactions. Derivative assets are reported under "Other current receivables" (note 22) and derivative liabilities are reported under "Other current liabilities" (note 31). During the reporting period an amount of 1.1 MSEK was reclassified from the hedging reserve and included in finance net and an amount of 1.7 MSEK was reclassified and included in Cost of goods sold.

Parent Company

Parent Company income statement

	Note	2018	2017
Net sales	2	57	50
Operating costs	2, 3, 4	–20	–20
Other operating income	2	–	27
Other operating costs	2	–	–27
Operating income		**37**	**30**
Income from shares in subsidiaries	5	5	747
Income from shares in joint venture	5	2	1
Interest income and similar items	5	3	66
Interest expenses and similar items	5	–99	–7
Financial items – net		**–89**	**807**
Earnings before tax		**–52**	**837**
Taxes	6	11	–21
Net income for the year		**–41**	**816**

Statement of comprehensive income in Parent Company

	2018	2017
Net income for the year	–41	816
Other comprehensive income	–	–
Total comprehensive income	**–41**	**816**

Parent Company balance sheet

	Note	2018	2017
ASSETS			
Shares in subsidiaries	7	3,178	3,175
Shares in joint venture	8	10	10
Long-term loans receivable from subsidiaries	9	6	9
Deferred tax assets	6	16	3
Total financial fixed assets		**3,210**	**3,197**
Other current receivables	10	4	5
Short-term loans receivable from joint ventures		–	6
Short-term loans receivable from subsidiaries		144	142
Cash and cash equivalents	11	433	228
Total current assets		**581**	**381**
Total assets		**3,791**	**3,578**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share Capital	12	97	97
Total restricted equity		**97**	**97**
Retained earnings		1,388	854
Total comprehensive income		–41	816
Total unrestricted equity	**21**	**1,347**	**1,670**
Total Shareholders' equity		**1,444**	**1,767**
Pensions and similar obligations	13	18	18
Long-term interest-bearing liabilities	14, 15	175	175
Long-term loans payable to subsidiaries	14	2,131	1,597
Total long-term liabilities		**2,324**	**1,790**
Accounts payable	14	1	–
Short-term loans payable to subsidiaries	14	14	17
Other current liabilities	14, 16	8	4
Total current liabilities		**23**	**21**
Total equity and liabilities		**3,791**	**3,578**

Changes in shareholders' equity in Parent Company

	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**

	Share capital	Retained earnings	Total equity
Opening balance at January 1, 2018	**97**	**1,670**	**1,767**
Net income for the year	–	–41	–41
Other comprehensive income	–	–	–
Total comprehensive income for the year	**–**	**–41**	**–41**
Transactions with shareholders			
Dividend	–	–148	–148
Sale of own shares to satisfy LTI 2015 options exercised	–	12	12
Buy-back own shares	–	–146	–146
Total transactions with shareholders	**–**	**–282**	**–282**
Closing balance at December 31, 2018	**97**	**1,347**	**1,444**

Parent Company cash flow statement

	Note	2018	2017
Cash flow from operating activities			
Earnings before tax		–52	837
Reversal of non-cash items	18	86	–807
Cash flow from operating activities before changes in working capital		**34**	**30**
Change in working capital			
Current receivables		3	–7
Current liabilities		8	–1
Change in working capital		**11**	**–8**
Cash flow from operating activities		**45**	**22**
Cash flow from investing activities			
Long-term loan to subsidiaries	19	–1	–3
Investments in subsidiaries	19	–	–
Cash flow from investing activities		**–1**	**–3**
Cash flow from financing activities			
Dividend		–148	–142
Buy-back own shares		–146	–142
Sale of own shares		12	8
New loans received	20	–	175
Repayment of loans	20	–	–176
New loans from subsidiaries	20	443	237
Cash flow from financing activities		**161**	**–40**
Cash flow for the period		**205**	**–21**
Cash and bank assets, opening balance		**228**	**249**
Cash and bank assets, closing balance		**433**	**228**

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, 2018 have had a significant impact on the Parent Company´s Income statement or Balance sheet. RFR 2 has been changed due to the introduction of IFRS 9, However, the changes in RFR 2 relating to financial instruments has not had any material impact on the Parent Company. IFRS 15 has also not had any material impact on the Parent Company. Furthermore, IFRS 16 will not impact the Parent Company as RFR 2 allows for all leases to be reported as operating leases in the legal entity.

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

IFRS 9 is not applied in the Parent Company as allowed in RFR 2. 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.

e) 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 and other operating income

Inter-company transactions/Related party transactions

All of the Parent Company's net sales, MSEK 57 (50) pertained to subsidiaries and associated companies, while purchases from subsidiaries amounted to MSEK 5 (5). The sales relates mostly to royalties and recharges.

All transactions in the Parent Company with related parties occur on commercial market terms. See also note 36 for the Group.

Insurance compensation

During 2017, the Company received insurance compensation of MSEK 27 for a customer claim. The same amount was also paid to the customer.

NOTE 3

Auditing fees

	2018	2017
Audit assignments, KPMG	1	1
	1	**1**

NOTE 4

Salaries and other remuneration

Amounts in SEK (thousands)	2018	2017
Salaries and remuneration	3,537	3,677
of which Board of Directors	*2,390*	*2,184*
Pension costs	429	249
Social security costs	1,133	1,116
Other personnel cost	142	121
Total personnel costs	**5,241**	**5,163**

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 1 (2).

The CEO is employed by Concentric Pumps Ltd. 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 4,925 (4,719).

Provision according to Tryggandelagen was KSEK 248 (27). See also Note 13, Pensions.

NOTE 5
Financial items – Net

	2018	2017
Income from shares in subsidiaries		
Group contribution from subsidiaries	5	5
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
	5	**747**
Income from shares in joint venture		
Dividend from Alfdex AB	2	1
	2	**1**
Interest income and similar items		
Interest income, external	1	–
Interest income from subsidiaries	2	2
Foreign exchange rate gains	–	64
	3	**66**
Interest expenses and similar items		
Interest expenses, external	–2	–2
Interest expenses to subsidiaries	–8	–1
Foreign exchange rate losses	–86	–
Pension financial expenses	–1	–1
Other financial items, external	–2	–3
	–99	**–7**
Financial items – net	**–89**	**807**

NOTE 6
Taxes

	2018	2017
Current tax	–	–
Deferred tax	11	–21
Total income tax	**11**	**–21**
Reconciliation of effective tax rate		
Earnings before tax	–52	837
Tax at applicable tax rate, %	21	–22
Non-taxable dividend from subsidiaries and associated companies, %	–	41
Non-tax deductible write-downs in subsidiaries, %	–	–22
Non-tax deductible expenses, %	–	–
Reported effective tax rate, %	**21**	**–3**
Total deferred tax assets related to tax loss carried forward	**16**	**3**

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 2018 amounted to MSEK 16 (3).

NOTE 7
Shares in subsidiaries

Company name	Corp, Reg. No.	Reg'd office	Participations	%	2018	2017
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	41	38
Concentric US Finance 2 Ltd		UK	100	100	–	–
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	1,559
Concentric SAS		France	10	100	–	–
Concentric Korea LLC		South Korea	12,000	100	–	–
Concentric Srl		Italy	10,000	100	–	–
					3,178	**3,175**

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	2018	2017
Opening balance, acquisition value	3,998	2,439
Concentric Innovations AB	–	1,559
Concentric Argentina Ltd	3	–
Closing balance, acquisition value	**4,001**	**3,998**
Opening balance, write-downs	–823	– 6
Concentric US Finance 2 Ltd.	–	– 817
Closing balance, write-downs	–823	–823
Closing balance, carrying amount	**3,178**	**3,175**

The above changes for 2017 relate to a Group reorganisation.

NOTE 8
Shares in joint venture

Company name	Corp, Reg. No	Reg'd office	Participations	%	2018	2017
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% 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 2018 is MSEK 14 (10) and share of equity per year-end 2018 is MSEK 39 (27). See also Note 19 for the Group.

NOTE 9
Long-term loans receivable from subsidiaries

	2018	2017
Total loans	6	9
of which reported as short-term loans	–	–
Long-term loans	**6**	**9**

The loans relate primarily to USD-loans amounting to 593,000 (930,000). Maturity date 31 July 2019. New USD-loans during the year amounted to 53,000 and USD-loans amounted to 390,000 have been converted to investments in subsidiaries, through a shareholders contribution.

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 8.2% (7.1) and on the EUR-loans 1.5% (1.5) as of 31 December 2018.

Average rates during the year on the EUR-loans 1.5% (1.5) and on the USD-loan 7.5% (6.9).

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

NOTE 10
Other current receivables

	2018	2017
Prepaid insurance premiums	1	1
Prepaid interest costs	2	3
Other prepaid expenses	1	1
	4	**5**

NOTE 11
Cash and cash equivalents

	2018	2017
Bank accounts and cash	433	228

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, 2017	41,570,600	2.34	97,275,204
Retirement of repurchased own shares April 10, 2017	–698,600	2.34	–1,634,724
Bonus share issue April 10, 2017			1,634,880
Closing balance December 31, 2017	**40,872,000**	**2.38**	**97,275,360**
Retirement of repurchased own shares May 16, 2018	–840,900	2.38	–2,001,342
Bonus share issue May 16, 2018	–	–	2,001,555
Closing balance December 31, 2018	**40,031,100**	**2.43**	**97,275,573**
Number of outstanding shares:			
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**	**–**	**–**
Number of registered shares December 31, 2018	40,031,100	–	–
Number of own shares December 31, 2018	–1,398,536	–	–
Number of outstanding shares December 31, 2018	**38,632,564**	**–**	**–**

	2018	2017
Number of average outstanding shares	39,321,660	40,237,987
Number of shares adjusted for ongoing option programs	134,015	135,572
Number of average outstanding shares, after dilution	**39,455,675**	**40,373,559**

The cash dividend decided by the Annual General Meeting 2018 was SEK 3.75 (3.50) per share or total of MSEK 148.3 (141.7). The AGM 2018 also resolved to retire 840,900 (698,600) of the Company´s own repurchased shares. During 2018 Concentric AB sold 123,600 (101,200) of its own shares, representing 0.3% (0.2) of the shares of the Company.

During 2018 Concentric AB bought back 1,033,529 (1,040,691) of its own shares, representing 2.6% (2.5) of the shares of the Company. The total number of holdings of its own shares at year-end 2018 was 1,398,536 (1,329,507), which represented 3.5% (3.3) of the total number of shares of the Company. Of the total number of own holdings have 188,020 (93,000) shares been transferred to an Employee Share Ownership Trust.

Annual General Meeting 2015–2018 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

	2018	2017
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.

	2018	2017
Opening balance, 1 January	**18**	**18**
Provision according to Tryggandelagen, Personnel cost	–	–
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	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Pensions and similar obligations	–	–	–	–	–	–	18	18	18	18
Term loan	–	–	–	–	175	175	–	–	175	175
Long-term loans payable to subsidiaries	–	–	–	–	–	–	2,131	1,597	2,131	1,597
Short-term loans payable to subsidiaries	14	17	–	–	–	–	–	–	14	17
Accounts payable and other current liabilities	7	3	–	–	–	–	–	–	7	3
Total financial liabilities	**21**	**20**	**–**	**–**	**175**	**175**	**2,149**	**1,615**	**2,345**	**1,810**
Expected total future interest payments	1	1	1	1	8	10	–	–	10	12

NOTE 15
Long-term interest-bearing liabilities

	2018	2017
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 616), to replace the existing undrawn credit facility in the same amount which was due to expire.

The interest rate on the Term loan was 1.15% (1.50) as of 31 December 2018. The average interest rate on the liability during 2018 was 1.15% (1.52).

Available unused amount on credit facilities at year-end was EUR 60m (EUR 60m), or about MSEK 617 (590).

NOTE 16
Other current liabilities

	2018	2017
Accrued interest cost	–	–
Accrued audit fee	1	1
Liabilities for own shares	3	–
VAT	1	1
Other accrued expenses	3	2
	8	**4**

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

NOTE 17
Contingent liabilities

	2018	2017
General collateral guarantee for subsidiaries		
Loan	49	46
Operational leasing commitment	53	46
	102	**92**

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

	2018	2017
Financial exchange rate differences	86	–64
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
	86	**–807**

NOTE 19

Investments in subsidiaries

	2018	2017
Long-term loan to subsidiaries	–1	–
Investments in Concentric Argentina Ltd	–	–
Net investments	**–1**	**–**

Concentric Argentina Limited was formed in 2015 for the investment in Chivilcoy, Argentina. The acquisition value amounted to MSEK 19. During 2016 a capital contribution of MSEK 19 was made and in 2018 an additional capital contribution of MSEK 3 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, 2018	175	1,597	1,772
Cash flow	–	443	443
Other non-cash items	–	91	91
Closing balance, December 31, 2018	**175**	**2,131**	**2,306**

NOTE 21

Proposed appropriation of earnings

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

Amounts in KSEK	
Profit brought forward	1,387,084
Net income for the year	–40,858
Total	**1,346,226**

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

Amounts in KSEK	
Dividend of 4.25 per share to the shareholders	164,188
Carried forward	1,182,038
Total	**1,346,226**

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 12 March, 2019

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 12 March, 2019
KPMG AB

Anders Malmeby
Authorised Public Accountant

Auditor's report

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 2018, except for the corporate governance statement on pages 48–59 and the sustainability report on pages 36–43 and 112–119. The annual accounts and consolidated accounts of the Company are included on pages 62–107 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 2018 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 2018 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 48–59 and the sustainability report on pages 36–43 and 112–119. 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 95 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 judgements 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 86 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 in the US and the UK
See disclosure and accounting principles provided within Group notes 2(o), 3 and 25 on pages 79, 81 and 91–94 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 for the US and the UK was MSEK 109 and MSEK 250 respectively. 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 1–47, 60–61 and 112–125. 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 2018 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 48–59 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 36–43 and 112–119, 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 3 may 2018. KPMG AB or auditors operating at KPMG AB have been the Company's auditor since 2012.

Stockholm 12 March, 2019
KPMG AB
Anders Malmeby
Authorised Public Accountant

Sustainability reporting – GRI

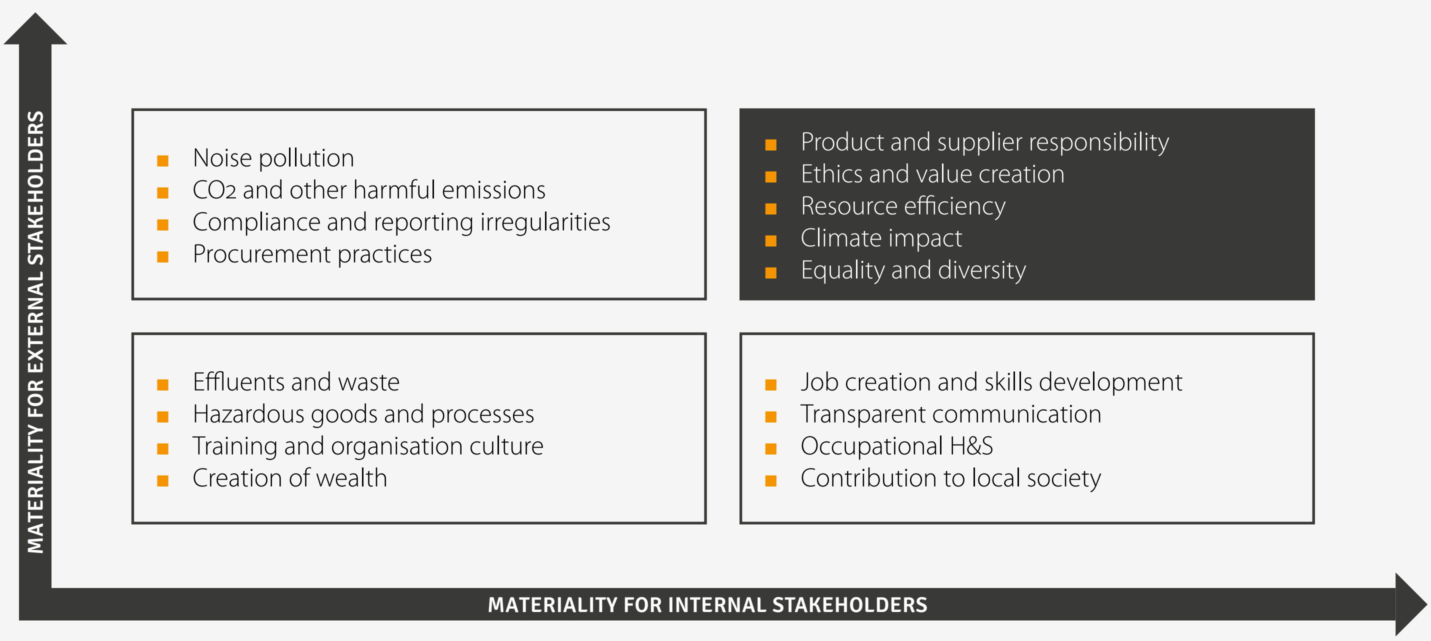
Concentric describes its work with sustainability and reports on fulfilment of financial, environment and social goals and indicators in Sustainability Report on pages 36–43 of the annual report. This report has been prepared inspired by, but is not fully compliant with the GRI Standards, updated per 1 January 2018. Therefore we report the year 2018 as “GRI-referenced”. It 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 2018 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. This report has been prepared inspired by, but is not fully compliant with the GRI Standards updated per 1 January 2018. Therefore we report the year 2018 as "GRI-referenced" in the index with a page reference on pages 116–118.

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 ■ Legal cost of breaches ■ Reduced shareholder value Concentric's long-term profitability is fundamental to value creation	■ Ethical guidelines ■ Code of Conduct ■ Reporting of violations based upon Concentric's values and policies ■ Whistle-blowing policy ■ Financial targets ■ Monthly business reviews ■ Risk management process	201-1 Direct economic value generated, distributed and retained 204-1 Proportion of expenditure with local suppliers
Product Responsibility & Climate Impact (DMA Product and Service Labelling and Emissions)	■ Long-term viability of organisation ■ Impact on society ■ Legal cost of breaches ■ Reduced shareholder value 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 ■ ISO/TS 16949 Quality Control Systems ■ Customer surveys ■ Product design tollgate process ■ FMEA ■ Durability and performance testing ■ Emissions legislation testing both for On- and Off-highway vehicles	102-43 and 102-44 Results of measuring customer satisfaction
Responsible Suppliers (DMA Supplier Environmental and Human Rights Assessment)	■ Reputational loss ■ Impact on society ■ Continuity of supply It is strategically important that the large quantities of materials purchased for Concentric's pumps are manufactured under responsible conditions	■ Social policy ■ Code of Conduct for suppliers ■ ISO/TS 16949 Quality Control Systems ■ ISO 14001 Environmental Management System ■ Supplier selection and assessment procedures ■ Supplier days/visits and on-site audits	308-1 Environmental performance indicators 414-1 Supplier Human Rights
Work Environment (DMA Occupational Health and Safety)	■ Safety of employees ■ Legal cost of breaches ■ Reduced shareholder value from lower productivity 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 ■ Clock card records ■ Skills matrices ■ Training and development plans ■ Preventative healthcare and Employee Wellness programmes ■ 6S methodology ■ OHSAS 18001 ■ Internal and external audits	403-2 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) ■ Lack of innovation ■ Unfair treatment of employees Legal costs from breaches in human rights 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 ■ Employee handbook ■ Recruitment procedures ■ Equality targets ■ Nomination committee	102-8 and 405-1 Breakdown by age and gender of all employees, including the composition of governance bodies
Resource Efficiency (DMA Materials and Energy)	■ Impact on society Reduced shareholder value from lower efficiency 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 ■ ISO/TS 16949 Quality Control Systems ■ ISO 14001 Environmental Management System ■ Continuous improvement and Lean manufacturing methodologies driven by Concentric Business Excellence programme	301-1 Recycled materials used by weight 302-3 Energy consumption (total gas and electricity)

Facts and key performance indicators for sustainability

GRI reference	Stakeholder	Key performance indicator	2018			2017		
Ethics & value creation			Americas	Europe & RoW	Group	Americas	Europe & RoW	Group
Direct economic value generated, 201-1	Customer	Revenues generated from the sale of engine and hydraulic products	1,184	1,477	2,410	1,054	1,263	2,104
Direct economic value distributed, 201-1	Suppliers	Operating costs: procurement of goods and services, including depreciation and amortisation	–773	–862	–1,394	–709	–714	–1,258
	Employees	Wages, salaries, pensions and other benefits, including competence development	–196	–304	–487	–190	–296	–448
	Financial Institutions	Interest and similar items related to providers of capital	n/a	n/a	–14	n/a	n/a	–13
	The State	Tax expenses and other payments made to government	n/a	n/a	–110	n/a	n/a	–82
	Shareholders	Own share buy-backs and proposed dividends	n/a	n/a	–294	n/a	n/a	–284
Direct economic value retained, 201-1	Shareholders	Earnings/(deficit) retained after own share buy-backs & proposed dividends	n/a	n/a	111	n/a	n/a	13
Procurement practices, 204-1	Suppliers	Proportion of expenditure with local suppliers[1]	37%	62%	52%	53%	52%	53%

Responsible suppliers								
Environmental performance indicators, 308-1	Suppliers	Percentage of new suppliers that were screened using environmental criteria	100%	100%	100%	100%	100%	100%
Supplier Human Rights, 414-1	Suppliers	Percentage of new suppliers that were screened using human rights criteria	100%	100%	100%	100%	100%	100%

Work environment			Women	Men	Total	Women	Men	Total
Work-related injuries and frequency, 403-2	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			16 225,944 days			5 227,091 days
Lost days, 403-2	Employees	Total number of absence days due to work-related injuries as a percentage of the total days worked for all employees			0.05%			0.02%
Absenteeism, 403-2	Employees	Total number of all absence days as a percentage of total days worked for all employees	0.5%	2.2%	2.6%	0.9%	1.2%	1.1%
Work-related fatalities, 403-2	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.

GRI reference	Stakeholder	Key performance indicator	2018			2017		
Diversity & equal opportunity			**Women**	**Men**	**Total**	**Women**	**Men**	**Total**
Age and gender distribution, 102-8 and 405-1	Colleagues[3]	≤ age 25	**15**	**66**	**81**	7	78	85
		age 26–35	**21**	**184**	**205**	22	180	202
		age 36–45	**31**	**141**	**172**	30	145	175
		age 46–55	**37**	**144**	**181**	34	149	183
		≥ age 56	**46**	**155**	**201**	40	151	191
		Total number	**150**	**690**	**840**	**133**	**703**	**836**
	Managers	age 26–35	**–**	**15**	**15**	–	12	12
		age 36–45	**3**	**32**	**35**	1	36	37
		age 46–55	**1**	**21**	**22**	4	21	25
		≥ age 56	**3**	**12**	**15**	2	11	13
		Total number	**7**	**80**	**87**	**7**	**80**	**87**
	Executives	age 36–45	**–**	**1**	**1**	–	–	–
		age 46–55	**–**	**3**	**3**	1	3	4
		≥ age 56	**–**	**2**	**2**	–	2	2
		Total number	**–**	**6**	**6**	**1**	**5**	**6**
	Board of Directors	age 36–45	**1**	**1**	**2**	1	1	2
		age 46–55	**–**	**1**	**1**	–	2	2
		≥ age 56	**1**	**3**	**4**	1	2	3
		Total number	**2**	**5**	**7**	**2**	**5**	**7**

[3] Age and gender distribution excludes employees of joint ventures (Alfdex AB) and any part-time/temporary workers employed through agencies.

Resource efficiency				
Recycled materials used by weight, 301-1	Society	Percentage of recycled material by weight used within grey iron and aluminium	26.1%	25.9%
Energy consumption, 302-3	Society	Group consumption of gas and electricity	10.45 kWh/MSEK Sales	11.38 kWh/MSEK Sales

2018 GRI Index

This report has been prepared inspired by, but is not fully compliant with the GRI Standards updated per 1 January 2018. Therefore we report the year 2018 as "GRI-referenced" in the index below.

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.

GRI-referenced

GRI code	Description/ indicator	Reference	Page	Compliance with GRI Standards	External assurance
Organisational profile					
102-1	Name of the organisation	Board of Directors' Report	**62**	■	
102-2	Primary brands, products, and/or services	Engine Products Hydraulic Products	**24** **26**	■ ■	
102-3	Location of organisation's headquarters	Addresses	**125**	■	
102-4	Countries where the organisation operates	Summary Group Note 4 Segment Reporting	**16–17** **80–81**	■	
102-5	Nature of ownership and legal form	The Concentric Share	**44–47**	■	Yes
102-6	Markets served	End-Markets	**16–21**	■	
102-7	Scale of the reporting organisation	Board of Directors' Report Consolidated Income Statement Consolidated Balance Sheet	**62–69** **70** **71**	■	Yes
102-8	Total workforce by employment type, employment contract and gender	Concentric employees by country (FTEs) Group Note 6 Average number of employees Facts and key performance indicators for sustainability	**41** **82** **114–115**	□	
102-9	Organisation's supply chain	Supply Chain	**43**	■	
102-10	Significant changes during the reporting period regarding size, structure, ownership or supply chain	Board of Directors' Report Group Note 35 Investments in subsidiaries	**62–69** **95**	■	Yes
102-11	Description of how the Company addresses the precautionary principle	Sustainability Report	**36–43**	□	
102-12	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or endorses	UN's Global Compact US SuperTruck Program		■	
102-13	Memberships in organisations and/or national or international advocacy organisations	Malcolm Baldrige, Investors in Excellence & European Foundation for Quality Management		■	
Strategy and analysis					
102-14	Statement from the CEO	CEO Letter	**10–13**	■	
Ethics & integrity					
102-16	Values, principles, standards and norms of behaviour	Values Social issues	**6** **40–43**	■	
Governance					
102-18	Corporate Governance	Integrated governance processes Corporate Governance in Concentric	**36** **48–59**	■	Yes
Stakeholder engagement					
102-40	Stakeholder groups	Stakeholder engagement	**38**	■	
102-41	Percentage of employees covered by collective bargaining agreements	50% of employees in the group are covered by collective agreements		■	
102-42	Identification and selection of stakeholders	Stakeholder engagement	**38**	■	
102-43	Approaches to stakeholder engagement	Stakeholder engagement	**38**	■	
102-44	Key topics raised through stakeholder engagement	Stakeholder engagement	**38**	■	

■ Fully compliant with GRI Standards
□ Partly compliant with GRI Standards

GRI code	Description/ indicator	Reference	Page	Compliance with GRI Standards	External assurance
Identified material aspects and boundaries					
102-45	Operational structure, units, business areas, subsidiaries and joint ventures	Parent Note 7 Shares in subsidiaries Foundation of corporate governance	103 49	■	Yes
102-46	Definition of report content and relevant sustainability aspects	Sustainability Report Scope of the GRI report	36–43 112	■	
102-47	Material aspects identified in the process for defining report content	Concentric's group-wide aspects and targets in sustainability	37	■	
Report profile					
102-50	Reporting period	Board of Directors' Report	62	■	
102-51	Date of most recent previous report	2017 Annual Report, published in 2018		■	
102-52	Reporting cycle	Scope of the GRI report	112	■	
102-53	Contact point for the report	Board of Directors & Group CEO		■	
102-54	Table showing information for all parts of the GRI's standard disclosures	2018 GRI Index	116–117	■	
102-56	Policy and current practice for external assurance	2018 GRI Index	116	■	

Specific standard disclosures

GRI code	Description/ indicator	Reference	Page	Compliance with GRI Standards	External assurance
103-1, 103-2 and 103-3	Disclosure on management approach	Concentric's management approach to sustainability	112	■	
Economic performance indicators					
201-1	Direct economic value generated and distributed	Consolidated Income Statement Consolidated Balance Sheet	70 71	■	Yes
201-3	Defined benefit plan obligations	Group Note 25 Pensions and similar obligations	91–94	■	Yes
204-1	Procurement practices	Facts and key performance indicators for sustainability	114	■	
Society					
205-1	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		■	
206-1	Number of pending/completed legal actions brought for anti-competitive behaviour, anti-trust and/or monopoly practices	None		■	
Environmental performance indicators					
301-1	Materials used by weight, analysed between renewable and non-renewable	Facts and key performance indicators for sustainability	115	■	
302-3	Energy consumption within organisation	Facts and key performance indicators for sustainability	115	■	
308-1	Percentage of new suppliers that were screened using environmental criteria	Facts and key performance indicators for sustainability	114	■	
Employment conditions and work conditions					
403-2	Rates of injuries, lost days, absenteeism, and number of work related fatalities	Facts and key performance indicators for sustainability	114	■	
405-1	Composition of governance bodies and breakdown of other employee types according to gender and age group	Facts and key performance indicators for sustainability	115	■	
Supplier human rights					
414-1	Percentage of new suppliers that were screened using human rights criteria	Facts and key performance indicators for sustainability	114	■	
Product responsibility					
416-2	Number of incidence of non-compliance with regulations concerning the health and safety impacts of products provided to customers during their life cycle	None		■	

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

Human rights	Reference	Page
1. Support and respect the protection of internationally proclaimed human rights in the spheres the Company can influence	Social policy	40
2. Make sure that the Company is not complicit in human rights abuses	Human rights	40
Labour law		
3. Uphold freedom of association and the effective recognition of the right to collective bargaining	Freedom of contract and association	40
4. Elimination of all forms of forced and compulsory labour	Forced labour	40
5. Effective abolition of child labour	Child labour	40
6. Elimination of discrimination in respect of employment and occupation	Equal opportunities	41
Environment		
7. Support a precautionary approach to environmental challenges	Sustainability Report	36–43
8. Undertake initiatives to promote greater environmental responsibility	Sustainability Report	36–43
9. Encourage the development and diffusion of environmentally friendly technologies	Sustainability Report	36–43
Anti-corruption		
10. Work against corruption in all its forms, including extortion and bribery	Anti-corruption	43

APM reconciliation

Underlying EBIT or operating income	2018	2017
Operating income	**529**	**404**
UK pension benefit, equalisation	25	–
End of Customer contract revenue	–33	–
End of Customer contract provisions	4	–
Other restructuring cost	–	–1
Impairment of (reversal)/write-down tangible assets	–	–8
Curtailment gains, pensions	–	–
Underlying operating income	**525**	**395**
Net Sales	2,410	2,104
Underlying Net Sales	2,377	2,104
Operating margin (%)	**21.9**	**19.2**
Underlying operating margin (%)	22.1	18.7

Underlying EBITDA or Operating income before amortisation and depreciation	2018	2017
EBIT or Operating income	529	404
Operating amortisation/depreciation	36	37
Amortisation of purchase price allocation	37	36
Impairment of (reversal)/write-down tangible assets	–	–8
EBITDA or Operating income before amortisation and depreciation	602	469
Underlying EBITDA or Underlying Operating income before amortisation and depreciation	598	468
Net Sales	2,410	2,104
Underlying Net Sales	2,377	2,104
EBITDA margin (%)	25.0	22.3
Underlying EBITDA margin (%)	25.2	22.2

Net income before items affecting comparability	2018	2017
Net income	405	303
Items affecting comparability after tax	–3	–6
Net income before items affecting comparability	402	297
Basic average number of shares (000)	**39,322**	**40,238**
Basic earnings per share	10.30	7.54
Basic earnings per share before items affecting comparability	**10.22**	**7.39**

Net debt	31 Dec 2018	31 Dec 2017
Pensions and similar obligations	514	462
Long-term interest-bearing liabilities	176	176
Short-term interest-bearing liabilities	5	2
Total interest-bearing liabilities	695	640
Cash and cash equivalents	–683	–455
Total Net Debt	12	185
Net Debt, excluding pension obligations	–502	–277

Capital employed	31 Dec 2018	31 Dec 2017
Total Assets	**2,234**	**1,973**
Interest bearing financial assets	–5	–6
Cash and Cash Equivalents	–683	–455
Tax assets	–154	–111
Non-interest bearing assets (excl taxes)	**1,392**	**1,401**
Non-interest bearing liabilities (incl taxes)	–510	–454
Tax liabilities	120	83
Non-interest bearing liabilities (excl taxes)	**–390**	**–371**
Total Capital Employed	1,002	1,030

Working capital	31 Dec 2018	31 Dec 2017
Accounts receivable	215	183
Short-term loans receivable from joint venture	–	6
Other current receivables	69	86
Inventory	169	179
Working capital assets	**453**	**454**
Accounts payable	–192	–186
Other current payables	–290	–232
Working capital liabilities	**–482**	**–418**
Total Working Capital	–29	36

Glossary

6S
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.

APM
An alternative performance measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

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
Hydraulic motor used for driving cooling fan.

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.

OEMs
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

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 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 taken into account other liabilities as well.

ROE
Return on equity; net income as a percentage of the average shareholders' equity over 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 2019

Annual General Meeting	4 April, 2019
Interim report January – March 2019	7 May, 2019
Interim report January – June 2019	24 July, 2019
Interim report January – September 2019	6 November, 2019

Annual General Meeting
The Annual General Meeting 2018 will be held in Kreugersalen at 12.00 CET on Thursday, 4 April, 2019 at Tändstickspalatset, Västra Trädgårdsgatan 15, Stockholm.

Participation in 2019 Annual General Meeting
Shareholders who wish to attend the Annual General Meeting must be registered in the share register maintained by Euroclear Sweden AB as of Friday, 29 March, 2019, and notify the company of their intention to attend the Annual General Meeting no later than Friday, 29 March, 2019. Proxies and representatives of a legal person are asked to submit documents of authorisation prior to the Annual 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 Friday, 29 March, 2019, 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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