

CONCENTRIC INTERIM REPORT JANUARY – DECEMBER 2018

FOURTH QUARTER

- Net sales: MSEK 582 (503) – up 11% y-o-y, after adjusting for currency (+5%).
- Operating income: MSEK 140 (108), generating an operating margin of 24.1% (21.4). Underlying operating margin was 24.8% (19.6), adjusting for end of customer contract terms and pension related items affecting comparability.
- Earnings after tax: MSEK 115 (82); basic EPS of SEK 2.95 (2.08).
- Strong cash flow generated from operating activities: MSEK 136 (132) driven by management of working capital.
- Dividend: Based on the Group's earnings and strong financial position, the Board of Directors intend to propose a total dividend of SEK 4.25 (3.75) per share and to renew the current mandate for share buybacks.

FULL YEAR

- Net sales: MSEK 2,410 (2,104) – up 12% y-o-y, after adjusting for currency (+3%).
- Operating income: MSEK 529 (404), generating an operating margin of 21.9% (19.2). Underlying operating margin was 22.1% (18.7), adjusting for end of customer contract terms and pension related items affecting comparability.
- Earnings after tax: MSEK 405 (303); basic EPS of SEK 10.30 (7.54).
- Strong cash flow generated from operating activities: MSEK 554 (360) driven by management of working capital.
- Group's net debt: MSEK 12 (185); gearing ratio of 1% (21).

President and CEO, David Woolley, comments on Q4 2018 interim report.

Sales development

Group sales for the fourth quarter were up year-on-year by 11% in constant currency and were well ahead of the published market indices. The continued strong demand is evident in both of our core regions, North America and Europe, as well as in all four sectors we serve, most notably truck and equipment for construction and agriculture. Comparing full year 2018 against 2017, our group sales were up by 12% in constant currency, exceeding the published indices by 5 percentage points.

The largest end sector for Concentric continued to be trucks, representing 45% of the group's sales, concentrated primarily in North America and Europe. The North American economy in particular, is driving the strong year-on-year growth in the medium- and heavy-duty truck market. In the same sector, European demand showed steady growth but not to the extent experienced in 2017. The end sectors of construction equipment and agricultural machinery also showed improvement in all geographical areas, whilst industrial applications experienced steady year-on-year growth, principally in North America, Europe and India.

In particular India has been a strong market in 2018 as the economy has continued to grow aided by stable government policies and continued infrastructure investment. Concentric has seen strengthening in all four-end market applications, but this has been particularly strong in the medium- and heavy-duty Truck and construction equipment sectors.

Addressing increased demand through Concentric Business Excellence

The culture within Concentric to achieve continuous improvement is firmly embedded. The key driver is to achieve absolute satisfaction of our customers and employees. The Concentric Business Excellence programme ("CBE") has enabled the teams to efficiently increase our capacity and output across the globe to meet the growing demand.

The CBE-programme has continued to improve the group's profitability and the reported operating margin for the fourth quarter and the full year increased to 24.1% (21.4) and 21.9% (19.2) respectively. The year-on-year operating income drop through for the fourth quarter and the full year was just over 40%.

Following the decision by a global customer to dual source components there has been a gain in the fourth quarter associated with end of contract terms, which amounts to MSEK 29. However, there have also been pension costs of MSEK 25 following a recent ruling in the British courts equalising historical pension benefits between men and women. The net gain from these items is MSEK 4 and the underlying operating margin before items affecting comparability is 22.1% (18.7) for the full year.

Acquisition Opportunities

We are continuously investigating potential acquisitions that will offer either geographical expansion, product expansion into the growing electrification market or enabling technologies that will enhance our current engine and hydraulic product lines to provide us with an even greater presence alongside our global customers.

China 'Blue Sky' Opportunity

The Chinese air quality improvement plan covers many emission sources, where heavy-duty trucks are one important subset. The China-6 legislation is similar to Euro VI and will become effective in China's largest cities as of July 1, 2019 and this is ultimately expected to result in the replacement of one million heavy-duty trucks. Globally, the Alfdex-separator is the most widely used solution for active cleaning of crankcase gases in truck engines and has the potential to be a critical component in achieving China-6 regulations. It was launched in 2004 and has been selected by truck manufacturers in North America, Europe and Japan. Alfdex has recently received its first orders from OEM's in China, whereof one is from Weichai, which is the largest engine manufacturer in China, who also manufactures heavy trucks. This represents a significant breakthrough into the China medium- and heavy-duty truck market. The order is exciting as Weichai is one of the major players and technology leaders in the Chinese truck market.

Outlook

The overall published market indices blended to Concentric's mix of end market applications and locations has grown year on-year by 7%. The seasonality effect makes it difficult to assess whether the market has reached a sustained high, particularly the truck market in North America and Europe, but the fourth quarter's published market data shows there has been further growth in our core markets, albeit at a slower rate than previously experienced this

year.

The sales order bank remains strong. Orders received in the fourth quarter indicate that sales in the first quarter 2019, will remain at a similar level after adjusting for more working days. The first quarter's sales will also be affected by the previously announced decision by a global customer to dual source components.

As we look further into the coming year, the emerging markets offer strong growth potential in the construction equipment and agricultural machinery sectors but their medium- and heavy-duty truck sectors could see negative growth. The North America and European markets are expected to offer flat to single digit growth as the markets hold at current levels.

We have a great team in place that are highly motivated and look forward to the opportunities and challenges of 2019. Concentric remains well positioned both financially and operationally, to fully leverage our market opportunities.

For further information, please contact:

David Woolley (President and CEO) or Marcus Whitehouse (CFO) at

Tel: +44 121 445 6545 or E-mail: info@concentricab.com

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