

# Risk factors

*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 below summary of risk factors does not claim to be complete, nor are the risks ranked according to degree of importance. Not all factors are described in detail, and accordingly, a complete evaluation of the information in this prospectus as well as a general evaluation of external factors must be made. Additional risks of which the Company is not currently aware or which the Company currently considers insignificant can exert substantial influence on Concentric's business, financial position and/or result.*

## **Industry and market risks** **Impact of the economy**

The Group operates worldwide and, as virtually all businesses, depends on the general financial and political situation in the world, as well as conditions unique to a specific region or country. Concentric is mainly active in a diverse range of markets for industrial applications, trucks, agriculture machinery and construction equipment. Demand for the Company's products is dependent on the demand in these markets, which in turn is driven by global trade, infrastructure construction as well as economic trends in the particular geographic market. Concentric's main geographic markets are North America and Europe, but the Group is also active in the Asian and South American markets. A weak economic trend in the whole or part of the world may therefore result in lower than expected market growth. Production in the truck, construction, agriculture and the industrial sectors is an indication of the trend in Concentric's market. Under normal conditions, each of these sectors has historically displayed a cyclical pattern. Although Concentric's business is well-spread geographically, with a broad customer base within several market segments, there is a risk that Concentric's operations, financial position and earnings could be adversely affected by a weak economic trend as well as cyclical patterns.

## **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.

## **Customers**

Concentric is active in several different market segments and has a large number of customers distributed among several areas of operation. No single customer accounts for more than 20 percent of the net sales of the Group as a whole. The top two customers for the Group contributed net sales in 2010 of SEK 388 m (19.6 percent) and SEK 302 m (15.3 percent), respectively. 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.

## **Raw materials and prices of raw materials**

The Group depends on a number of raw materials, semi-finished goods and conversion processes. Concentric has defined its exposure to raw materials in terms of both the Group's own purchasing of raw materials and Concentric's sub-suppliers' purchasing of raw materials. The greatest exposure is to the supply of aluminum, various steel grades and cast iron. Concentric is also affected by changes in raw materials price levels.

When 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.

If there were to be interruptions to the raw materials and semi-finished goods supply chains, and temporary shortages of certain materials, 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.

## **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 breakdowns, weather conditions, geographic conditions, labor 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 conducts production at a number of plants for certain product lines, thus there is the potential to reduce the implications of an interruption by raising output at

other plants. However, such action generally results in added costs and may, in the short run, have a negative impact on the Group's operations, financial position and earnings, particularly for production where the capacity utilization is high.

### **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 continuously develop new products and continue 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 continued growth and/or for defending market shares.

The development for 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 capitalizes costs for major new product development projects, a failed launch 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 the truck industry. 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 the cost of 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.

### **Restructuring**

As part of the Group's strategy, Concentric continually appraises its operations and various restructuring programs in

a bid to strengthen the competitiveness of its units. However, there is always a risk that the programs implemented do not provide the anticipated results.

### **Legal risks**

#### ***Legislation and regulations***

As a result of its worldwide operations, Concentric is subject to a variety of laws, ordinances, regulations, treaties and guidelines, including those pertaining to the environment, health and safety, trade restrictions, competition regulations and currency regulations. Concentric continually monitors rules and regulations in each market and strives to adjust the Group to any identified future changes. However, changes in legislation, regulations, customs rules and other trade barriers, price and currency controls as well as other guidelines in the countries in which Concentric is active, may affect the Group's operations, financial position and earnings negatively.

#### ***Intellectual property rights***

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 intellectual property rights. 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 intellectual property rights through legal action. However, it cannot be guaranteed that Concentric will be able to defend its granted patents, trademarks and other intellectual property rights 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. Moreover, there is no guarantee that companies within the Group cannot be considered to infringe upon intellectual property rights of others, or that the Group's use of "CONCENTRIC" does not infringe such rights in one or more countries. Disputes regarding infringement of intellectual property rights can, just like disputes in general, be costly and time consuming and may adversely affect Group's operations, financial position and earnings.

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 intellectual property rights.

### *Environmental risks*

All of the Group's manufacturing facilities are either subject to reporting obligations or are regulated by the environmental legislation in each country. Concentric believes that all units have the required permits and agreements, and that they also meet the required reporting and control requirements. Changes in legislation and official regulations entailing stricter requirements and changes in conditions in terms of health, safety and environment or progress towards a stricter official application of legislation and regulations may require additional investment and lead to higher costs and other undertakings by Group operations that are subject to such regulations.

### *Tax risks*

Concentric conducts its operations through companies in a number of countries. The business, including transactions between Group companies, is conducted in accordance with Concentric's interpretation of prevailing tax legislations, tax treaties and regulations in the various concerned countries and demands by relevant tax authorities. It cannot be generally ruled out that Concentric's interpretation of applicable laws, tax treaties and regulations or of the interpretation or administrative application by concerned authorities is not entirely correct, or that such rules will be subject to change, possibly with retroactive effect. Concentric's tax situation may change through decisions by the relevant authorities which may have a negative impact on the Group's financial position and earnings.

During late 2010 and the first half of 2011, the Haldex Group was restructured for the purpose of separating Concentric from Haldex. It is the opinion of Haldex and Concentric that transactions during the restructuring have been made at fiscally correct prices. However, it cannot be ruled out that the tax authorities in the countries where transfers have been made will judge certain pricing to have been incorrect and that reassessments then may occur, which may adversely affect the Group's financial position and earnings.

### *Specific U.S. tax risk*

Haldex believes that the corporate restructuring of the Haldex Group's operations in the United States that are carried out in connection with the contemplated distribution of the shares in Concentric will be free of federal and state income tax in the United States. Haldex, Inc. has received a private letter ruling (the "**IRS Ruling**") from the U.S. Internal Revenue Service ("**IRS**") with regard to the restructuring based upon certain qualifications and conditions contained therein, all of which Haldex believes have been satisfied. The IRS Ruling concludes for U.S. federal income tax purposes, that the U.S. restructuring transactions will not result in taxable income for Haldex's U.S. subsidiaries. Although an IRS Ruling generally is binding on the IRS, the ruling does not rule that the U.S. restructuring satisfies every require-

ment for a tax free spin off. After discussions with its U.S. tax advisor, Haldex believes that all such requirements have been satisfied.

Under Section 355(e) of the U.S. Internal Revenue Code, if one or more persons were to acquire a 50 percent or greater interest in Haldex or Concentric directly or indirectly as part of a plan or series of related transactions, developed before the distribution, of which the U.S. restructuring is a part, the U.S. restructuring transactions could be taxable for Haldex's U.S. subsidiaries. Haldex represented to the IRS as part of the IRS Ruling process that neither Haldex nor Concentric was party to any such plan.

One on-going condition of the IRS Ruling will affect the composition of the Boards of Haldex, Concentric and Haldex, Inc., namely it will be required that Concentric's Board of Directors shall not consist of more than two members who are at the same time also Board members of either Haldex or Haldex, Inc. At the time of distribution of the shares in Concentric, the composition of the Boards of Directors of these companies has been structured to satisfy this requirement.

Haldex, Inc. and certain U.S. subsidiaries of Concentric have entered into a tax administration agreement under which each party covenants not to take or permit to be taken or fail to take any action where such action or failure would jeopardize or be inconsistent with the tax treatment confirmed in the IRS Ruling. The parties have also undertaken to indemnify each other from any adverse effects or other losses being the result of a breach of their respective covenants. The indemnity applies even if controlling shareholders of the parties take certain actions that are inconsistent with the tax treatment as confirmed by the IRS Ruling.

If the restructuring transactions, in spite of the IRS Ruling, give rise to taxation of any of Haldex's U.S. subsidiaries and this is not due to an action or failure to act for which the taxed entity is to be indemnified in accordance with the above, then, pursuant to the referenced tax administration agreement, Haldex's U.S. subsidiaries on the one hand and Concentric's U.S. subsidiaries on the other hand shall each be responsible for 50 percent of such taxes.

### *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.

## Financial risks

### *Financing risk*

The Group's financing risk is the risk that the Company will be unable to raise new loans or to refinance existing loans. Although Concentric has access to long-term financing for its operations, it cannot be ruled out that Concentric in the future may breach financial covenants in its credit and/or loan agreements due to, for example, the economy or disruption in the capital or credit markets, which may adversely affect the Group's turnover, financial position and earnings.

Even though the Group's financial position is strong it cannot be ruled out that Concentric may have to obtain additional financing through, for example, taking up loans or issuing new shares. The availability of additional financing is dependent on a variety of factors, such as market conditions, the general availability of credit, the overall availability of credit within the financial markets and Concentric's credit rating and credit capacity. Disruptions or uncertainty in the capital and credit markets may also limit access to capital required in order to operate the business.

### *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. The Group's net interest expense depends, among other things, on the average fixed interest term. See also "Financial exposure and risk management" on page 40. It cannot be guaranteed that Concentric's measures to reduce its exposure to interest rate changes and other interest risks are efficient or sufficient enough in order for Concentric's financial position and earnings not to be adversely affected.

### *Exchange rate risks*

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.

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 to a large extent are generated outside 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. See also "Financial exposure and risk management" on page 40. If Concentric's measures 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*

Concentric, like other companies, is subject to credit risk, meaning the risk that a party to a transaction cannot fulfill its payment obligations and thereby creates a loss for Concentric. Financial credit risk is the exposure to default of counterparties with which the Group has invested cash and other financial assets. The credit risk in foreign currency and interest rate derivatives corresponds to their positive market value, i.e., potential gains on these contracts. See also "Financial exposure and risk management" on page 40. If Concentric does not succeed in handling its credit risks, this may have a substantial adverse effect on Group's sales, financial position and earnings.

### *Changes in value of fixed assets*

Concentric has substantial fixed assets, of which goodwill represents the largest part. Goodwill is tested annually during the third quarter 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 payments, which are expected to continue during approximately 10 years time. According to the latest report from the responsible actuary, the UK plans are sufficiently capitalized, 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 capitalized 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" on page 42.

## **Stock market risks**

### **Share price development**

Prior to the contemplated distribution of the shares in Concentric, the shares have not been publicly traded. Although an application has been made for the shares in the Company to be admitted to trading on NASDAQ OMX Stockholm, no guarantees can be provided concerning the liquidity of the shares.

Risk and risk-taking is an inevitable part of owning shares. Since an investment in shares may fluctuate in value both upwards and downwards, it can never be guaranteed that an investor is able to recuperate the invested capital in full. The price of the shares may vary depending on, among other things, Concentric's financial performance, changes in stock market expectations of future performance, the supply of and demand for the shares, the development in Concentric's markets, and the overall economy and the financial markets generally. Moreover, the share prices of publicly traded companies can be highly volatile. It is impossible for a particular company to control all the factors that may have an impact on the share price of the Company and, accordingly, all decisions to invest in shares should be preceded by a careful analysis.

### **Increased expenses as an independent listed company**

Up until the contemplated distribution of the shares in Concentric, Concentric is a wholly-owned subsidiary of a listed company. As a result, Concentric has limited operational history as a consolidated stand-alone unit on which the Group can be judged, and has not previously had any direct responsibility for laws, regulations and requirements applicable to listed companies, including, for example, the rules of NASDAQ OMX Stockholm and the Swedish Corporate Governance Code. As a listed company, Concentric will incur legal, accounting and other expenses which the Company has not previously been directly responsible for. Complying with these laws, regulations and requirements may also occupy a significant amount of the time of Concentric's Board of Directors and senior management.

## **Future dividends**

The declaration and payment of future dividends will be resolved upon by the Company's shareholders. The Company's ability to pay dividends in the future depends on numerous factors including, but not limited to, the Group's business, future profit, financial condition, results of operations, distributable reserves, cash flows, prospects, capital requirements, the ability of its subsidiaries to pay dividends up to the Company, credit terms, general economic and statutory restrictions, and other factors that Concentric's Board of Directors deems significant from time to time. For more information, see "Financial targets and dividend policy" on page 14.