Capitalization, indebtedness and other financial information

Shareholders equity and liabilities

Concentric's total equity and liabilities as at March 31, 2011 is shown below. For an account of the Concentric Group's cash flows, refer to "Condensed financial information and commentary on financial development".

Shareholders equity and liabilities

Amounts in SEK m	
Total current debt	**911**
Guaranteed	–
Secured	–
Unguaranteed/unsecured	911
Total non-current debt	**184**
Guaranteed	–
Secured	116
Unguaranteed/unsecured	68
Total equity	**722**
Share capital [1)]	0
Statutory reserve	–
Other reserves	722

[1)] The share capital amounted to SEK 50,000 as per March 31, 2011.

Under the corridor approach, an IFRS method of recognising actuarial gains and losses on pension obligations, Concentric also had additional pension liabilities, in respect of unrecorded actuarial losses, totaling approximately SEK 79 m based on the latest actuarial valuations available. On May 3, 2011 SEK 97 m was transferred from other reserves to share capital (see "Share capital development" on page 70).

Net debt

Concentric's interest-bearing net debt as at March 31, 2011 is reported below.

Net indebtedness

Amounts in SEK m	
(A) Cash	273
(B) Cash equivalent	–
(C) Trading securities	–
(D) Total liquidity (A)+(B)+(C)	**273**
(E) Current financial recivable	**–**
(F) Current bank debt	9
(G) Current portion of non-current debt	–
(H) Other current financial debt	396
(I) Total current financial debt (F)+(G)+(H)	**405**
(J) Net current financial debt (I)-(E)-(D)	**132**
(K) Non-current bank loans	–
(L) Bonds issued	–
(M) Other non-current debt (pension debt)	116
(N) Non-current financial debt (K)+(L)+(M)	**116**
(O) NET FINANCIAL DEBT (J)+(N)	**248**

Working capital statement

Concentric's Board of Directors is of the opinion that the working capital is sufficient to meet the Group's present requirements, that is, for at least 12 months as well as replacing the previous internal group financing.

Information on financing facilities and working capital

The need for working capital is mainly associated with inventories and accounts receivable, which generally flex with sales. There is no particular seasonality to sales and working capital throughout the year. Some increase in sales and working capital can be expected prior to changes in emissions regulation as new products are introduced.

The Group has historically operated with low levels of working capital and even negative working capital in 2009 and 2010 due to high current liabilities. In the future the Company expects trade working capital, defined as accounts receivables and inventories, less accounts receivables to develop in line with sales, although overall working capital levels will remain low. The working capital requirement is financed partly from cash flows generated by the Company itself, and partly through external financing. To ensure the financing of working capital requirements, Concentric has entered into a revolving multi-currency credit facility agreement with two banks totaling EUR 40 m (approximately SEK 360 m), with a term of three years, repayable in full at the end of the term. These facilities are expected to be utilized in SEK, GBP, EUR and USD.

In addition to these revolving multi-currency credit facilities, a SEK 175 m bond will be issued by Concentric to Svensk Exportkredit in connection with the contemplated distribution, with a term of three years and six months, also repayable in full at the end of the term.

Both of these facilities include customary financial covenants in respect of the Group's total interest bearing liabilities in relation to its earnings before interest, taxes, depreciation and amortization (net debt-to-EBITDA ratio) and the Group's net debt in relation to its shareholders' equity (net debt-to-Equity ratio), as well as other customary undertakings and conditions, including a right for the lenders to require that the loans are prepaid upon the occurrence of certain events of default or significant ownership changes (excluding the contemplated distribution of the shares in Concentric). No pledges have been made.

Investments

Concentric's investments primarily comprise new production facilities, upgrades of existing production facilities, new production equipment and product-specific tools. In recent years, Concentric has invested specifically in establishing production in emerging markets, mainly by investing in plants in China and India.

In 2010, the Group's gross investments, excluding capitalized development costs, amounted to SEK 23 m (27). Investments were primarily been made in production facilities. Of the Groups investments in 2010 78 percent were made in Europe and RoW and 22 percent in the Americas.

Given the economic recession, Concentric substantially reduced the investment level, which explains why investments were well below depreciation levels. Concentric has planned significant levels of investments over the next 2 – 3 years (SEK 80 – 100 m per annum) to support increased capacity and new products coming into serial production in 2013 and beyond. As a result investments should be in excess of depreciation levels. Concentric will finance its investments within the framework of its new agreed credit facilities.

Product development

Every year, substantial investments in development projects are made within the Group to ensure the creation of market-leading products and to strengthen market positions.

Requirements from users and legislators for increased safety and improved environmental and vehicle dynamics are resulting in increased demand for the products provided by Concentric. Accordingly, it is essential that the Group continuously develop new products or improve existing products that satisfy this demand so that market shares are not lost to competitors.

Consequently, a key part of Concentric's strategy involves developing new products in those areas that the Group regards as important for continued growth and/or for defending market shares. In 2010, the Group's expenditure on product development corresponded to 3.1 percent of sales (3.9).

Development work comprises the creation of completely new products, both in-house and in some cases in cooperation with partners, and updates of existing product solutions.

According to IAS 38, product development costs are recognized as intangible fixed assets when the following criteria are met: it is likely that the asset will result in future financial benefits to the Group; the purchase value can be calculated reliably; the Company intends to finish the asset and has technical and financial resources to complete its development. See also the notes to the Group's combined financial statements for 2010 in "Historical financial statements".

At March 31, 2011, capitalized product development costs amounted to SEK 59 m (61) for the entire operations, including discontinued operations.

Product development

	Three Months	Full Year	
Amounts in SEK m	**Jan–Mar 2011**	**2010**	**2009**
Product development	15	76	58
of which capitalized	1	3	12

Intangible assets

Concentric's intangible assets comprise licenses and patents, software, IT systems and goodwill. On March 31, 2011, Concentric had goodwill of SEK 470 m distributed as follows: SEK 160 m in the Americas and SEK 310 m in Europe and RoW. For further information regarding intangible assets, refer to Note 13 in the Group's combined financial statements for 2010 in "Historical financial statements" on page 80.

Intangible asset

	Three Months	Full Year	
Amounts in SEK m	**2011 Jan–Mar**	**2010**	**2009**
Goodwill	470	494	558
Patents and other intangible assets	346	371	440
Capitalized development costs	59	61	75
Concentric Group	**875**	**926**	**1,073**

Tangible assets

Tangible assets primarily comprise machinery, tools and equipment. The tangible assets are free from any pledges or other encumbrances. For more information regarding Concentric's tangible assets, refer to Note 14 in the Group's combined financial statements for 2010 in "Historical financial statements" on page 80.

Financial exposure and risk management

General

Concentric is exposed to risk associated with financial instruments, such as liquid funds, accounts receivable, accounts payable and loans. The risks related to these instruments are primarily the following:

- Interest risk associated with liquid funds and loans,
- Financing risks relating to the Company's capital requirements,
- Foreign-exchange risk, and
- Credit risks attributable to financial and commercial activities.

The Board of Concentric has adopted a treasury policy for the entire Group regulating the manner in which risks are to be managed and controlled. Financial risk management is centrally co-ordinated through Group Treasury. There are also Treasury Instructions containing clear guidelines on how operational risk associated with the handling of financial instruments is to be managed; for example, through the clear division of responsibility and authority rules.

Liquid funds

The Group's short-term liquidity is secured by retaining a liquidity reserve consisting of cash funds and other short-term investments. Concentric aims for liquid funds, including unutilized credit limits, to amount to the equivalent of at least 5 percent of the Group's annual sales.

Borrowing

The Group's debt is managed by the Group Treasury to ensure efficiency and risk control. Loans are mainly taken out at parent company level and are transferred to subsidiaries in the form of internal loans or capital injections.

Interest exposure relating to long-term borrowing

Concentric's revenue is mainly associated with long-term agreements which include adjustments for raw material escalators and expected productivity savings. As such, these adjustments usually follow commodity prices and the general economic development and inflation for the relevant country. Therefore, the aim is for the average fixed interest period of the interest bearing loan portfolio to not exceed 12 months for the total portfolio, to minimize the interest rate risk.

Financing exposure

Financing risk refers to the risk that the financing of the Group's capital requirements and the refinancing of outstanding loans becomes more difficult or more expensive. By maintaining a steady maturity profile on loans, financing risk can be reduced.

Foreign currency exposure

Concentric's financial statements are presented in SEK, but the Group has business in a number of countries in Europe and in the United States. This means that the Group is exposed to foreign currency risk due to the fact that unfavorable changes in exchange rates may have a negative effect on earnings and equity. The Group hedges its currency risks within the framework of the treasury policy with a view of managing these risks. The Group's overall currency risk exposure is managed at central level. Concentric's foreign currency risks mainly relate to the currencies EUR, USD and GBP.

Transaction exposure from commercial flows

Concentric carries on business in various countries which largely incur revenues and expenses in the prevailing local currency or where the customer contract includes a 'natural' hedge for cash in/out flows denominated in foreign currencies. Transaction exposure is therefore limited.

However, all of the Group's subsidiaries must actively identify and hedge any transaction exposure that may arise. In accordance with the current treasury policy, 70 percent of the anticipated net flows for the estimated volumes during the forthcoming 12-month period are hedged for each separate currency, with a permissible deviation of +/–10 percent.

Translation exposure on consolidation of units outside Sweden

Exchange rate fluctuations also affect the Group's income through the translation of foreign subsidiaries' statements of income into SEK.

Exposure in net investments (translation exposure in the balance sheet)

The net assets (i.e. equity) of the non-Swedish subsidiaries represent investments in foreign currencies which, when consolidated into SEK, give rise to a translation difference. In its treasury policy, the Group has established a framework for how the translation exposure that arises, shall be managed in order to control the impact of translation differences on the Group's capital structure. The treasury policy stipulates that the Group's net debt shall be distributed in proportion to the capital employed per currency. Wherever necessary, this goal is achieved by raising loans in the various currencies used by the subsidiaries.

Credit exposure

Credit exposure in accounts receivable

The Group's contract policy contains rules designed to ensure that customer credit management includes credit assessment, credit limits, decision levels and management of doubtful accounts receivable to ensure that sales are made to customers with appropriate creditworthiness. There is no concentration of credit risk as the Group's large number of customers are widely spread over many different countries.

Financial credit exposure

The Group has policies in place that limit the amount of credit exposure to any one financial institution or other counterparty. To limit credit risks transactions take place primarily with financial institutions with a high credit rating.

Pension obligations

The Group operates a number of defined benefit pension arrangements, with the principal schemes based in the United Kingdom and the United States. The two defined benefit pension schemes operated in the United Kingdom are both closed to further accrual. They are currently under-funded and the latest actuarial valuation shows a deficit of approximately GBP 17 m. This obligation sits with the principal employer of the scheme, Concentric Pumps Limited. The current agreed payment schedule to the schemes to eliminate the under-funding is GBP 2 m per year for the next three years. Thereafter an actuarial valuation is carried out every three years and a payment schedule agreed with the trustee groups. It is anticipated that the deficit will be fully cleared by 2017. In addition there are yearly expenses of GBP 0.3m to cover both schemes. The Company does not anticipate any problems in meeting its obligation to make these additional payments.

The defined benefit pension scheme operated in the United States (Rockford) was closed to further accrual for those members aged under 40 on 1st January 2006, but continues for those members that were over 40 at that date. There are currently 129 people out of a workforce of 306 who currently still accrue service benefits under this scheme. The U.S. scheme is also under funded and the Company makes top payments of circa USD 1m per annum. This is expected to continue until the scheme closes naturally when the membership drops to 50, which is expected to be in approximately 10 years time.

Significant trends and changes

Concentric does not intend to provide the market with financial forecasts in the future. The Company's objectives and long-term strategies are outlined in "Business mission, goals and strategies" and market estimates are outlined in "Market overview". Based on its strategy the Company aims to outgrow the market, via new product introductions to meet tightening emissions regulations, and further penetration of developing economies.

There has been no significant change in Concentric's financial position or market position since the publication of Concentric's interim report for the period January – March 2011.

Recent developments indicate that the positive trend in all Concentric's market segments and regions shown in 2010 and the first quarter of 2011 continues. The Company experiences stable sustained demand with orders broadly matching sales.

Increasing commodity prices continue to put significant pressure on the Group's material cost base however, the Group has been successful in passing through raw material cost increases to its customer base. Global supplier capacity is now providing a constraint to sales growth across the industry sector and in some Concentric plants but, a number of initiatives have been launched internally and externally to provide additional supply options during the second quarter. There is uncertainty from the impact of the earthquake in Japan, but to date this has had little or no impact on Group activity.