ANNUAL REPORT 2019

TECHNOLOGY
INNOVATION
SUSTAINABILITY

CONCENTRIC

CONTENTS

4 Our year
6 Strategy and composition
8 Business objectives
10 CEO letter
14 Investment case
16 Electricification
20 End-markets
26 Products
34 Our talent journey
40 Sustainability

48 Investors
52 Corporate governance
64 The Board of Directors and Management

Statutory annual report [1)]
66 Board of Directors' report
76 Financial statements – Group
76 Income statement
76 Statement of comprehensive income
77 Balance sheet
78 Changes in shareholders´equity
79 Cash flow statement
80 Notes
104 Financial statements – Parent Company
104 Income statement
104 Statement of comprehensive income
105 Balance sheet
106 Changes in shareholders´equity
107 Cash flow statement
108 Notes

114 Auditor's report
118 Global reporting initiative
126 Alternative performance measures

130 Glossary
131 Definitions
132 Shareholder information
133 Addresses

1) The statutory annual report encompasses pages 66–113. 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.

This english version of the Annual Report is a translation of the Swedish original. If there are any differences the latter shall prevail.

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.

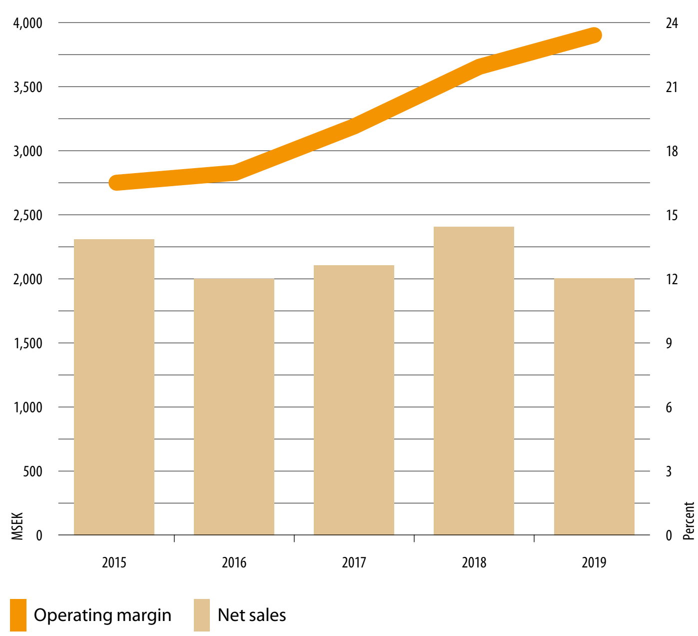
Our people go the extra mile to ensure that we provide value in every situation, achieving the highest performance and productivity every step of the way. While doing our utmost to help achieve a greener, smarter, more effective environment.

Welcome to our world

Highlights of 2019

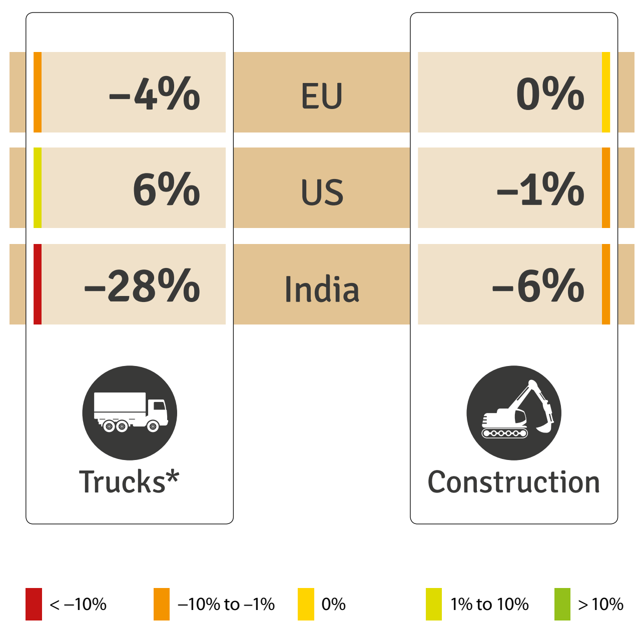
Net sales for the year were MSEK 2,012 (2,410), down 17% year-on-year. After adjusting for impact of currency (+3%), sales in constant currency were down 20%. Operating margin improved to 23.5% (21.9) including a 1.8% increase from the release of a warranty provision.

Sales and operating margins



2019 achieved strong operating margin of 23.5% (21.7% excluding a warranty provision release) despite a 17% year-on-year decline in sales.

FY19 vs FY18 market indices

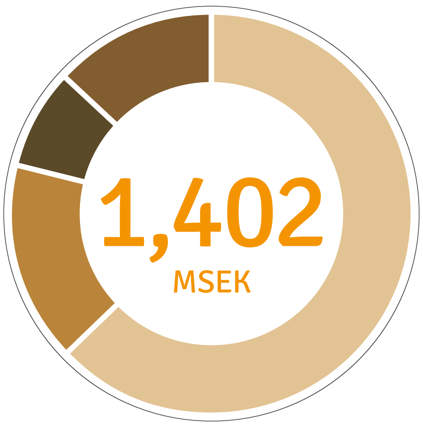


* Medium & heavyy trucks

Key figures, amounts in MSEK unless otherwise specified	2019	2018	2017	2016	2015
Net sales	2,012	2,410	2,104	2,004	2,306
Organic sales growth, constant currency, %	–20	12	6	–10	–8
Operating income before items affecting comparability	472	525	395	337	382
Operating margin before items affecting comparability, %	23.5	22.1	18.7	16.8	16.6
Operating income	472	529	404	341	381
Operating income, %	23.5	21.9	19.2	17.0	16.5
Net income for the year	321	405	303	246	271
Cash flow from operating activities	386	554	360	409	366
Diluted earnings per share, SEK	8.27	10.27	7.52	6.00	6.44
Basic earnings per share, SEK	8.37	10.30	7.54	6.01	6.45
Dividends, SEK	4.50[1)]	4.25	3.75	3.50	3.25
Net debt	54	12	185	300	488
Gearing (Debt/equity) ratio, %	5	1	21	35	57
Return on equity, %	29.5	41.6	37.0	32.2	31.7
Market capitalisation	6,005	4,628	5,971	4,605	4,406

[1)] Proposed dividend for consideration at the 2020 AGM.

Net sales by product line*



Engine

Trucks	Construction	Industrial	Agriculture
63%	16%	8%	13%

Engine products accounted for 61% of Group revenues in 2019, with the European truck market driving volumes in this area.

Hydraulic

Trucks	Construction	Industrial	Agriculture
14%	33%	47%	6%

Hydraulic products accounted for 39% of Group revenue in 2019, with Construction and Industrial as the major drivers.

Net sales by region*

Customer location

North America	Germany	Rest of Europe	Asia
36%	19%	18%	11%
United Kingdom	**Sweden**	**South America**	**Other**
7%	7%	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 13% of the Group's operating sales of MSEK 2,295.

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

Net sales – Group

Sales for the year were down year-on-year by 17%. After adjusting for the impact of currency (+3%), sales in constant currency were down by 20%. This reduction reflects the decision by one of our customers, a global OEM, to dual source components. Excluding sales to this customer in both periods, group sales were down by 11%. The decreased activity levels in the year reflect the lower end market activity combined with customer destocking programs. All end sectors have declined in the year with Agricultural Machinery and Construction Equipment hardest hit. India has been heavily supressed by a lack of liquidity locally, resulting in an overall decline in emerging market sales year-on-year.

Operating income – Group

The reported operating income and margin for the year amounted to MSEK 472 (529) and 23.5% (21.9) respectively. This included a release of a warranty provision associated with a product quality claim in the year. This claim was resolved amicably with the customer at no cost to Concentric. Adjusting for the net effect of this, the underlying operating margin for 2019 was 21.8% (22.1). Our management teams have worked efficiently through the Concentric Business Excellence programme throughout the year to reduce the cost of capacity for the reduction in demand from our customers.

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

44%	22%	24%	10%
Trucks	Construction	Industrial	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.

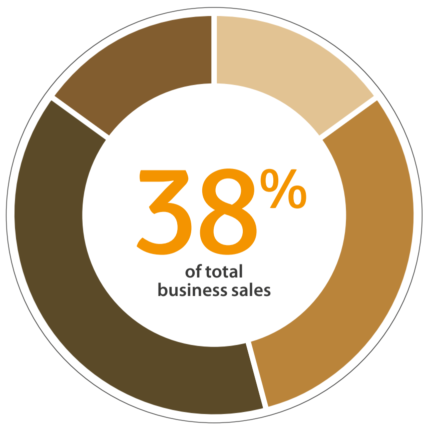
Values

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
15%	31%	39%	15%

External net sales

863 MSEK (38%)

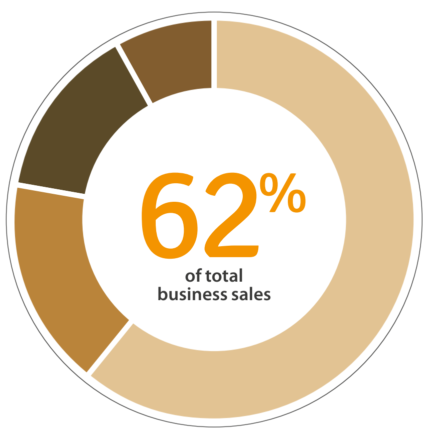
Operating income

161 MSEK (34%)

Average number of employees

300 (33%)

Europe and RoW



End-market

Trucks	Construction	Industrial	Agriculture
61%	18%	14%	7%

External net sales

1,432 MSEK (62%)

Operating income

317 MSEK (66%)

Average number of employees

615 (67%)

Operating Income shown above does not include Group costs of MSEK 6.

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.

17% below indices

2019 ACHIEVEMENT

Overall, market indices* suggested production rates, blended to the Group's end-markets and regions, were down **1%** year-on-year. Concentric's actual sales for 2019, including revenues attributable to Alfdex, were down versus these indices at **18%** year-on-year, adjusting for currency. This is due in part to the dual sourcing decision by a key customer which has reduced Group sales by 11%, in line with previous guidance, and our customers conducting destocking programs to address weakening demand.

* 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.

23%

2019 ACHIEVEMENT

The reported operating margin for 2019 increased to **23.5%** (21.9). Excluding a warranty provision release in Quarter 4 which was resolved amicably with the customer at no cost to Concentric, underlying operating margin was 21.7%. This was driven by a focus on a reduction in capacity costs to reflect the reduction in demand from our customers. Core Concentric Business Excellence (CBE) disciplines are embedded in the business and have again delivered strong margins 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 2015–19 have equated to an average payout ratio of **49% (49)** of net income.

54%

2019 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 3.25 (3.00) per share for the 2019 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 136 (146), which corresponds to a further shareholder distribution in the year of SEK 3.60 (3.79) 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.

5%

2019 ACHIEVEMENT

The indebtedness increased to MSEK 54 (12), including the revaluation of pension liabilities which recognised net remeasurement losses of MSEK 1 (44) at year end. The low gearing ratio was supported by the continued strong cash flow derived from operating activities of MSEK 386 (554), which was also used to fund dividend payments and further own share buybacks in 2019.

Review of 2019

CEO David Woolley shares his reflections on what has been a challenging year and how the Concentric team achieved success in a year that presented both market demand reductions and opportunities for our sustainable technology; e-Pumps.

On one hand, 2019 was a year that truly demonstrated the cyclical nature of the sectors that we serve; in particular, the second half of the year where we faced softening customer demand that was further compounded by de-stocking by the OEM's. As in previous down-cycles our super team of dedicated and engaged employees, reacted well to address the challenges and to protect both the profit and cash results of the business whilst at the same time maintaining excellent product quality and service to our customers.

The truck market remains the largest end-market and accounts for 44% of the Group's sales. Concentric's sales in North America & India were down year-on-year by double-digit percentages, whilst sales in Europe remained flat. Concentric did achieve sales growth in the truck sector in our emerging markets, namely China & South America. Sales to all end-market applications were lower year-on-year with the off-highway and industrial applications sectors particularly affected in our core regions of North America and Europe. Economic conditions remain challenging in India as the banking crisis suppresses demand generally across all end market applications.

2019 was also the year where Alfdex, our 50/50 joint venture with Alfa Laval, announced the important order to supply Weichai with oil mist separators to meet China-6 emission regulations. Manufacturing capacity was installed in Kunshan in China, well ahead of the demand, and we saw good volumes during the last quarter of 2019 which, we expect to continue into 2020.

Technology: electrification opportunity

Over the last couple of years, we have made a number of announcements regarding nominations from customers for electrically driven pumps to serve the growing demand for battery electric trucks, buses and construction equipment.

This year saw a step-change in the number of opportunities and order nominations of our e-Pumps. Our critical success factor has been to develop and offer a wide range of high performance, high efficiency pumps with low to high-pressure capability and the ability to integrate these pumps seamlessly with electric motors, controllers and software that deliver world-class reliability, low energy use and full diagnostic capability.

Emission legislation has driven our opportunities for electrification both on- and off-highway and Concentric's e-Pumps meet the requirements of these new directives. Our success in the mobile markets has been the catalyst to win new e-Pump orders in other sectors including the energy storage market that supports the growing infrastructure requirements for renewable energy.

Concentric Business Excellence

The strength and impact of the Concentric Business Excellence programme ("CBE") was an important asset to Concentric during these challenging trading conditions. Our management teams have responded quickly to address the downturn in demand, maximising our flexible business model to reduce the cost of capacity through reductions in headcount and other manufacturing costs. The business has placed yet greater focus on productivity and inventory efficiency. Importantly, our investment in new customer programmes and the development of new electrification technologies have been safe guarded, securing the core business strength ready for the return of better market conditions.

Achieving total customer satisfaction is at the centre of our CBE-programme, so it was especially pleasing to see this year the sixth successive year of improved results from our customer survey. This achievement is testament to our people who despite these challenging market conditions have been able to ensure our product quality; delivery performance and the relationship with our customers are the forefront of all we do.

» 2019 was the year we felt a step change in the number of opportunities and order nominations for our e-Pumps. «

Strong financial performance

The CBE-programme has continued to improve the Group's profitability and the reported operating margin for the full year increased to 23.5% (22.1) with an adjusted operating income dropout rate of just over 30%. Cash management has been a particular focal point during the year, and whilst cash generation was impacted by lower sales, the conversion ratio of operating income to operating cash has met our expectation. The Group's net debt position was effected by the new accounting principles for leases, IFRS 16. This accounting change increased total assets by MSEK 80 and net debt MSEK 85, increasing the gearing ratio by 8%. The reported net debt was MSEK 54 (12) and the gearing ratio 5% (1), and despite the accounting changes was broadly in line with the prior year.

Operating income for the full year did benefit from releasing a warranty provision associated with a customer quality claim, which was resolved amicably at no cost to Concentric. The underlying operating margin for the full year was 21.7% (22.1). An internal dividend within the Group from India to UK was paid during the year. The dividend incurred one-off withholding tax, increasing the full year tax rate by 6% to 29% (21).

Acquisitions

Our focus remains on both geographical and technical expansion, but we have recently escalated our efforts and have given greater attention to opportunities that will increase our penetration of the electrification of transport, construction and industrial sectors, as these offer real revenue growth in both our current and new markets and are of strategic importance.

Sustainability at Concentric

We are happy to include the Global Reporting Initiative (GRI) index for the fourth 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.

Our product by it's design and high efficiency function is already recognised for reducing engine parasitic losses thereby reducing fuel consumption and CO_2 emissions. Our next generation of e-Pumps raises the bar again as we help to deliver "power-on-demand" further reducing energy wastage.

2020 prospects

Before the COVID-19 pandemic, our expectation, as suggested by the published market indices blended to Concentric's mix of end market applications and locations, was the overall market will continue to contract, most notably the medium and heavy duty truck markets in North America and Europe. The emerging markets offer growth potential particularly in the off-highway sectors, agricultural machinery and construction equipment, but our core markets of North America and Europe will continue to offer challenging trading conditions. Crucially we are confident that the changes made within the business during 2019 keep us very well positioned to adapt to the market as it develops in the shorter term and well prepared for increasing market activities in the longer term.

We expect to see an increasing demand from the rapidly evolving battery electric and hydrogen fuel cell vehicles and we will continue to invest in people product and manufacturing capacity to support this strategically important development.

However, it is clear that the pandemic and government interventions will impact our markets and our business, but it is too early to be able to quantify the financial and commercial effects at this time. The Company is closely following this developing situation and adhering to national government guidance, and taking the necessary action in the interests of our employees, customers and suppliers.

Finally, I would like to thank and congratulate our teams around the world for delivering strong financial results in difficult trading conditions during 2019. Whilst I expect the market to remain challenging during 2020 and be impacted in some way by the pandemic I am confident our teams will once again demonstrate its flexibility to adapt to meet our customer's needs.

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.

How Concentric is GEARING UP for the electrified economy

Change is in high gear and without doubt, the next decade will be electrifying for the global automotive industry. Galvanised by the Paris agreement, the world is shifting towards a low-carbon economy. Stricter legislation on vehicle emissions and greater public awareness of climate change are driving the upsurge of e-mobility and the adoption of battery electric vehicles (BEVs).

This disruptive evolution in vehicle technology is having a considerable impact on Concentric and our markets, while creating significant new opportunities for our business. True to the ethos of **Technology + Innovation = Sustainability**, we are well equipped to go from strength to strength with our market leading e-products and solutions designed for the new generation of vehicles. We have a strategic framework in place for how we will act, utilise our resources and optimise on our competencies. We also have an ever-increasing portfolio of customers who are placing their trust in our engineering excellence to enable and enhance their transition to electrified systems.

The bottom line? The electrification of powertrains provides significant opportunities for Concentric: across the globe ... and well into the future.

Adding value to powertrains

Concentric is a leading supplier to key OEMs both on and off highway, and a well-established innovation leader. This puts us in pole position to not only manage change proactively, but to thrive by providing cutting edge e-products that will enable our customers to accelerate their drive towards electrification.

It is expected that electric vehicles will account for a substantial piece of the global market sales by 2030, driven by factors including total cost of ownership of electric vehicles, environmental regulations, developments in battery technology and infrastructure investment. The new reality is that internal combustion engines (ICE) and BEV powertrains will co-exist for the foreseeable future. Concentric is set to not only ride, but even profit, from the waves of change: propelled by our market leading technology as well as our well-established standards of quality and reliability. >

Strong implications moving forward

The future of on- and off- highway vehicles is not yet written in stone. To Concentric, this presents possibilities for strengthening our global position to remain at the forefront of our market for decades to come. To this end, we have a definite strategy that is already helping us to make steady advancements: working with customers right from the very onset of their evolution to new technologies.

There is, undoubtedly, a marked upsurge in the demand for electric vehicles due to an increased focus globally on sustainability and reduced emissions. This has led to a rise in the installation of electric and hybrid powertrains in all types of on-and off-highway vehicles which are collectively aimed at achieving overall reductions in the emission of CO_2 and pollutants.

A number of key regions, spanning the U.S.A, EU and China have implemented stringent government laws and regulations limiting vehicle emission. In particular, low and zero emissions zones in inner cities have been launched, driving OEMs even further towards the electrification of buses and smaller trucks. We are also witnessing the process of electrification expanding into larger commercial vehicles.

The increased earning power of electric powertrains

An electric powertrain requires up to four electric water pumps for temperature control compared to the one pump needed on ICE powertrains. This provides Concentric with the potential of driving significant revenue growth through the provision of additional system components for each vehicle. This includes our Electro Hydraulic Steering units for hybrid and BEVs with their ability to reduce energy consumption significantly.

To exemplify, an electric bus might require four water pumps that would add up to a total retail cost of EUR 800 compared to the traditional single water pump required on an ICE bus powertrain that would cost EUR 50. At the same time, the additional functionality and value delivered by an electric oil pump could end up costing four times more than a traditional mechanical oil pump. Clearly, the figures are electrifying, and Concentric has every intention of acting swiftly and decisively to secure, not only a sustainable, but successful journey on the road ahead.

Next generation mobility

The enhanced technology harnessed in the range of e-pumps we offer is a driving force behind enabling us to command a larger share of the vehicle value. An e-pump is a self-contained system which includes an electric motor, controller and software. E-pumps have an innate low energy demand from vehicle batteries. This contributes to increasing the vehicle range, while the control capabilities of the system provide greater fluid control, as well as data capture and diagnostic capabilities. All in all, our e-pumps are engineered to provide a higher value proposition to customers.

New markets of opportunities

E-products are also opening up new market avenues for Concentric, with energy storage solutions being one of them. The lower cost of lithium packs, coupled with a greater share of renewable energy production, will drive increased demand for energy storage solutions in a range of markets.

This is an exciting new market for Concentric, presenting new areas of revenue as energy storage units require electric water pumps for temperature control. Concentric is initially targeting providers of larger utility scale installations, even as we are aware of the fact that the range of applications for this technology is wide ranging and expanding continually. Notably, we have already won a substantial order for e-water pumps from a major OEM for an energy storage application.

Redefine, reinvigorate, reap

The road towards an electrified future promises to be rewarding, especially for Concentric. We have the foresight, knowledge and resources to set a course of action that will reinforce and strengthen our global market position.

Our win-win strategy of enabling while profiting from the green economy is already paying off. We have scored a number of important business wins on electric and hybrid powertrains including orders for next generation hydraulic steering systems and the Alfdex oil mist separator. We are certain that this is only the beginning as we leverage the close, mutually beneficial ties we have secured over the years with leading OEM customers.

We are experiencing the signs of a vibrant market for e-products in both on- and off-highway vehicles, which presents exciting new opportunities for Concentric. Interesting and potentially lucrative new markets for e-products are opening up for us to explore and capitalise upon. These opportunities are additive to Concentric's existing products for internal combustion engines and we expect sales of e-products could amount to as much as 20% of Group sales by 2025.

We have responded strategically and with agility to ensure that e-products are on the shelves, ready to meet our customers' requirements. We have also worked to ensure that dedicated production resources are in place in order to satisfy a growing demand for these products.

The work and processes for adapting to current and emerging industry needs as the world races towards electrification are in full throttle. There is a new order in the making and Concentric is determined to be a player in helping to shape it, by doing what we do best: combining innovation and technology to achieve a sustainable e-future.

Global sales

37% Group sales

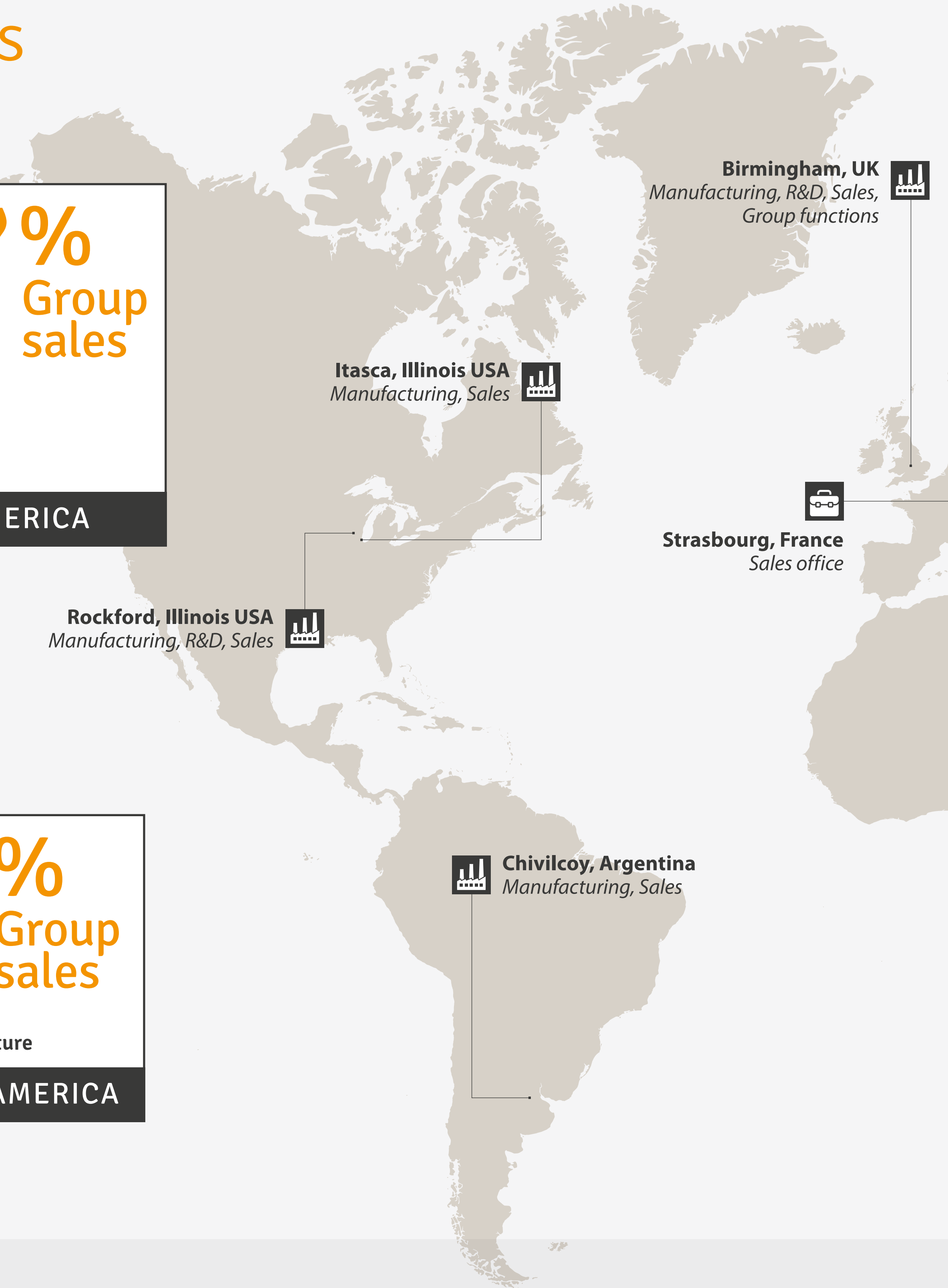
5% Trucks
12% Construction
15% Industrial
5% Agriculture

NORTH AMERICA

2% Group sales

1% Trucks
1% Agriculture

SOUTH AMERICA



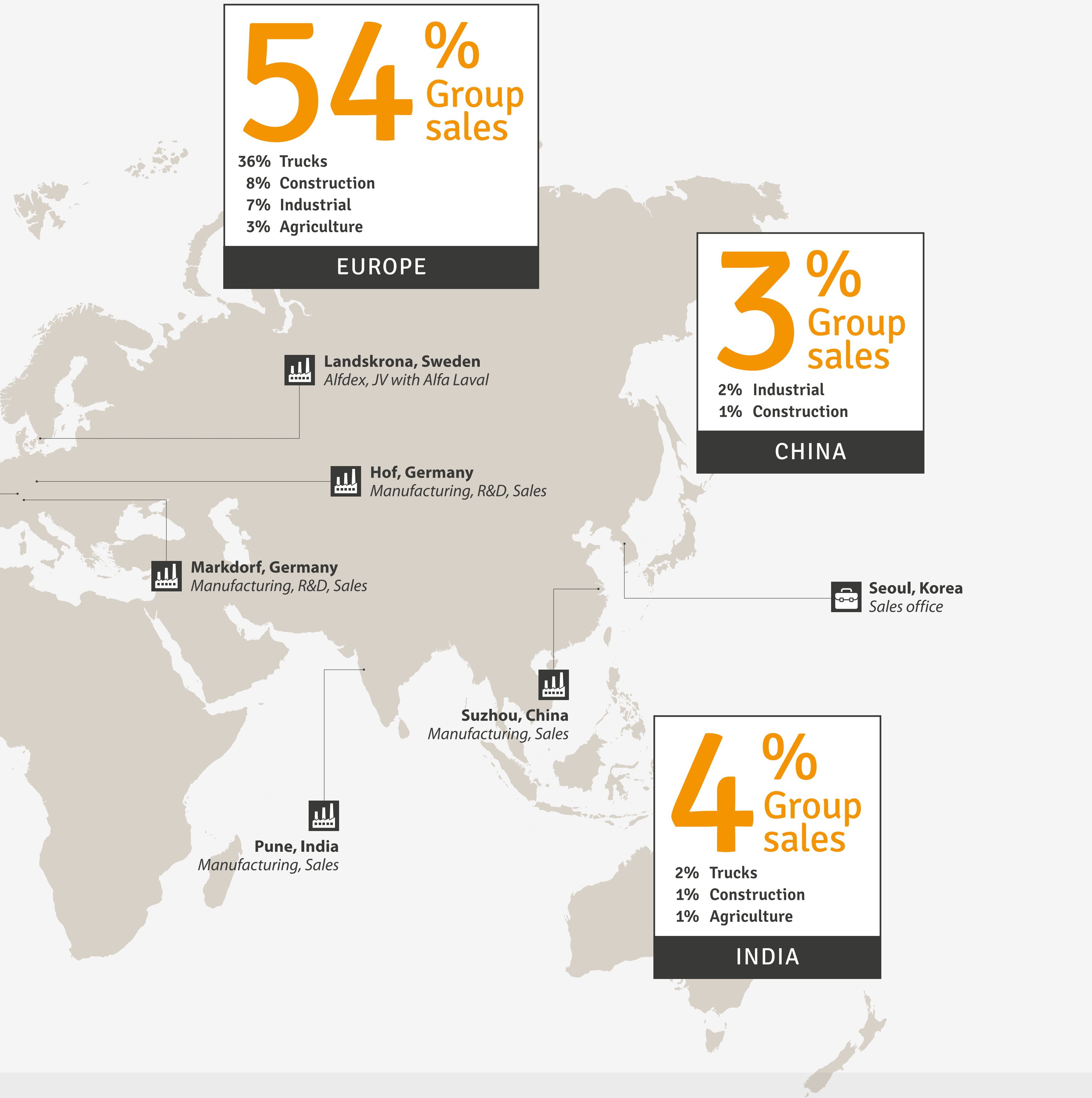
END-MARKETS

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.

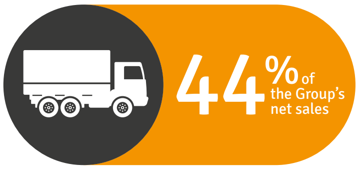


Industrial

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 shrank 9% in 2019 and is forecast to decline 8%[1)] in 2020 excluding China, before returning to growth in 2021. China is forecast to decline in the next three years at rates of 13%[1)], 8%[1)] and 7%[1)] before returning to growth in 2023.

Based on the forecasted production of diesel engines over the next 5 years, on-highway medium- and heavy-duty trucks are expected to grow by a CAGR of 0.7% in Europe, 3.1% in South America and 4.0% in India and decline by 3.0% in North America and 2.1% in China.

North America

Market indices published at year-end indicated that North American production of diesel engines for medium- and heavy-duty trucks increased year-on-year by 6%. Concentric's actual sales of engine and hydraulic products for trucks were down 67% year-on-year in constant currency in part due to the dual sourcing decision of a key customer and as customers destocked in the second half of the year. North American truck sales represent 5% of total sales.

Europe

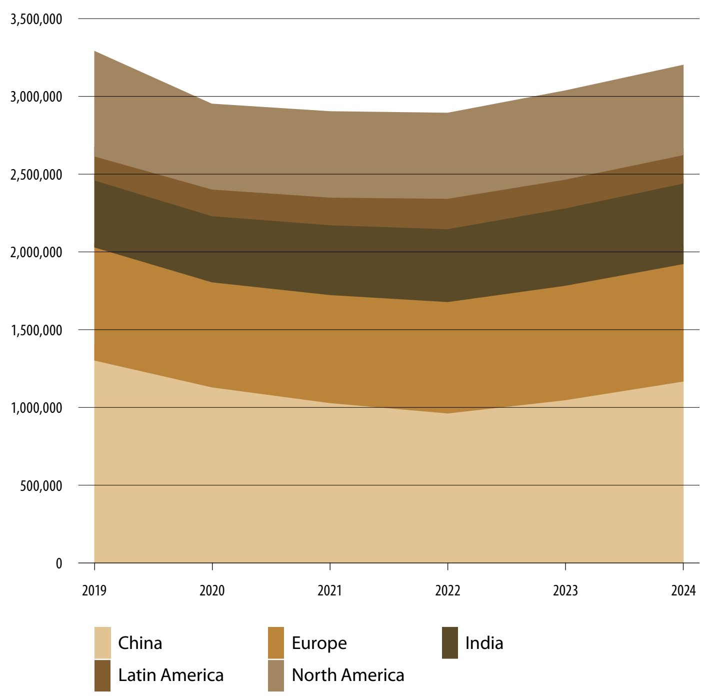
European market indices for the production of diesel engines for medium- heavy-duty trucks decreased year-on-year by 4%. Concentric's actual sales of engine and hydraulic products for trucks increased despite the fall in the market, growing by 2% year-on-year in constant currency.

Emerging markets

Market indices for the production of diesel engines in South America for medium-heavy duty trucks have increased 7% year-on-year. Concentric's actual sales have surpassed this and increased 31% on a constant currency basis. The market indices for India however indicate a year-on-year decline of 28% due to the lack of liquidity in the market. Concentric's actual sales have fallen 33%, slightly more than the index. The market indice for China has declined 6% year-on-year, despite this, Concentric's sales have increased 12% on a constant currency basis.

Forecast market volume

Diesel engines (0.8–2.75 ltr/cylinder)

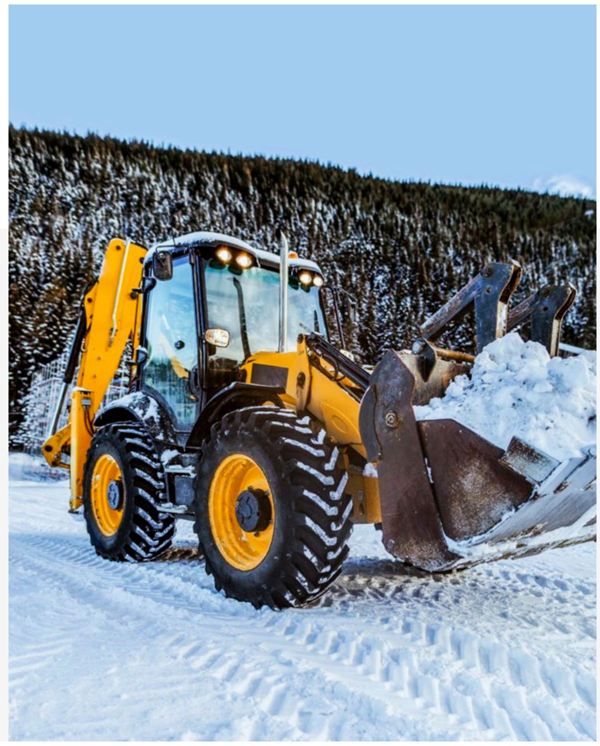


1) The forecasts on the pages 22–24 were pre-corona-virus outbreak.
Source: Power Systems Research, January 2020 update.

Concentric's exposure to trucks in these emerging markets remained relatively low at approximately 3% of the Group's total net sales for 2019.

Construction

The global construction equipment market grew 2% in 2019 and the forecast is to grow by a CAGR of 1%[1)] over the next 5 years. Growth rates remain strong in South America and India which are both forecast to grow by a CAGR of 5%[1)].



Based on the forecasted production of diesel engines over the next 5 years, construction equipment is expected to grow by a CAGR of 4.9% in South America, 4.9% in India and 1.8% in China. Europe and North America are expected to remain broadly flat.

North America

Market indices published at year-end indicated that North American production volumes for construction equipment decreased year-on-year by 1% for diesel engines. Concentric's actual sales of engine and hydraulic products for construction equipment were down 19% year-on-year in constant currency, reflecting the same destocking trends seen in the truck market.

Europe

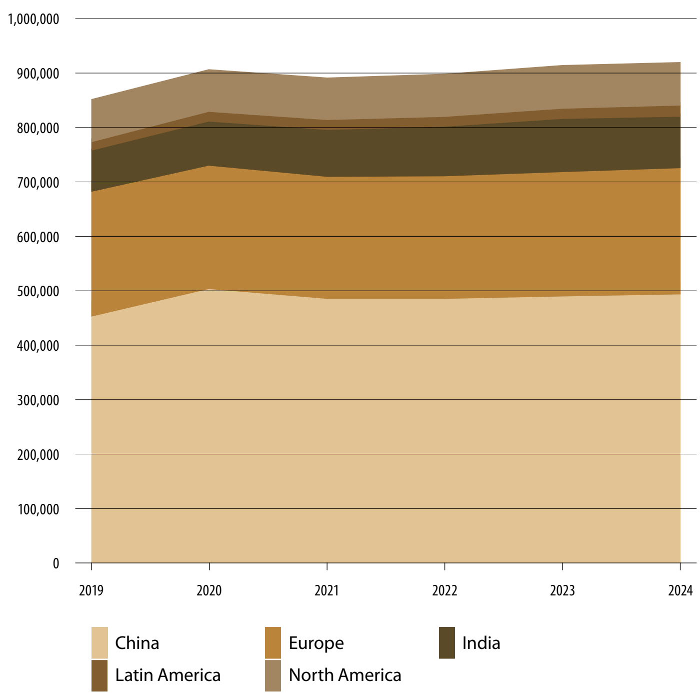
European market indices for the production of diesel engines for the construction market were flat year-on-year. Concentric's actual sales for construction equipment were down 22% year-on-year in constant currency, largely reflecting a similar pattern of destocking that has been experienced in North America.

Emerging markets

Market indices for the production of diesel engines for construction equipment were up year-on-year in South America and China by 13%, and 4% respectively. The market indice for India was down 6% as a result of low market liquidity. However, Concentric's exposure to construction equipment in these emerging markets remained very low at approximately 2% of the Group's total net sales for 2019.

Forecast market volume

Diesel engines (0.8–2.75 ltr/cylinder)



[1)] The forecasts on the pages 22–24 were pre-corona-virus outbreak.
Source: Power Systems Research, January 2020 update.

24 % of the Group's net sales

Industrial

The industrial sector has grown by 2% in 2019 and is forecast to grow at a CAGR of 2%[1)] over the next 5 years driven by growth in South America and India at 5%[1)] and 6%[1)] respectively, 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 forecasted 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 0.4% in North America and 0.6% in Europe.

North America

Market indices published at year-end indicated that North American production volumes for industrial applications increased year-on-year by 1% for diesel engines and decreased 3% for lift trucks. Concentric's actual sales of engine and hydraulic products for industrial applications were down 11% year-on-year in constant currency, again, reflecting the destocking seen in other market sectors.

Europe

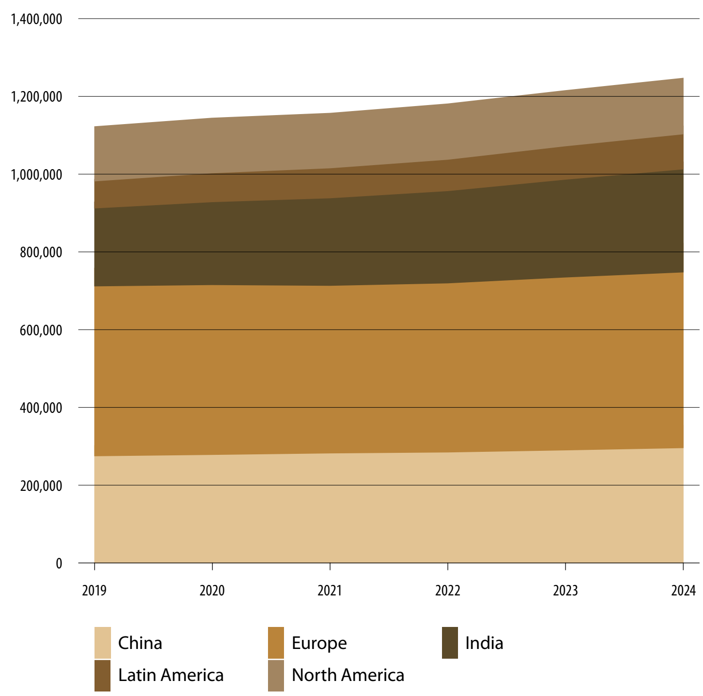
European market indices decreased year-on-year by 1% for the production of diesel engines and increased by 1% for lift trucks for the industrial applications market. Concentric's actual sales of engine and hydraulic products for industrial applications were down 13% year-on-year in constant currency.

Emerging markets

Market indices for the production of diesel engines in South America, India and China for industrial applications increased year-on-year by 9%, 6% and 3% respectively. However, Concentric's exposure to industrial applications in these emerging markets remained very low at approximately 2% of the Group's total net sales for 2019.

Forecast market volume

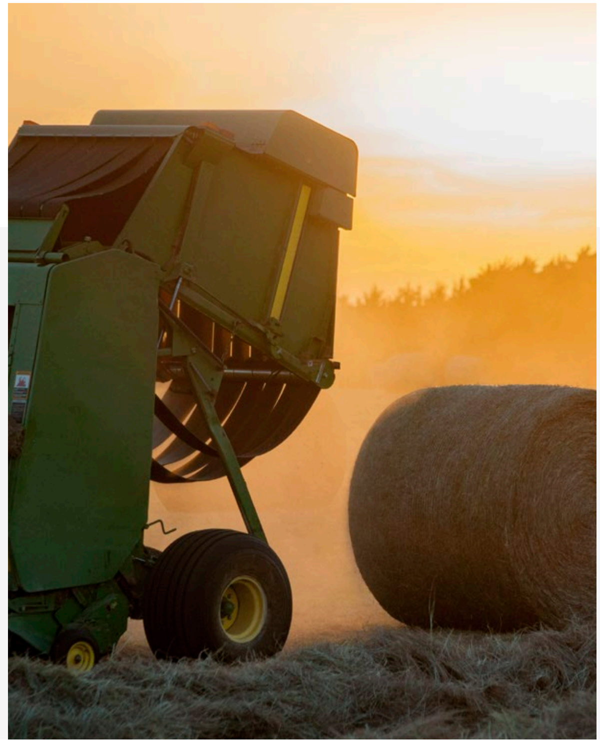
Diesel engines (0.8–2.75 ltr/cylinder)



1) The forecasts on the pages 22–24 were pre-corona-virus outbreak.
Source: Power Systems Research, January 2020 update.

Agriculture

The global agricultural machinery market declined 0.4% year-on-year. This decline is expected to reverse and grow at a CAGR of 3%[1)], driven by growth in North & South Americas and India.



Based on the forecasted production of diesel engines over the next 5 years, agricultural machinery is expected to grow by a CAGR of 3.1% in North America. 0.6% in Europe, 7.6% in South America, 4.2% in India and 3.0% 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 3%. Concentric's actual sales for agricultural machinery decreased year-on-year by 38% in constant currency, reflecting destocking undertaken by customers in the second half of the year.

Europe

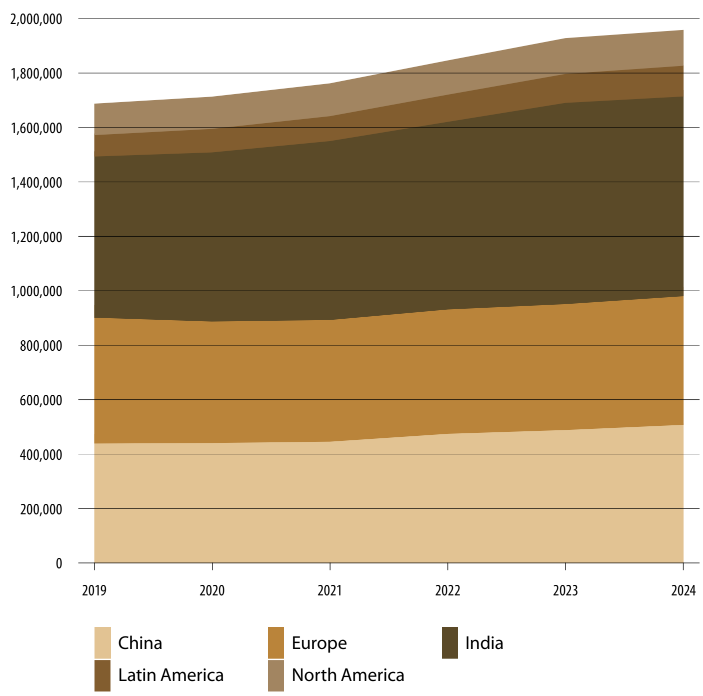
European market indices for production of diesel engines for agricultural machinery increased year-on-year by 2%. Concentric's actual sales of engine and hydraulic products for agricultural machinery decreased year-on-year by 14%.

Emerging markets

Market indices for the production of diesel engines for agricultural machinery increased year-on-year by 17% in South America and were down 1% in India and 5% in 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 2019.

Forecast market volume

Diesel engines (0.8–2.75 ltr/cylinder)



[1)] The forecasts on the pages 22–24 were pre-corona-virus outbreak.
Source: Power Systems Research, January 2020 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

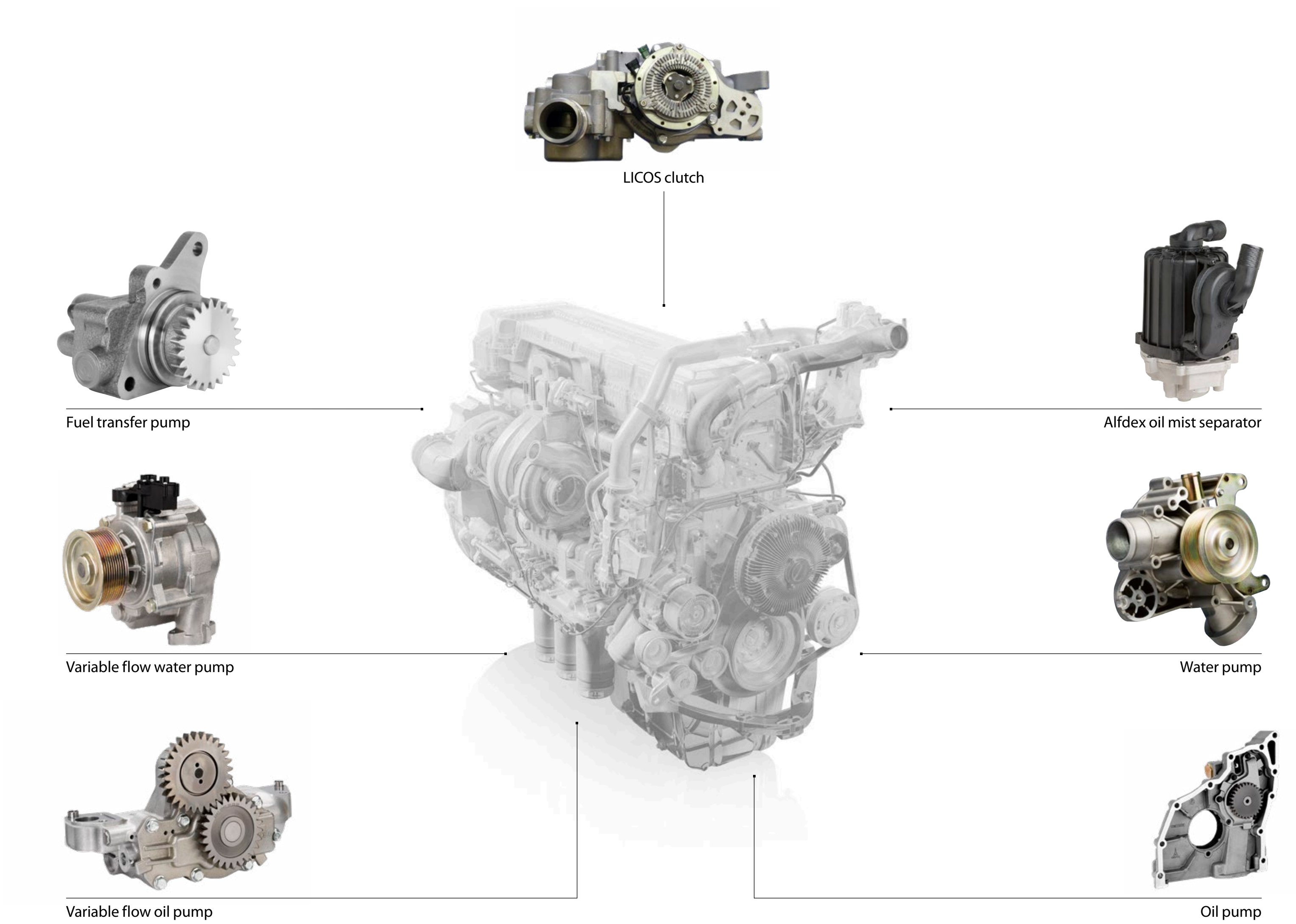
ENVIRONMENTAL IMPACT
NOISE REDUCTION

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

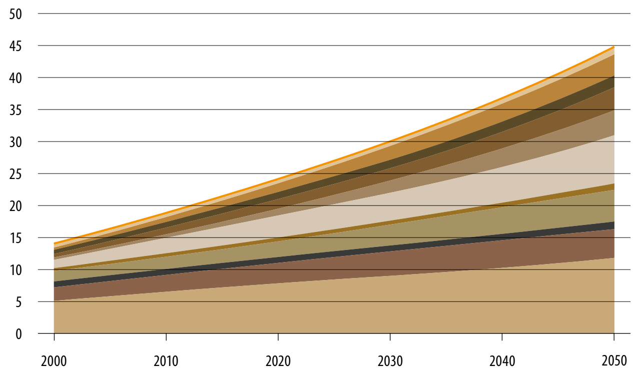
Increased freight activity

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



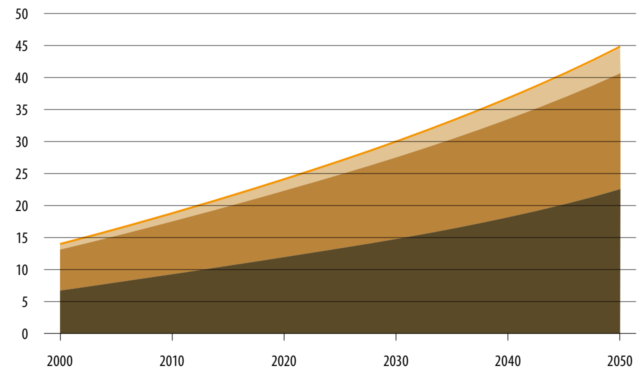
Average annual growth rates

	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

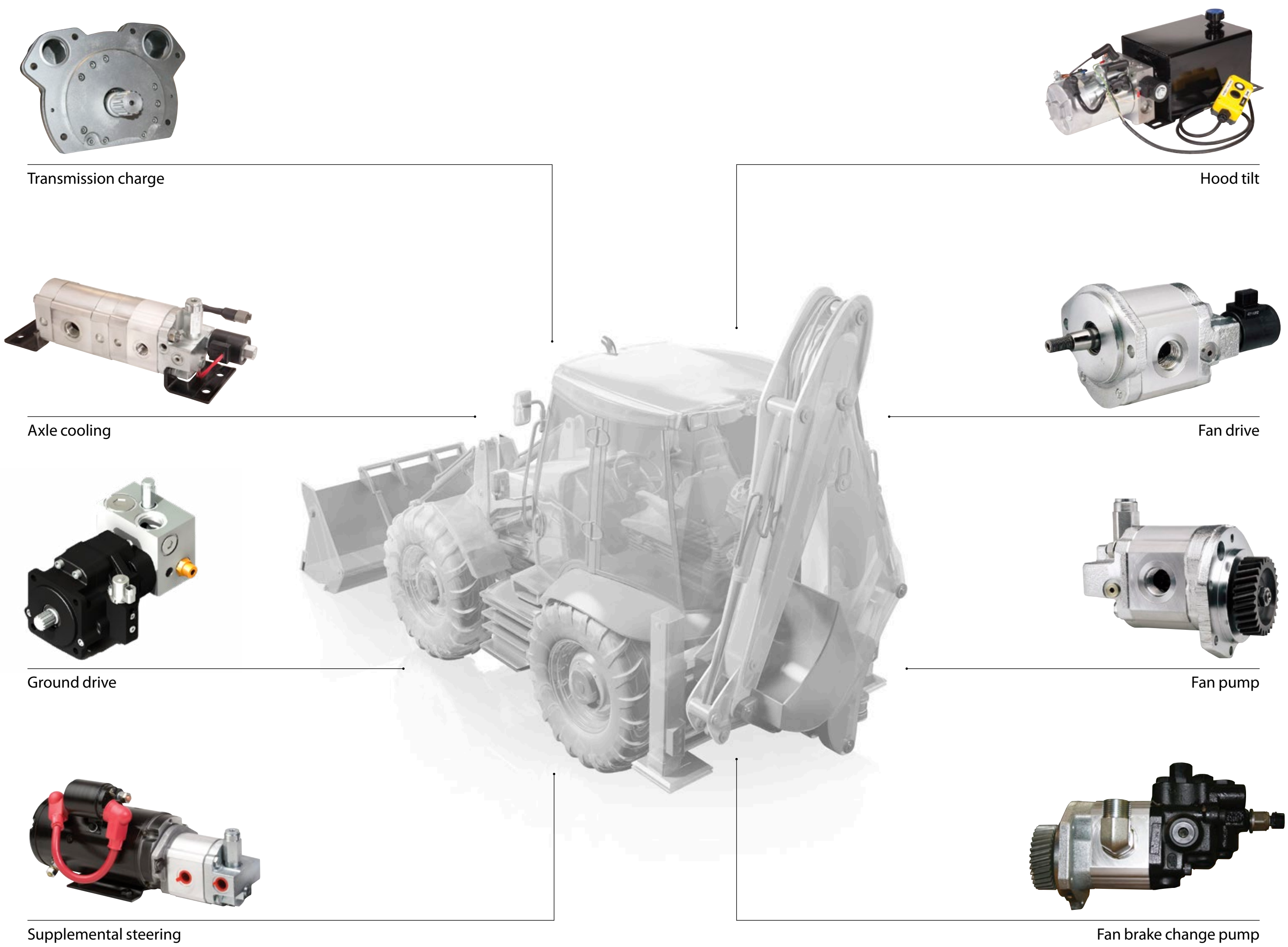
The US Environmental protection agency (EPA) have proposed greenhouse gas (GHG) emissions and fuel efficiency standards for medium- and heavy-duty vehicles. The proposed standards will cover model years 2021 to 2027. The engines for these models are currently being developed and our new technology is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

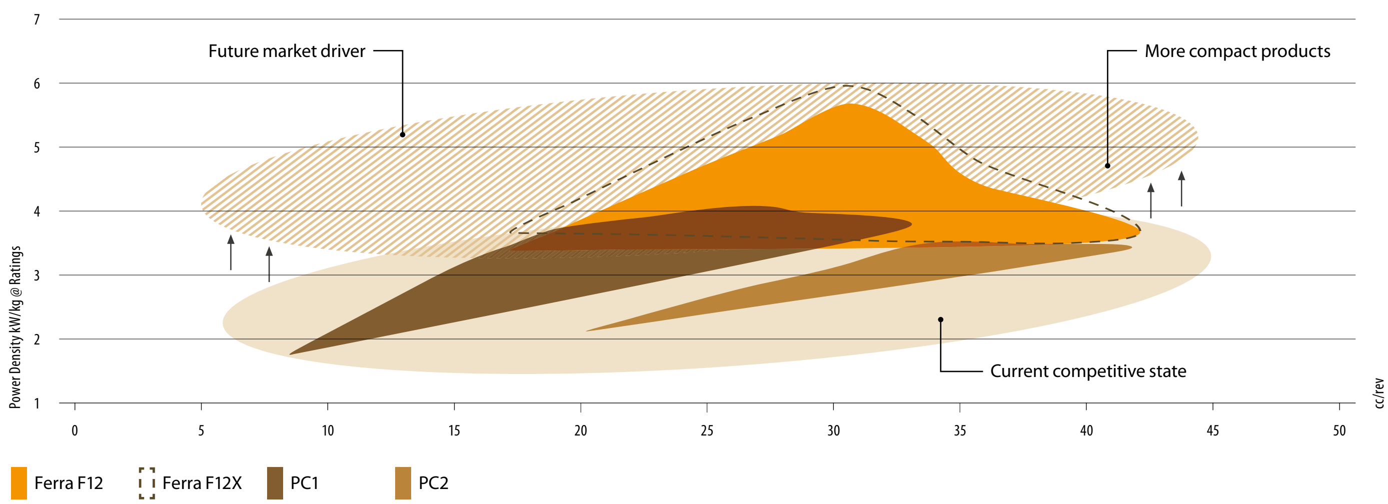
Energy efficiency

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 an 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.

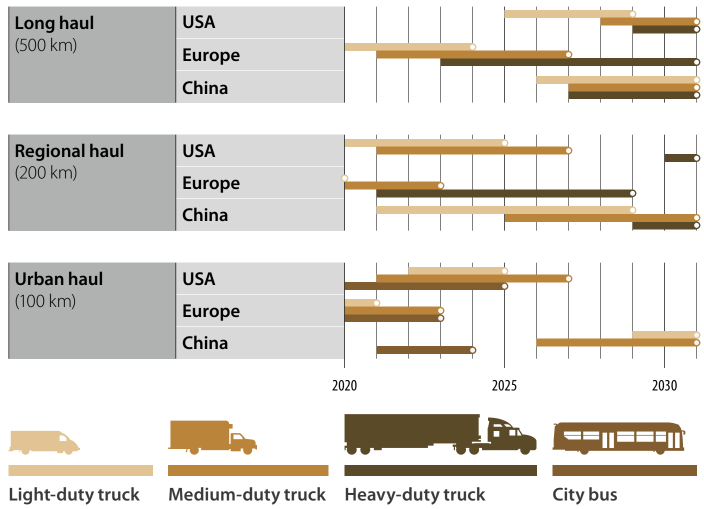
Medium average daily distances show the earliest TCO break-even point. Urban city buses will break even earliest in the heavy-duty segment. Electric city buses, an adaptation of a purpose-built Heavy duty truck (HDT), could break-even the earliest in the HDT segment, between 2023 and 2025 for the average 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

Bringing the world's most valuable resource to light – **our talent.**

Concentric has a rich heritage of technology advancement and continuous innovation that spans more than 100 years. Over time, we have gone from strength to strength as we harness groundbreaking product development to achieve strong customer satisfaction and market leadership. Through it all, we know that our most important asset is our people. It is the imagination of our people, the diversity and inclusion of different talents and minds, and their delight in achieving the extraordinary, that keep us evolving and growing to new heights of excellence.

It stands to reason that our biggest investment is therefore in our people. Our innate ability to think differently and innovate is enabling us to transform our approaches and strategies to acquire, nurture and preserve the best talent. As our employees learn and grow, we will foster transformational thinking, build future leaders and technology experts to achieve a razor-sharp workforce that will secure our leadership position well into the future.

Consequently, our focus is on not only meeting, but exceeding the expectations of our employees. Talented employees are generally ambitious. They want growth opportunities, self-driven paths to promotions and the possibility to explore new technologies and ideas.

This mindset excites and inspires us: we want to foster a diverse pool of talent that introduce fresh new skill sets, knowledge and experience into the dynamic. As the heart and soul of Concentric, our employees will be encouraged to hone a growth mindset. We will provide them with access to learning and training for them to acquire new competencies along their career development paths.

In today's challenging context, it is even more imperative to think differently and dare to evolve our existing talent strategies. Concentric remains steadfast in our goal: to acquire and develop talent that would make a steady and measurable impact on our business performance. >

Concentric brings technology and innovation together in daily work and routines. We work on long-lasting sustainable ideas and products. In addition to direct products, we are also focused on sustainability in the entire supply chain and in the production. I find it inspiring to work for a greater good.

Janina Bielski

Viewing talent as a strong business differentiator, Concentric is set to take advantage of the complexities of the times, seeing opportunities to initiate relevant policies and actions. To this end, we have identified three elements essential to taking our talent strategy to the next level:

Talent Acquisition: whereby we identify our current and future hiring needs before developing a clear and compelling view of Concentric designed to engage talent that are relevant to us.

Talent Development: we continuously create connected development processes and programs which are focused on developing our future leaders and technical specialists. The guiding light here is ensuring all talent processes are not only transparent but well-embedded across Concentric.

Communication and Engagement: we believe it is vital to connect with employees through communications which are consistent, engaging and leadership led. To this end, we will use multiple channels of communication to disseminate key messages and establish and reinforce Concentric goals and commitments.

> **Concentric is a relatively small, lean organisation with a global presence. This puts us in pole position to offer our employees a multitude of opportunities to grow and develop as professionals and individuals. Everyone wears more than one hat, which is both fun and challenging as it allows you to explore your skills, take accountability and make a valuable impact.**
>
> Sarah Dryden
> Vice President, Human Resources, Concentric AB.

Dynamics of getting it right

But first, what exactly is talent acquisition? Simply put, it is the process of attracting, recruiting and developing the best talent available to ensure we have the right people, with the right skills and who are in the right job.

The dynamics of today's talent acquisition mean that it really is no longer a case of hiring the first most suitable candidate whose application crosses the desk in the shortest possible time. Instead it is about how we can continuously "access talent" in varying ways: mobilising internal resources, finding the right people and strategically leveraging technology to both support sourcing and boost recruitment success.

The connected workplace

The reality is that the workplace needs to be connected as never before. Previously, diverse departments existed apart and worked in silos. Today departments and functions are integrated. Information is shared seamlessly and openly, no matter where someone or even a team happens to sit – whether across the corridor or halfway across the globe.

Concentric is quickly gearing up to enable this transformation. We understand how vital the role communication plays in enabling our people to realise the company they work for: our values, strategic direction, key messages and grounding principles. Understanding fosters engagement and commitment, as the members of our teams grasp the macro implications of the part they play and their contribution to our collective success.

Our leaders also play a pivotal role here. They make it a point to communicate with employees openly and regularly, building strong relationships and fostering loyalty. It helps them drive performance, productivity and a positive work environment, while helping secure the successful execution of their long-and short-term strategies.

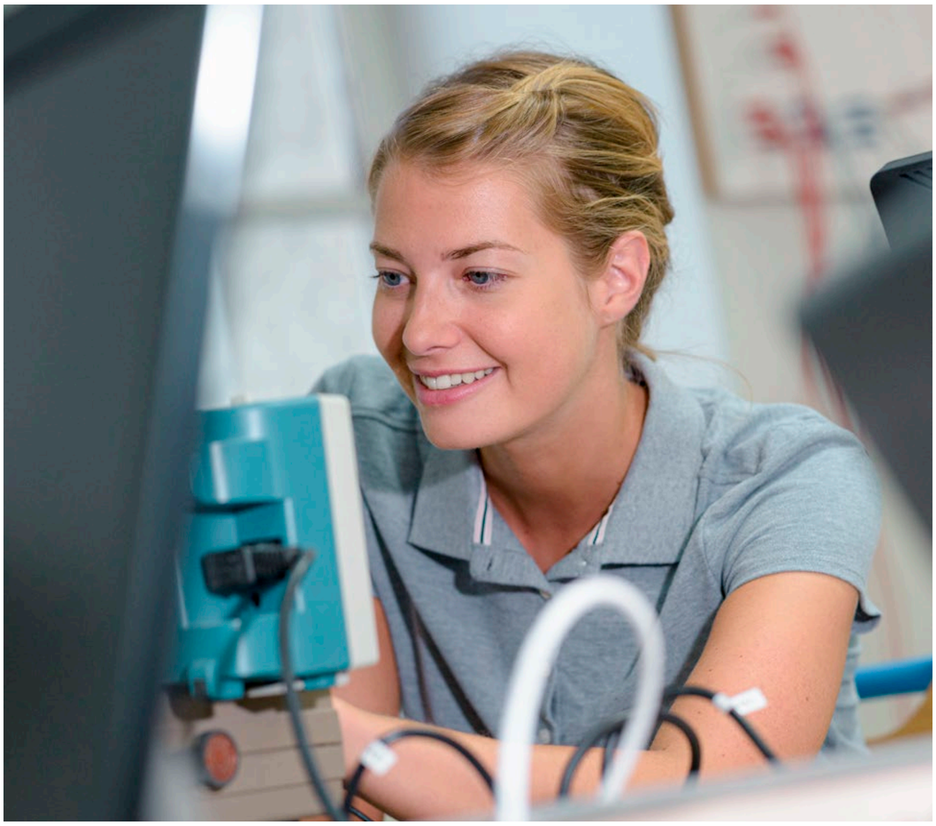
Guided by our values

There is an honest ambition at Concentric, on all levels and positions, to find ways to transform work into a compelling experience. Our core values reflect the fundamental convictions of our company. They are the compass for our actions and the guiding principles of how we act and work with our various stakeholders.

The goal of our employees should be to live out these values every day. Our values include being customer focused and being passionate about Concentric Business Excellence (CBE) in everything we do. CBE is our leading differentiator and enables Concentric to deliver best in class service, product and results. At the heart of CBE it is our people who make the difference. Our employees embrace the principles of change readiness and teamwork, engage with energy and bring their talent. This creates the environment for innovation and the opportunity to improve and grow together to create an uplifting and fun place to work.

Our organisational structure eliminates excessive layers of management, gives people more responsibility, and supports faster, easier decision making. We are lean, adaptable and quick to respond. When asked, our employees describe us as being purposeful, supportive and constant. We have the right support mechanisms in place to hone talent from good to great. These are some of the attributes that enable us to provide tremendous possibilities for individual growth. It also means that our employees have the freedom and backing to explore ideas that they can convert to reality. >

> Collaboration is everywhere within Concentric – not only within the different departments but between them as well. It is truly essential, and we communicate freely with one another; whether it involves a document change request, or a material review. I find there are always members of other departments present to lend a helping hand or provide valuable input.
>
> German Fonseca
> Superior Quality Engineer, Concentric AB



Concentric transforms work into a compelling experience by providing employees with the opportunity and responsibility to solve problems such as design solutions or methods of testing pump performance. Additionally, working within a team with clearly defined roles allows people to work in an area that they enjoy and excel in.

Michael Esnouf

The talent to thrive

We have come a long way with developing the talents and skills of the people we employ. The road we have travelled is marked with the rewards of our strategies and policies. We recognise that growing our talent leads to the development of the next generation of experts and leaders and we experience firsthand the positive impact on corporate performance. We are continuously working to not only provide opportunities for growth and development, but also to recognise and reward commitment and drive.

Now as we continue ahead, the decisions we make are critical to enhancing our competitive edge and thriving in the age of disruption. Creating new business opportunities through fresh, innovative thinking is the engine of business growth. We bring people from diverse backgrounds, experiences and perspectives to foster innovation needed to meet the needs of our increasingly diverse customer base.

We are challenging ourselves to think differently and to create possibilities for building a diverse and inclusive workforce. We focus on approaches and strategies that support the acquisition and advancement of women at all levels of management within Concentric. We promote internal talent mobility and support cross-functional teams driving collaboration across disciplines.

The pivotal role of our leaders

Leaders play the role of trendsetters and motivate people to deliver exceptional outcomes by way of exemplification. Research findings show that 70% of variance in the scores of employee engagement will depend upon the role played by the leadership in setting the direction, providing the right culture and motivation to the employees. At Concentric, it is our leadership and the culture they manifest that are the driving forces for building a workforce that's passionate, proud and filled with purpose.

The commitment and engagement of our CEO sets the tone for our company and fosters a culture that rewards teamwork, thinking outside the box and being progressive. He and the members of the board and management all function as mentors for individuals within the organisation. In this way, we build high performance teams, aligned with the objective of fulfilling a common purpose by following a collaborative approach.

A study by Deloitte revealed that by 2020, around 86% of people will quit their jobs because of the lack of career growth and developmental opportunities. Concentric invests in our people, embracing talent and providing opportunities and development to showcase the best of their abilities.

Our leaders nurture future leaders, taking a hands-on approach to succession planning. They understand that the time to develop the next generation of specialists is now in order to secure business continuity and growth while preserving the confidence of stakeholders. As a core process within Concentric, our leaders have a keen focus on creating a nurturing, supportive environment for advancing pivotal roles and individuals and growing talent through actions like providing stretch assignments and dedicated development plans.

Connecting the social dots

As a company that prides itself on being at the forefront of innovation, Concentric is ensuring a solid technological infrastructure is in place to support our talent acquisition goals. Today, we are increasingly active in social and mobile recruiting, using relevant platforms like LinkedIn to reach the largest and most relevant audience possible. We will continue to push the envelope on emerging technologies to stay relevant and attractive.

Indeed, we have entered a period of seismic change, moving even deeper into a highly competitive, digital world. Now, more than ever, we realise the need to access a new generation of talent who have the ability to harness new technology, drive innovation and empower this change. Concentric is focused on winning the race. And we will, as we have done time and time again with our resilience, agility and sheer adaptability.

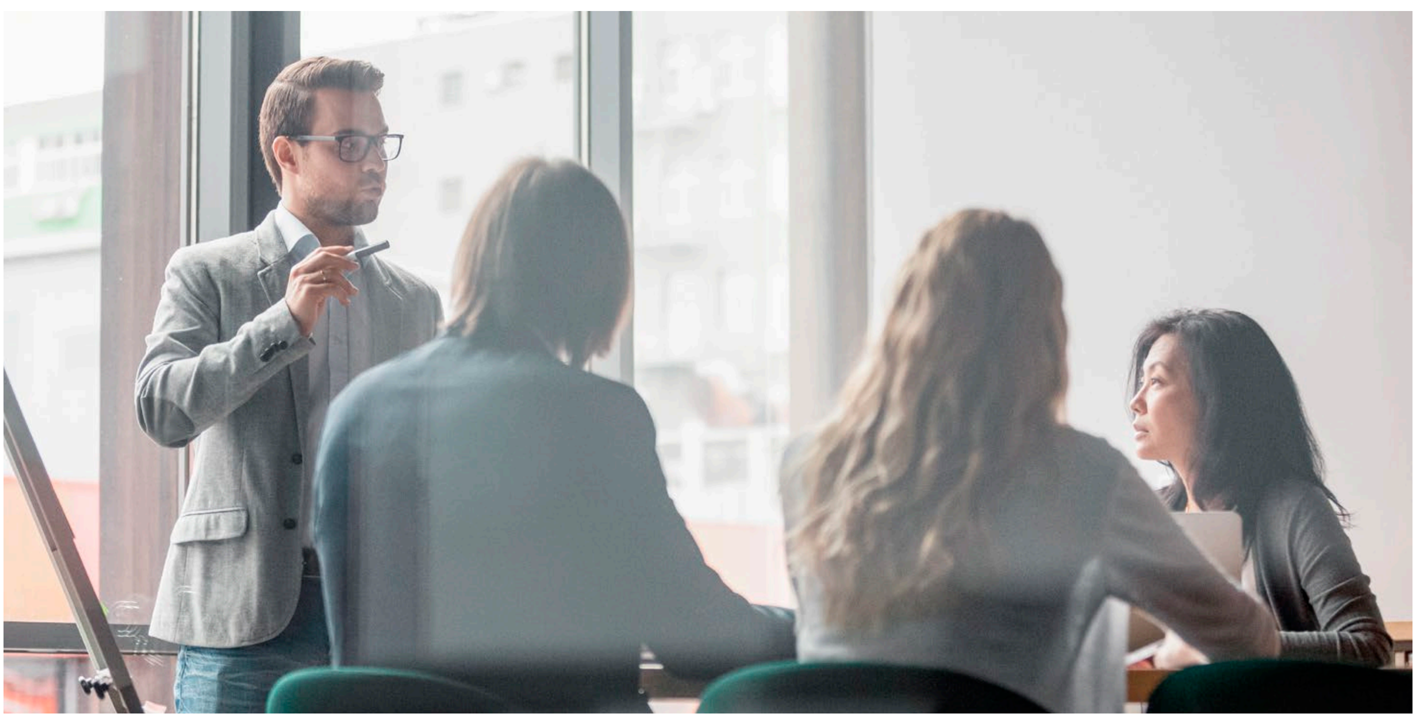
Looking ahead, going further

We know that staying ahead of the game today is all about engaging and building relationships with the talent around us. We are harnessing the power of technology to identify the right talent – precisely and cost-efficiently. We are actively building and managing communities of talent, internally as much as our wider online and offline talent community. Today, we are mastering the art of developing relationships via social networks and we are in the process of building a strong brand with the use of powerful communication.

Most importantly perhaps, we are always present and available to interact personally: from face-to-face meetings, to telephone calls, messages and mail. We make it a point to provide consistent, cut-through communication and that irreplaceable warm, human touch.

Digitalisation, diversity and disruption are shaping our future. Concentric is putting people at the heart of our business to manage these forces. We will derive strong, intelligent strategies that are rooted in our unique ability to combine the best of us as people with that of technology. It is so that we will thrive, as we enrich ourselves with the talent to keep our competitive edge sharp, performing in a workplace that is inclusive, connected and nurturing. ■

> **Concentric is passionate about using the power of technology and innovation to drive change. We are well known for our innovations that transition from mechanical to electric machine engineering and we are constantly looking for solutions that achieve a sustainable future. This makes us a highly attractive workplace, and a magnet for brilliant minds ...**
>
> Sarah Dryden
> Vice President, Human Resources, Concentric AB



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 according to the GRI Standards: Core option. Therefore we report the year 2019 as fully GRI compliant and include the outcomes of the Group's efforts on sustainability and environmental matters, see pages 118–125.

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.

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.

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. Further information around Management's approach to sustainability is set out on page 119.

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 2019	Results 2018
Ethics & 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%	**23.5%**	**22.1%**
			Gearing (Net Debt/Equity) should amount to 50% ≥ 150%	**5%**	**1%**
			Dividends should correspond to at least one third of the Group's consolidated after-tax profit over the course of a business cycle	**54%**	**41%**
			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	**3.76**	**3.67**
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 & 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	**22.6%**	**16.1%**
			Increase the number of female wage earners to 22% by 2025	**15.5%**	**17.4%**
			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.	**24.1%**	**26.1%**
			Improve operating efficiency by reducing energy consumption (kWh per MSEK 1 of sales value)	**11.43**	**10.45**

[1] Sweden's financial supervisory authority

Concentric's operations in 2019 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	2,012
Suppliers	Procurement of goods and services as well as depreciation, amortisation	–1,085
Employees	Wages, social expenses and competence development	–455
Financial Institutions	Interest	–19
The State	Taxes	–132
Shareholders	Net income	321

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 & continuity of supply ■ Technology & innovation	■ Customer service & relationship ■ PPM & warranty claims record ■ Delivery (OTIF%) ■ Product development to support changes in emissions legislation	■ Product responsibility ■ Climate impact ■ Resource efficiency
Suppliers	■ Regular supplier days & workshops ■ Factory inspections & on-site supplier audits ■ Code of conduct for suppliers	■ Product quality & warranty claims record ■ On time fulfilment of orders & continuity of supply ■ Technology & innovation ■ Environmental program ■ Health & safety	■ PPM & warranty claims record ■ Delivery (OTIF%) ■ Product development ■ Waste management ■ Human rights ■ Anti-corruption ■ Risk management ■ Co-operation	■ Ethics & value creation ■ Product responsibility ■ Responsible suppliers ■ Resource efficiency
Employees	■ Annual employee surveys ■ Personal development discussions ■ Training & 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 & value creation ■ Equality & 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 & value creation ■ Product responsibility ■ Climate impact ■ Responsible suppliers ■ Equality & 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 & energy ■ Environmental compliance ■ Domestic supply chain ■ Waste management ■ Human rights	■ Ethics & value creation ■ Product responsibility ■ Climate impact ■ Responsible suppliers ■ Equality & 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

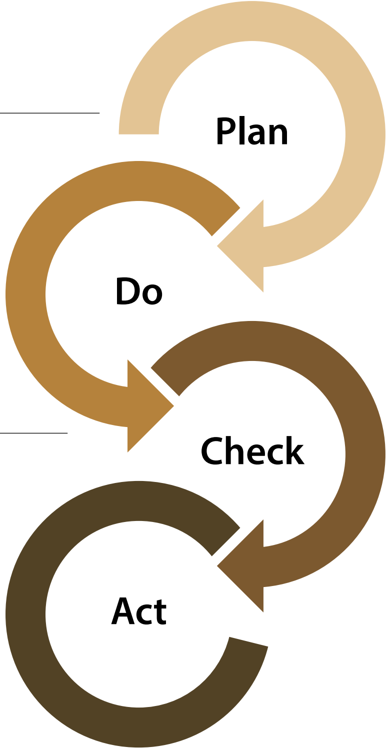
Concentric's Business Excellence programme ("CBE") underpins the Group's approach to sustainability in everything we do.

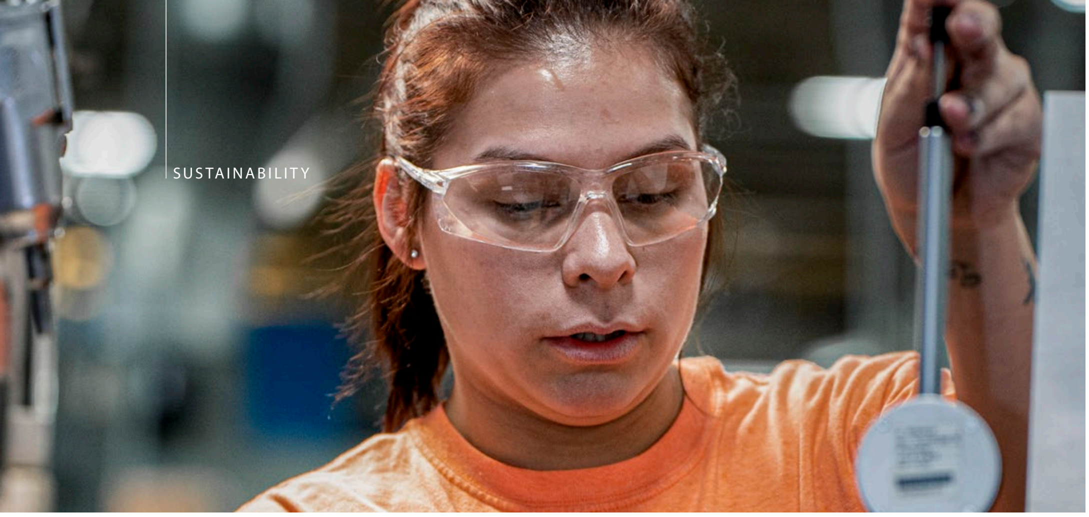
Plan
Design and communicate clear targets

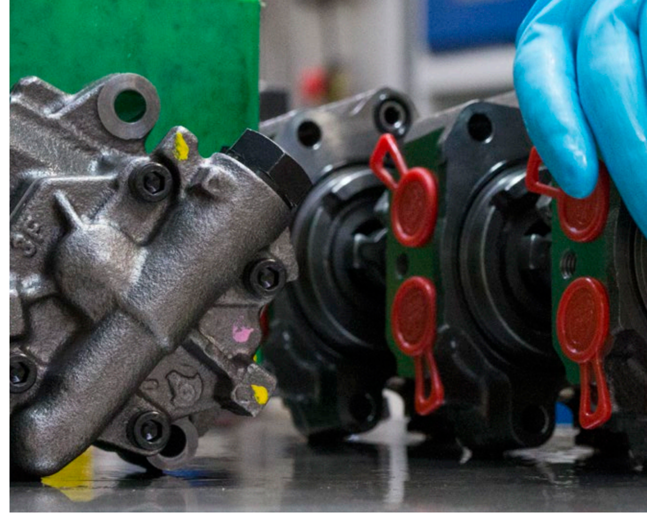
Do
Implement improvement activities

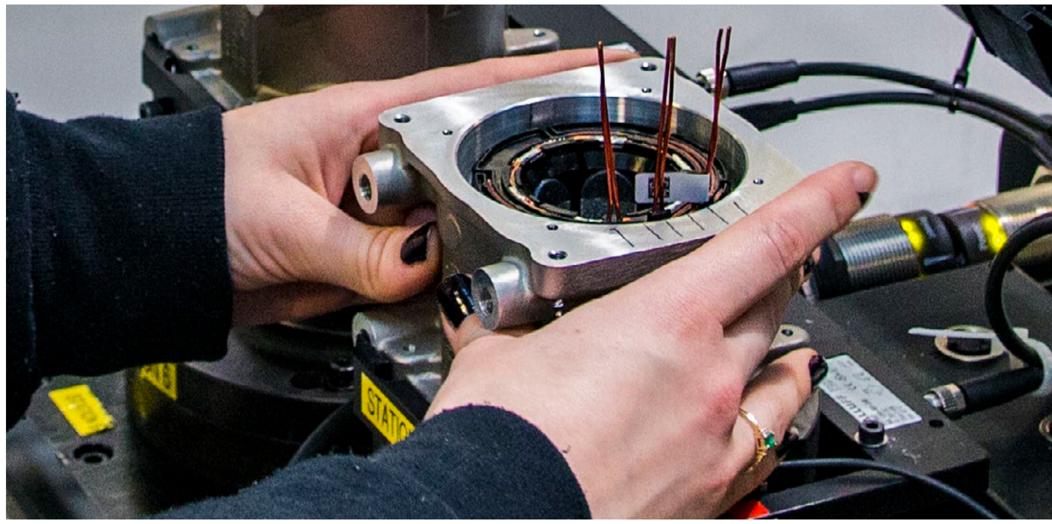
Check
Obtain feedback and analyse results

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	2019	2018	2017	2016	2015
Argentina	75	83	84	89	127
China	19	19	18	21	21
Germany	164	199	190	200	219
India	145	169	173	171	174
Sweden	61	70	59	57	62
UK	149	182	182	182	193
USA	201	243	242	216	256
Other	0	1	3	3	3
Total	**814**	**966**	**951**	**939**	**1,055**

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.

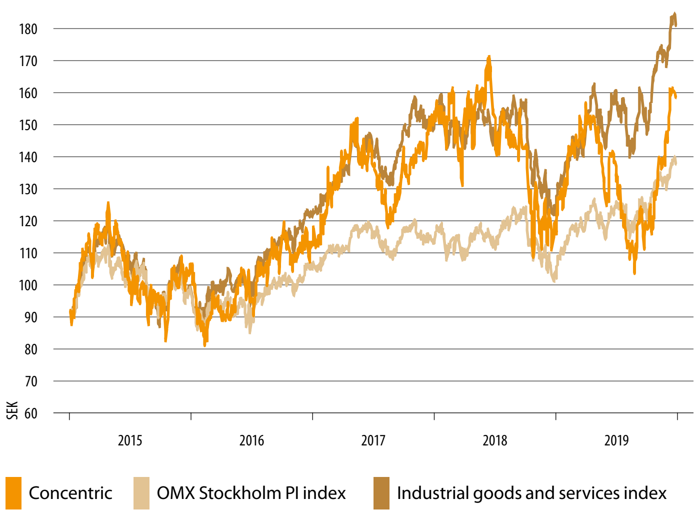
Suppliers to Concentric shall deploy and respect ethical standards throughout the supply chain in compliance with the Concentric Codes of Conduct and shall ensure these are implemented in their everyday business actions and decisions.

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

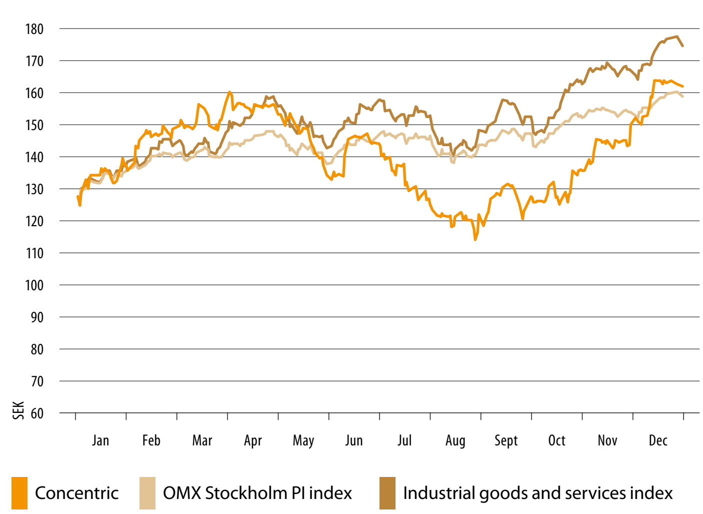
The Concentric share has been listed on the NASDAQ OMX Stockholm Exchange midcap list since June 16, 2011, and is traded under the ticker symbol COIC. The market capitalisation of Concentric at 31 December, 2019 amounted to MSEK 6,005 represented by 37,766,733 shares at a market price of SEK 159.00.

Share value (1 January 2015–31 December 2019)



Source: Nasdaq

Share value (1 January 2019–31 December 2019)



Source: Nasdaq

Data per share

	2019	2018	2017	2016	2015
Basic earnings before items affecting comparability, SEK	8.37	10.22	7.39	5.95	6.48
Basic Earnings, SEK	8.37	10.30	7.54	6.01	6.45
Diluted Earnings, SEK	8.27	10.27	7.52	6.00	6.44
Return on equity, %	29.5	41.6	37.0	32.2	31.7
Dividend, SEK	4.50 [1]	4.25	3.75	3.50	3.25
Own shares repurchased, SEK	3.60	3.79	3.60	2.10	3.44
Market price at year end, SEK	159.00	119.80	151.00	113.75	107.00
Equity, SEK	30.08	26.55	22.36	21.18	20.46
EBITDA multiple	11.0	7.7	13.1	11.4	10.8
EBIT multiple	12.6	8.8	15.2	14.4	12.9
P/E ratio	18.7	11.4	19.7	18.7	16.6
Payout ratio, %	53.8	41.3	49.7	58.2	50.4
Dividend yield, %	2.8	3.5	2.5	3.1	3.0
Dividend and buy-back yield, %	5.1	6.7	4.9	4.9	6.3
Basic average number of shares (000's)	38,369	39,322	40,238	40,924	42,058
Diluted average number of shares (000's)	38,849	39,456	40,374	40,973	42,119
No. of shares at 31 December (000's)	37,767	38,633	39,542	40,482	41,180

[1] Proposed dividend for consideration at the 2020 AGM

Price trend and trading

The price paid for the Concentric share increased 33% (–21) in 2019 to SEK 159.00 (119.80) at year-end. The Industrial Goods & Services index increased 45% (–16) and the OMX Stockholm PI Index increased 30% (–8) during 2019. The highest closing price for the share during the year was registered at SEK 161.20 (171.00) and the lowest closing price was SEK 104.40 (109.40). Concentric's market value as of 31 December 2019 was MSEK 6,005 (4,628). In 2019, a total of 16.5 (9.4) million Concentric shares were traded, corresponding to 44% (23) of the total number of shares. For the five years ending 31 December 2019, Concentric's shares have given a total annual average return to shareholders of 14% (14). Total shareholder return for the year ended 31 December 2019 was 36% (–19).

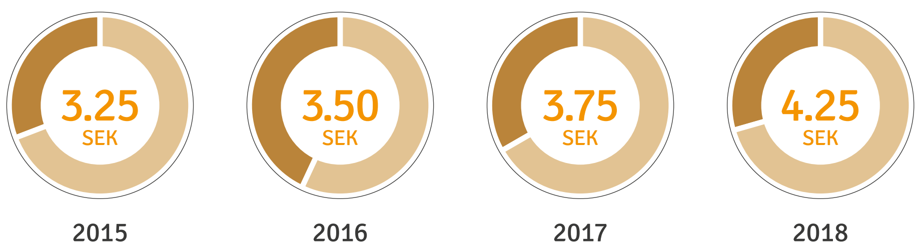
Dividend development

Dividend development per share for FY 2015–2019.
Graph shows proposed dividend for 2019.

Dividends 2019

Ordinary	Special
3.25 SEK	1.25 SEK

[1)] Proposed dividend for consideration at the 2020 AGM.



Analysts monitoring Concentric

SEB	Klara Jonsson
Danske Bank	Björn Enarson
Kepler Cheuvreux	Mats Liss

Incentive programmes

Concentric AB Annual General Meeting 2016–2019 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. See also note 24 for the Group.

Ownership structure

The distribution of shares remained consistent during 2019, 56% (58) of the total number of shares are held by ten investors. Swedish entities and individuals hold 67% of the total number of shares, whilst the remaining 33%, half are held by either US or UK investors.

Ownership

At the end of 2019, Concentric had a total of 8,441 (7,934) shareholders. Foreign shareholders accounted for approximately 33% (34) of the total number of shares. Swedish institutions accounted for the main part of Swedish ownership. At year-end, 57% (56) of the Company was owned by legal entities and 10% (10) 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)
10%	33%	57%

Distribution of shares, 30 December 2019

No. of shares	No. of shareholders	% of shareholders	% of total share capital
1–500	6,477	76.7	2.6
501–1,000	1,028	12.2	2.1
1,001–5,000	724	8.6	4.1
5,001–10,000	74	0.8	1.4
10,001–15,000	25	0.3	0.9
15,001–20,000	22	0.3	1.0
> 20,001	91	1.1	87.9
Total	**8,441**	**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, 30 December 2019

Name	Votes capital, %	No. of shares
Nordea Investment Funds	9.4	3,691,465
SEB Investment Management	9.2	3,588,023
Handelsbankens Fonder	7.5	2,944,474
Lannebo Fonder	7.1	2,800,000
Swedbank Robur Fonder	5.7	2,235,655
RBC Investor Services Bank S.A.	3.9	1,523,282
Fjärde AP-Fonden	3.9	1,510,154
CBNY-Norges Bank	3.5	1,361,904
Öhman Fonder	3.2	1,262,043
State Street Bank and Trust Co. W9	2.9	1,146,968
Total 10 largest external shareholders	**56.3**	**22,063,968**
Total other external shareholders	**40.0**	**15,702,765**
Total, excl own holding	**96.3**	**37,766,733**
Own share holding	3.7	1,457,367
Total	**100.0**	**39,224,100**

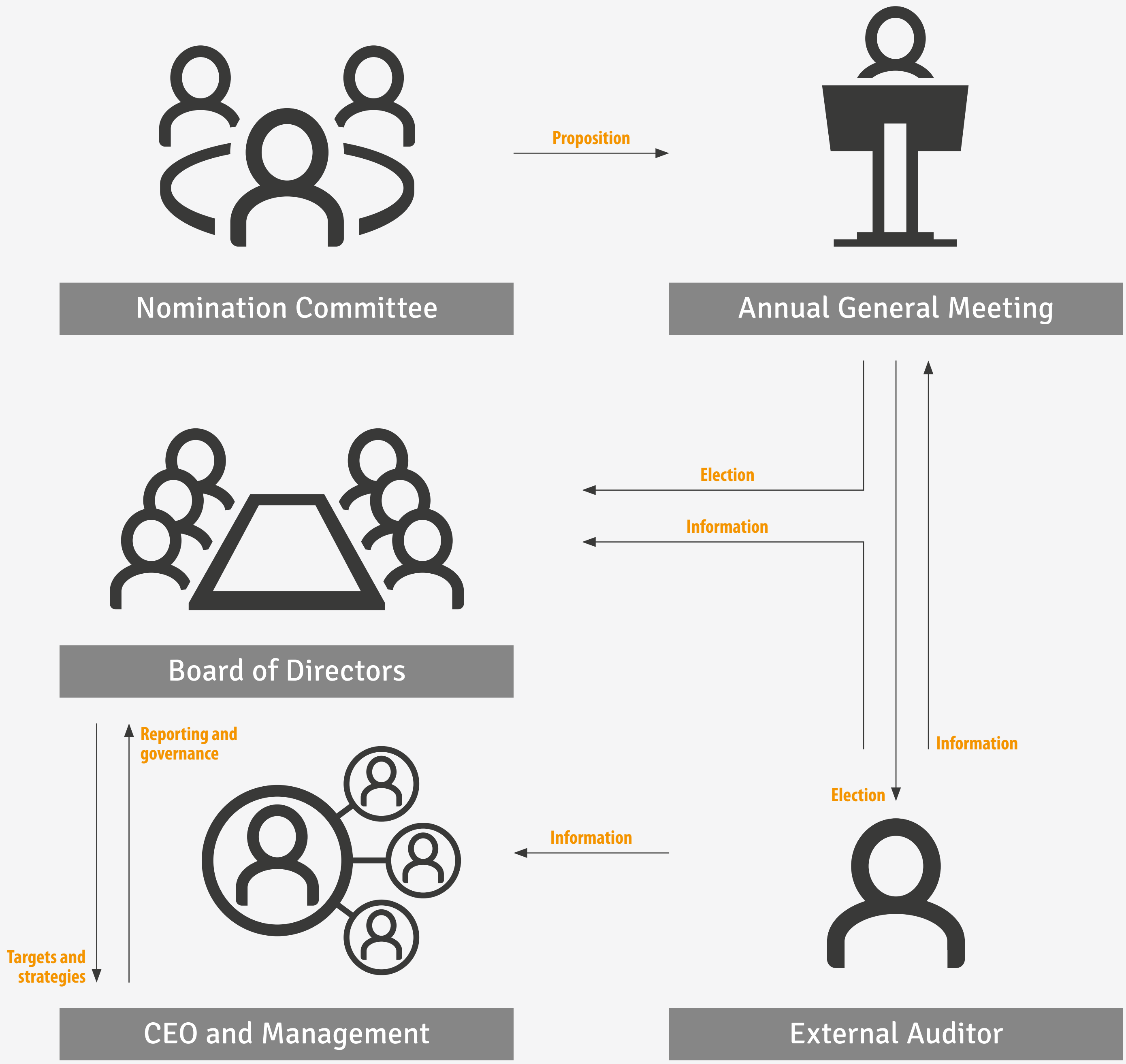
Corporate governance in Concentric

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 2019. 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, 2019 totals MSEK 97.3 (97.3), represented by 37,766,733 (38,632,564) outstanding shares, excluding own shares. Each share carries equal voting right and dividend rights.

The number of Concentric's shareholders at 31 December, 2019 amounted to 8,441 (7,539), with Nordea Investment Funds representing the largest owner with 9.4% (10.6) of the share capital. Swedish ownership totalled 67% (66) at year end 2019. Information concerning ownership is updated each month on Concentric's website, *www.concentricab.com*.

Annual General Meeting 2019

Concentric's Annual General Meeting was held in Stockholm on 4 April, 2019.

In total, 104 shareholders participated at the Annual General Meeting. These represented 55.38% of the registered shares in Concentric and 57.10% 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 eight members with no deputies. Marianne Brismar, Kenth Eriksson, Martin Lundstedt, Anders Nielsen, Susanna Schneeberger, Martin Sköld and Claes Magnus Åkesson were all re-elected for the period until the Annual General Meeting in 2020. The meeting elected Karin Gunnarsson as a new member and 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 2020.
- It was decided that the Chairman of the Board will receive SEK 700,000, and that other members of the Board of Directors will receive SEK 325,000 as remuneration for work on the board. Additional consideration shall be paid with SEK 100,000 to the chairman of the Compensation Committee and the members of the Compensation Committee shall receive SEK 50,000. The Chairman of the Audit Committee shall receive SEK 150,000 and the members of the Audit Committee shall receive SEK 75,000.
- Fees to the auditor in respect of services performed are proposed to be paid against approved account.
- A resolution was taken, in accordance with the board's proposal, on a dividend of SEK 4.25 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 2019 to participants resident in the United Kingdom to take part in a Joint Share Ownership Plan ("JSOP").
- A resolution was taken to retire 807,000 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 807,000 and the share capital being increased by SEK 195.

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 2019 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 2020 Annual General Meeting

In accordance with a decision by the 2019 Annual General Meeting, the Chairman of the Board and one representative of each of the four largest shareholders have been appointed to form the Nomination Committee for the 2020 Annual General Meeting. Based on the ownership structure as of 31 August, 2019, these shareholders were:

- Lannebo Fonder, Nordea AB, Swedbank Robur and SEB Fonder. Combined, they represented 31.4% of the voting rights in Concentric AB per 31 December 2019.

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 Per Trygg, SEB Fonder.

The composition of the Nomination Committee was disclosed through a press release and a posting on Concentric's website, on 23 October, 2019. 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 2020.

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 2019 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 VP Group Human Resources and the heads of geographical regions, a total of five 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 CEO

The Instructions for the CEO 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 64. 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 2019, the Board of Directors held a total of 9 meetings. The main issues addressed were:

- Reviewing relevant policies, procedures and instructions for the Group.
- Reviewing external communications, including interim reports and financial statements for the Group and Parent Company.
- Reviewing budget and strategic plans, including proposals for development projects, significant capital investments and major business agreements.
- Reviewing the Group's capital structure and ongoing financing arrangements.
- Appraising acquisition opportunities.
- Ongoing monitoring of the Group's operations, including evaluating economic, environmental and social aspects of the Group's performance, end-market developments, organisational matters, monthly accounts, disputes and the overall performance of management.

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 2019. 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 2019

Board member	Board	Audit Committee	Compensation Committee	2019/20 Board Fees (SEK)
Kenth Eriksson [1]	9	7	3	825,000
Anders Nielsen [2]	9	–	3	425,000
Claes Magnus Åkesson [3]	9	7	–	475,000
Karin Gunnarsson	7	5	–	400,000
Marianne Brismar	8	2	–	325,000
Martin Lundstedt	6	–	–	325,000
Susanna Schneeberger	9	–	–	325,000
Martin Sköld	9	–	–	325,000
				3,425,000

[1] Chairman of the Board
[2] Chairman of the Compensation Committee
[3] Chairman of the Audit Committee

Compensation Committee

Tasks

Under the Code and the Swedish Companies Act, the Board is to establish a Compensation Committee within its own ranks, or, alternatively, the tasks of such committee 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 2019, there were 3 Compensation 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 2019 Annual General Meeting resolved that fees totalling SEK 3,425,000 will be paid for the period up until the end of the 2020 Annual General Meeting and be distributed among the Board members as set out in the table on page 59. 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.

For more details of the guidelines, please see in Board of Directors report on the pages 71–74.

Incentive programmes

Concentric AB Annual General Meeting 2016–2019 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 2019

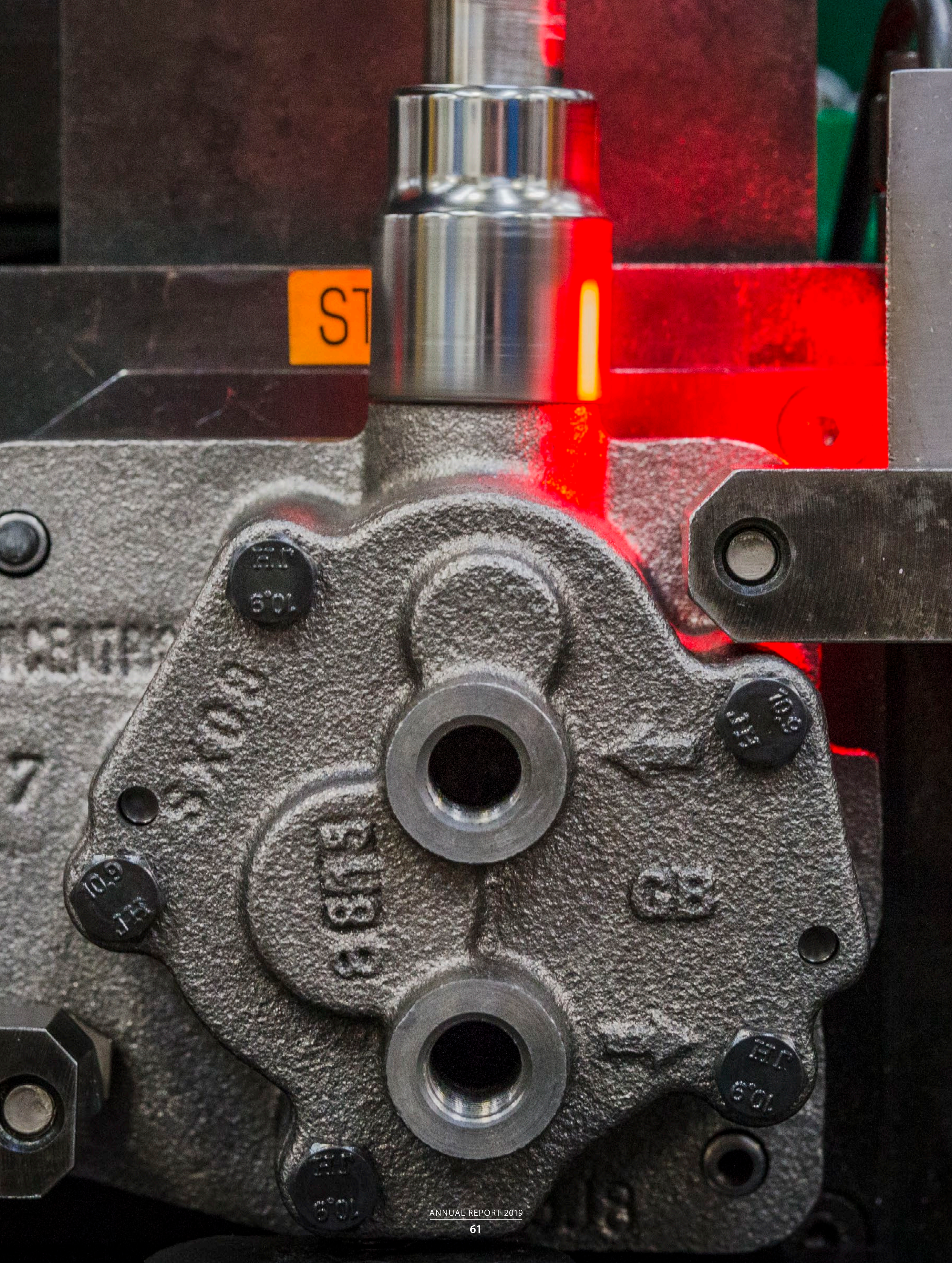
The AGM resolved on a long-term incentive programme, LTI 2019, consistent with previous years.

The programme comprise 7 senior executives, including the CEO, and other key employees within the Concentric Group. In order to participate in LTI 2019, the participants made their own investments in Concentric shares in the stock market. Each Concentric share acquired under LTI 2019 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 SEK 114.00 and SEK 171.00 respectively.

For more information about the Company's LTI schemes, see Group note 8 on page 89–90.

Amounts in KSEK	Basic salary/ Benefits in kind	Annual variable remuneration	Long term variable remuneration	Pension	2019 Total
President and CEO David Woolley	5,786	2,414	4,541	–	12,741
Other senior executives	9,078	1,837	2,166	387	13,468
Total	**14,864**	**4,251**	**6,707**	**387**	**26,209**

The number of other senior executives are 4 (6). For guidelines on remuneration see pages 71–74.



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.

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 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 2019, there were 7 audit Committee meetings.

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 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 control 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 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 Audit Committee.

Internal audit

Given the risk assessment described above and how the control activities are designed, including self-assessment and in-depth analysis of the internal control, the Board of Directors has chosen not to maintain a specific internal audit function.

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
Chairman of the Audit Committee and 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.

Anders Nielsen
Chairman of the Remuneration Committee and member since 2017
Born 1962

M.Sc. Industrial Engineering and Management.

CTO Vestas Wind Systems A/S from 1 April 2020. Previously CTO at TRATON, responsible for product development associated with the brands of Scania, MAN and Volkswagen Caminhões e Ônibus 2016-2019, 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, Konecranes Oy 2017-2019.

Shareholding in Concentric: 2,100 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 Väst AB. Board member of Axel Johnson International AB, Axis Communications AB, Greencarrier AB and JOAB AB. Was on the Board of Creades AB and Semcon AB until 2019 and joined the Board of Derome AB in 2019.

Shareholding in Concentric: 31,440 shares. Independent in relation to the Company, the senior Management and to major shareholders.

Karin Gunnarsson
Member since 2019
Born 1962

B.Sc. Business Administration.

Boardmember of Beijer Electronics Group AB. Previously CFO and responsible for Investor Relations in HEXPOL AB. Experience from various positions in Finance and Controlling, such as SVP Group Controlling at Telelogic AB and as Group Accounting Manager at Trelleborg AB.

Shareholding in Concentric: 2,500 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.

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 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.

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: 120,000 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: 4,310 shares.

Sarah Dryden
Vice President Group,
Human Resources
Born 1976

LLB Law and LLM European (Employment) Law.

Sarah Dryden joined Concentric as VP Human Resources in April 2019. Prior to joining Concentric, Sarah held a number of senior international HR roles through a 17 year career in United Technologies. Most recently she was the Head of UK HR Service delivery for the Aerospace business as well as having European HR responsibility for implementing a global HR system and transforming HR services.

Shareholding in Concentric: 1,620 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: 28,000 shares.

Jesse Smith
Head of region Americas
Born 1969

B.Sc. Business Management Systems and MBA.

Jesse Smith was appointed as Senior Vice President, Head of region Americas in July 2019. Jesse has over 10 years' experience with Concentric, previously holding the role of VP and Managing Director of the Rockford facility. Prior to joining Concentric, Jesse held a number of operations leadership positions within industry.

Shareholding in Concentric: 750 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 2019. 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.

This year saw a step-change in the number of opportunities and order nominations of our e-Pumps. Our critical success factor has been to develop and offer a wide range of high performance, high efficiency pumps with low to high-pressure capability and the ability to integrate these pumps seamlessly with electric motors, controllers and software that deliver world-class reliability, low energy use and full diagnostic capability.

During 2019, Concentric had, on average, a total of 844 (1,024) employees at its sites in Argentina, China, Germany, India, United Kingdom, United States, and its sales offices in France, Italy, South 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 2,012 (2,410), down 17% year-on-year in absolute terms. Adjusting for the impact of currency (+3%), the underlying year-on-year sales decreased for the year by 20%. This reduction reflects the decision by one of our customers, a global OEM, to dual source components. Excluding this sales in both periods, the sales in constant currencies were down 11%.

Consolidated gross income increased to MSEK 627 (817), resulting in a gross margin of 31% (34%). Reported EBIT and EBIT margin amounted to MSEK 472 (529) and 23.5% (21.9) respectively.

There was a warranty provision release associated with a product quality claim. The claim was resolved amicably with the customer at no cost to Concentric. The underlying operating margin, excluding this release was 21.8% compared to the report operating margin of 23.5%.

Our management teams have worked efficiently through the Concentric Business Excellence programme throughout the year to reduce the cost of capacity for the reduction in demand to maintain strong EBIT margin.

Americas

External sales for the year amounted to MSEK 863 (1,184). Sales for the year were down 27% and after adjusting for the impact of currency (+4%), sales in constant currency were down 31%. Excluding sales of dual components to the global OEM from both periods, sales were down by 13%.
Diesel engine product sales in our North American end-markets were down 32% year-on-year due to the destocking of customers in North America. Sales of hydraulic products also showed declines year-on-year of 25% for the same reason. Demand in South America continued to show growth across all end market applications.

Reported EBIT and EBIT margin as a percentage of external sales amounted to MSEK 161 (215) and 18.7% (18.1) respectively. The operating margin for the full year, before items affecting comparability was 18.7% (15.8).

Europe & RoW

External sales for the year amounted to MSEK 1,432 (1,477). Sales were down year-on-year by 3% after adjusting for the impact of currency (+3%). Sales in the truck market have held up in the year but fallen by double digit percentages to all other end markets. Demand in India has fallen across all end market sectors as a result of reduced liquidity in the market.

Reported EBIT and EBIT margin as a percentage of external sales amounted to MSEK 317 (312) and 22.2% (21.1) respectively. The underlying operating margin for the year, excluding items affecting comparability, was 22.2% (22.8).

Net financial items, taxes and net earnings

Net financial expenses for the year amounted to MSEK 19 (14), comprising of pension financial expenses of MSEK 13 (13) and other net interest expenses of MSEK 6 (1). Accordingly, consolidated income before taxation amounted to MSEK 453 (515) for the full year.

The Group's tax expenses for the fiscal year 2019 amounted to MSEK 132 (110). The Group's effective annual tax rate was 29% (21). This increase in effective tax rate largely reflects a withholding tax charge for the payment of a dividend within the Group from India to the UK. This one-off withholding tax increased the effective tax rate by 6%. The remaining increase reflects the mix of taxable earnings.

Earnings after taxation amounted to MSEK 321 (405). Basic and diluted earnings per share amounted to SEK 8.37 (10.30) and SEK 8.27 (10.27) respectively.

Cash flow

Cash flow from operating activities for the full year amounted to MSEK 386 (554) which represents SEK 10.05 (14.02) per share.

Investments and product development

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

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 46 (50), which represents 2.3% (2.1) 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 2019 the fair value of those derivative instruments that were assets was MSEK 2 (3), and the fair value of those derivative instruments that were liabilities was MSEK 1 (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 1 (44).

As a result, the Group's net debt at 31 December 2019 was MSEK 54 (12), comprising bank loans and corporate bonds of MSEK 1 (180), loans related to leasing MSEK 85 (1) and net pension liabilities of MSEK 499 (514), net of cash amounting to MSEK 531 (683).

Shareholders' equity amounted to MSEK 1,136 (1,026), resulting in a gearing ratio of 5% (1). Net debt calculated to previous accounting principles, excluding leases according to IFRS16 of MSEK 85, would have been MSEK –31.

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 626), to replace the existing undrawn credit facility in the same amount which was due to expire. The term loan has been fully repaid during 2019.

Acquisitions

There were no acquisitions completed during 2019 or 2018.

Related party transactions

A significant withholding tax payment has been made for a dividend within the Group from India to UK. Other than this payment and 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 five 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. Our 2019 Sustainability Report has been prepared in accordance with GRI Standards:Core option and is included on pages 40–47.

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 16 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 1,157 (1,300) at year-end, corresponding to 58% (54) 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 (including liabilities for leasing, but excluding pensions) will increase or decrease by MSEK 1 (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	**2019**	**2018**	**2019**	**2018**
EUR	10.5892	10.2567	10.4336	10.2753
GBP	12.0658	11.5928	12.2145	11.3482
USD	9.4604	8.6921	9.3171	8.9710

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	**2019**	**2018**	**2019**	**2018**
EUR	10	13	8	15
GBP	4	8	33	24
USD	10	24	29	28

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, 2019, 58% (62) of the anticipated net flows was hedged via derivative instruments. 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 2019, the Group had outstanding derivatives with a total net nominal value of MSEK 133 (155) with a fair value of MSEK –1 (3).

Translational risks

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

Credit risk

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

The Group's accounts receivable amounted to MSEK 178 (215) 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 2019, no single customer accounted for more than 16% (19) 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, 2019 the Group had MSEK 414 (440) placed in banks with a long term rating from Moody's of Aa1–Aa3, MSEK 28 (46) in banks with a Moody's rating of A1–A3 and MSEK 84 (192) in banks with a Moody's rating (or equivalent) of Baa2–Baa3. The remaining MSEK 5 (5) 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 8,441 (7,539) shareholders at the end of the financial year. The Company's largest shareholder was Nordea Investment Funds 9.4% (Swedbank Robur Fonder 10.6). At year-end there were no (two) shareholders that hold in excess of 10% of the votes and capital of the Company. The four largest shareholders held together 33% (36).

Share capital, shares outstanding and rights

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

During 2019 Concentric AB sold 169,400 (123,600) of its own shares for MSEK 13 (12), representing 0.4% (0.3%) of the shares of the Company, to satisfy options granted under the Company's LTI programmes which were exercised. The Company also bought back 1,035,231 (1,033,529) of its own shares for a purchase price of MSEK 136 (146) representing 2.6% (2.6) of the shares of the Company. The total number of holdings of its own shares at year-end 2019 was 1,156,667 (1,210,516), which represented 2.9% (3.0) of the total number of shares of the Company. In addition to this, the total number of own shares transferred to an Employee Share Ownership Trust are 300,700 (188,020). Including these shares the company's holdings was 1,457,367 (1,398,536) representing 3.7% (3.5) of the total number of shares.

The number of shares outstanding at year-end, excluding any dilution from share options, was 37,766,733 (38,632,564). 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 48–51.

Board authorisations

At the last AGM in April 2019, the following board members were re-elected: Kenth Eriksson, Anders Nielsen, Claes Magnus Åkesson, Marianne Brismar, Martin Lundstedt, Martin Sköld, and Susanna Schneeberger. The AGM also elected Karin Gunnarsson as a new director.

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 52–63.

Remuneration

The 2019 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 2020 AGM new executive remuneration policies on executive remuneration that should be valid until the 2024 AGM. See proposal below. Estimated costs for variable remuneration and LTI-schemes will be about MSEK 15 (15), including social security cost, for 2020.

The Board's proposal for resolution on guidelines for salary and other remuneration

The Board proposes that the general meeting resolves on the following guidelines for salary and other remuneration to directors, the Chief Executive Officer (CEO) and other senior executives. The group of senior executives encompassed by these guidelines comprises the CEO and other members of the group executive management who report directly to the CEO and have strategic accountability for business unit operations and governance matters directed by the Board. These guidelines will be valid for agreements entered into after the general meeting's resolution and for changes made to existing agreements thereafter. These guidelines do not apply to any director fees decided or approved by the general meeting or such issues and transfers as are covered by Chapter 16 in the Swedish Companies Act.

The guidelines' promotion of the company's business strategy, long-term interests and sustainability

In short, Concentric's business strategy is the following:
Concentric is one of the world's leading pump manufacturers and seek to deliver sustainable growth for every application in the markets the company serve. Concentric strive to improve fuel economy, reduce emissions and improve engine control through technical solutions and precision engineering.

Concentric create value for its customers through:

- developing world class technology with innovative solutions that meet the demands of customers/end markets;
- selling locally to global customers by capitalising on the global infrastructure and teams the company have; and
- embedding business excellence in all that the company do.

The people are Concentric's most valuable asset and the company aim to leverage and nurture the unique skills of the company's teams across the globe through a strong and inclusive corporate culture.

Concentric aim to deliver strong and sustainable shareholder returns and target growth both organically and through acquisitions which deliver complementary technologies.

For more information regarding the company's business strategy, please see ***www.concentricinvestors.com***.

It is of fundamental importance to the company and its shareholders that these guidelines, in both a short and long term perspective, enable the company to attract and retain senior executives and other employees with excellent competence. The purpose of these guidelines is to increase transparency in remuneration and to create incentives for senior executives, to execute strategic plans and deliver effective operational results to support the company's business strategy and long-term interests, including its sustainability. 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. These guidelines enable the company, regardless of geographical market, to offer the senior executives a competitive total compensation.

Remuneration and remuneration forms

The terms of employment for senior executives should consist of a balanced combination of fixed remuneration, annual bonus, pension and other benefits and terms for dismissal/ severance payment. Furthermore, the Board may prepare and the general meeting resolve, on share and share-price related incentive programmes. Such a combination of compensation fosters and supports management and achievement of objectives in both a short and long-term perspective.

The remuneration should be based on performance and be competitive. The various types of remuneration that may be paid out are described below. As a share of the total compensation the following guidance shall apply:

- Fixed remuneration 50%
- Annual bonus 25%
- Long-term incentive programme (LTI) 25%

The total compensation of the senior executives shall be evaluated against relevant (geographical and industry) market data to maintain fair and balanced terms which are at the same time competitive within the market.

Fixed remuneration

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

Annual bonus

Senior executives have an annual bonus that is payable after each year end. The annual bonus is structured as a variable part of the total compensation. Bonus objectives shall primarily be based on the outcomes of financial objectives for the entire company as well as clearly defined individual objectives with respect to specific assignments. The latter is to ensure that the senior executive also focuses on non-financial objectives of specific interest. The financial and non-financial objectives shall be designed so as to contribute to the company's business strategy, long-term interests, including its sustainability.

The financial objectives for the company shall be established by the Board annually. On behalf of the Board, the Compensation Committee establishes the financial objectives for individual units proposed by the CEO. The Compensation Committee shall make its annual evaluation based on the latest financial information made public by the company.

The individual objectives for senior executives are set up to a maximum of 4 which account for between 15 and 30 per cent of the total annual bonus award. Individual objectives will focus on strategic targets related to people, revenue growth in all economies and accelerating technology.

The individual objectives for the CEO are directly aligned to strategic growth and development of the business and are agreed by the Compensation Committee. In turn, the individual objectives for the senior executives have the same focus and alignment to ensure flow-down through each business and function. The individual objectives are proposed by the senior executives in agreement with the CEO, with final approval from the Compensation Committee. At the end of the bonus period, each senior executive will provide an evidence-based assessment of their performance against individual objectives for agreement and approval by the CEO. The CEO's assessment of performance will be agreed and approved by the Compensation Committee.

The part of the total compensation consisting of the annual bonus varies depending on position and may be up to 50 per cent of the fixed remuneration at full objectives achievement. The bonus objectives 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 only after approval by the Compensation Committee unless payment is guaranteed by an existing legal agreement or contract.

The company does not have any potential deferral periods or according to agreements any possibility to reclaim variable remuneration.

Remuneration payable to directors

In certain cases, directors elected by the general meeting should be able to receive fees and other remuneration for work carried out on the company's behalf, alongside their Board work. Fees at market rates, to be approved by the Board, may be payable for such services.

Pension

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 contributions are based solely on fixed remuneration and the pension scheme(s) in operation will be appropriate to comply with governing local legislation. Senior executives in the UK are invited to participate in a defined contribution plan which sets 12 per cent employer contribution rate. Senior executives in the USA participate in a 401(k) pension scheme. The company ensures adherence to the scheme rules of each plan.

For employments governed by rules other than Swedish, pension benefits may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of these guidelines.

Other benefits

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

For employments governed by rules other than Swedish, other benefits may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of these guidelines.

Special remuneration

Further variable remuneration may be awarded in extraordinary circumstances, provided that such extraordinary arrangements are limited in time and do not exceed 36 months, and may only be made on an individual basis, either for the purpose of recruiting or retaining executives, or to induce individuals to move to new places of service or accept new positions or as remuneration for extraordinary performance beyond the individual's ordinary tasks. Further, the total compensation 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. Any resolution on such remuneration shall be made by the Board based on a proposal from the Compensation Committee.

Long-term incentive programme

In order to foster a long-term perspective in the decision-making and to ensure long-term achievement of objectives, the Board may propose the general meeting to resolve on long-term incentive programmes.

The Board has used long-term incentives in order to ensure that senior executives within the company have a long-term interest in a stable value increase of the Concentric share, which support the company's business strategy, including its sustainability. By implementing an incentive programme that is connected to the company's profits and at the same time its increase in value, the long-term growth of the company is rewarded and fostered. Further, long-term incentive programmes also aim to make the company a more attractive employer, which contributes to the company's ability to retain key employees within the group as well as to recruit new key employees.

The Board has several times proposed long-term performance based incentive programmes under which senior executives and key employees have been entitled to receive employee stock options, that entitle the participants to acquire shares in the company. The structure of the scheme requires the employee to acquire shares in Concentric AB in order to participate in the scheme. Under the programmes, the employee stock options can, after three years and subject to certain conditions, be exercised to acquire Concentric shares. This will be possible during a three-month period from the date when the company's report for the first quarter after those three years is published.

The LTI scheme is subject to proposal and agreement within a clear governance structure which, in order, is the Compensation Committee, the Board and finally, the annual general meeting.

Terms for dismissal etc.

Terms for dismissal and severance pay shall correspond to what may be deemed market practice on each relevant market. The CEO has a notice period of 12 months. Other senior executives have a notice period up to 6 months. In addition hereto, 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 remuneration.

Remuneration and employment conditions for other employees

In the preparation of the Boards' proposal for these guidelines, remuneration and employment conditions for employees of the company have been taken into account by including information on the employees' total income, the components of the remuneration and increase and growth rate over time, in the Compensation Committee's and the Board' basis of decision when evaluating whether the guidelines and the limitations set out herein are reasonable. The development of the gap between the remuneration to senior executives and remuneration to other employees will be disclosed in the new remuneration report that will be prepared for the next annual general meeting.

The decision-making process to determine, review and implement the guidelines

The Board and its Compensation Committee resolve on the structures of remuneration systems, as well as levels and forms of remuneration to senior executives. The Board shall prepare a proposal for new guidelines at least every fourth year and submit it to the general meeting. The guidelines shall be in force until new guidelines are adopted by the general meeting. The Compensation Committee shall monitor and evaluate programmes for variable remuneration for the executive management, the application of the guidelines as well as the current remuneration structures and compensation levels in the company.

The members of the Compensation Committee are independent of the company and its executive management. The CEO and other members of the executive management do not participate in the Board' processing of and resolutions regarding remuneration-related matters in so far as they are affected by such matters. Conflicts of interest are counteracted in all decisions and any potential conflicts of interest are handled in accordance with the company's framework for governance, consisting out of a code of conduct, policies and guidelines.

Derogation from the guidelines

The Board may temporarily resolve to derogate from the guidelines, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the company's long-term interests, including its sustainability, or to ensure the company's financial viability. As set out above, the Compensation Committee's tasks include preparing the Board's resolutions in remuneration-related matters. This includes any resolutions to derogate from the guidelines.

Description of material changes to the guidelines and how the views of shareholders' have been taken into consideration

The content of the guidelines has been reviewed and adapted to the legal requirements imposed by Directive (EU) 2017/828 of the European Parliament and of the Council amending Directive 2007/36/ EC as regards encouragement of the long-term shareholder engagement.

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.

Remunerations previously decided but not yet due

At the time of the annual general meeting on 23 April 2020, Concentric has no unsettled obligations of remuneration, except ongoing obligations to senior executives in accordance with the principles of remuneration described in the annual report.

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.

Significant post balance sheet events

Concentric will be affected by the pandemic virus, COVID-19, but it is too early to be able to quantify the financial and commercial effects on our business. The Company is closely following this developing situation and adhering to national government guidance, and taking the necessary action in the interests of our employees, customers and suppliers.

Parent Company

Net sales for the full year amounted to MSEK 62 (57), generating an operating income of MSEK 42 (37). The Company also received the following income from subsidiaries and joint ventures during the current and previous years:

- Dividends amounting to MSEK 743 (nil) arising from its wholly owned UK subsidiary undertaking, Concentric Pumps Limited.
- Group contribution amounting to MSEK 4 (5) arising from its wholly owned Swedish subsidiary undertaking, Concentric Skånes Fagerhult AB;
- Dividends amounting to MSEK 2 (2) arising from its 50% ownership in the Swedish joint-venture company, Alfdex AB.
- The cumulative net exchange rate losses and net interest expenses for 2019 amounted to MSEK 76 (86) and MSEK 17 (10) 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 40–47 and 118–125.

Outlook for 2020

Before the COVID-19 pandemic, our expectation, as suggested by the published market indices blended to Concentric's mix of end market applications and locations, was the overall market will continue to contract, most notably the medium and heavy duty truck markets in North America and Europe. The emerging markets offer growth potential particularly in the off-highway sectors, agricultural machinery and construction equipment, but our core markets of North America and Europe will continue to offer challenging trading conditions. Crucially we are confident that the changes made within the business during 2019 keep us very well positioned to adapt to the market as it develops in the shorter term and well prepared for increasing market activities in the longer term.

We expect to see an increasing demand from the rapidly evolving battery electric and hydrogen fuel cell vehicles and we will continue to invest in people product and manufacturing capacity to support this strategically important development.

However, it is clear that the pandemic and government interventions will impact our markets and our business, but it is too early to be able to quantify the financial and commercial effects at this time. The Company is closely following this developing situation and adhering to national government guidance, and taking the necessary action in the interests of our employees, customers and suppliers.

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 financial position, the Board of Directors propose to the shareholders at the Annual General Meeting a total dividend of SEK 4.50 (4.25) per share for 2019. This corresponds to an ordinary dividend of SEK 3.25 (3.00) which equates to around 39% (29) 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	1,059,537
Net income for the year	670,223
Total	**1,729,760**

The board of directors and the president propose that the funds of KSEK 1,729,760 be allocated as follows:

Amounts in KSEK	
Dividend of SEK 4.50 per share to shareholders	169,950
Carried forward	1,559,810
Total	**1,729,760**

Statement by the Board of Directors concerning the proposed dividend

The proposed dividend reduces the Company's equity to assets ratio from 51% to 48% and the Group's equity to assets ratio from 54% to 50%. 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	2019	2018
Net sales		2,012	2,410
Cost of goods sold		–1,385	–1,593
Gross income		**627**	**817**
Selling expenses		–24	–95
Administrative expenses		–140	–153
Product development expenses		–46	–50
Share of net income in joint venture	19	20	14
Other operating income	11	74	62
Other operating expenses	11	–39	–66
Operating income	**4, 5, 7, 8, 9, 10, 17**	**472**	**529**
Financial income	12	9	11
Financial expenses	12	–28	–25
Financial items – net		**–19**	**–14**
Earnings before tax		**453**	**515**
Taxes	13	–132	–110
Net income for the year		**321**	**405**
Attributable to:			
Parent Company shareholders		321	405
Non controlling interest		–	–
Basic earnings per share, SEK	14	8.37	10.30
Diluted earnings per share, SEK	14	8.27	10.27
Basic weighted average number of shares (000)	14	38,369	39,322
Diluted weighted average number of shares (000)	14, 24	38,849	39,456

Consolidated statement of comprehensive income

	2019	2018
Net income for the year	321	405
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Remeasurement gains	75	2
Tax arising on remeasurement gains	–13	–1
Remeasurement losses	–76	–46
Tax arising on remeasurement losses	20	9
Items that may be reclassified subsequently to profit or loss:		
Exchange rate differences related to liabilities to foreign operations	–105	–94
Tax arising from exchange rate differences related to liabilities to foreign operations	16	18
Cash-flow hedging	–1	1
Tax arising from cash-flow hedging	–	–
Foreign currency translation differences	157	135
Total other comprehensive income	**73**	**24**
Total comprehensive income	**394**	**429**

Consolidated balance sheet

	Note	31-Dec-19	31-Dec-18
Assets			
Fixed assets			
Goodwill	15	656	620
Other intangible fixed assets	15	162	190
Right of use fixed assets	16, 17	84	–
Other tangible fixed assets	16, 17	98	112
Share of net assets in joint venture	19	55	39
Deferred tax assets	18	137	132
Long-term receivables	38	6	5
Total fixed assets		**1,198**	**1,098**
Current assets			
Inventories	20	147	169
Accounts receivable	21, 38	178	215
Short-term loans receivable from joint venture	29, 38	3	–
Other current receivables	22, 38	62	69
Cash and cash equivalents	23, 38	531	683
Total current assets		**921**	**1,136**
Total assets		**2,119**	**2,234**
Shareholders' equity and liabilities			
Equity	24		
Share Capital		97	97
Additional Contributed Capital		583	583
Reserves		284	218
Retained Earnings		172	128
Total equity		**1,136**	**1,026**
Long-term liabilities			
Pensions and similar obligations	25, 34	499	514
Deferred tax liabilities	18	20	24
Long-term liabilities for right of use fixed assets	26, 27, 34, 38	62	1
Other long-term interest-bearing liabilities	26, 27, 34, 38	–	175
Other provisions	30	3	4
Other long-term liabilities	26, 38	2	4
Total long-term liabilities		**586**	**722**
Current liabilities			
Short-term liabilities for right of use fixed assets	26, 28, 34, 38	23	–
Other short-term interest-bearing liabilities	26, 28, 34, 38	1	5
Short-term loans payable to joint venture	29, 38	–	–
Accounts payable	26, 38	156	192
Other provisions	30	29	71
Other current liabilities	26, 31, 38	188	218
Total current liabilities		**397**	**486**
Total equity and liabilities		**2,119**	**2,234**

Information of pledged assets and contingent liabilities, see note 32

Consolidated changes in shareholders’ equity

		Reserves				
	Share capital	Additional contributed capital	Hedging reserve	Translation reserve	Retained earnings	Total
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
Opening balance January 1, 2019	97	583	3	215	128	1,026
Components of Comprehensive Income						
Net income for the year	–	–	–	–	321	321
Other Comprehensive income	–	–	–2	69	6	73
Total comprehensive income	–	–	–2	69	327	394
Dividend	–	–	–	–	–164	–164
Buy-back own shares	–	–	–	–	–136	–136
Sale of own shares to satisfy LTI 2016 options exercised	–	–	–	–	13	13
Long-term incentive plan	–	–	–	–	3	3
Closing balance December 31, 2019	97	583	1	284	171	1,136

Consolidated cash flow statement

	Note	2019	2018
Cash flow from operating activities			
Earnings before tax		453	515
Reversal of depreciation, amortisation and write-down of fixed assets		99	73
Reversal of net income from joint venture		–20	–14
Reversal of other non-cash items	33	23	43
Taxes paid		–135	–90
Cash flow from operating activities before changes in working capital		**420**	**527**
Change in working capital			
Inventories		25	17
Current receivables		49	–3
Current liabilities		–108	13
Change in working capital		**–34**	**27**
Cash flow from operating activities		**386**	**554**
Cash flow from investing activities			
Investments in property, plant and equipment		–19	–19
Cash flow from investing activities		**–19**	**–19**
Cash flow from financing activities			
Dividend		–164	–148
Dividend received from joint venture		2	2
Buy-back of own shares		–136	–146
Selling of own shares to satisfy LTI - options exercised		13	12
New loans	34	1	3
Repayment of loans	34	–207	–1
Pension payments and other cash flows from financing activities	34	–39	–44
Cash flow from financing activities		**–530**	**–322**
Cash flow for the year		**–163**	**213**
Cash and bank assets, opening balance		683	455
Exchange-rate difference in cash and bank assets		11	15
Cash and bank assets, closing balance		**531**	**683**

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 31 March, 2020. The statements will be adopted by the Annual General Meeting on 23 April 2020.

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 16 – "Leases"

IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019. IFRS 16 defines the standard how to account for, present and disclose lease agreements for both customers (lessors) and suppliers (lessees).

IFRS 16 replaces the previous leasing accounting standard IAS 17 Leases and related interpretations. IFRS 16 removes the previous classification of leasing as either operational or financial which was required under IAS 17. This is replaced with a coherent leasing model for all lessees.

At the effective date of IFRS 16 Concentric has chosen to apply the practical expedient to retain the previous definition of leasing. This signifies that IFRS is applied for contracts previously identified as lease agreements and that IFRS 16 is not applied for contracts previous concluded not to be in the scope of IAS 17. As a result the definition of leasing in IFRS 16 is only applied for contracts modified or entered into after the 1 January 2019.

Concentric has applied IFRS 16 using the modified retrospective approach at transition and therefore the comparative information has not been restated for 2018.

For Concentric the balance sheet total has increased as a result of capitalisation of contracts which previously have been classified as operational leases under IAS 17. This has improved operating profit as the entire period's lease fee is no longer accounted for as an operating expense on leases previously accounted for as operational leases. Instead depreciations and financial expenses have increased.

At transition the lease liability were initially measured at present value of the remaining lease payments, discounted using Concentric's incremental borrowing rate on the first application date (1 January 2019), Concentric has at transition chosen to measure the right-of-use asset at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before/after the commencement date. Concentric has at transition also elected to apply the practical expedient of not including contracts which have a lease term of 12 months or less and leases of low-value assets (underlying assets worth kSEK <10)

Fixed assets and financial liabilities have increased with MSEK 75, as per 1 of January 2019 due to the implementation of IFRS 16. See on pages 126–127 for detailed information of the effects of these new accounting principles.

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 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.

Advance consideration

The interpretation in IFRIC 22 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.

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

Sale of goods

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 recognized 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.

Design and development

The Group also has some revenue that arises 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. Revenue from sale of pre-production and off production prototypes are recognised when control transfers to the customer (i.e. upon delivery).

Variable consideration – prompt payment discounts

Some of the Group's facilities offer prompt payment discounts. The 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).

f) Leases

Policy applicable before 1 January 2019

Leases are 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.

Policy applicable from 1 January 2019

All leases, except for leases of low value (kSEK <10) and short-term leases (12 months or less), are reported as fixed asset in the balance sheet. The leasing obligations are reported as liabilities 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.

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.

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.

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 recognized 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) 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. 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. The Company derecognizes a financial asset when the contractual rights to the cash flows from financial asset expire, or it transfers the rights to receive the contractual cash flow in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfer nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

Offsetting
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.

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.)

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 2012–2019 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 2019, the total goodwill amounted to MSEK 656 (620). 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 231 (223) and to Europe and RoW segment amounts to MSEK 425 (397). 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 7.0% (7.2) was used for the Europe and RoW segment and 7.0% (7.9) was used for the Americas segment. This corresponds to WACC before tax of 8.3% (8.5) for Europe and RoW segment, and 8.8% (10.0) 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 2019 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 27 (67) and represented 1.3% (2.8) of net sales as of December 31, 2019.

Pensions

The pension liabilities recognised in the balance sheet are actuarial estimates based on annual assumptions and amounted to MSEK 499 (514) at year-end 2019. The principal assumptions are described in Note 25. At 31 December 2019, 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 165 (142). 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 203 (158). Since the Group´s UK companies account for approximately 71% (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. As our operations in India and China remain relatively small in comparison to our Western facilities, Europe & RoW continues to be reported as a single combined segment, in line with our management structure, comprising the Group's operations 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.

Proportional consolidation of Alfdex is used in Europe & RoW in the segment reporting, but adjusted to equity accounting in the statements according to IFRS 11.

No single customer accounts for more than 16% (19%) of the comprehensive income of the Group as a whole. There are three (three) customers with more than 10% of the Group's net sales in 2019. These customers contributed net sales of MSEK 849 (1,114), or 42.2% (46.2) and 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	
	2019	2018	2019	2018	2019	2018	2019	2018
Total net sales	882	1,202	1,504	1,600	–374	–392	2,012	2,410
External net sales	863	1,184	1,432	1,477	–283	–251	2,012	2,410
Operating income	161	215	317	312	–6	2	472	529
Operating margin, %	18.7	18.1	22.2	21.1	n/a	n/a	23.5	21.9
Financial income and expense	–	–	–	–	–19	–14	–19	–14
Earnings before tax	161	215	317	312	–25	–12	453	515
Assets	516	521	1,227	1,314	376	399	2,119	2,234
Liabilities	241	283	720	724	22	201	983	1,208
Capital employed	334	289	768	715	24	–2	1,126	1,002
Return on capital employed, %	49.9	75.9	40.6	41.7	n/a	n/a	42.5	51.3
Net investments in property, plant and equipment	6	2	42	24	–29	–7	19	19
Depreciation, amortization and write-downs	27	23	76	53	–4	–3	99	73
Number of employees, average	300	354	615	671	–71	–69	844	956

[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	
	2019	2018	2019	2018	2019	2018	2019	2018
USA	744	1,053	2	4	–	–	746	1,057
Rest of North America	28	31	10	12	–	–	38	43
South America	31	35	2	2	–	–	33	37
Germany	8	11	363	385	–	–	371	396
UK	13	19	144	151	–	–	157	170
Sweden	–	–	93	105	–	–	93	105
Rest of Europe	8	8	368	381	–	–	376	389
Asia	27	22	165	183	–	–	192	205
Other	4	5	2	3	–	–	6	8
Total Group	**863**	**1,184**	**1,149**	**1,226**	**–**	**–**	**2,012**	**2,410**

[1] Excluding the joint venture company Alfdex AB.

Total sales by product groups	Americas		Europe & RoW[1]		Elims/Adjs		Group	
	2019	2018	2019	2018	2019	2018	2019	2018
Concentric branded Engine products	337	655	557	593	–	–	894	1,248
LICOS branded Engine products	–	–	225	227	–	–	225	227
Alfdex branded Engine products	–	–	283	251	–283	–251	–	–
Total Engine products	337	655	1,065	1,071	–283	–251	1,119	1,475
Total Hydraulics products	526	529	367	406	–	–	893	935
Total Group	**863**	**1,184**	**1,432**	**1,477**	**–283**	**–251**	**2,012**	**2,410**

[1] Including the joint venture company Alfdex AB.

Total sales by end-markets	Americas		Europe & RoW[1]		Elims/Adjs		Group	
	2019	2018	2019	2018	2019	2018	2019	2018
Trucks	126	335	874	858	–268	–232	732	961
Construction	270	306	245	290	–	–	515	596
Industrial	338	352	206	211	–	–	544	563
Agriculture	129	191	107	118	–15	–19	221	290
Total Group	**863**	**1,184**	**1,432**	**1,477**	**–283**	**–251**	**2,012**	**2,410**

[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.

Tangible assets by operating location	2019[1]	2019[2]	2018
USA	36	27	27
Germany	57	22	29
UK	46	37	42
South America	2	2	4
Asia	41	11	10
Total Group	**182**	**99**	**112**

[1] Includes right of use assets according to IFRS16.
[2] Numbers according to old accounting principles.

Intangible assets by operating location	2019	2018
USA	288	290
Germany	67	71
UK	463	449
Total Group	**818**	**810**

NOTE 5

Costs distributed by type

	2019	2018
Direct material costs	948	1,126
Personnel costs	455	487
Warranty cost	–35	31
Depreciation and amortisation	99	73
Share of net income in joint venture	–20	–14
Other operating income	–81	–64
Other operating costs	174	242
Total operating costs	**1,540**	**1,881**

NOTE 6

Average number of employees

	2019	2018
Women	130	157
Men	714	799
	844	**956**

NOTE 7

Salaries and other remuneration

	2019	2018
Salaries and remuneration	359	387
Pension costs	10	15
Social security costs	67	69
External cost for temporary personnel	15	9
Other personnel costs	4	7
Total personnel costs	**455**	**487**

Salaries and remuneration to the Board of Directors, CEO and site General Managers amounted to MSEK 24 (23). The Board of Directors, consists of 8 (7) members, of whom 3 (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

	2019					2018				
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										
Kenth Eriksson, Chairman	779	–	–	–	779	615	–	–	–	615
Marianne Brismar	322	–	–	–	322	300	–	–	–	300
Karin Gunnarsson	300	–	–	–	300	–	–	–	–	–
Martin Lundstedt	310	–	–	–	310	262	–	–	–	262
Anders Nielsen	404	–	–	–	404	332	–	–	–	332
Susanna Schneeberger	310	–	–	–	310	262	–	–	–	262
Martin Sköld	310	–	–	–	310	262	–	–	–	262
Claes Magnus Åkesson	447	–	–	–	447	357	–	–	–	357
Total Board of Directors	**3,182**	**–**	**–**	**–**	**3,182**	**2,390**	**–**	**–**	**–**	**2,390**

	2019					2018				
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	5,786	2,414	4,541	–	12,741	5,307	3,261	2,569	–	11,137
Other senior executives[1]	9,078	1,837	2,166	387	13,468	11,867	4,361	1,636	644	18,508
Total	**14,864**	**4,251**	**6,707**	**387**	**26,209**	**17,174**	**7,622**	**4,205**	**644**	**29,645**

[1] Other senior executives consisted of 4 (5) people, of whom 1 (–) is a woman.

Employee stock options	LTI 2019	LTI 2018	LTI 2017	LTI 2016
President and CEO	70,760	61,480	68,800	102,240
Other senior executives	57,544	38,860	34,000	67,160
Total stock options	**128,304**	**100,340**	**102,800**	**169,400**

Employee stock options	64,152	50,170	51,400	84,700
Performance stock option 1	32,076	25,085	25,700	42,350
Performance stock option 2	32,076	25,085	25,700	42,350
Total stock options (=Number of shares)	**128,304**	**100,340**	**102,800**	**169,400**

Criteria for performance stock option 1	2021 EPS ≥ SEK 12.00	2020 EPS ≥ SEK 10.00	2019 EPS ≥ SEK 8.00	2018 EPS ≥ SEK 10.00[1]
Criteria for performance stock option 2	2019–21 Average ROE ≥ 30%	2018–20 Average ROE ≥ 25%	2017–19 Average ROE ≥ 25%	2016–18 Average ROE ≥ 25%[2]
Number of senior executives	**7**	**5**	**4**	**4**
Conditioned by own investment of shares	**32,076**	**25,085**	**25,700**	**42,350**

Changes in number of stock options	2019	2018	2017	2016
Opening balance, 1 January	**390,380**	**421,732**	**412,692**	**340,880**
Granted	128,304	104,740	124,040	187,172
Options exercised	–169,400	–123,600	–101,200	–115,360
Lapsed LTI 2014	–	–	–720	–
Lapsed LTI 2016	–	–4,692	–13,080	–
Lapsed LTI 2017	–17,840	–3,400	–	–
Lapsed LTI 2018	–	–4,400	–	–
Closing balance, 31 December	**331,444**	**390,380**	**421,732**	**412,692**

Key parameters	LTI 2019	LTI 2018	LTI 2017	LTI 2016
Average exercise price, SEK	128.25	131.30	110.80	79.75
Average price per option, SEK	23.13	24.60	29.28	25.73
Risk free interest rate, %	0.00	0.00	0.00	0.00
Expected volatility[2], %	26.00	28.00	29.00	30.00
Assumed dividend during 3 year period, SEK	14.32	11.25	11.35	10.14
Average share price at grant date, SEK	142.50	142.40	123.10	103.50
Lock up duration of scheme, years	3	3	3	3
Personnel cost recognised in year 2019, MSEK	1.1	1.6	2.2	0.8
Annual cost of scheme, MSEK	1.9	1.6	2.2	2.0
Total cost of scheme over 3 year vesting period, MSEK	5.8	4.9	6.6	6.0

[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

	2019	2018
KPMG		
Audit assignments	3	3
Other assignments	–	–
	3	**3**

NOTE 10

Depreciation and Amortisation

	2019 1)	2019 2)	2018
Cost of goods sold	46	29	32
Administrative costs	12	2	2
Product development costs	2	2	2
Other operating expenses	39	39	37
Total depreciation and amortisation	**99**	**72**	**73**

1) Includes right of use assets according to IFRS16.
2) Numbers according to old accounting principles.

NOTE 11

Other operating income and expenses

	2019	2018
Other operating income		
Revenue from tooling etc	10	1
Income from royalty from joint venture	58	53
Export incentives	5	5
Gain on sale of fixed assets	–	1
Other income	1	2
	74	**62**
Other operating expenses		
Amortisation of acquisition related surplus values	39	37
UK pension benefit, equalisation (GMP)	–	25
End of Customer contract provisions	–	4
	39	**66**

NOTE 12

Financial items – Net

	2019	2018
Financial income		
Interest income, external	9	11
Foreign exchange rate gains, net	–	–
Total financial income	**9**	**11**
Financial expenses		
Interest expenses, external	–3	–3
Pension financial expenses	–13	–13
Interest expenses for right of use assets, IFRS16	–2	–
Foreign exchange rate losses, net	–5	–4
Other financial items, external	–5	–5
Total financial expenses	**–28**	**–25**
Financial items – net	**–19**	**–14**

NOTE 13

Taxes

	2019	2018
Current tax	–87	–128
Deferred tax	–15	18
Withholding tax	–30	–
Total income tax	**–132**	**–110**

Deferred taxes relates mainly to pensions, provisions, intangible fixed assets and tax losses. Withholding tax relates to dividend from India to UK.

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	2018
Earnings before tax (MSEK)	515	515
Applicable tax rate in Sweden, %	–21	–22
Effect of different tax rates in foreign countries of operation, %	2	–2
Withholding taxes, %	–6	–
Non-tax deductible expenses , %	–2	–1
Non-taxable income, %	–	5
Tax attributable to prior years, %	–1	–3
Utilisation of previously unrecognised tax losses, %	–	1
Other timing differences, %	– 1	1
Reported effective tax rate, %	**–29**	**–21**

NOTE 14

Earnings per share

	2019	2018
Net income for the year, KSEK	321,112	405,111
Basic weighted average number of shares	38,369,281	39,321,660
Adjustments for the option programmes	479,753	134,015
Diluted weighted average no of shares	**38,849,034**	**39,455,675**
Basic earnings per share, SEK	8.37	10.30
Diluted earnings per share, SEK	8.27	10.27

NOTE 15

Intangible fixed assets

	Goodwill	Other intangible assets[1]	Capitalised development costs	Total
Acquisition value				
Balance at 1 January 2018	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
Balance at 1 January 2019	625	585	34	1,244
Investments	–	–	–	–
Sales/discards/reclassifications	–	–	–	–
Effect of movements in exchange rates	37	33	–	70
Balance at 31 December 2019	662	618	34	1,314
Accumulated depreciation and amortisation, including write-downs[2]				
Balance at 1 January 2018	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
Balance at 1 January 2019	5	395	34	434
Depreciation and amortisation	–	39	–	39
Sales/discards/reclassifications	–	–	–	–
Effect of movements in exchange rates	1	22	–	23
Balance at 31 December 2019	6	456	34	496
Carrying amounts				
As at 31 December 2018	**620**	**190**	**–**	**810**
As at 31 December 2019	**656**	**162**	**–**	**818**

[1] The acquisition value of other intangible assets of MSEK 618 (585) relates to Customer relationships and contracts of MSEK 363 (343), Brand MSEK 127 (120), Technology MSEK 103 (98) and other intangible assets MSEK 25 (24).
[2] Accumulated write-downs amounted to MSEK 32 (32).

NOTE 16

Tangible fixed assets

	Right of use fixed assets – IFRS16	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 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
Balance at 1 January 2019	–	103	23	795	292	11	1,224
Restated Opening Balance at 1 January 2019	75	103	23	795	292	11	1,299
Investments	28	–	–	12	3	–2	41
Sales/discards/reclassifications	6	–2	–	–2	–1	3	4
Effect of movements in exchange rates	2	3	–	36	9	–	50
Balance at 31 December 2019	111	104	23	841	303	12	1,394
Accumulated depreciation and amortisation, including write-downs[1]							
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
Balance at 1 January 2019	–	91	13	729	279	–	1,112
Depreciation and amortisation, including reversal of write-downs[2]	27	3	1	24	5	–	60
Sales/discards/reclassifications	–	–1	–	–2	–	–	–3
Effect of movements in exchange rates	–	3	–	32	8	–	43
Balance at 31 December 2019	27	96	14	783	292	–	1,212
Carrying amounts							
As at 31 December 2018	**–**	**12**	**10**	**66**	**13**	**11**	**112**
As at 31 December 2019	**84**	**8**	**9**	**58**	**11**	**12**	**182**

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

NOTE 17

Leases

The Group apply the accounting principles for Leases according to IFRS16 for 2019 and the old principles for 2018.
The Group's payment for operational non-terminable leasing agreements in 2018 fall due as follows:

	Premises 2018	Machinery 2018	Total 2018
up to 1 year	15	3	18
2–5 years	35	7	42
more than 5 years	18	–	18
Total	**68**	**10**	**78**

Total leasing cost charged to income statement during 2018 totaled MSEK 24. The leasing agreements primarily include rented premises and industrial machinery, but also include computers, office equipment, and vehicles.

Reconciliation note for leases in AR 2018 vs. lease liabilities according to IFRS 16

	New principles 1 Jan 2019
Operational leases at 31 Dec 2018 according to note in AR	78
Discounted by incremental borrowing rate as of 1 Jan 2019	73
In addition: Variable lease payments	2
In addition: Financial leasing liabilities reported as of Dec 31, 2018	1
In addition: Reclassification of items reported as of Dec 31, 2018	3
Total lease liabilities as of 1 Jan 2019	**79**

Right of use assets – by type of assets

	New principles 1 Jan 2019	New principles 31 Dec 2019	Depreciation principles 2019
Land and building [1]	75	80	24
Machinery	1	1	–
Vehicles	3	2	2
Other	2	1	1
Total right of use assets	**81**	**84**	**27**

[1] of which MSEK 6 already was reported as of 31 December 2018. MSEK 1 as financial leases and MSEK 5 as prepaid rental cost.

The weighted average incremental borrowing rate used for the IFRS 16 calculation is 2.6%. The cost for leases of low value was MSEK 0.2 and there were no short-term lease in 2019. The total cash-flow from leases amounted to MSEK 27.

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.

	2019	2018
At 1 January	108	62
Income statement charge (note 13)	–15	18
Tax charged directly to OCI	23	26
Re-classification to current taxes	–2	– 1
Exchange differences	3	3
At 31 December	**117**	**108**

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

2019	Assets	Liabilities	Net
Tax loss carry-forwards	22	–	22
Tangible fixed assets	1	–4	–4
Intangible assets	–	–	–
Provisions	11	–	21
Pension and similar obligations	114	–	114
Acquisition related surplus values	–	–34	–34
Other	8	–1	7
Netting	– 19	19	–
Net deferred tax receivables/tax liabilities	**137**	**–20**	**117**

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**

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 22 (15).

NOTE 19

Shares of net assets in joint venture

Company name	Corp. reg. no.	Reg'd office	Participations	%	2019	2018
Alfdex AB	556647–7278	Landskrona	50,000	50%	55	39

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.

Income statement	2019	2018
Net Sales	566	502
Cost of goods sold [1]	–437	–412
Gross income	**129**	**90**
Operating expenses [1]	–75	–52
Operating income	**54**	**38**
Financial items – net	–	–
Earnings before tax	**54**	**38**
Taxes	–13	–10
Net income for the year	**41**	**28**
[1] Depreciation and amortisation in Income statement	–10	–5

Movement in shares of net assets in joint venture	2019	2018
Share of net assets, opening balance	**39**	**27**
Share of net income in joint venture	20	14
Dividend	–2	–2
Remeasurement loss, pensions	–2	–
Share of net assets, closing balance	**55**	**39**

Balance sheet	2019	2018
Fixed assets	35	31
Current assets	126	124
Cash and bank	75	35
Total assets	**236**	**190**
Equity	110	77
Pensions and similar obligations	14	8
Deferred tax liabilities	7	5
Current liabilities	105	100
Total equity and liabilities	**236**	**190**

NOTE 20

Inventories

	2019	2018
Raw materials	99	116
Semi-manufactured products	21	20
Finished products	27	33
	147	**169**

NOTE 21

Accounts receivable

	2019	2018
Accounts receivable, gross	179	216
Provision for doubtful receivables	–1	–1
Accounts receivable, net	**178**	**215**
Current receivable	145	178
Overdue receivable:		
1–30 days	25	27
31–60 days	7	4
> 60 days	1	6
Sum of overdue receivable	33	37
Accounts receivable, net	**178**	**215**
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

	2019	2018
VAT	8	14
Tax receivables	34	22
Prepaid expenses and accrued income		
Rents and insurance	3	6
Accrued income	3	3
Other prepaid expenses	7	9
Derivative instruments	2	3
Other current receivables	5	12
	62	**69**

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.

Prepaid rents of MSEK 5 have been reclassified according to IFRS16 and are reported under right of use fixed assets for 2019.

Claims related to income tax, VAT and other taxes of MSEK 42 (36) are not included in Note 38 regarding financial assets.

NOTE 23

Cash and cash equivalents

	2019	2018
Bank accounts and cash	462	470
Deposits	69	213
Cash and cash equivalents	**531**	**683**

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 is 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 1,136 (1,026), resulting in a gearing ratio of 5% (1).

Cash dividend decided by the Annual General Meeting 2019 was SEK 4.25 (3.75) per share or total of MSEK 164.2 (148.3). 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 4.50 (4.25) per share for the financial year 2019. This corresponds to an ordinary dividend of SEK 3.25 (3.00), which equates to around 39% (29) 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 2016–2019 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 2019 Concentric AB sold 169,400 (123,600) of its own shares, representing 0.4% (0.3) of the shares of the Company.

During 2019 Concentric AB bought back 1,035,231 (1,033,529) of its own shares, representing 2.6% (2.6) of the shares of the Company. The total number of holdings of its own shares at year-end 2019 was 1,156,667 (1,210,516), which represented 2.9% (3.0) of the total number of shares of the Company. In addition to this, the total number of own shares transferred to an Employee Share Ownership Trust are 300,700 (188,020). Including these shares the company's holdings was 1,457,367 (1,398,536) representing 3.7% (3.5) of the total number of shares.

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.

During 2019, Concentric AB fully repaid its term loan amounted to MSEK 175. The Company, still has in place the multi-currency revolving credit facility amounted to MEUR 60.

The loan agreement 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 626 (617).

NOTE 25

Pensions and similar obligations

	2019	2018
Defined benefit plans	499	514

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2019	2018	2019	2018	2019	2018
Balance at 1 January	**2,041**	**2,067**	**–1,527**	**–1,605**	**514**	**462**
Included in Income statement:						
Current service cost	8	7	–	–	8	7
UK pension benefit, equalisation (GMP)	–	25	–	–	–	25
Interest cost	62	56	–47	–44	15	12
	70	**88**	**–47**	**–44**	**23**	**44**
Included in Other Comprehensive Income:						
Remeasurement loss (gain)	190	–94	–191	138	–1	44
Effect of movements in exchange rates	127	71	–104	–52	23	19
	317	**–23**	**–295**	**86**	**22**	**63**
Other:						
Contributions paid by the employer	–	–	–56	–53	–56	–53
Benefits paid	–100	–91	96	89	–4	–2
	–100	–91	40	36	–60	–55
Balance at 31 December	**2,328**	**2,041**	**–1,829**	**–1,527**	**499**	**514**
Represented by plans in:						
Sweden	53	46	–	–	53	46
Germany	240	200	–91	–91	149	109
UK	1,638	1,466	–1,463	–1,216	175	250
USA	397	329	–275	–220	122	109
Balance at 31 December	**2,328**	**2,041**	**–1,829**	**–1,527**	**499**	**514**

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 gains on pension obligations and planned assets were MSEK 1 (44 losses) during 2019.

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 47 (44), while the actual return was MSEK 62 (56). 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 14% (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 2019 the pension obligation amounted to MSEK 53 (46), corresponding to 2% (2) of the Group's total obligations.

The average duration of the defined benefit obligation at the period ending 31 December 2019 is 17 (18) years.

The best estimate of pensions to be paid by the Group for the year commencing 1 January 2020 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 2019. There were no curtailment gains arising from the notice to close the plan to further service accrual.

As of 31 December 2019 the pension obligation amounted to MSEK 240 (200), corresponding to 10% (10) of the Group's total obligations. The fair value of the plan assets amounted to MSEK 91 (91). Net defined benefit liability amounted to MSEK 149 (109).

The average duration of the defined benefit obligation at the period ending 31 December 2019 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 6 (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.

In 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 for 2018.

As of 31 December 2019 the pension obligation amounted to MSEK 1,638 (1,466), corresponding to 71% (72) of the Group's total obligations. The fair value of the plan assets amounted to MSEK 1,463 (1,216). Net defined benefit liability amounted to MSEK 175 (250).

The average duration of the defined benefit obligation at the period ending 31 December 2019 is 17 (18) years.

The best estimate of regular contributions to be paid by the Group to the plans for the year commencing 1 January 2020 is MSEK 28 (26).

USA pension plans

During 2019 the Group sponsored 2 (2) different plans in USA which comprised both pensions and other post-retirement benefits.

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 2019. There have been no other amendments or settlements in the plans during the accounting period.

As of 31 December 2019 the pension obligation amounted to MSEK 397 (329), corresponding to 17% (16) of the Group's total obligations. The fair value of the plan assets amounted to MSEK 275 (220). Net defined benefit liability amounted to MSEK 122 (109).

The average duration of the defined benefit obligation at the period ending 31 December 2019 is 14 (14) years.

The best estimate of contributions to be paid by the Group to the plans for the year commencing 1 January 2020 is MSEK 15 (13).

Total pension costs	2019	2018
Pensions vested during the period	8	7
Interest on obligations	62	56
Calculated return on plan assets	–47	–44
Settlement	–	–25
Pension costs, defined benefit plans	**23**	**–6**
Pension costs, defined-contribution plans	8	7
Total pension costs	**31**	**1**

					Total	
DBO remeasurement losses (gain) arising from	Sweden	Germany	UK	USA	2019	2018
Experience adjustment	–	3	76	–1	78	–10
Demographic assumptions	–	–	–6	–5	–11	–20
Financial assumptions	–6	–40	–162	–49	–258	91
Total DBO remeasurement losses (gains)	–6	–37	–91	–55	–190	61

	Defined Benefit Obligation				Total	
Members, %	Sweden	Germany	UK	USA	2019	2018
Active members	2	53	–	13	8	8
Deferred members	66	14	45	43	42	47
Pensioners	32	33	55	44	50	45

	Fair value of plan assets				Total	
Instruments	Sweden	Germany	UK	USA	2019	2018
Equity instruments[1]	–	–	906	70	976	809
Debt instruments[1]	–	–	311	192	503	320
Property[1]	–	–	37	11	48	98
Cash and cash equivalents	–	–	4	0	4	14
Sum	–	–	**1,258**	**273**	**1,531**	**1,241**
Insurance policies	–	91	205	2	298	286
Total	–	**91**	**1,464**	**275**	**1,829**	**1,527**

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

Actuarial assumptions 2019, %	Sweden	Germany	UK	USA
Discount rate	1.40	1.00	2.05	3.20
Recognised salary increase	2.80	2.00	n/a	n/a
Recognised inflation	1.80	1.85	2.05	2.00
Turnover, personnel	2.00	1.60	n/a	n/a

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

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 2019	Sweden		Germany		UK		USA	
Defined Benefit Obligation	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
Discount rate (0.5% movement)	–4.2	4.8	–22.6	26.2	144.9	–114.2	–27.2	27.3
Future salary growth (0.5% movement)	0.5	–0.5	5.8	–5.4	n/a	n/a	n/a	n/a
Future pension growth (0.5% movement)	4.3	–3.9	17.5	–15.9	–15.2	34.3	n/a	n/a
Future mortality (+/– 1 year)	2.2	–2.2	11.5	–11.7	–68.1	66.7	–0.1	1.5

NOTE 26

Maturity analysis for financial liabilities

	0–6 months		7–12 months		13–60 months		>60 months		Total	
Nominal amount	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Term loan	–	–	–	–	–	175	–	–	–	175
Loans related to leased assets	12	–	13	–	39	1	21	–	85	1
Other long-term liabilities	–	–	–	1	2	2	–	1	2	4
Other short-term interest-bearing liabilities	1	5	–	–	–	–	–	–	1	5
Short-term loans payable to joint venture	–	–	–	–	–	–	–	–	–	–
Derivative liabilities	–	–	–	–	–	–	–	–	–	–
Accounts payable	156	192	–	–	–	–	–	–	156	192
Other current liabilities	96	121	–	–	–	–	–	–	96	121
Total financial liabilities	**265**	**318**	**13**	**1**	**41**	**178**	21	**1**	**340**	**498**
Expected total future interest payments	2	1	2	1	10	8	8	–	22	10

NOTE 27

Long-term interest-bearing liabilities

	2019	2018
Term loan	–	175
Loans related to leased assets	62	1
Total	**62**	**176**

Term loan is fully repaid during the year. For further details see note 15 for the Parent Company.

Loans related to leased assets is a consequense of the new accounting principles. Total loans according to IFRS 16 is MSEK 85 at year-end. See also Note 28 below.

NOTE 28

Short-term interest-bearing liabilities

	2019	2018
Loans related to leased assets	23	–
Other short-term loans	1	5
	24	**5**

Other 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

	2019	2018
Accounts receivable from Alfdex AB	3	–
Accounts payable to Alfdex AB	–	–
Loans to Alfdex AB	–	–
	3	–

NOTE 30
Other provisions

	Acquisition related provisions	Provision for share based payments	Total long-term provisions
Opening balance January 1, 2019	**2**	**2**	**4**
Provisions	–	1	1
Utilisation of provision	–2	–	–2
Exchange rate differences	–	–	–
Closing balance December 31, 2019	**–**	**3**	**3**

	Warranty reserves	Restructuring reserves	Total short-term provisions
Opening balance January 1, 2019	**67**	**4**	**71**
Provisions	3	–	3
Utilisation of provision	–42	–2	–44
Exchange rate differences	–1	–	–1
Closing balance December 31, 2019	**27**	**2**	**29**

NOTE 31
Other liabilities

	2019	2018
Liabilities for VAT and social security costs	1	1
Tax liabilities	90	96
Derivative instruments	1	–
Accrued expenses:		
Personnel costs	34	44
Other accrued expenses	58	67
Other current liabilities	4	10
	188	**218**

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

NOTE 32
Pledged assets and contingent liabilities

	2019	2018
Contingent liabilities	1	1

NOTE 33
Reversal of other non-cash items

	2019	2018
Financial pension expenses	13	13
UK pension benefit, equalisation	–	25
Provision to/Release of restructuring reserve	–2	2
Leases according to IFRS16	2	–
Financial interests	6	–
Cost for LTI-schemes	4	4
Gains on sale of fixed assets	–	–1
	23	**43**

NOTE 34
Reconciliation of interest-bearing liabilities from financing activities

	Loans	Pension[1]	Total
Opening balance January 1, 2019	181	514	695
Cash flow, term loan, pension and other loans	–179	–60	–236
Cash flow, financial liabilities IFRS 16	–27	–	–27
Non-cash items, financial liabilities IFRS16	111	–	111
Other non-cash items	–	45	42
Closing balance December 31, 2019	**86**	**499**	**585**

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

NOTE 35

Investments in subsidiaries

There were no acquisitions or divestments during 2019.

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.

A significant withholding tax payment has been made for a dividend within the Group from India to UK. Other than this payment and 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 five years, the AGM has decided upon five long-term incentive plans for the management and key personnel.

NOTE 37

Significant events after balance-sheet date

Concentric will be affected by the pandemic virus, COVID-19, but it is too early to be able to quantify the financial and commercial effects on our business. The Company is closely following this developing situation and adhering to national government guidance, and taking the necessary action in the interests of our employees, customers and suppliers.

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. For a description of the Group's exposures to financial risks, and its financial risk management, please see pages 69–70 in the Board of Directors' report.

	Note	Derivatives used for hedging		Financial assets measured at amortised cost		Total	
		2019	2018	2019	2018	2019	2018
Financial assets at fair value							
Other current receivables							
– Foreign currency derivatives	22	2	3	–	–	2	3
Financial assets not at fair value							
Long-term receivables		–	–	6	5	6	5
Accounts receivable	21	–	–	178	215	178	215
Short-term loans receivable from joint venture	29	–	–	3	–	3	–
Other current receivables	22	–	–	18	30	18	30
Cash and cash equivalents	23	–	–	531	683	531	683
Total financial assets		**2**	**3**	**736**	**933**	**738**	**936**

	Note	Derivatives used for hedging		Financial liabilities at amortised cost		Total	
		2019	2018	2019	2018	2019	2018
Financial liabilities at fair value							
Other current liabilities							
– Foreign currency derivatives	31	–	–	–	–	–	–
Financial liabilities not at fair value							
Long-term interest-bearing liabilities	27	–	–	62	176	62	176
Other long-term liabilities		–	–	2	4	2	4
Short-term interest-bearing liabilities	28	–	–	24	5	24	5
Short-term loans payable to joint venture	29	–	–	–	–	–	–
Accounts payable	26	–	–	156	192	156	192
Other current liabilities	31	–	–	96	121	96	121
Total financial liabilities		**–**	**–**	**340**	**498**	**340**	**498**

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 MSEK 1.8 (1.1) was reclassified from the hedging reserve and included in finance net and an amount of MSEK 0.3 (1.7) was reclassified and included in Cost of goods sold.

Parent Company

Parent Company income statement

	Note	2019	2018
Net sales	2	62	57
Operating costs	2, 3, 4	–20	–20
Operating income		**42**	**37**
Income from shares in subsidiaries	5	712	5
Income from shares in joint venture	5	2	2
Interest income and similar items	5	4	3
Interest expenses and similar items	5	–97	–99
Financial items – net		**621**	**–89**
Earnings before tax		**663**	**–52**
Taxes	6	7	11
Net income for the year		**670**	**–41**

Statement of comprehensive income in Parent Company

	2019	2018
Net income for the year	670	–41
Other comprehensive income	–	–
Total comprehensive income	**670**	**–41**

Parent Company balance sheet

	Note	2019	2018
ASSETS			
Shares in subsidiaries	7	3,149	3,178
Shares in joint venture	8	10	10
Long-term loans receivable from subsidiaries	9	1	6
Deferred tax assets	6	22	16
Total financial fixed assets		**3,182**	**3,210**
Other current receivables	10	4	4
Short-term loans receivable from joint ventures		3	–
Short-term loans receivable from subsidiaries		17	144
Cash and cash equivalents	11	405	433
Total current assets		**429**	**581**
Total assets		**3,611**	**3,791**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share Capital	12	97	97
Total restricted equity		**97**	**97**
Retained earnings		1,061	1,388
Total comprehensive income		669	–41
Total unrestricted equity	**21**	**1,730**	**1,347**
Total Shareholders' equity		**1,827**	**1,444**
Pensions and similar obligations	13	18	18
Long-term interest-bearing liabilities	14, 15	–	175
Long-term loans payable to subsidiaries	14	1,063	2,131
Total long-term liabilities		**1,081**	**2,324**
Accounts payable	14	1	1
Short-term loans payable to subsidiaries	14	697	14
Other current liabilities	14, 16	5	8
Total current liabilities		**703**	**23**
Total equity and liabilities		**3 611**	**3 791**

Changes in shareholders' equity in Parent Company

	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**

	Share capital	Retained earnings	Total equity
Opening balance at January 1, 2019	**97**	**1,347**	**1,444**
Net income for the year	–	670	670
Other comprehensive income	–	–	–
Total comprehensive income for the year	**–**	**670**	**670**
Transactions with shareholders			
Dividend	–	–164	–164
Sale of own shares to satisfy LTI 2016 options exercised	–	13	13
Buy-back own shares	–	–136	–136
Total transactions with shareholders	**–**	**–287**	**–287**
Closing balance at December 31, 2019	**97**	**1,730**	**1,827**

Parent Company cash flow statement

	Note	2019	2018
Cash flow from operating activities			
Earnings before tax		663	–52
Reversal of non-cash items	18	109	86
Cash flow from operating activities before changes in working capital		**772**	**34**
Change in working capital			
Current receivables		–3	3
Current liabilities		–3	8
Change in working capital		**–6**	**11**
Cash flow from operating activities		**766**	**45**
Cash flow from investing activities			
Long-term loan to subsidiaries	19	–	–1
Investments in subsidiaries	19	–	–
Cash flow from investing activities		**–**	**–1**
Cash flow from financing activities			
Dividend		–164	–148
Buy-back own shares		–136	–146
Sale of own shares		13	12
New loans received from subsidiaries	20	1,036	–
Repayment of loans	20	–175	–
Repayment of loans to subsidiaries	20	–1,368	443
Cash flow from financing activities		**–794**	**161**
Cash flow for the period		**–28**	**205**
Cash and bank assets, opening balance		**433**	**228**
Cash and bank assets, closing balance		**405**	**433**

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, 2019 have had a significant impact on the Parent Company´s Income statement or Balance sheet. IFRS 16 has not had impact on the Parent Company as RFR 2 allows for all leases to be reported as operating leases in the legal entity. See below accounting principles under e).

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) Leases

The parent company does not apply IFRS 16 in accordance with the exception in RFR 2. The lessee recognises the lease payment as an expense linear over the lease term and does not recognise any right-of-use asset or lease liability in the balance sheet. As in the consolidation, the non-lease components are not separated in leases of property, however the lease and associated non-lease components are accounted as a single lease component.

f) 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 62 (57) 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.

NOTE 3

Auditing fees

	2019	2018
Audit assignments, KPMG	1	1
	1	**1**

NOTE 4

Salaries and other remuneration

Amounts in SEK (thousands)	2019	2018
Salaries and remuneration	4,355	3,537
of which Board of Directors	*3,182*	*2,390*
Pension costs	507	429
Social security costs	1,382	1,133
Other personnel cost	62	142
Total personnel costs	**6,306**	**5,241**

The Board of Directors, consists of 8 members (7), of whom 3 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 (1).

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 4,678 (4,925).

Provision according to Tryggandelagen was KSEK 323 (248). See also Note 13, Pensions.

NOTE 5

Financial items – Net

	2019	2018
Income from shares in subsidiaries		
Group contribution from subsidiaries	4	5
Dividend from Concentric Pumps Ltd	743	–
Write-down of shares and receivables in Concentric Argentina Ltd	–35	–
	712	**5**
Income from shares in joint venture		
Dividend from Alfdex AB	2	2
	2	**2**
Interest income and similar items		
Interest income, external	2	1
Interest income from subsidiaries	2	2
Foreign exchange rate gains	–	–
	4	**3**
Interest expenses and similar items		
Interest expenses, external	–3	–2
Interest expenses to subsidiaries	–15	–8
Foreign exchange rate losses	–76	–86
Pension financial expenses	–1	–1
Other financial items, external	–2	–2
	–97	**–99**
Financial items – net	**621**	**–89**

NOTE 6

Taxes

	2019	2018
Current tax	–	–
Deferred tax	7	11
Total income tax	**7**	**11**
Reconciliation of effective tax rate		
Earnings before tax	663	–52
Applicable tax rate, %	–21	21
Non-taxable dividend from subsidiaries and associated companies, %	24	–
Non-tax deductible write-downs in subsidiaries, %	–1	–
Non-tax deductible expenses, %	–1	–
Reported effective tax rate, %	**1**	**21**
Total deferred tax assets related to tax loss carried forward	**22**	**16**

Deferred tax assets are recognised 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 2019 amounted to MSEK 22 (16).

NOTE 7

Shares in subsidiaries

Company name	Corp, Reg. No.	Reg'd office	Participations	%	2019	2018
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	12	41
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	–	–
					3,149	**3,178**

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	2019	2018
Opening balance, acquisition value	4,001	3,998
Concentric Innovations AB	–	–
Concentric Argentina Ltd	–	3
Closing balance, acquisition value	**4,001**	**4,001**
Opening balance, write-downs	–823	– 823
Concentric Argentina Ltd	–29	–
Closing balance, write-downs	–852	–823
Closing balance, carrying amount	**3,149**	**3,178**

NOTE 8
Shares in joint venture

Company name	Corp, Reg. No	Reg'd office	Participations	%	2019	2018
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 2019 is MSEK 20 (14) and share of equity per year-end 2019 is MSEK 55 (39). See also Note 19 for the Group.

NOTE 9
Long-term loans receivable from subsidiaries

	2019	2018
Total loans	1	6
of which reported as short-term loans	–	–
Long-term loans	**1**	**6**

The loans relate primarily to loans amounting to USD 633,000 (593,000). Maturity date 31 July 2019. New loans during the year amounted to USD 40,000. The total USD-loans to Concentric Chivilcoy have been written-down during the year, which is equal to MSEK 6.

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% (8.2) and on the EUR-loans 1.5% (1.5) as of 31 December 2019.

Average rates during the year on the EUR-loans 1.5% (1.5) and on the USD-loan 8.2% (7.5).

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

NOTE 10
Other current receivables

	2019	2018
Prepaid insurance premiums	1	1
Prepaid interest costs	1	2
Other prepaid expenses	2	1
	4	**4**

NOTE 11
Cash and cash equivalents

	2019	2018
Bank accounts and cash	405	433

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, 2018	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**
Retirement of repurchased own shares April 17, 2019	–807,000	2.43	–1,961,010
Bonus share issue April 17, 2019	–	–	1,961,205
Closing balance December 31, 2019	**39,224,100**	**2.48**	**97,275,768**
Number of outstanding shares:			
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**	**–**	**–**
Number of registered shares December 31, 2019	39,224,100	–	–
Number of own shares December 31, 2019	–1,457,367	–	–
Number of outstanding shares December 31, 2019	**37,766,733**	**–**	**–**

	2019	2018
Number of average outstanding shares	38,369,281	39,321,660
Number of shares adjusted for ongoing option programs	479,753	134,015
Number of average outstanding shares, after dilution	**38,849,034**	**39,455,675**

The cash dividend decided by the Annual General Meeting 2019 was SEK 4.25 (3.75) per share or a total of MSEK 164.2 (148.3). The AGM 2019 also resolved to retire 807,000 (840,900) of the Company´s own repurchased shares. During 2019 Concentric AB sold 169,400 (123,600) of its own shares, representing 0.4% (0.3) of the shares of the Company.

During 2019 Concentric AB bought back 1,035,231 (1,033,529) of its own shares, representing 2.6% (2.6) of the shares of the Company. The total number of holdings of its own shares at year-end 2019 was 1,156,667 (1,210,516), which represented 2.9% (3.0) of the total number of shares of the Company. In addition to this, the total number of own shares transferred to an Employee Share Ownership Trust is 300,700 (188,020). Including these shares the company's holdings was 1,457,367 (1,398,536) representing 3.7% (3.5) of the total number of shares.

Annual General Meeting 2016–2019 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

	2019	2018
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.

	2019	2018
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	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Pensions and similar obligations	–	–	–	–	–	–	18	18	18	18
Term loan	–	–	–	–	–	175	–	–	–	175
Long-term loans payable to subsidiaries	–	–	–	–	–	–	1,063	2,131	1,063	2,131
Short-term loans payable to subsidiaries	697	14	–	–	–	–	–	–	697	14
Accounts payable and other current liabilities	5	7	–	–	–	–	–	–	5	7
Total financial liabilities	**702**	**21**	**–**	**–**	**–**	**175**	**1,081**	**2,149**	**1,783**	**2,345**
Expected total future interest payments	8	1	5	1	8	8	2	–	23	10

NOTE 15
Long-term interest-bearing liabilities

	2019	2018
Term loan	–	175

During 2019, Concentric AB fully repaid its term loan amounted to MSEK 175. The Company, still has in place the multi-currency revolving credit facility amounted to MEUR 60.

The interest rate on the Term loan was 1.15% as of 31 December 2018. The average interest rate on the liability during 2019 was 1.15% (1.15).

Available unused amount on credit facilities at year-end was EUR 60m (EUR 60m), or about MSEK 626 (617).

NOTE 16
Other current liabilities

	2019	2018
Accrued interest cost	–	–
Accrued audit fee	1	1
Liabilities for own shares	–	3
VAT	1	1
Other accrued expenses	3	3
	5	**8**

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

NOTE 17
Contingent liabilities

	2019	2018
General collateral guarantee for subsidiaries		
Loan	51	49
Leasing commitment	55	53
	106	**102**

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

	2019	2018
Unrealised financial exchange rate differences	74	86
Write-down of shares and receivables in Chivilcoy	35	–
	109	**86**

NOTE 19

Investments in subsidiaries

	2019	2018
Long-term loan to subsidiaries	–	–1
Investments in Concentric Argentina Ltd	–	–
Net investments	**–**	**–1**

NOTE 20

Reconciliation of liabilities from financing activities

	External Loans	Loans to subsidiaries	Total
Opening balance, January 1, 2019	175	2,145	2,320
Cash flow	–175	–332	–507
Other non-cash items	–	–53	–53
Closing balance, December 31, 2019	**–**	**1,760**	**1,760**

NOTE 21

Proposed appropriation of earnings

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

Amounts in KSEK	
Profit brought forward	1,059,537
Net income for the year	670,223
Total	**1,729,760**

The Board of Directors proposed appropriation of earnings:

Amounts in KSEK	
Dividend of 4.50 per share to the shareholders	169,950
Profit to carry forward	1,559,810
Total	**1,729,760**

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 31 March, 2020

Kenth Eriksson
Chairman of Board

Marianne Brismar
Member of the Board

Anders Nielsen
Member of the Board

Karin Gunnarsson
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 31 March, 2020 KPMG AB

Joakim Thilstedt
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 2019. The annual accounts and consolidated accounts of the Company are included on pages 66–113 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 2019 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 2019 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. 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 recognition

See disclosure 4 and accounting principles on page 81 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 30 and accounting principles on page 84 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.

Pensions the UK

See disclosure 25 and accounting principles on page 84 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 UK was MSEK 175. 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 1–51 and 118–133. The Board of Directors and the Chief Executive Officer 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 Chief Executive Officer

The Board of Directors and the Chief Executive Officer 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 Chief Executive Officer 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 Chief Executive Officer 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 Chief Executive Officer 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 Chief Executive Officer.
- Conclude on the appropriateness of the Board of Directors' and the Chief Executive Officer'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 Chief Executive Officer of Concentric AB (publ) for the year 2019 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 Chief Executive Officer 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 Chief Executive Officer

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 Chief Executive Officer 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 Chief Executive Officer 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 52–65 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 40–47 and 118–125, 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 4 April 2019. KPMG AB or auditors operating at KPMG AB have been the Company's auditor since 2012.

Stockholm 31 March, 2020
KPMG AB
Joakim Thilstedt
Authorised Public Accountant

Sustainability reporting – GRI

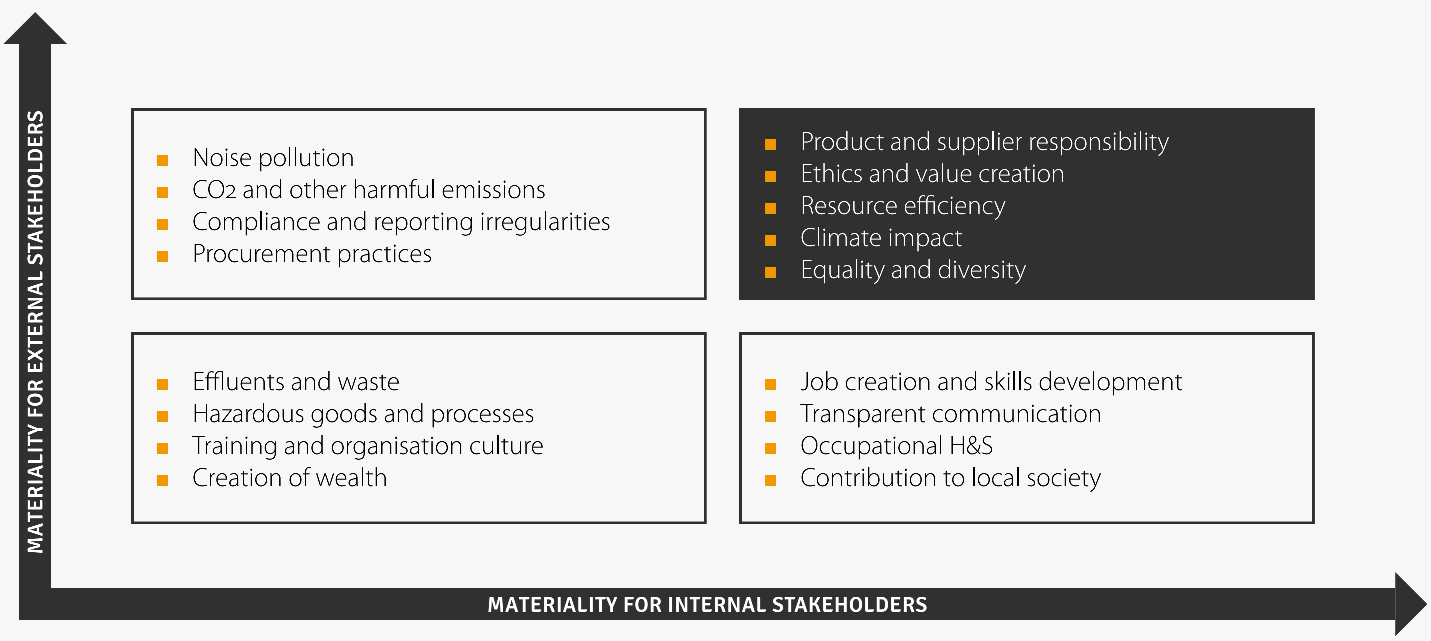
Concentric describes its work with sustainability and reports on fulfilment of financial, environment and social goals and indicators in Sustainability Report on pages 40–47 of the annual report. This report has been in accordance with the GRI Standards: Core option. It reports the achieved results for 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 2019 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 in accordance with the GRI Standards:Core Option. We report the year 2019 as GRI compliant with a page reference on pages 122–124.

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	2019			2018		
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	863	1,432	2,012	1,184	1,477	2,410
Direct economic value distributed, 201-1	Suppliers	Operating costs: procurement of goods and services, including depreciation and amortisation	–522	–825	–1,085	–773	–862	–1,394
	Employees	Wages, salaries, pensions and other benefits, including competence development	–181	–288	–455	–196	–304	–487
	Financial Institutions	Interest and similar items related to providers of capital	n/a	n/a	–19	n/a	n/a	–14
	The State	Tax expenses and other payments made to government	n/a	n/a	–132	n/a	n/a	–110
	Shareholders	Own share buy-backs and dividends	n/a	n/a	–287	n/a	n/a	–282
Direct economic value retained, 201-1	Shareholders	Earnings/(deficit) retained after own share buy-backs & dividends	n/a	n/a	34	n/a	n/a	123
Procurement practices, 204-1	Suppliers	Proportion of expenditure with local suppliers[1]	16%	70%	45%	37%	62%	52%

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			24 195,879 days			16 225,944 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			0.07%			0.05%
Absenteeism, 403-2	Employees	Total number of all absence days as a percentage of total days worked for all employees	0.7%	2.4%	3.1%	0.5%	2.2%	2.6%
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	2019			2018		
Diversity & equal opportunity			Women	Men	Total	Women	Men	Total
Age and gender distribution, 102-8 and 405-1	Colleagues [3]	≤ age 25	6	23	29	15	66	81
		age 26–35	18	161	179	21	184	205
		age 36–45	28	120	148	31	141	172
		age 46–55	37	130	167	37	144	181
		≥ age 56	44	144	188	46	155	201
		Total number	**133**	**578**	**711**	**150**	**690**	**840**
	Managers	age 26–35	0	10	10	–	15	15
		age 36–45	3	32	35	3	32	35
		age 46–55	1	20	21	1	21	22
		≥ age 56	3	8	11	3	12	15
		Total number	**7**	**70**	**77**	**7**	**80**	**87**
	Executives	age 36–45	1	0	1	–	1	1
		age 46–55	0	3	3	–	3	3
		≥ age 56	0	1	1	–	2	2
		Total number	**1**	**4**	**5**	**–**	**6**	**6**
	Board of Directors	age 36–45	–	–	–	1	1	2
		age 46–55	1	2	3	–	1	1
		≥ age 56	2	3	5	1	3	4
		Total number	**3**	**5**	**8**	**2**	**5**	**7**

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

GRI reference	Stakeholder	Key performance indicator			
2019 headcount by contract type			Men	Women	Total
Total workforce by employment type, contract and gender, 102-8 [1]	Temp/perm	Permanent	700	163	863
		Temporary	12	8	20
		Total	**712**	**171**	**883**
			Permanent	Temporary	Total
	Region	Argentina	78	–	78
		China	19	–	19
		Germany	187	6	193
		India	145	7	152
		Sweden	71	6	77
		UK	158	–	156
		USA	202	1	203
		Other	3	–	3
		Total	**863**	**20**	**883**
			Men	Women	Total
	Employment type	Full time	707	161	868
		Part time	5	10	15
		Total	**712**	**171**	**883**

[1] Calculated as actual head count at year end including our 50% share of Alfdex AB.

GRI reference	Stakeholder	Key performance indicator	2019	2018
Resource efficiency				
Recycled materials used by weight, 301-2	Society	Percentage of recycled material by weight used within grey iron and aluminium	**24.1%**	**26.1%**
Energy consumption, 302-3	Society	Group consumption of gas and electricity	**11.43 kWh/MSEK Sales**	**10.45 kWh/MSEK Sales**

Concentric use diesel in generators as a backup power solution but the actual diesel usage in the year was negligible.

2019 GRI Index

This report has been prepared in accordance with the GRI Standards: Core Option. Therefore we report the year 2019 as GRI compliant 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	Comments/omissions	External assurance
Organisational profile					
102-1	Name of the organisation	Board of Directors' Report	66		
102-2	Primary brands, products, and/or services	Engine Products Hydraulic Products	28 30		
102-3	Location of organisation's headquarters	Addresses	133		
102-4	Countries where the organisation operates	Summary Group Note 4 Segment Reporting	20–21 87–88		
102-5	Nature of ownership and legal form	The Concentric Share	48–51		Yes
102-6	Markets served	End-Markets	22–25		
102-7	Scale of the reporting organisation	Board of Directors' Report Consolidated Income Statement Consolidated Balance Sheet	66–75 76 77		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	45 89 120–121		
102-9	Organisation's supply chain	Supply Chain	47		
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	66–75 102		Yes
102-11	Description of how the Company addresses the precautionary principle	Sustainability Report	40–47		
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 44–47		
Governance					
102-18	Corporate Governance	Integrated governance processes Corporate Governance in Concentric	40 52–63		Yes
Stakeholder engagement					
102-40	Stakeholder groups	Stakeholder engagement	42		
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	42		
102-43	Approaches to stakeholder engagement	Stakeholder engagement	42		
102-44	Key topics raised through stakeholder engagement	Stakeholder engagement	42		

GRI code	Description/indicator	Reference	Page	Comments/omissions	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	**109–110** **53**		Yes
102-46	Definition of report content and relevant sustainability aspects	Sustainability Report Scope of the GRI report	**40–47** **118**		
102-47	Material aspects identified in the process for defining report content	Concentric's group-wide aspects and targets in sustainability	**41**		
Report profile					
102-50	Reporting period	Board of Directors' Report	**66**		
102-51	Date of most recent previous report	2018 Annual Report, published in 2019			
102-52	Reporting cycle	Scope of the GRI report	**118**		
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	2019 GRI Index	**122–123**		
102-56	Policy and current practice for external assurance	2019 GRI Index	**124**		

Specific standard disclosures

GRI code	Description/indicator	Reference	Page	Comments/omissions	External assurance
103-1, 103-2 and 103-3	Disclosure on management approach	Concentric's management approach to sustainability	**58** **119**		
Economic performance indicators					
201-1	Direct economic value generated and distributed	Consolidated Income Statement Consolidated Balance Sheet	**76** **77**	We do not report payments to government by country, and community investments, as the information is not available	Yes
201-3	Defined benefit plan obligations	Group Note 25 Pensions and similar obligations	**97–100**		Yes
204-1	Procurement practices	Facts and key performance indicators for sustainability	**120**		
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					
301-2	Recycled input materials used	Facts and key performance indicators for sustainability	**121**		
302-3	Energy consumption within organisation	Facts and key performance indicators for sustainability	**121**		
308-1	Percentage of new suppliers that were screened using environmental criteria	Facts and key performance indicators for sustainability	**120**		
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	**120**	We do not report by gender as the information is not available	
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	**121**		
Supplier human rights					
414-1	Percentage of new suppliers that were screened using human rights criteria	Facts and key performance indicators for sustainability	**120**		
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	**44**
2. Make sure that the Company is not complicit in human rights abuses	Human rights	**44**
Labour law		
3. Uphold freedom of association and the effective recognition of the right to collective bargaining	Freedom of contract and association	**44**
4. Elimination of all forms of forced and compulsory labour	Forced labour	**44**
5. Effective abolition of child labour	Child labour	**44**
6. Elimination of discrimination in respect of employment and occupation	Equal opportunities	**45**
Environment		
7. Support a precautionary approach to environmental challenges	Sustainability Report	**40–47**
8. Undertake initiatives to promote greater environmental responsibility	Sustainability Report	**40–47**
9. Encourage the development and diffusion of environmentally friendly technologies	Sustainability Report	**40–47**
Anti-corruption		
10. Work against corruption in all its forms, including extortion and bribery	Anti-corruption	**47**

Changes in the statements related to the new accounting principles in IFRS 16 for leases

General information

In the tables below, on pages 126–127, we have only included items that are affected by IFRS 16 for leases.

	New principles	Changes	Old principles
Changes in consolidated income statement – by function	Jan–Dec 2019	Jan–Dec 2019	Jan–Dec 2019
Cost of goods sold	–1,385	–	–1,385
Gross income	**627**	**–**	**– 627**
Selling expenses	–24	–	–24
Administrative expenses	–140	1	–139
Product development expenses	–46	–	–46
Operating income	**472**	**1**	**473**
Financial income and expenses	–19	2	–17
Earnings before tax	**453**	**3**	**456**
Taxes	–132	–1	–133
Net income for the period	**321**	**2**	**323**

	New principles	Changes	Old principles
Consolidated income statement in summary – by type of cost	Jan–Dec 2019	Jan–Dec 2019	Jan–Dec 2019
Direct material costs	–948	–1	–949
Depreciation, amortisation and write-down of fixed assets	–99	27	–72
Other operating income and expenses	–58	–25	–83
Operating income	**472**	**1**	**473**
Financial income and expense	–19	2	–17
Earnings before tax	**453**	**3**	**456**
Taxes	–132	–1	–133
Net income for the period	**321**	**2**	**323**
Key figures:			
Operating margin, %	23.5	0.0	23.5
EBITDA-margin, %	28.4	–1.3	27.1
Basic earnings per share, SEK	8.37	0.04	8.41

Changes in the consolidated balance sheet	New principles Jan–Dec 2019	Changes Jan–Dec 2019	Old principles Jan–Dec 2019
Right of use fixed assets	84	–84	–
Other tangible fixed assets	162	1	163
Long-term receivables	6	–2	4
Total fixed assets	**1,198**	**–85**	**1,113**
Current receivables	243	5	248
Total current assets	**921**	**5**	**926**
Total assets	**2,119**	**–80**	**2,039**
Total Shareholders' equity	**1,136**	**2**	**1,138**
Long-term liabilities for right of use fixed assets	62	–62	–
Other long-term liabilities	5	3	8
Total long-term liabilities	**586**	**–57**	**529**
Short-term liabilities for right of use fixed assets	23	– 23	–
Total short-term liabilities	**23**	**– 23**	**–**
Total equity and liabilities	**2,119**	**–80**	**2,039**
Key figures:			
Net debt	54	–85	–31
Gearing ratio, %	5	–8	–3

Consolidated cash flow statement, in summary	New principles Jan–Dec 2019	Changes Jan–Dec 2019	Old principles Jan–Dec 2019
Earnings before tax	453	3	456
Reversal of depreciation, amortisation and write-down of fixed assets	99	–27	72
Reversal of other non-cash items	23	–3	20
Cash flow from operating activities before changes in working capital	***420***	***–27***	***393***
Change in working capital	–34	–	–34
Cash flow from operating activities	**386**	**–27**	**359**
Repayments of loans	–207	27	–180
Cash flow from financing activities	**–530**	**27**	**–503**
Cash flow for the period	**–163**	**–**	**–163**

Effects of new accounting principles for leases – IFRS 16

The effects in the income statement are not material (EBIT margin 0.0%; EBITDA margin +1.3%). Cash flow from operating activities was affected by MSEK +27. Other effects at 31 December 2019 were; total assets MSEK +80; net debt MSEK +85; gearing ratio +8%.

APM reconciliation

General information

"Old principles" in the tables below refers to Leases accounted for using the previous standard IAS 17 that was applied by the Group until 2018, rather than the current standard IFRS 16.

Underlying EBIT or operating income	**2019[1)]**	**2019[2)]**	**2018**
EBIT or operating income	**472**	**473**	**529**
Items affecting comparability:			
UK pension benefit, equalisation	–	–	25
End of Customer contract revenue	–	–	–33
End of Customer contract provisions	–	–	4
Underlying operating income	**472**	**473**	**525**
Net Sales	2,012	2,012	2,410
Underlying Net Sales	2,012	2,012	2,377
Operating margin (%)	**23.5**	**23.5**	**21.9**
Underlying operating margin (%)	**23.5**	**23.5**	**22.1**

1) New principles
2) Old principles

Underlying EBITDA or Operating income before amortisation and depreciation	**2019[1)]**	**2019[2)]**	**2018**
EBIT or Operating income	**472**	**473**	**529**
Operating amortisation/depreciation	60	33	36
Amortisation of purchase price allocation	39	39	37
EBITDA or Operating income before amortisation and depreciation	**571**	**545**	**602**
Underlying EBITDA or Underlying Operating income before amortisation and depreciation	**571**	**545**	**598**
Net Sales	2,012	2,012	2,410
Underlying Net Sales	2,012	2,012	2,377
EBITDA margin (%)	**28.4**	**27.1**	**25.0**
Underlying EBITDA margin (%)	**28.4**	**27.1**	**25.2**

1) New principles
2) Old principles

Net income before items affecting comparability	**2019[1)]**	**2019[2)]**	**2018**
Net income	**321**	**323**	**405**
Items affecting comparability after tax	–	–	–3
Net income before items affecting comparability	**321**	**323**	**402**
Basic average number of shares (000)	38,369	38,369	39,322
Basic earnings per share	**8.37**	**8.41**	**10.30**
Basic earnings per share before items affecting comparability	**8.37**	**8.41**	**10.22**

1) New principles
2) Old principles

Net debt	31 Dec 2019[1]	31 Dec 2019[2]	31 Dec 2018
Pensions and similar obligations	499	499	514
Liabilities for right of use fixed assets	85	–	1
Long-term interest-bearing liabilities	–	–	175
Short-term interest-bearing liabilities	1	1	5
Total interest-bearing liabilities	**585**	**500**	**695**
Cash and cash equivalents	–531	–531	–683
Total Net Debt	**54**	**–31**	**12**
Net Debt, excluding pension obligations	**–445**	**–530**	**–502**

[1] New principles
[2] Old principles

Capital employed	31 Dec 2019[1]	31 Dec 2019[2]	31 Dec 2018
Total Assets	**2,119**	**2,039**	**2,234**
Interest bearing financial assets	–6	–6	–5
Cash and cash Equivalents	–531	–531	–683
Tax assets	–171	–171	–154
Non-interest bearing assets (excl taxes)	**1,411**	**1,331**	**1,392**
Non-interest bearing liabilities (incl taxes)	–395	–395	–510
Tax liabilities	110	110	120
Non-interest bearing liabilities (excl taxes)	**–285**	**–285**	**–390**
Total Capital Employed	**1,126**	**1,046**	**1,002**

[1] New principles
[2] Old principles

Working capital	31 Dec 2019[1]	31 Dec 2019[2]	31 Dec 2018
Accounts receivable	181	181	215
Other current receivables	62	67	69
Inventory	147	147	169
Working capital assets	**390**	**395**	**453**
Accounts payable	–156	–156	–192
Other current payables	–216	–216	–290
Working capital liabilities	**–372**	**–372**	**–482**
Total Working Capital	**18**	**23**	**–29**

[1] New principles
[2] Old principles

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 2020

Annual General Meeting	23 April, 2020
Interim report January – March 2020	6 May, 2020
Interim report January – June 2020	23 July, 2020
Interim report January – September 2020	4 November, 2020

2020 Annual General Meeting

The Annual General Meeting will be held in St Clara at 15.00 CET on Thursday, 23 April, 2020 at Klara Strand, Klarabergsviadukten 90, Stockholm.

Participation in 2020 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, 17 April, 2020, and notify the company of their intention to attend the Annual General Meeting no later than Friday, 17 April, 2020. 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, 17 April, 2020, 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

Addresses

Concentric AB (publ)
Strandgatan 2
SE–285 26 Linköping,
Sweden
Tel: +46 (0) 13 250 360

5 Brooklands
Redditch, Worcestershire
B98 9DW, UK
Tel: +44 (0) 121 445 6545
Fax: +44 (0) 121 445 7780

E-mail: info@concentricab.com
www.concentricab.com

Concentric Birmingham Ltd.
Gravelly Park, Tyburn Road,
Birmingham B24 8HW, UK.
Tel: +44 121 327 2081
Fax: +44 121 327 6187
E-mail: info.gbbi@concentricab.com

Concentric Hof GmbH
Hofer Str. 19, 95030 Hof, Germany.
Tel: +49-9281-895-0
Fax: +49-9281-87133
E-mail: info.deho@concentricab.com

LICOS Trucktec GmbH
Bergheimer Str. 1
D-88677 Markdorf, Germany
Tel: +49 7544 9546-0
Fax: +49 7544 8546-90
E-mail: info@licostrucktec.com

Concentric Itasca Inc.
800 Hollywood Avenue, Itasca,
IL 60143-1353, USA.
Tel: +1 630 773 3355
Fax: +1 630 773 1119
E-mail: info.usit@concentricab.com

Concentric Pumps Pune Pvt.Ltd.
Gat. No.26/1,27 and 28 (Part),
P.O: Lonikand, Taluka: Haveli,
Pune: 412216, India.
Tel: +91 98 81071264/5/6
Fax: +91 20 27069658
E-mail: info.inpu@concentricab.com

Concentric Pumps (Suzhou) Co.Ltd.
47 Dongjing Industrial Park,
9 Dong Fu Lu,SIP, Suzhou, Jiangsu,
China 215123
Tel: +86 512 8717 5100
Fax: +86 512 8717 5101
E-mail: info.chsh@concentricab.com

Concentric Rockford Inc.
2222 15th Street, Rockford,
IL 61104, USA.
Tel: +1 815 398-4400
Toll free No: +1 800-572-7867
Fax: +1 815 398 5977
E-mail: info.usro@concentricab.com

Concentric Chivilcoy SA
Ruta Nac. N° 5 Km 159.5 Chivilcoy, B6622GKA,
Provincia de Buenos Aires, Argentina.
Tel: +54 11 5368 3730
Fax: +54 2346 435551
E-mail: info.arch@concentricab.com

Design & production: Infobahn / studio tjugofem
Print: Östertälje Tryckeri

www.concentricab.com