2012 Annual Report

David Woolley (CEO) & David Bessant (CFO)

24 April 2013

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Agenda

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FY 2012 Performance Overview

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2012 Highlights

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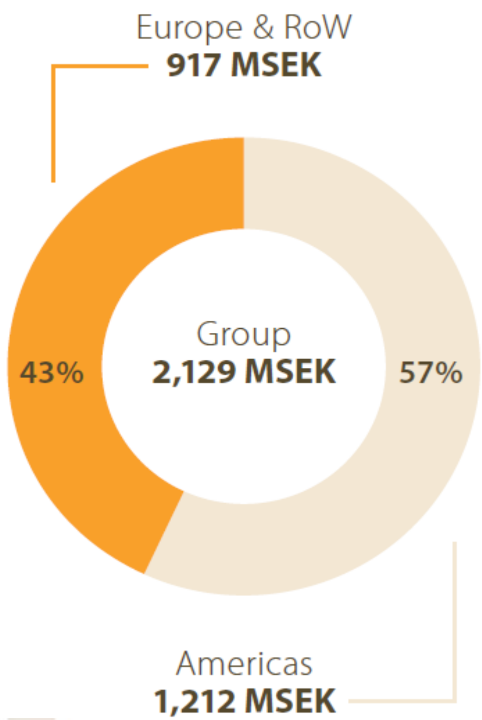
- Sales for the full year 2012 were down 9% year-on-year in constant currency
- In overview, the economic headwind reported in Q2 and the slowdown experienced during the second half of the year has made 2012 very challenging
- The US markets demand held up stronger for longer, but by Q3 the slow down was apparent across all regions and end-markets with Q4 sales for the Group down 23% year-on-year in constant currency
- Entering 2013, it feels as though OEM de-stocking has been completed, but demand still remains fairly subdued in all areas
- Martin Lundstedt CEO Scania was appointed to the Board of Concentric AB at the AGM, April 2012

2012 Highlights (continued)

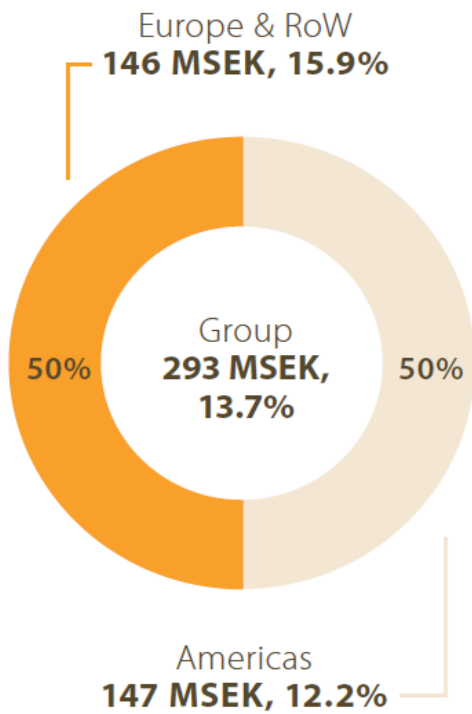
- Plans to consolidate two European hydraulic facilities into one “European Centre of Excellence” were announced in Q4, giving rise to a restructuring charge of MSEK -36 and a payback of less than 2 years
- Cost control has remained very much the short-term focus
- However, investments in equipment, engineering and new product development have also been preserved to protect our long-term growth strategy
- New Customers and contracts Euro 6 and US EPA13
  - Water pumps on 13 litre engine, MSEK370 over 5 years
  - Fuel transfer pump on 9 litre engine, MSEK105 over 5 years

2012 Highlights (continued)

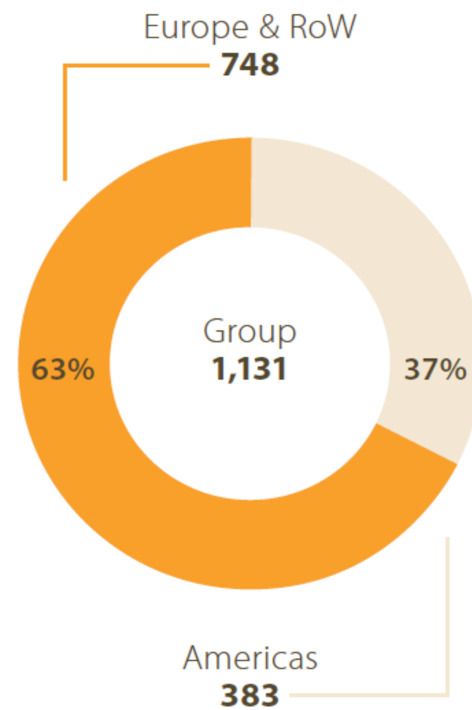
Net Sales



Operating result & margin*



Average number Employees



- **Strong cash flow from operations: MSEK 298; Gearing: nil% (pre-IAS 19 adjs)**
- **EPS*: SEK 4.17 (4.38); Proposed dividend increased to SEK 2.50 (2.00)**

**** Before items affecting comparability - Restructuring costs: MSEK 36; Net cost of other one-off items: MSEK 4***

Looking Towards the Future

- **Technology continues to be key to our ongoing success:**
  - ***Our hydraulic product development for quieter, more compact and durable performance successfully strengthened our market position***
  - ***Our variable flow oil and coolant development to help customers reduce fuel demand and emissions***
- **Innovation - the Concentric Business Excellence programme that helped us manage in a recession, will continue to optimise the business as demand changes again**
- **Our geographical spread and four distinct end-market segments remains a fundamental part of our growth strategy**
- **Work continues on establishing a wider geographical presence and acquiring an enabling / complementary technology**

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Summary of Financial Results

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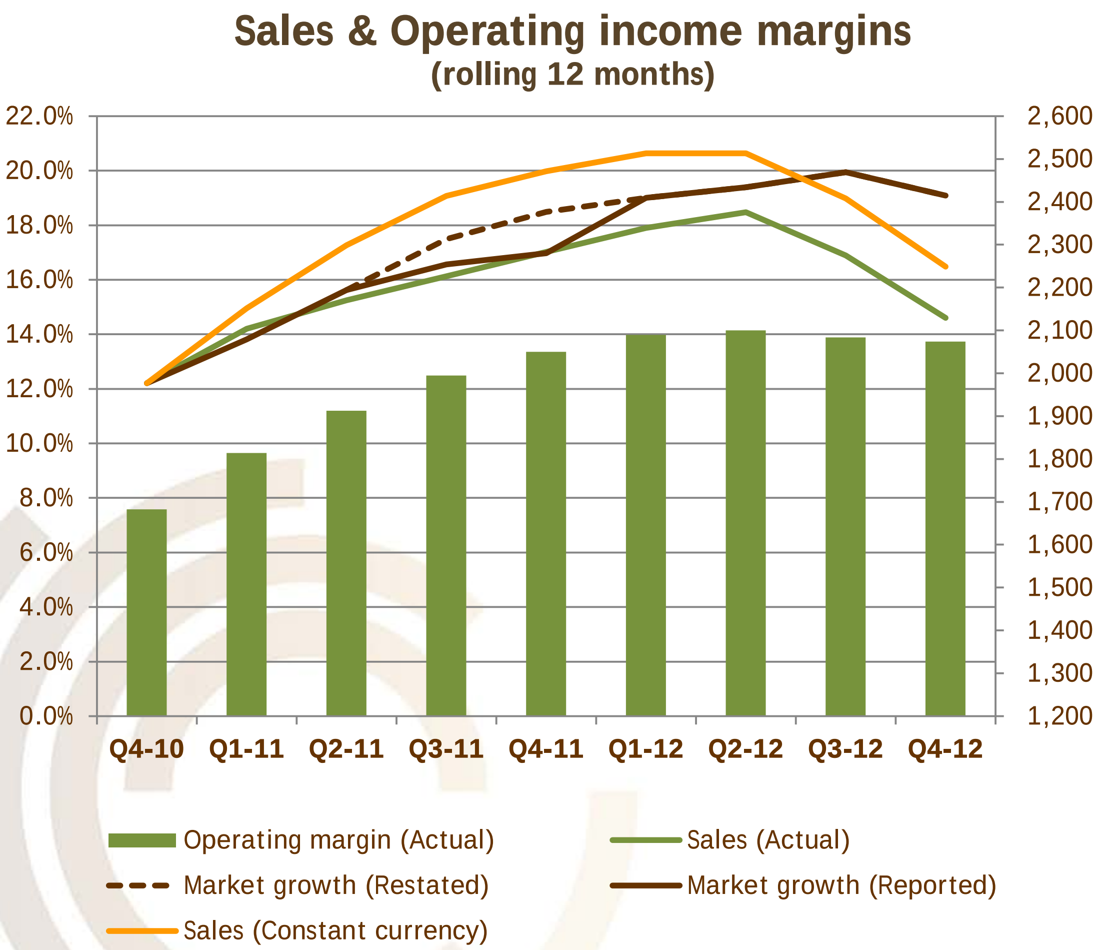
FY 2012 Results

MSEK	Jan-Dec		
	2012	2011	Change
Net Sales	2,129	2,283	-154
Change in constant currency	***-9%***	***25%***	
Gross income	559	630	-71
Operating income [(1)]	293	305	-12
Operating margin [(1)]	***13.7%***	***13.4%***	
Restructuring	-36	-	
Reported EBIT	253	281	
Net income	155	176	
Adjusted EPS [(1)] (SEK)	4.17	4.38	
Reported EPS (SEK)	3.51	3.98	
Proposed dividend (SEK)	2.50	2.00	
Capital employed	1,234	1,224	
ROCE [(1)]	***26.3%***	***27.0%***	
ROE	***16.3%***	***22.1%***	
Net debt	-	114	
Gearing (Debt/Equity)	***nil***	***12%***	

(1) Earnings before items affecting comparability

MSEK 2,458 Enterprise value based on 31-Dec-12 share price SEK 56.00

Sales & Operating margins
Development over last 2 years



Profitability maintained despite weak demand:

- Market data suggests FY 2012 should be flat, inconsistent with H2 actual sales experience
- Indices do not seem include any de-stocking effect from OEMs
- As noted in previous quarters, market data tends to lag order intake experience by 3-6 mths
- Benefits from Concentric Business Excellence programme and ongoing cost management have been vital to sustaining operating margins under pressure from lower sales volumes

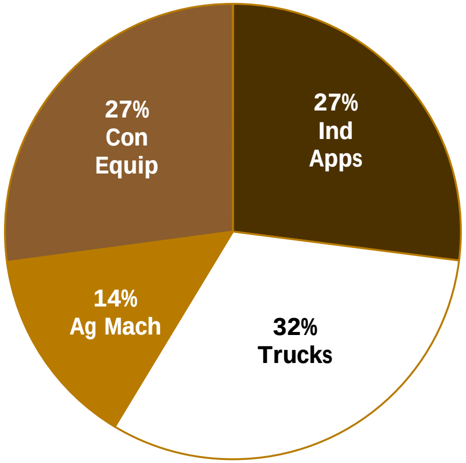
Overview of Market indices
FY 2012 vs. FY 2011

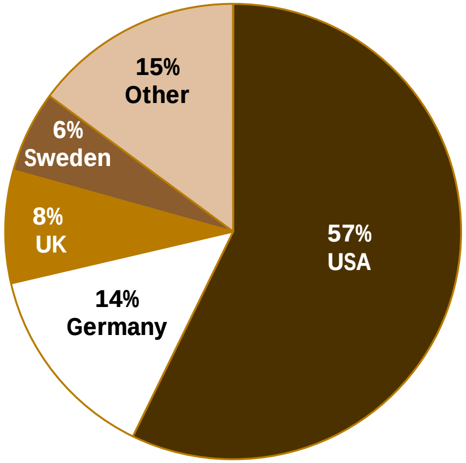
		North America	Europe	China/ India
Agricultural machinery	Diesel engines	+0%	-6%	+9%
Construction equipment	Diesel engines	+22%	-16%	+5%
	Hydraulic equipment	+6%	-4%	n/a
Truck	Light vehicles	+4%	n/a	n/a
	Medium/Heavy vehicles	+13%	-5%	-14%
Industrial applications	Other Off-highway	-2%	-11%	+8%
	Hydraulic lift trucks	+4%	-2%	n/a

Source: Based on statistics from Power Systems & Research, Off-Highway Research and International Truck Association Q4 2012 update

Overall, FY-12 was predicted to be flat against FY-11, applying the above data to our mix of end-markets and geographical spread of our customers

This compares to the actual sales down 9% year on year in constant currency





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FY 2012 Results
Americas Region

	FY		
	2012	2011	Change
Amounts in MSEK			
Net sales - total *(including inter-regional sales)*	1,221	1,249	-28
Operating income (1)	147	134	13
Operating margin % (1)	*12.0*	*10.7*	*1.3*
Return on capital employed % (1)	*38.8*	*31.8*	*7.0*

(1) Before items affecting comparability

Sharp decline in demand during H2

- Sales were down 6% year-on-year in constant currency, driven by the significant downturn in demand and de-stocking experienced during the second half of the year.
- Average sales on a working day basis were MSEK 4.9 (5.0) for FY 2012.

Operating margins continued to improve

- Operating margins were up 1.3% year-on-year, despite the decrease in sales volumes, due to the benefits of the Concentric Business Excellence program and effective cost management.

FY 2012 Results
Europe & RoW Region

Amounts in MSEK	FY 2012	FY 2011	Change
Net sales - total *(including inter-regional sales)*	1,027	1,175	-148
Operating income (1)	146	171	-25
Operating margin % (1)	*14.2*	*14.3*	*-0.1*
Return on capital employed % (1)	*19.7*	*23.9*	*-4.2*

(1) Before items affecting comparability.

Demand remained soft throughout the year

- Sales were down 12% down year-on-year in constant currency, driven by the continued market decline and de-stocking experienced across all end sectors.
- Average sales on a working day basis were MSEK 4.1 (4.7) for FY 2012.

Operating margins maintained

- Drop-through of lost contribution on the reduced sales c. 17%. Under severe market pressure the region was able to flex its cost base to protect margins. Plans to consolidate two hydraulic facilities into one "European Centre of Excellence" should further improve the ongoing cost base.

Robust Financial Position

Amounts in MSEK	31 December 2012	2011	*Comments*
Balance Sheet			
Working Capital	-23	61	Maintained strong working capital after adjusting for restructuring
As % of annualised sales	*-0.1%*	*2.7%*	
Capital Employed (1)	1,019	1,151	
Net Debt	-	114	Available facilities of c. MSEK 360
Equity	943	936	
Gearing (Debt/Equity) ratio	*nil*	*12%*	

(1) Excluding cash and cash equivalents and any tax items

Cash Flow	2012	2011	Comments
EBITDA	353	371	
Net CAPEX	-51	-50	
Cash in flow before financing	247	177	Continued strong cash conversion
Dividends paid	-88	-	
Buy-back own shares	-16	-	

Pensions update

- Under the ‘corridor method’, the Group has unrecognised defined pension liabilities as at 31 December, 2012 of MSEK -444 (-419) and associated deferred tax asset of MSEK 116
- During 2012 the Group has booked pension amortisation charges of MSEK -24 associated with these unrecognised liabilities
- Under the amended standard applicable for 2013 reporting, 2012’s results will be restated to reflect the full liability (and associated deferred tax asset) in the opening balance sheet as at 1 January 2012, and these amortisation charges will be reversed
- In an effort to reduce the deficit on the Group’s UK pension schemes, management initiated a programme to buy-out certain defined pension obligations from members using existing scheme assets, which generated curtailment gains of MSEK 19 (nil) during H2 2012

Q1 2013 Trading Update

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Q1 2013 Highlights

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- Activity in Q1 2013 showed only minor improvement over Q4 2012, up 7% in constant currency, 4% of which related to more working days in Q1 2013
- Difficult trading conditions persisted in all territories, but the level of customers shutdowns experienced and de-stocking from major OEMs reduced significantly from Q4 2012
- Overall, the financial results for Q1 2013 were stable:
  - Q1 sales down 23% year-on-year in constant currency to MSEK 449 (610)
  - EBIT margin maintained at 13.0% (14.6) despite low sales
  - Gearing in the period was 69% (69), following IAS 19 restatement

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