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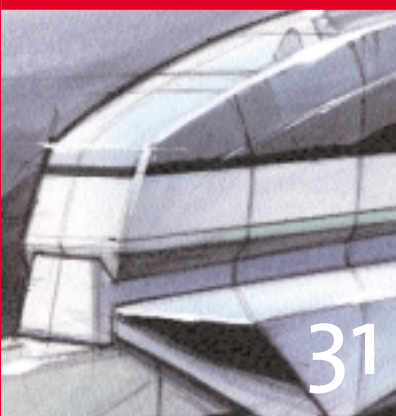
ANNUAL REPORT  
**semcon**



# 03

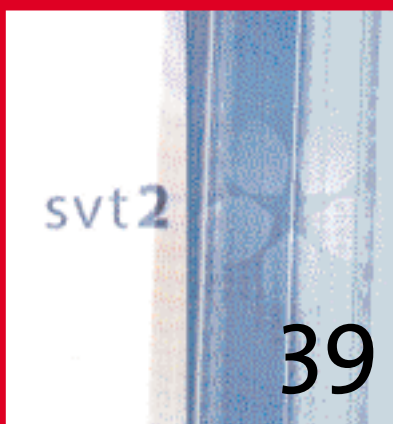
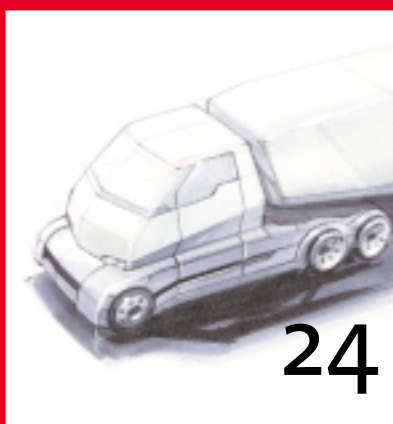
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## Semcon develops tomorrow's products

Semcon is an international design and development company that helps leading businesses in the Nordic region to develop people, products and processes. We take responsibility for the entire development project, from idea to finished product. Our customer base is broad, but the main focus is on the Vehicle, Telecom, Medical & LifeScience and Industry sectors. Our formula for success is simple: highly committed staff, extensive competence, long experience, the best methods and tools and a strong corporate culture. Above all, we have a strong desire to create the best results.







Salming Sports

Arla

Electrolux

Alfa Laval

Sony Ericsson

Microdrug

Saab Automobile

Volvo Car Corporation



## We make everyday life simpler

Our everyday lives involve a mass of objects and appliances that continuously appear in new, improved versions, adapted to our individual needs. These are such obvious things that we rarely think about them. But look around! Development starts at breakfast. And it's always moving forward. Semcon just makes it move faster.

Product development is about making life simpler. Our leisure time gets more and more valuable, and modern technology gives us more of it. Would any modern family give up their dish washing machine? And how would we manage without a computer? Semcon has worked on many exciting development projects, some of which have resulted in products launched in recent years. We improve performance, produce clever technical solutions and create stylish design.

Pågen

AstraZeneca

Novo Nordisk



# 2003 in brief

## A challenging year for everyone

### SALES LEVEL RETAINED

The market only regained stability towards the end of the year when some signs of improvement were noted. Despite these conditions, Semcon managed to produce the same level of sales as in 2002. With our industry under such pressure, this was an achievement. We managed this because our sales efforts succeeded to the extent that our customers continued to show their trust in us in all of our prioritised segments. We also gained new business with Ericsson and Saab Automobile during the year.

### BRIGHTER SPOTS

At the end of Q3 brighter spots were visible in the market. Improvements continued during the remainder of the year and all our business areas reported positive trends. The better outlook, combined with our Fast2Profit programme, helped us to produce positive earnings before making one-off write-downs.

### RESULTS

For the first time in Semcon's 23-year history the company is reporting an operating loss. Contributory factors included the swift decline in demand that led to low utilisation of resources and strong price pressures. We also experienced problems with projects that did not develop as planned and with broken contracts, which required swift termination of activities.

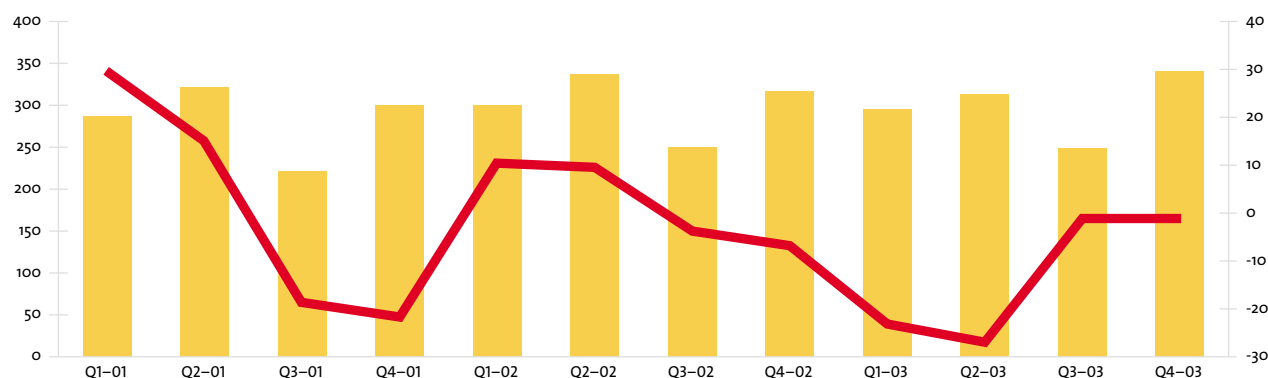
### OUTLOOK

We expect to get back into profit in 2004 and to improve our equity/assets ratio.

### 2003 HIGHLIGHTS

- Sales around the same level as 2002: SEK 1 199 million.
- Semcon's first-ever loss: loss after tax SEK 57.6 million.
- Operating profit, excluding write-downs and one-off costs: SEK 33.6 million.
- Market stabilisation and signs of improvement in final quarter.
- New partnerships with Ericsson and GM (Saab Automobile) within Informatic business area.
- Activities in Göteborg concentrated at new design and development centre, Semcon Tech Center.
- Swift expansion in the UK – over 30 form and design specialists employed since August.
- Systems by Semcon, which was started up in early 2003, chosen as IBM partner of the year in Europe.
- New partners in Australia, China and Spain.

### Quarterly performance (SEK m)



The graph shows changes in sales and operating profit/loss per quarter (Q). The operating profit/loss in Q3 and Q4 2003 developed better than in the corresponding quarters in previous years.


■ Sales  
■ Operating profit/loss





Key figures:	1999	2000	2001	2002	2003
Sales (SEK m)	864	1 007	1 127	1 200	1 199
Operating profit/loss (SEK m)	84.4	50.1	5.7	10.1	-52.8
Equity/assets ratio (%)	38.0	34.1	28.9	27.9	19.1
Earnings per share (SEK)	3.38	1.99	0.08	0.05	-3.31
Average number of employees	1 173	1 504	1 585	1 581	1 504
Sales per employee (SEK 000)	736	670	711	759	797





“We are a technology company,  
but our focus is on people.”



# CEO Hans Johansson

## Our advance continues

2003 served up some greater challenges than we had seen before. After over 20 profitable years we learnt that success cannot be guaranteed. Semcon has faced tough times before, including the harsh climate of the early 1990s. These are the situations that show us that our long-term perspective is one of the keys to our success.

The year started poorly, but an improvement was discerned in September. Now we can look forward, knowing that our experience of the past year makes us stronger as we face new challenges.

### **RATIONALISATION COMPLETED**

With the year starting weakly we knew in January that a programme of rationalisation was needed, with a focus on raising earnings and continued adaptation of costs to the current market situation. In addition to a stronger sales organisation, savings and greater efficiency would reduce our costs by at least SEK 50 million, a target we managed to exceed by year-end.

Despite some fierce challenges we actually managed to retain our overall sales level, which meant winning market shares from competitors. Because our staff numbers were lower, this represented a considerable productivity boost. Earnings per consultant rose.

### **SUCCESSFUL STRATEGY**

Our strategy of entering into partnerships with key customers

led to significant successes during the year for our Informatic business area. In the spring we were asked to take over most of the technical information activity for Ericsson CPI (Customer Product Information). In June we signed the single largest business deal in Semcon's history. This agreement with GM meant that we took over Saab Automobile's service development unit, which produces technical information for servicing, spare parts and products. The partnership boosts our leading position in Europe within Informatics and opens new doors for co-operation with GM.

Our office in the UK has progressed well in a highly turbulent market for consultants that is taking its toll on our competitors. Our UK activity now has a staff of 30 mainly working with design for PAG (Premier Automotive Group), in which Ford has gathered its prestige marques such as Aston-Martin, Land-Rover, Jaguar and Volvo Car Corporation.

Our new company, Zystems by Semcon, created out of the successful Zipper by Semcon, has received a fantastic market response, which meant swift expansion and good results. The platform for their offer is IBM's software for system integration.



“To be successful you need long-term plans – and then you must stick to them.”



#### **FIRST-EVER LOSS**

Despite these successes, Semcon reported a loss of SEK 52.8 million, the first loss of its 23-year history.

We spent much of the year adapting our business but thanks to re-allocations and other efforts we managed to restrict the amount of job lay-offs. However, some very good people had to leave. Our strategy has been to maintain the strong office networks we have built up. These networks are a great asset. We know that closeness to both customers and our own staff is vital for improving profitability and for a strong culture, and this possibility increases thanks to our infrastructure.

New conditions meant that we had to review and simplify our organisation, a change that was completed in the autumn. The aim was to develop a leaner, more efficient organisation, which communicated and made decisions faster. Focusing on three business areas – Design & Development, Informatic and Innovation – helps us to provide a clearer business offer.

#### **DARING TO INVEST IN THE FUTURE**

To succeed we must be brave enough to invest in the future. That's one of the key lessons I have learnt in my 12 years as Semcon's CEO. We have decided what we want to be and how to reach our objectives. We have long-term plans and we will follow them. The vision we established in 2000 continues to guide our activities.

One of the objectives we identified then was to focus on the growth sectors of Vehicle, Telecom, Medical & LifeScience and Industry, and to develop and grow within form and design. In the future people will travel more, consume more, com-

municate more and live longer. Swift technological development is necessary in all of these areas.

The year's successful business with Ericsson and Saab Automobile shows we are on the right track. Semcon Informatic has a more prominent position within our new organisation and we believe this area has the greatest potential to help us achieve another of our objectives: international expansion.

We have been growing our international presence since 2000. Last year we focused on the UK and, in addition to Sweden, we now have activities in Denmark, Norway and Malaysia, as well as in Australia, Spain and China via partners. The challenge for us is to expand internationally at a pace that we can manage. We must have respect for the difficulties we will face and realise that it takes time.

#### **NEW COMPETITION**

We are not the only ones looking overseas. We are noting increased competition from consultants in low-cost countries. We have no intention of competing with them on price. We intend to be a more attractive partner, which we can be by taking full responsibility for the entire development process. Our winning recipe is to generate profits with our wide-ranging knowledge of our customers' development chain and the requirements of the end-user. And by working with high tech, challenging projects in the most exciting sectors we will continue to attract the best consultants to work for Semcon.

#### **POSITIVE PEOPLE – STRONG CULTURE**

Even though each customer has a unique reason for working with us, aside from the competence they seek, many custo-





mers say that they need new energy in their projects. They want fresh blood, people who will bring new ideas and see things with a different eye.

We can offer them energy and motivation because we have grown together, we have fun together and we develop together in exciting projects.

We have a breadth and depth of competence among our staff that we utilise optimally by working in teams. This approach was made easier last year when we moved into the Semcon Tech Center in Göteborg, a future-oriented base for design, development and innovation. It's a place where it's easy to meet, exchange ideas, set up new working methods and to socialise. Our new organisation, with strong local units, also creates better co-ordination between businesses in different places.

There is extensive commitment and solidarity among our staff and this proved invaluable in 2003. We are a technology company, but our focus is on people. We believe in people's ability to grow and develop as individuals. We believe in freedom with responsibility. At Semcon there is a passion for technology and the opportunities technology creates. We love technology that simplifies everyday life. This is something our customers never doubt.

#### **SEMCON IN 2004**

I wrote last year that 2003 would be a tough year and that we would have to adapt our business offer. We also saw that if our customers were forced to cut their activities and rationalise, it would present us with new opportunities for partnerships. This now looks like an excellent summary of the year!

So what will 2004 bring? Many people say the business climate has changed, but that may be wishful thinking. Our assessment is that the situation has stabilised and that while the markets will remain hesitant in the first half of the year, there are several bright spots. Our action in 2003 makes Semcon well prepared for various scenarios. A belief in the future is spreading, which should encourage our customers to invest more in development projects. A small upswing in the business cycle would mean a greater call on Semcon's resources and improved man hours, because customers are likely to outsource projects before they invest in their own capacity.

Our growth will come mainly from abroad, primarily in Europe and from our Informatic business area.

Our customers are increasingly aware that they should prioritise product development, an area in which design is just one of several parameters. After several years of cutbacks there is a growing belief that to seize your own destiny you need to invest in the future. The driving forces continue to be sharp global competition, swift technological advances and an awareness of our planet's environmental problems. All of these factors will propel greater investment in product development.

Semcon will benefit from these trends and we look forward to a year of continued international expansion, more and larger business deals, positive results and the opportunity to benefit from the fact that we are now stronger than our competitors after the tough battles of recent times.



# Aims and strategies

## Focus on profitability

Semcon's bigger customers are international and it is natural for us to carry on growing alongside them in places where they operate. We will achieve this by developing internationally competitive offers within design and development.

### LONG-TERM BUSINESS OBJECTIVES

- Being a premier supplier for prioritised customers.
- Internationally established.
- Increased focus on value, generating better profits for customers.
- First choice as an employer for project managers and technical consultants.

### FINANCIAL OBJECTIVES

- An operating margin of above 10 per cent over a business cycle.
- Continued low debt/equity ratio and an equity/assets ratio above 35 per cent.
- Over the long-term, Semcon aims to pay out 30–50 per cent of the profits after tax to Semcon shareholders.

### STRATEGIES

Semcon has four main strategies that guide activities:

- Employees and corporate culture
- Business offer
- Market position
- Growth

#### Employees and corporate culture

Semcon has a strong corporate culture based on belief in the individual, enthusiasm for co-operation and a commitment to good business practices. By recruiting competent employees who share the company's values and who are open and strongly motivated, both the company and its business offer will continue to develop. As a Semcon employee an individual will continue to grow through exciting, challenging projects and focused competence development. To support this process Semcon has developed and implemented a competence management system that helps us to guide and develop the right competence over the long term.

#### Business offer

Semcon's business offer is based on in-depth knowledge of product development and related areas. Today Semcon takes full responsibility for complete development projects, from idea to finished product, and will focus its activities on securing larger, more complex development assignments.

To create greater value for customers Semcon will continue to deepen its understanding of their business and processes.

Through this understanding, and by generating innovative ideas, we can offer our customers new solutions for their expressed and unexpressed requirements. We develop concepts that span across different industries, so customers benefit from our experience and solutions in other areas.

### Market position

Semcon currently has a strong market position as a technology and development partner for leading industrial businesses in the Nordic region. The customer base is broad, but the focus is on the Vehicle, Telecom, Medical & LifeScience and Industry sectors. Our positions in these sectors are further strengthened by the fact that our business to a growing extent is based on partnerships where Semcon's role is to be the development and business partner who takes major responsibility for the customer's profitability. This means that Semcon continually strengthens its position as a business partner with a clear profile as a leading design and development company.

### Growth

Growth is expected primarily in the Vehicle and Medical & LifeScience sectors by offering partnerships and complete solutions in the form of managing and performing large and complex projects. Within these areas growth will take place inside and outside Sweden. We will establish ourselves internationally by following our customers overseas.

Semcon will also achieve growth within its Informatic business area, where our value-creating concept for after-sales market information will bring us new outsourcing business. Growth here will primarily be international and within Europe.

### BUSINESS GOALS FOR 2004

- To make a profit, improve the equity/assets ratio and carry on gaining market shares.
- To refine and strengthen our business offer in each sector.
- To continue increasing the portion of complete solution projects and value-based business.
- To extend networks with external consultants and partners in complementary areas.

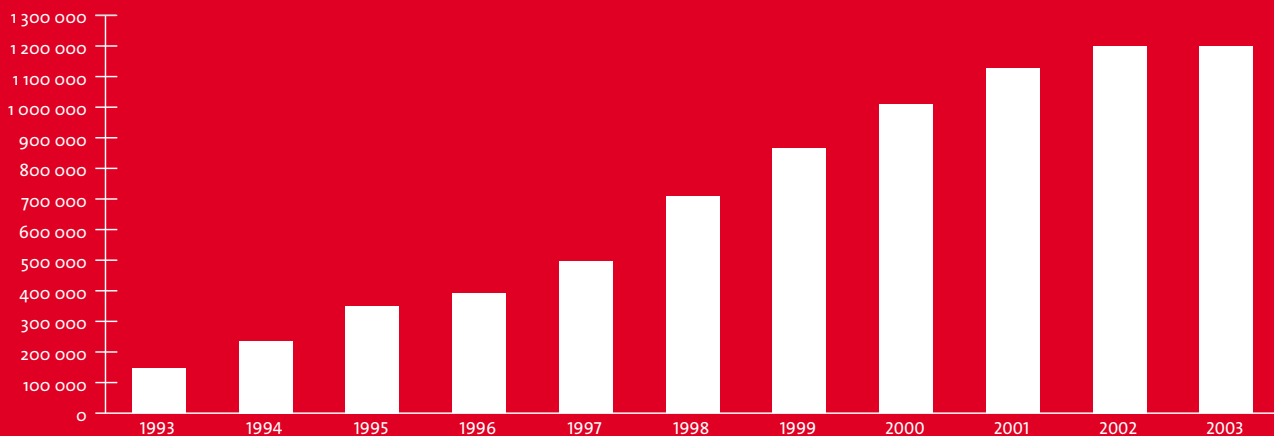
	1999	2000	2001	2002	2003
Operating margin (%)	9.8	5.0	0.5	0.8	-4.4
Equity/assets ratio (%)	38.0	34.1	28.9	26.5	19.1
Share dividend (% of profit after tax)	41.4	25.1	0.0	0.0	0.0



**Vision:** Semcon will be a leading international design and development company.

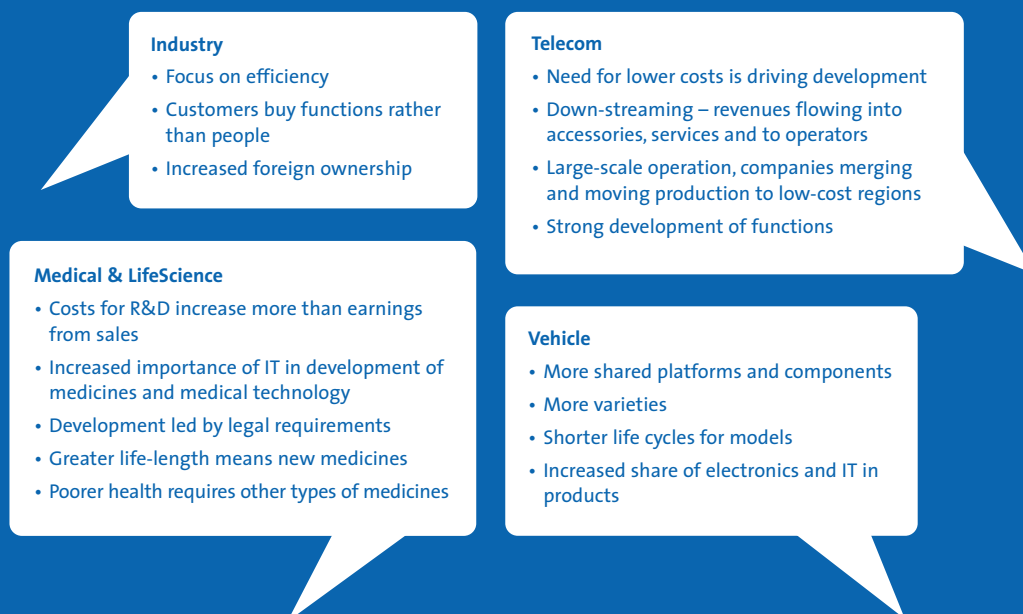
**Business concept:** As a close partner to industry, Semcon supplies human and technical competence that improves the profitability of its customers.

### Sales trend



Semcon's constant focus on business is reflected in the continuous increases in sales over the years. However, weak market conditions have put the brake on growth in recent years. Even so, few companies in the consultancy business managed to retain their sales levels as we did from 2002 onwards. Long-term relationships with customers form the basis for Semcon's success.





## Market and trends

The year saw weak market progress, although there were signs of improvement in the final quarter. Structural changes on the market, however, mean that continued improvement cannot automatically be expected in 2004.

The market for industrial consultants deteriorated between 2001 and 2003. Many companies in this sector saw their sales drop significantly. Internationally, the downturn was even more dramatic. A recovery was however noted towards the end of 2003, as enquiries and orders picked up.

### GLOBAL TRENDS

The global economy is still out of balance even though a certain stability reigned at the end of the year. We can see clear signs of growth in Asia and the start of growth in South America. The US remains both a locomotive and a concern. To maintain consumption the Americans are keeping interest rates low and allowing a record high budget deficit of around SEK 4 trillion in 2004. This puts pressure on dollar exchange rates, which is a hard blow for Swedish exporters.

In Sweden, higher market growth is forecast for 2004. Experts predict, however, that open unemployment will rise from 4.8 % to 5.1 %, which will have a negative effect on growth and on buying power.

### KEY TRENDS

Within all sectors at present there is excess production of new products. This places tougher demands for quicker development of more attractive products with increased and improved technical content.

- There are signs of increased commitment to development within several sectors. Customers are dependent on developing new products quickly and they know that greater commitment to product development is required in order to increase sales.
- Something extra, other than price and performance, is required to distinguish similar products from each other. Design is thus becoming an increasingly important means of competing.
- From a shared platform, products are being individually adapted for smaller, sharply defined target groups.
- Additional functions, separate from basic functions, are increasingly being integrated into products. For example, mobile phones have clocks, alarms, cameras, games, etc.

### TRENDS WITHIN SEMCON'S FOCUS SECTORS

- Within Vehicle, major investments in the development of new models and varieties, signalled by the car industry for coming years, will benefit our sector.
- The situation for Medical & LifeScience remains positive.
- Businesses within the Industry sector are investing again in design and product development.
- Greater stability within Telecom means that demand for services within this sector is growing again.



## DEVELOPMENT-INTENSIVE

Development-intensive businesses within Semcon's focus sectors continue to invest in research and development, despite a weak economy and market worries. According to the OECD Sweden has retained its top position in terms of percentage of GNP invested in R&D, even though the figure has fallen in recent years. Total Swedish investment in R&D is just under 3% of GNP.

## COMPETITORS

In the past year we saw increased competition from international companies, while domestic competition went off the boil. This might reflect the fragmentation and specialisation of the market that is occurring. Overall, the industry is being hit by a weak market, falling prices, excess capacity, tough competition, major cutbacks and liquidity problems. Everyone is looking for new business and payment models. However, unlike its competitors, Semcon has succeeded in raising its market share.

## INTERNATIONAL ADVANTAGES

Total costs for engineering services in Sweden are lower than in most of the key European markets, which gives advantages when global businesses choose where to develop products. Another advantage for Semcon is the broad experience we have built up in almost 25 years of close co-operation with the leading product developers in the Nordic region. Experience and competence from one industry can often be transferred to another. For example, knowledge of platform concepts used in the auto sector is in demand in other sectors.

## SEMCON'S FUTURE

Companies often look externally when they need resources for product development. One reason is that the need is greater than the means. Customers also want short development and project times, or they seek specialist competence outside their core activity. In recent years businesses have increased their demands for knowledge about innovation and design.

Semcon's aim is to be its customers' most important partner for design and development. Semcon is moving gradually from invoicing for hours of technical consulting, via total responsibility for projects to partnerships with customers. We deliver results rather than hours in an increasing portion of projects. Demand for detailed system knowledge, project management and taking complete responsibility for projects are growing steadily. We are meeting competition from cheaper competence in other parts of the world by taking more responsibility in projects and contracting out less advanced services to suppliers in Eastern Europe, Central America and Asia.

Semcon's growth is expected to move quickest in the Vehicle sector, followed by Medical & LifeScience, Telecom and then Industry.

## FORCES DRIVING GROWTH

Semcon expects the design and development market to carry on growing strongly. The illustration below summarizes the key growth factors.

### Global trends

- Increased global competition
- Swift development of IT and technology
- Increased environmental awareness

### Impact on markets

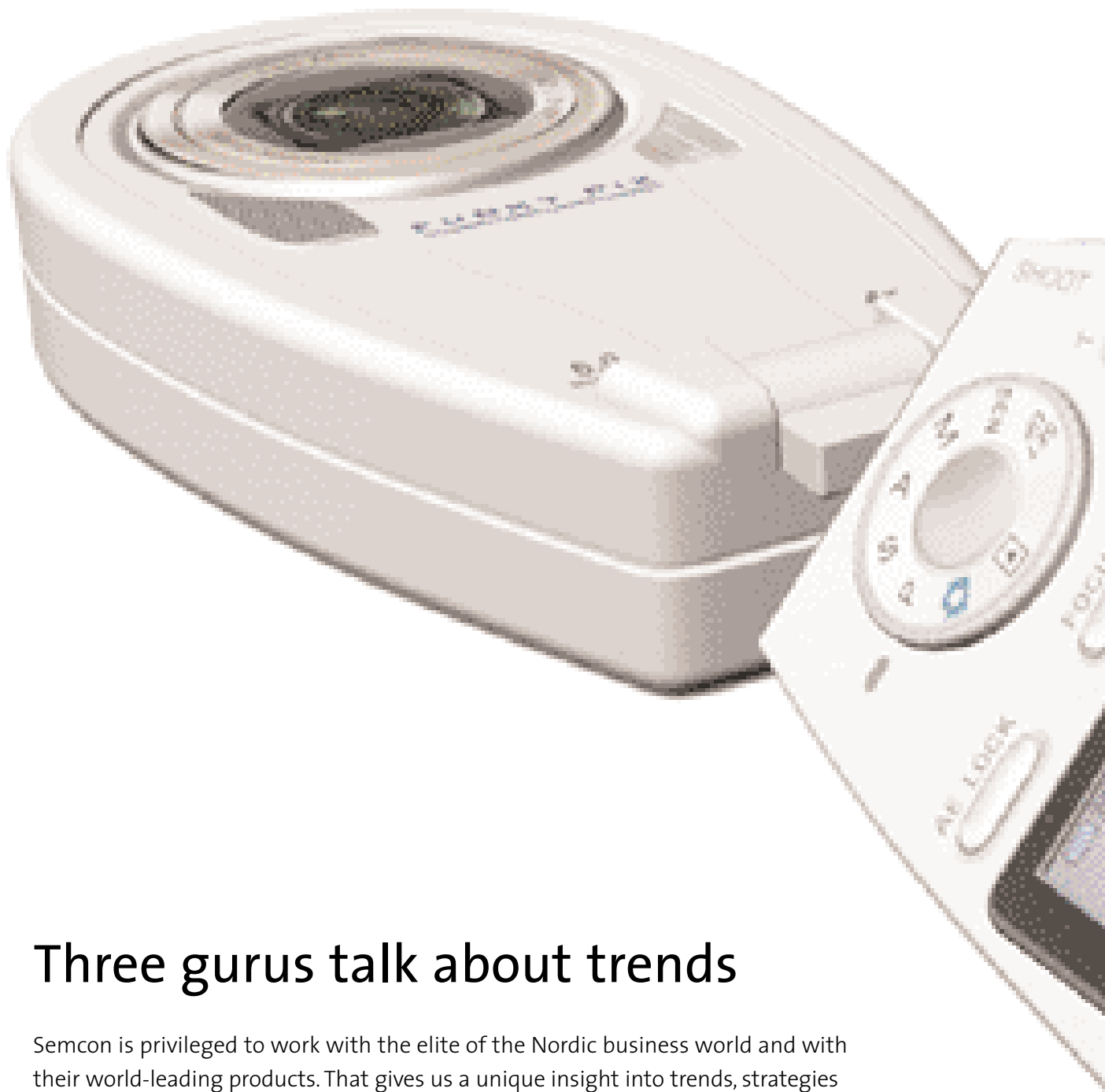
- Design
- Shorter product life cycles
- Mergers and acquisitions
- Accelerating development costs
- Increased difficulty of development within companies
- Stricter laws, new consumer demands

### Consequences for product development

- More focus on Time-to-Market
- Demands for more product varieties
- More complete solutions delivered by consultants, more partnerships and more long-term business relationships
- Greater need of expertise in recycling, emissions and saving energy

### Greater demand and improved opportunities for development consultants





## Three gurus talk about trends

Semcon is privileged to work with the elite of the Nordic business world and with their world-leading products. That gives us a unique insight into trends, strategies and the hunt for innovation. Our customers have a healthy appetite for the cutting-edge skills, specialists and methods used in the innovation process.

Meet three of the men leading development in three of our sectors; visionary thinkers from Saab Automobile, Alpharma and Sony Ericsson.







# The Saab manager

## Swedish businesses are becoming increasingly attractive

The future of the car industry is all about flexibility, co-operation and design. Those are the values that Saab Automobile will follow to strengthen its market position.

“Saab’s clearly Scandinavian design is one of the brand’s strongest qualities,” says Greg Deveson, deputy CEO of Saab Automobile in Trollhättan.

Recent positive reports, from the US among others, are happy reading for Saab’s deputy CEO. It feels right to talk about the future and the areas that Saab will focus upon. One of these areas is design.

“The market is highly dynamic and today’s customers are intelligent and know what is available. Design has become an important way to stand out from the crowd, especially for Saab. Our Scandinavian design is one of the brand’s strongest qualities – very clean, healthy and light colours,” says Greg Deveson.

### MORE LAUNCHES

Several new Saab models will be launched in the near future, primarily in North America, Saab’s largest and most important market. First out is the 9-2X, a smaller, four-wheel drive model. It’s a clear example of how Saab benefits from the resources in the GM group. The model was developed by Saab, GM and Fuji Heavy Industries.



“Twelve months ago the 9-2X was just an idea. We brought it to the market in an incredibly short time, thanks to the way we exploited each company’s strengths in design, product development and manufacturing. We managed to be first in a segment that is developing fast.”

### GLOBAL PLATFORMS

Co-operation within GM has led to shared systems and components for various marques. GM’s global Epsilon platform is the base for the Opel Vectra, Chevrolet Malibu and Saab 9-3 Sport Sedan. There are many advantages with this, says Greg Deveson.

“In theory we can build the 9-3 in North America, Germany or the UK, depending on the market’s demands. It gives us flexibility, which I believe will be one of the things that distinguishes winners from losers in this industry. It enables you to change swiftly to match new trends.”

Greg Deveson does not think that the Saab brand is affected when parts of the car are shared with other cars.

“Things like door hinges and window mechanisms are not what distinguishes a car model. Instead we can invest in the areas that do make a difference. We can make the car a Saab in the way people expect.”

### SWEDISH ATTRACTION

When GM purchased Saab there were fears that American factories would win favour ahead of Swedish ones. But Greg Deveson believes the supplier market is now global. Costs and competence are more important than geography. This means that Sweden and Swedish businesses are becoming more attractive, because of Swedish skills and low costs. Saab’s design centre in Pixbo and the engineering centre in Trollhättan are taking on an increasing amount of development work for other parts of GM. And greater co-operation within GM opens up new opportunities for suppliers and consultants working with Saab.

“Instead of just supplying Saab they can work with other GM businesses in Europe, North America, parts of Asia and South America. Naturally, some components are only profitable when made locally, but not all. Design is one example. Better cost-efficiency for the parent company is good for Saab, its suppliers and society at large. As I see it, everyone wins!”





# Alpharma

## The small producer that grew into a global pharmaceutical business

Cheap but good quality medicine, easily available. Alpharma's business concept is that simple. Implementing it was more difficult. Alpharma is unique. It's the story of a small producer of apothecary items taken over by a family and transformed into a vibrant pharmaceutical business.

Arvid Nygaard has spent the past three decades building one of the world's largest pharmaceutical businesses within generic medicines. Alpharma has survived several financial crises, acquired 11 competitors, doubled sales in the past five years and completed a listing on the New York stock market.

Arvid Nygaard has focused on the core activity of a generic medicine business – achieving the cheapest and most efficient production possible. He has travelled the world to participate in the planning and building of Alpharma's factories. The same challenge of cutting costs has always remained. "It's obvious that if the original medicine costs 100 per cent and we can only take 40 per cent then we have to make as many savings as possible."

**How do people view generic medicine businesses nowadays?**

"We are a normal part of the industry. What exactly is generic anyway? It's an active substance that someone has patented and when the patent runs out companies compete to make products out of it. The entire pharmaceutical industry has become more focused on generic medicines. Everyone accepts that there is one price for a patented product and another price when the patent runs out."

### **What is Alpharma's greatest challenge today?**

"The challenge is to maintain production at a profitable level. We managed for a long time in Europe thanks to automation. That time is over. There's not much more to gain from increased automation. Now we need cheaper labour and equipment. We can either get that by building modern, more efficient facilities in Europe or by moving production to low-cost countries."



# He was present at the birth of Swedish mobile telephony – and when it crashed.

Then, for the first time since leaving university Mats Lindoff took a break from Ericsson mobile telephones. But now he's back, with a Japanese partner, profitable business and numerous successes behind him. Sony Ericsson's technical manager is now getting ready for the launch of the company's first 3G telephone.

In the Sony Ericsson showrooms in Lund there are clear signs of Swedish-Japanese collaboration. Many of the models displayed on the walls are embellished with written characters and are aimed specifically at the Japanese market. But for Sony Ericsson's technical manager, competence is much more important than national identity.

"For us the company is our main concern and not the country. I have a more in-depth knowledge of what we do at our research departments in Japan than what goes on at the Royal Institute of Technology in Stockholm.

Sony Ericsson is currently the world's fifth largest manufacturer of mobile telephones, measured in numbers of units sold," says Mats.

The word "manufacturer" is beginning to lose its meaning. Like many other mature technical companies in the West, Sony Ericsson has more of a co-ordinating role, with cutting-edge competence in design, branding and sales.

"We no longer need to develop the basic hardware technology ourselves. We buy this in from the platform company. My responsibility is planning technology and ordering the platform. Other people are responsible for managing production, maintaining contacts with operators and doing tests. One large development area we still have responsibility for ourselves is software," he says.

## **Ericsson's telephones received poor reviews for some time. What actually went wrong?**

"The market changed. The development of GSM ceased and technology no longer stood at the centre. It became more a matter of colour and design. Ericsson's strength has traditionally been technical development."

## **You are pioneers of 3G. Why weren't you the first company to launch the 3G telephone?**

"One of the reasons is that the first telephone launched is not GSM compatible. We believe that it should be dual-mode, the telephone should be able to handle both the old and new systems. I'm not worried at all that we are six months behind."

## **What type of person will be rushing out to buy the first 3G phones?**

"The early adopters, people who want to try new technology.

Video has received a lot of attention but I believe strongly in being able to find information simply via the internet.

## **What features can we expect from Sony Ericsson in future?**

"The key word is integration. We have integrated clocks, alarms, albums, telephone lists, cameras and anything that we can think of into our mobile phones.

We will continue with radio, music and pictures.

Everything you need with you to manage work and leisure time. People planning to buy a hand-held computer or digital camera should possibly reconsider."





## Secure communication with Sony Ericsson

Sony Ericsson Mobile Communication needed a new integration platform. The assignment for Zsystems by Semcon was: raise quality, reduce costs, and do it quickly! So that's what they did.

One of the challenges for newly started Sony Ericsson was to develop data communication between itself and its partners. The existing platform had too many components, which meant there was a risk of errors creeping in. Sending messages was also an expensive business.

Zsystems by Semcon has developed BaseLine, a concept that makes introducing an integration platform more efficient. Together with Sony Ericsson a pilot project was set up that assured quality, cut costs and provided a new platform for more cost-efficient integrations in the future.



## Breathing away your headache

Forget injections and tablets. Tomorrow's medicines will be breathed in. Medicine business Microdrug from Strängnäs, Sweden, has developed the C-haler, an inhaler that will enable medicines to be breathed in. Semcon had the main responsibility for the design of the inhaler and also helped to develop some of the functions. The main aims were to make a product that is easy to use and understand. The C-haler has been given a common profile because a single person had responsibility for the design and use of the inhaler and for the appearance of the packaging and user manuals. Semcon is continuing to provide consultancy services for the development of two new C-haler models.



# Semcon's offer is unique

## From idea to finished product

New design and new functions reinforce a company's competitive edge and increase value. Design and product development is all about the future. That's also what Semcon's offer is about. We help our customers to develop tomorrow's products with a clear focus on results and profitability.

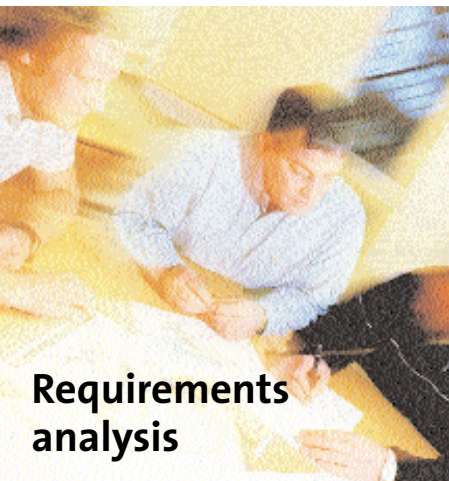
In nearly 25 years we have carried out thousands of projects for hundreds of customers. We have listened to their needs and been trusted to take responsibility for complete development projects, from idea to finished product. Our bank of experience and broad insight into various sectors not only makes Semcon a unique knowledge business – it also means that Semcon's customers can benefit from each other's knowledge and solutions. No-one can copy this experience.

### WHAT MAKES SEMCON UNIQUE?

We can safely say that no-one in our industry has more experience than us when it comes to managing complete product development projects. We become involved at an

early stage so that we participate at management level with our customers' strategies and restructuring projects. Our methods, such as our project management method, PROPS, are internationally recognised and used all over the world. We have competent and highly motivated staff who have extensive experience and in-depth competence. Our innovative solutions and our creativity drive the customer's project forward, swiftly and efficiently.

Over the years Semcon's range of competence has been extended and our way of doing business has been transformed. Semcon works increasingly in close partnerships with customers and the number of projects where we take complete responsibility for results increases from year to year.



**Requirements  
analysis**



**Ideas and  
innovation**



**Concept  
and design**



**Engineering  
design**

**Project management**

**Optimising IT infrastructure**

**Tools and systems for more efficient product development**

Our offer is simple. The customer has an idea or product that requires development. We supply all the competence needed for different phases of the project. We make the



#### **INTERNATIONALLY COMPETITIVE**

Semcon continually develops internationally competitive offers adapted to individual needs. These offers are based on deep knowledge and long experience of product development and related areas.

Semcon manages complete processes within:

- Management
- Design
- Product development
- Production development
- Technical information
- System and web development
- IT tools

#### **DESIGN FOR MORE PROFITABLE PRODUCTS**

When the differences between competing products' performance and quality become smaller, product design grows

in importance. Semcon has developed a new concept, Design2win, that provides help in developing products faster, with better design and using the latest technology. This ensures that customers are first on the market with their product. The design stage is the start of successful product development.

#### **SMART INFORMATION SOLUTIONS THAT MAKE CUSTOMERS SATISFIED**

A satisfied end-user is the ultimate goal for our customers and therefore for Semcon, too. We take care of information and provide information solutions for global service organisations so that end-users can use all the functions and systems in a product. The aim is to increase the number of satisfied customers.

#### **IT SOLUTIONS THAT PRODUCE A GUARANTEED EFFECT**

Our customers' profitability is built upon cost-efficient IT solutions. At Semcon Innovation we provide solutions that make our customers' work easier and more efficient.

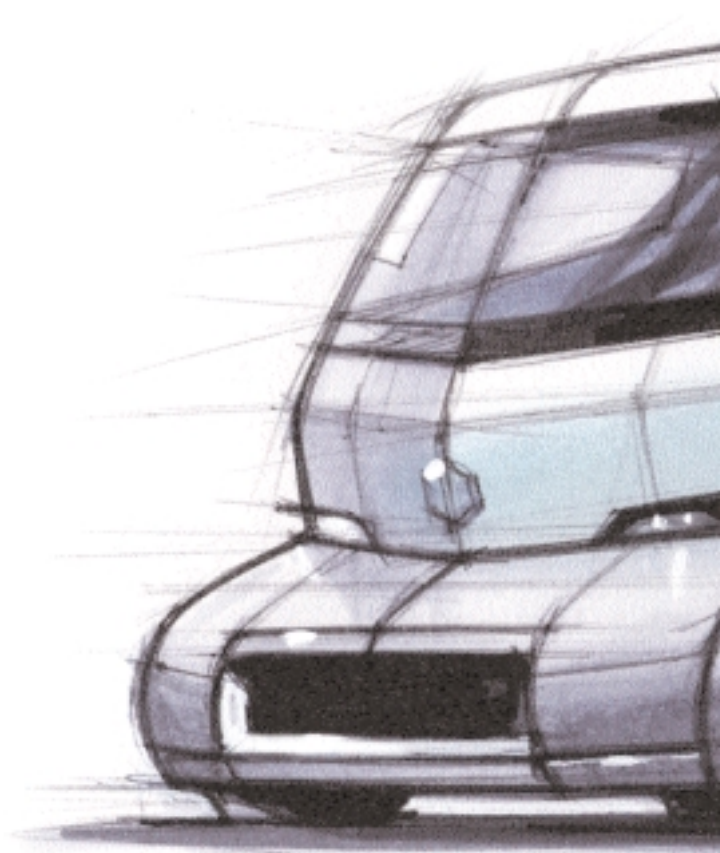


**Tests and  
prototypes**

**Production  
development**

**Technical  
documentation**

process simple by creating profitable solutions for small and large projects and we make sure the product gets to the market as quickly as possible.



# Design & Development

Semcon's Design & Development business area focuses on the design and development of products and production systems. We have gathered together all our competence within product development, including our international activities in Denmark, Norway, the UK and Malaysia.

Product development services constitute the base for Semcon's business offer. The different stages of successful product development are presented below.

## **Requirements analysis**

The process begins with an analysis of requirements when goals and project plans are formulated.

## **Ideas and innovation**

After the requirements analysis potential solutions are produced. The more angles and perspectives allowed at this stage, the fewer the problems and errors that are likely to creep in during later stages of the project.

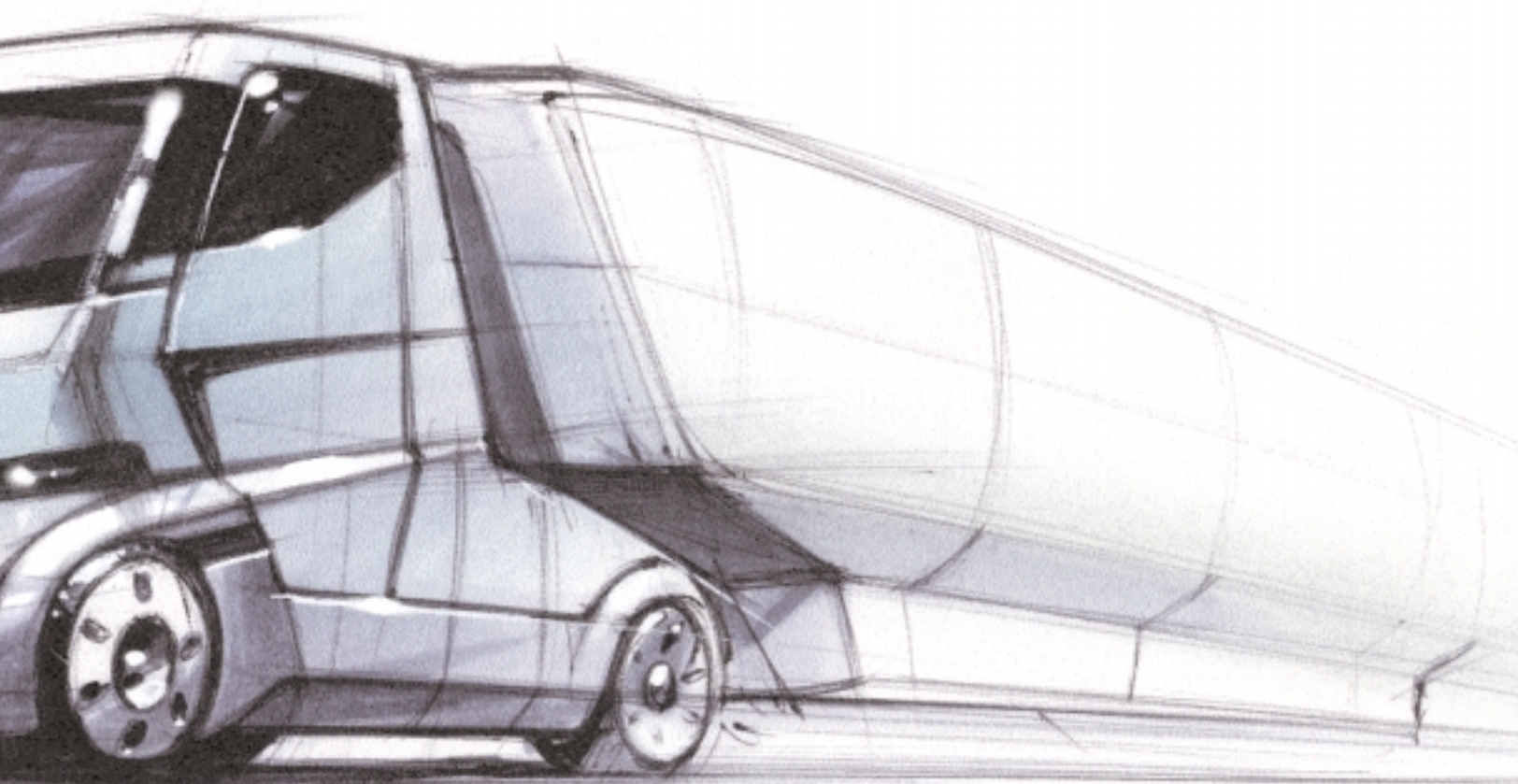
## **Concept and design**

Design work must mould the product into a single entity, considering ergonomics, production, awareness of the environment and aesthetics, and meeting market demands for a product that has an identity that promotes its properties.

## **Engineering design**

During this phase the product takes shape and we ensure that it meets all requirements. This is guaranteed by using the right methods, tools and competence within design, mechanics, durability analysis, electricity and electronics, automation and systems technology. Computer simulations (virtual testing) are made at various stages of development





projects to see how different application conditions affect durability and life-length.

#### **Tests and prototypes**

Semcon carries out function, life-length and durability tests in various environments, from arctic cold to extreme heat. We can perform technical measurements of flows, vibration and elasticity, and we provide engineering design support, troubleshooting, training and verification within noise and vibration.

#### **Production development**

A noticeable trend is that product and production development are becoming more integrated. Examples of this include automation, the use of robots and process optimisation.

#### **SEMCON'S OFFER SPANS SEVERAL INDUSTRIES**

To clarify our business offer within Design & Development we have divided the business area into the sectors we focus on and the services offered across all sectors.

#### **Semcon Industrial Management**

We develop competitive industrial processes and projects for profitable business. Our specialists work with effective product development, resource-efficient production and the development, guidance and management of projects. Through intimate co-operation with customers we produce concrete results that help them remain profitable over the long term.

Semcon Industrial Management has a partnership with Ericsson concerning services and products within the fields of Management of Projects and Project Management. This is where, among other things, we administrate and develop our PROPS project model that is used all over the world by leading industrial businesses.

#### **Design and form**

With its extensive knowledge of design and surface modelling, Semcon Design plays a decisive role within product development in various areas. We work with sketches, physical models

# “For Semcon’s customers, design and product development are decisive for growth and long-term profitability.”

and advanced modelling and visualisation programs to produce the best solutions for our customers.

During the process, market demands, ergonomics, aesthetics, function, environmental issues, costs and production demands are considered together.

## Vehicle

Services for the vehicle industry are Semcon’s largest single business. Our offer covers taking complete responsibility for complex vehicle projects and consulting services/expert advice within pre-studies, design, analysis, engineering design, prototypes and testing. We also offer services within other areas of the vehicle sector, such as the rail industry and in marine design through the ship engineering firm, Knud E. Hansen A/S.

## Industry

In this segment we offer services to the food industry, process industry and other manufacturing and product developing businesses in Sweden.

## Medical & LifeScience

Semcon has in-depth competence to enable it to manage major projects involving medicines and medical technology. Our main areas are process design and validation.

## Telecom

Semcon develops technology and strategies for operators, infrastructure producers and developers of mobile phones. We are involved in development work with the latest technology concerning mobile phones, switchboards and base stations. We also develop advanced messaging services and support systems for operators as well as information and documentation services.

## PROGRESS IN 2003

Sales reached SEK 775.7 million (838.9), down 7.5 per cent, and the operating loss was SEK 61.2 million (0). This business area accounts for 65 per cent (70) of the Group’s total sales. Cutbacks in operations meant that a total of SEK 55.4 million was charged to results. Reserves of SEK 9.4 million were

made for projects with high risk, while goodwill was written down by SEK 11.6 million and other write-downs totalled SEK 6.8 million. Excluding these latter mentioned items the operating profit was SEK 22.0 million and the operating margin was 2.8 per cent. Activities in the Vehicle and Medical & LifeScience sectors developed well during the year.

## OUTLOOK

For Semcon’s customers, design and product development are decisive for growth and long-term profitability. We therefore expect to see the focus of our activities centre on design and concept development.

Despite the market stabilisation that we saw at the end of 2003 we expect 2004 to be another tough year. The overriding goal for the year, for the entire business area, is to regain profitability. Despite uncertainties we expect to see stable development during the year. New business may come from the Vehicle and Medical & LifeScience sectors.

**Customers:** ABB, Akzo Nobel, Alpharma, Assa Abloy, AstraZeneca, Autoliv, Breas Medical, Carmel Pharma, China Telecom, Eka Chemicals, Ericsson, FMV, Gambro, Getinge, Haldex, Johnsson Control, Lear Corporation, Metso Paper, Nilfisk-Advance, Nokia, Novo Nordisk, Pfizer, Pharmadule Emtunga, Saab Automobile, Saab, SCA Hygiene Products, Scania, Scanraff, SL Infrateknik, Sony Ericsson, Swedish Match, Telia Sonera, Volvo Bussar, Volvo Car Corporation, Volvo Lastvagnar, Volvo Penta.

**Competitors:** Altran, Alten, Arthur D. Little, Edag, Epsilon, HIQ, Rucker, Sigma, Teleca, Tieto Enator, WM-data, Caran, ÅF.

Key indicators	2001	2002	2003
Sales (SEK m)	861.2	838.9	775.7
Operating profit/loss (SEK m)	-5.9	0	-61.2
Operating margin (%)	-0.7	0.0	-7.9
Share of total sales (%)	76.4	69.9	64.7
Employees on 31 Dec	1 271	1 224	1 032
Sales per employee (SEK 000)	678	685	752
Operating profit/loss per employee (SEK 000)	-5	0	-59





You need experience and knowledge  
to develop products for the future.



“Of course you can develop products without design. But it would be very difficult to sell them.”

**Lotta Svärd Gustafsson**, 33, designer at Semcon. Performs consultancy work for Volvo Car Corporation Interior Design, Colour&Trim. **Good design according to Lotta:** Fiskars' products. **Inspired by:** combinations of clothes worn by secondary school students.

**Kalle Klockars**, 37, design manager at Semcon. Has overall responsibility for the quality of Semcon's design projects. **Good design according to Kalle:** Nikon's first system cameras. **Inspired by:** Images and material samples.



# Design

## The link between technology and people

Lotta Svärd Gustafsson and Kalle Klockars are both industrial designers at Semcon. Their role is to make technically advanced products functional, easy to use, pleasant to touch and nice to look at.

At Semcon's design department they think about what smart technology should look like. Both Lotta Svärd Gustafsson and Kalle Klockars work here as industrial designers. Kalle is the head designer, with overall responsibility for design projects.

"Design means thinking about the user and creating something that appeals to the senses," says Kalle.

Lotta is currently involved in a long Semcon project with Volvo Car Corporation. As a consultant she focuses on colours and trim for future car models. What she appreciates about this project is that she gets to work with a broad spectrum of colours and materials, and the end-result affects a huge number of people.

"Everyone has associations and memories of car trim. The people I meet usually have an opinion. That's how it should be. Design provokes feelings," she says.

Design is all around us and Lotta and Kalle have both noted the increased attention paid to design in recent years, among the general public and within industry and technology.

"The car industry is a clear example," explains Lotta. "The interior is very important when new models are launched. It's becoming more and more about fashion. New trends in design come faster and faster."

### FROM TOYS TO X-RAY EQUIPMENT – OUR BREADTH IS OUR STRENGTH

Semcon's design department has created form and appearances for everything from a medicine inhaler to an air conditioning unit. Ideas are often expressed first by pen on paper, inspired by everyday objects. A 1950s armchair can inspire a car trim, a baby's toy can influence a medi-tech item.

"I have tried to work across a broad spectrum, everything from toys to x-ray equipment. Being able to cross-fertilise is a strength. It's an advantage to be able to call upon different influences," says Kalle.

Lotta has designed diving equipment, shampoo bottles and electrical fuse cabinets, but recently her work has focused on the car industry and colour, trim and interior design.

"I work narrowly, just designing cars," she admits.

"On the contrary, you need breadth to be able to make cars for different types of people from different cultures," counters Kalle. "You have to know what preferences the car owner has. There's a difference, for example, between what

a German businessman and a Korean teenager want to see on a mobile phone."

Design projects start with extensive market surveys and analyses of target groups. It's important to know how customers think and what they want.

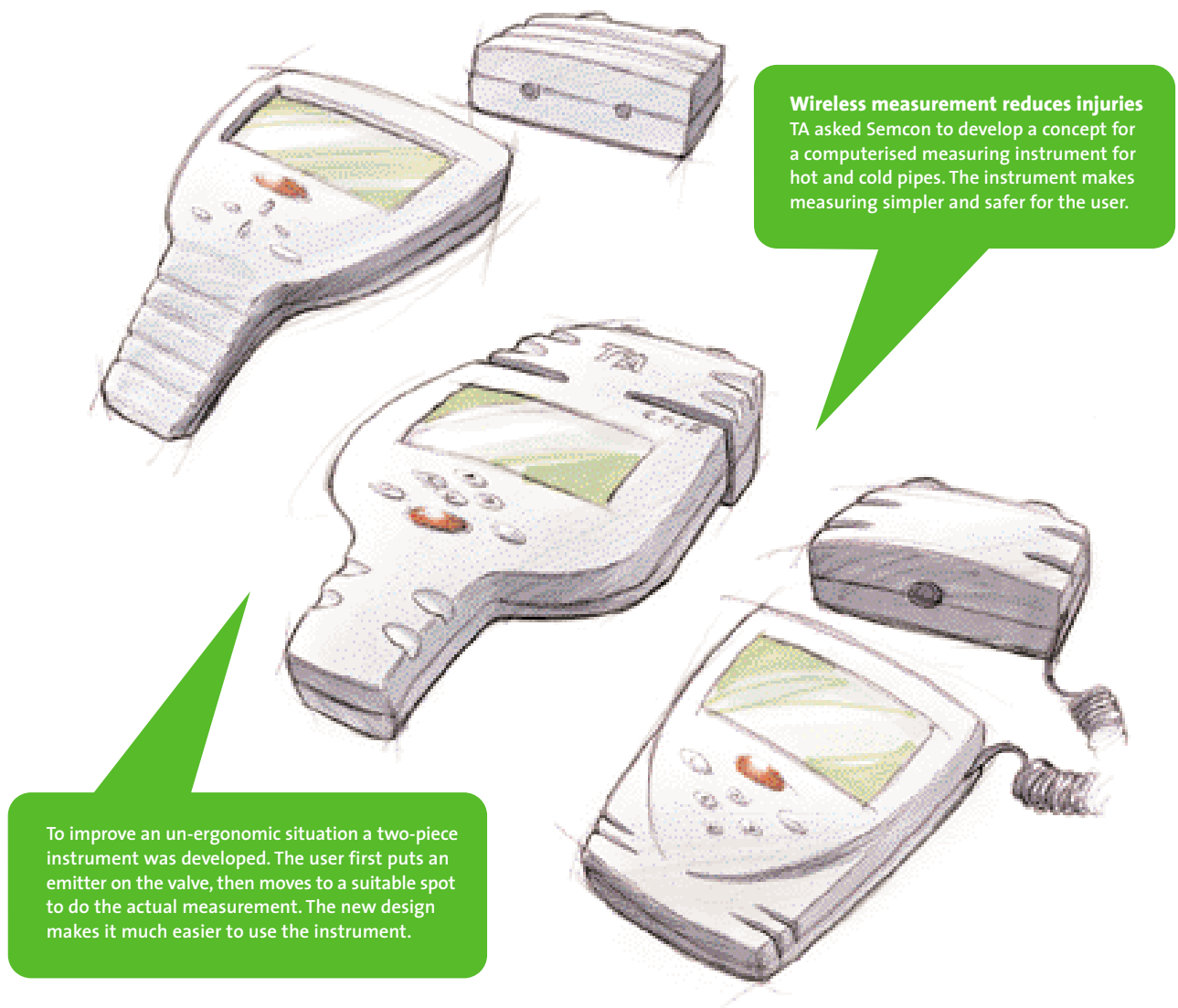
### DESIGN BRINGS TECHNOLOGY CLOSER TO THE USER

Lotta and Kalle describe how design has a bridge-building function to fulfil between technology and people. Their profession is somewhere in between the two. They listen to the end-user's needs and the engineer's ideas and try to combine the two.

"Of course you can develop products without design. But it would be very difficult to sell them," says Kalle.



The Semcon design department has created form and appearances for everything from medicine inhalers to air conditioning systems.



“Every day we have to convince people that technology needs design. But the gap between designers and engineers has narrowed over the years, even if it is common to think of professions in stereotypes,” admits Kalle, laughing at the fact that his pony-tail means that he neatly matches the stereotype for a designer.

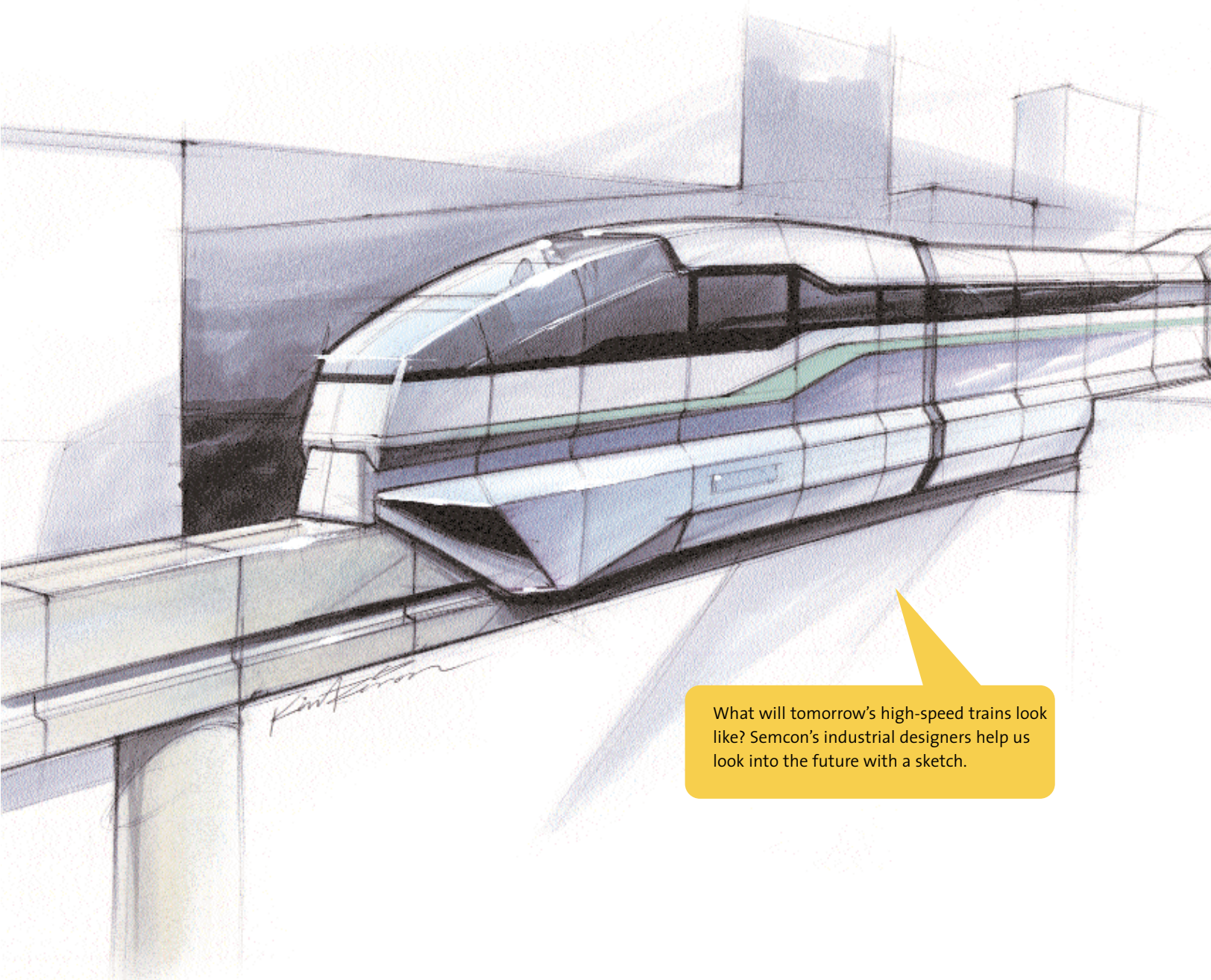
“My education was technical and I know how engineers think,” says Lotta. “Sometimes they think designers are trying to make things difficult for them. We have to battle all the time to make technicians understand the importance of design.”

“If people say we make things difficult I usually say that the user must be able to see and feel the fantastic technical qualities before they will decide to buy it,” says Kalle.

“Design brings technology closer to the user,” say Lotta and Kalle. Without the design department’s knowledge about the user and his or her feeling for form and function, technology would not be able to reach people.

“Design is the link between technology and people,” says Kalle.





What will tomorrow's high-speed trains look like? Semcon's industrial designers help us look into the future with a sketch.

## On the right track in Turkey

Trams are becoming more common in Turkey. Large cities such as Izmir and Istanbul have invested in collective transport on rails. Next in line is the city of Eskisehir.

International train manufacturer Bombardier Transportation delivers a complete solution that covers everything – vehicles, rails, financing and training.

Part of the package involves building a maintenance workshop, a project for which Semcon has supplied planning and design of the depot area and workshop. Semcon's role also included producing the technical specifications and participating in contract negotiations.

The tram network for the 500,000 residents of Eskisehir will initially comprise 18 carriages. Each carriage must be washed and checked every day. Maintenance work will

sometimes need to be done in the workshop.

One of the challenges is planning the depot so that it can handle frequent visits. A carriage emerging from the washing station must be moved quickly so that it is not in the way of the next carriage.

These things are obvious for experienced tram operators. But Eskisehir has never operated trams before. Everything is new for managers and staff. This is where Bombardier Transportation's strength lies. Using their Total Transit Systems (TTS) concept the company can establish a safe route from decision to finished transport system.





Hans Johansson, Semcon's CEO, with  
Sven Avander, CEO of Carmel Pharma.



# Long relationships create value

The longer we work with our customers, the more valuable the relationship becomes for both sides. We learn more about the customer's products, processes and procedures every time. The customer has access to competence they haven't got in-house and that boosts their competitiveness. Semcon and meditech company, Carmel Pharma, have been working together for over ten years.

Each year, hundreds of millions of bottles of toxic medicines, such as antibiotics and cytostatics, are produced for treating cancer. Storing and handling them poses risks of leakage that could harm healthcare personnel. Carmel Pharma has a solution for this problem called PhaSeal, an enclosed product system that prevents spills and the spread of aerosols in working environments.



Einar Jörgensen was one of Semcon's first contacts at Nobel Biocare. Today Einar works with PhaSeal at Carmel Pharma, a partnership that stretches over 20 years.

## **SEMCON DEVELOPS AN IDEA**

Carmel Pharma has been active in Sweden for over ten years and PhaSeal has now been introduced at hospitals in Europe and North America. Great demands are placed on the development and adaptation of this type of product.

"Our own competence and resources in various projects can often be restricting factors. We concentrate on listening to the market's requirements. Then we get help from Semcon and develop our ideas together," explains Sven Avander, Carmel Pharma's CEO.

## **CUTTING-EDGE COMPETENCE AND EXPERIENCE**

Semcon previously worked on single engineering design projects for Carmel Pharma, but now Semcon takes more comprehensive responsibility. When they develop their product systems our role is to generate ideas and then make proposals and fix solutions.

"We benefit from Semcon's cutting-edge competence, their experience from other industries and their large networks. We gain a development resource for the company and we can then focus on our everyday activities," says Sven Avander.

User-friendliness and design are the main areas for development. Semcon has all the competence required to produce a finished product, from idea to production. Semcon develops technical improvements for production, analyses colour compositions and sets up a design strategy for future products.

Just like the commitment to Carmel Pharma, Semcon's co-operation with many other customers has developed into close partnerships, where we offer innovative solutions that give our customers greater value.



The Informatic business area supplies a complete chain of value, from product development to the consumer and a service organisation.

# Informatic

## Raising the number of satisfied customers

Semcon Informatic develops product information that helps people to use products in the best possible way. Our offer covers a complete chain of value: from product development to the consumer and service organisation.

It takes more than just high quality of the product for a customer to be satisfied with a purchase. The quality of information has to be high, too. The customer's opinion is also affected to a great extent by how they are treated during the sale and when receiving support. And treating the customer well depends on having the correct information available at the right time.

### A FAST-GROWING SEGMENT

Information is everywhere, via computers, networks, mobile phones. Today, information is a fast-growing business. Car-makers, who invest massive sums in developing attractive models, also have to be experts in information technology so that they can serve workshops and car owners with information about their new models.

Informatic creates and presents information in ways that are user-friendly, irrespective of whether the user is a service organisation or a consumer. Even though today's product developers build user-friendliness into a product or interface, the product's functionality and its capability for service require further information solutions. These are the solutions supplied by Informatic.

### OUR BUSINESS MODEL – PARTNERSHIP

Informatic's business is mainly conducted via partnerships, which means that we are suppliers of information systems to our customers. We take responsibility for the entire process that is required to create information solutions for an international product range. The aim is always to increase

the number of satisfied customers. For our customers, partnership means guaranteed cost-efficiency, flexibility and assurance of strategic competence. By continually refining our processes and solutions within information management we deliver world class products and services.

### WHY DO CUSTOMERS CHOOSE INFORMATIC?

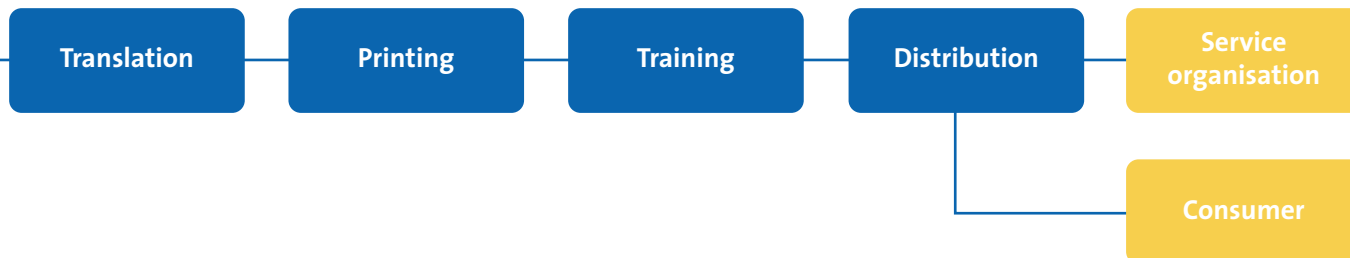
- Customer satisfaction through world class information solutions.

**Competitors:** ESG, Omitec, Valley Forge, Sigma, Sörmans.

**Customers:** ABB, AstraZeneca, Besam, Bombardier Transportation, Ericsson, Metso Paper, Pâgen, Rolls Royce, Saab Automobile, Volvo Aero, Volvo Car Corporation.

Key indicators	2001	2002	2003
Sales (SEK m)	153.5	199.9	243.9
Operating profit/loss (SEK m)	7.2	13.8	13.8
Operating margin (%)	4.7	6.9	5.7
Share of total sales (%)	13.6	16.7	20.3
Employees on 31 Dec	216	202	270
Sales per employee (SEK 000)	711	990	903
Operating profit/loss per employee (SEK 000)	33	68	51





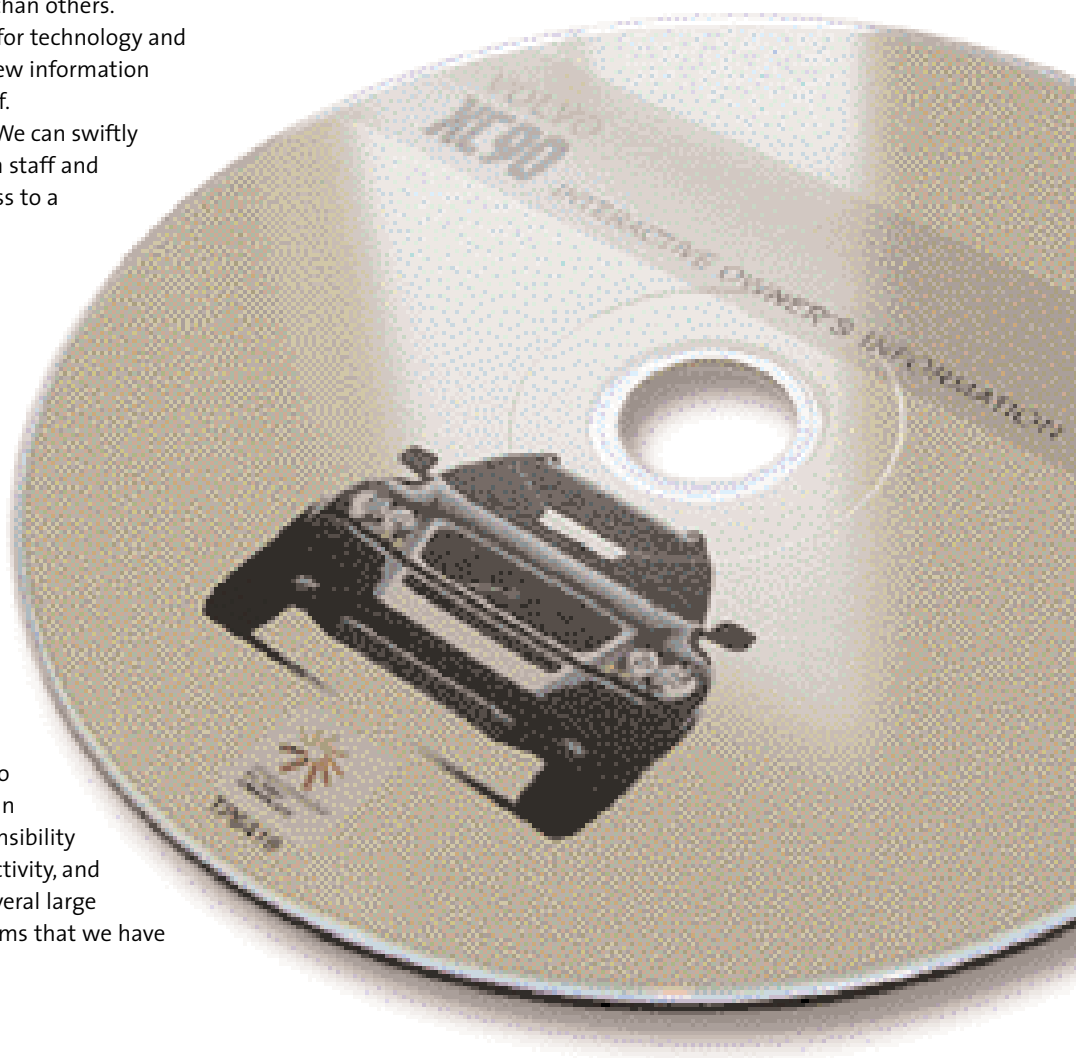
- We take responsibility for a large part of the chain of value while implementing process and IT solutions, so we can deliver greater cost-efficiency than others.
- To meet our customers' requirements for technology and competence we continually develop new information solutions and constantly train our staff.
- Informatic has a flexible organisation. We can swiftly and simply man projects with our own staff and our experienced purchasers have access to a large network of sub-suppliers.

#### PROGRESS IN 2003

Informatic raised sales by 22 per cent on 2002 to SEK 244 million (200). New partnership deals with Ericsson and GM (Saab Automobile) accounted for most of the growth. The business area's share of Group sales amounted to 20 per cent (17). The operating profit was SEK 13.8 million (13.8), which represents a margin of 5.7 per cent (6.9).

#### OUTLOOK

The prospects for achieving important business deals look strong, not just in the auto sector. We should also be able to expand internationally. No competitor can match us when it comes to taking responsibility for such a large part of the customer's activity, and make it profitable for all parties. That several large customers are buying our concept confirms that we have chosen the right direction.





## A strategic partnership with Saab

Competition among today's carmakers is intense. High quality is not enough to make a car a winner. To be competitive, every stage of car ownership must meet the customer's requirements. Information for the aftersales market and for drivers is an important area. Accessibility, packaging and the user-friendliness of information are key factors when the car owner decides if the purchase was positive or not.

### STRATEGIC PARTNER

Saab Automobile's core activity is building cars that attract customers. Building information systems for car owners and workshops is not Saab's core activity. That's why GM and Saab Automobile decided to appoint a long-term strategic partner to develop the production of information within Saab Automobile.

### TOUGH INTERNATIONAL COMPETITION

In competition with several international players, Semcon's offer proved to be the best solution. Last summer a five-year agreement was signed that means that Semcon will take over the Service Readiness Technologies (SRT) and Parts Testing units from Saab Automobile.

### SEMCON'S PARTNERSHIP WITH SAAB AUTOMOBILE

SRT produces information for the aftersales market, for car

owners, workshops and for service staff training schemes. They also develop software used for trouble-shooting on Saab cars. The Parts Testing unit manages faults covered by warranty and analyses the causes of faults.

For Saab Automobile the partnership with Semcon means that an area that previously had low priority has been taken over by a partner that has great experience and respect for managing information. The development of information management is a process that requires a long-term perspective, which gives parties the opportunity to work towards shared goals and visions. A long-term agreement also means that Saab does not have to allocate resources and time to negotiating new terms.

### SEMCON'S LARGEST SALE

The business deal was worth SEK 400 million, which makes it the largest ever completed by Semcon, and was conducted with Aftersales Engineering within Saab/GM Europe. The aim is to establish a Centre of Expertise together with Semcon. The agreement is the sixth example of Semcon taking full responsibility for the development of technical information and information systems. It means that Semcon is strengthening its position as a market leader in this segment in Europe.



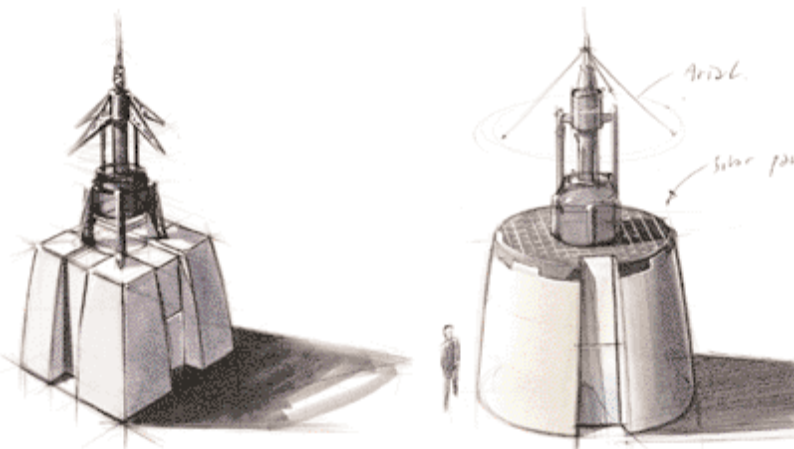


## VSM Group

VSM Group, a leading company that owns brands such as Husqvarna, Viking and Pfaff, develops and sells advanced sewing machines for homes. Informatic produced interactive manuals for the company and developed a web solution to serve the downloading of files to sewing machines. Using modern information technology we have created new ways of distributing information and knowledge to VSM Group's customers.

## Ericsson

At Ericsson, Informatic produces the information needed to install and maintain Ericsson's radio base stations and Site Solutions. Radio base stations are assembled at the foot of radio and telecom masts and are part of the telephony system used for communication via mobile phones.



## Volvo Car Corporation

Informatic develops the information needed to service and repair Volvo cars all over the world. To meet the needs of this service organisation we create and deliver materials in 17 languages for around 2,700 workshops. The needs of car owners are met by the instruction manuals and interactive product information we produce in 25 languages.

# Innovation

## Semcon's successful entrepreneurs

The Innovation business area develops businesses that have clear-cut and strong business concepts acting under their own trademarks, which makes them more dynamic. The business area comprises Zipper by Semcon, Zsystems by Semcon and Semcon IT Solutions, and is primarily focused on different types of IT solutions that simplify and improve the efficiency of our customers' work.

### ZIPPER BY SEMCON

Zipper helps businesses and organisations to improve their efficiency and save money on their technical infrastructure. Zipper's concepts maximise the value of investments already carried out by utilising existing functions in Microsoft's operating system and software. The basis for our

concepts is our experience of implementing, maintenance and development of large, geographically widespread PC environments.

One such concept is FastTrack, which simply administrates PC clients, users and applications within large companies. This enables businesses to create a shared client platform, which can save large sums of money in administration, helpdesks, support and physical PC management such as installation and upgrades. Zipper is a Microsoft Golden Partner.

### ZSYSTEMS BY SEMCON

Zsystems develops, sells and provides support for concept solutions within system integration. By implementing a platform for system integration a company can knit together its information system in a structured way. Large cost savings can be achieved because much fewer connections between systems need to be set up and maintained. Each system has just one connection to the integration platform, which in turn ensures that the receiving system gets data in the correct format. Baseline is a concept that comprises the general components found at every company that builds an integration platform.

During the year Zsystems by Semcon was chosen as IBM partner of the year in Europe. This is the first time that a Swedish company has been awarded "Top Business Partner" in the Software Investment Initiative category. This shows that the concept for improving the efficiency of implementation of a correctly functioning integration platform in a business is highly attractive.

### SEMCON IT SOLUTIONS

Semcon IT Solutions is the part of Semcon that works through partnerships with IT-based comprehensive solutions in design and development with the focus on CAD, PDM,

Mats Nygård, MD of  
Zsystems by Semcon,  
with the IBM award for  
"Top Business Partner".





system/support and product sales. They also supply tools, infrastructure and methods for efficient product development within Product Lifecycle Management (PLM)<sup>1</sup> and Collaboration<sup>2</sup>. Major undertakings within implementation, operation and support for IT in product development have become a focus for IT Solutions. Since 2001 Semcon has had full responsibility for IT operations within Saab Automobile's technical development. In 2003 our undertaking was extended to include back-up, which entails making copies of everything produced, and SAN management, the shared storage environment for all data within Saab Automobile. Semcon is proud of being one of few suppliers that has strengthened its business commitment to GM/Saab during the year.

**PROGRESS IN 2003**

The business area raised sales by 10.9 per cent on 2002 to SEK 179.1 million (161.4). The operating loss was SEK 5.4 million (-3.7), which was due to the write-down of shares and a share in the loss of an associated company, Euromation. The Zipper, Zystems and IT Solutions businesses all reported profits. The business area innovation's share of Group sales amounted to 15 per cent (13).

**OUTLOOK**

The market appears to be stable in 2004, which should mean that customer demand should increase for methods aimed at improving the efficiency of production and IT structures.

Note 1: Product Lifecycle Management (PLM) – Digital methods and services that support the full lifecycle of a product.

Note 2: Collaboration – Digital methods and services that improve co-operation within design and development. Part of PLM.

**Customers:** ABB, AB Volvo, Akzo Nobel, AstraZeneca, Ericsson, Saab Automobile, SCA, Scania, Sony Ericsson, Swedish Television, Volvo Car Corporation.

**Competitors:** Enea, Frontec, HiQ, Teleca, Tieto Enator, WM-data.

Key indicators	2001	2002	2003
Sales (SEK m)	111.9	161.4	179.1
Operating profit/loss (SEK m)	4.3	-3.7	-5.4
Operating margin (%)	3.9	-2.3	-3.0
Share of total sales (%)	9.9	13.4	14.9
Employees on 31 Dec	114	144	140
Sales per employee (SEK 000)	982	1 121	1 279
Operating profit/loss per employee (SEK 000)	38	-26	-39



# New technology on screen

Swedish Television (SVT) has around 3,000 computers and 4,500 users. That puts tough demands on systems. When a decision was made to review the IT structure, SVT wanted to avoid mixing operating systems. They didn't want a situation where employees installed their own programs, either.

SVT sought a swift installation phase and a system that could be easily modified later on.

"You either let a group of engineers enter the building and install all the programs and then everything should work – or you build your own model from scratch. We chose something in between," explains Björn Bergqvist, project manager at SVT Development.

**SEMCON'S ASSIGNMENT**

The reason why SVT chose Zipper was partly that it was the best economic offer and partly because Zipper's system can be further developed in-house. Other offers were more inflexible package solutions. Zipper offered a structure that can be extended and adapted simply. In this context it was very important that start-up was swift. Zipper's concept for effective implementation and management of personal computers, user accounts and applications is called, suitably enough, FastTrack.

# Human capital

## Semcon's source of energy

For Semcon, each individual is important and significant. Our exciting projects attract the brightest consultants. The high levels of competence, commitment, business skills, creativity, positive attitudes and energy that our staff bring to their work are the reasons why customers choose Semcon.

### **THE SEMCON CULTURE – THE ART OF HAVING FUN SERIOUSLY**

Among Semcon employees there is curiosity, a desire to perform well and solve problems. The Semcon culture is strong and characterised by openness. We aim to have fun and develop together. We do this through stimulating assignments and activities that are fun and promote development. The goal is the same as it was when we started 25 years ago, to build a business with a strong belief in the individual's ability to take responsibility.

### **GOOD IDEAS, QUICKLY ACCEPTED**

While we aim to expand and benefit from the resources of a large Group we want to retain the personality and intimacy of a small business. Semcon has therefore chosen a relatively flat organisation, without taking away career opportunities. This makes it easier for good ideas to be accepted quickly

and it opens doors between employees and managers. It also enables an open information climate with swift and extensive information for everyone. This is extra important in hard times, so in 2003 major efforts were focused on communication and meetings with staff. Our positive and highly committed leaders play an important role in this work.

We are happy to open doors and let our customers enter into our culture so that they get to learn about us as individuals. Intimacy helps us understand what customers want and makes it easier for our consultants to quickly understand the customer's project.

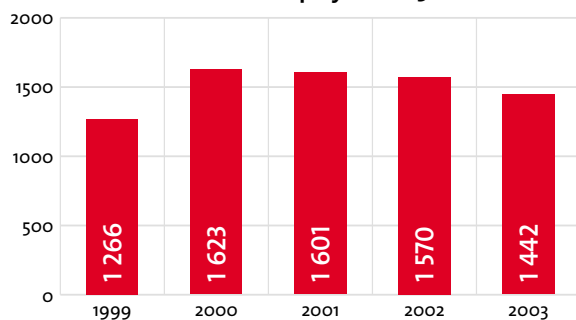
### **CONTINUOUS COMPETENCE DEVELOPMENT**

Competence development is a condition for making Semcon attractive and maintaining its competitiveness on the market.

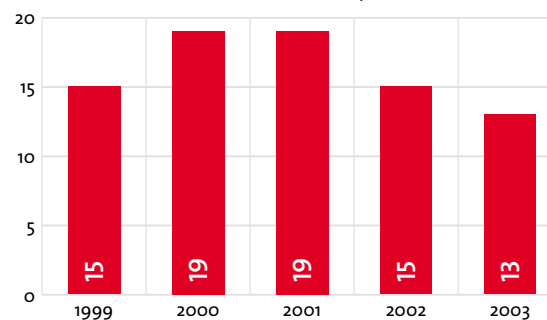




**Total number of employees on 31 December**



**Staff turnover, %**



**Key indicators**

	1999	2000	2001	2002	2003
Average number of employees	1 173	1 504	1 585	1 581	1 504
Sales per employee (SEK 000)	736	670	711	759	797
Value added per employee (SEK 000)	505	479	507	535	523
Profit/loss after financial items per employee (SEK 000)	72	33.3	1.5	3.8	-36.8
Average age	34	35	35	36	37
Sick leave (%)	2.0	2.8	3.1	3.2	2.9





It also boosts energy and creativity among our staff. We carry on training staff even in tough times. During the year we have complemented more traditional forms of competence development by encouraging staff to educate each other to a greater extent than previously. In addition to extensive introductory training for all new employees we have also concentrated on project management training. During the year around 100 employees received training in our PROPS project management model.

#### **DIVERSITY – A COMPETITION ASSET**

As a participant in the Diversity in Swedish Industry project, Semcon has worked alongside other businesses and organisations, including Volvo Car Corporation, to create greater diversity among personnel. The aim is to unite the diversity strategy with the business strategy.

#### **GENDER DISTRIBUTION**

On 31 December 2003 24 per cent (23) of Semcon's employees were women, of whom several were in management positions. Semcon's Board has eight members, of whom four are women.

#### **SALARIES AND INCENTIVE SCHEMES**

Individual salary levels are set within Semcon. Salaries are based on the individual employee's training, competence and experience. The company uses different forms of incentive and

bonus schemes to motivate employees. Bonuses are given if an employee gives a tip about a new assignment for example.

#### **SEMCON RECHARGES ITS BATTERIES**

Health risks increase during an economic downturn when customers and staff work under increased pressure. Despite this, Semcon's staff suffer few work-related injuries. Just three were reported in 2003. At Semcon Tech Center we focus on preventive healthcare and we have equipped an exercise room where employees can choose among daily training sessions held by colleagues. At other offices staff are offered subsidised exercise activities.

<b>Sick leave, %</b>	<b>2002</b>	<b>2003</b>
Total sick leave	3.2	2.9
Of which, long-term leave	1.5	1.4
Sick leave, women	5.0	4.7
Sick leave, men	2.7	2.3
Employees under 29 years	2.1	1.7
Employees aged 30–49	3.5	3.0
Employees over 50 years	4.2	4.7

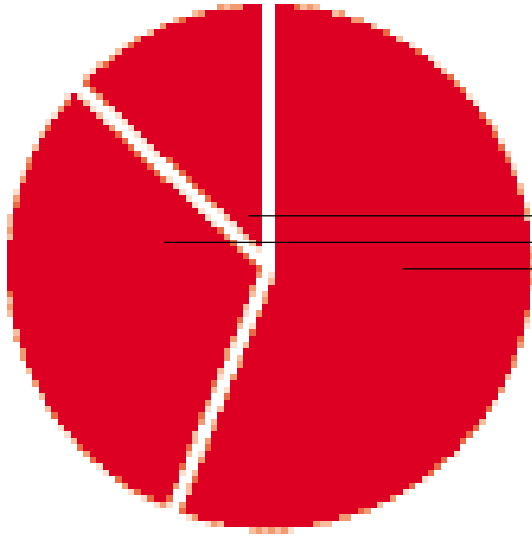
Figures are for Semcon's activities in Sweden.

“At Semcon we focus on preventive healthcare.”



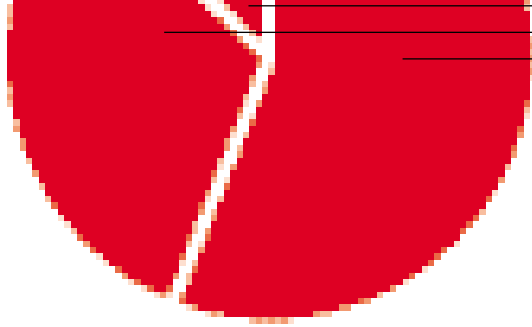
### Gender

	2003	2002
Women	24 %	(23 %)
Men	76 %	(77 %)



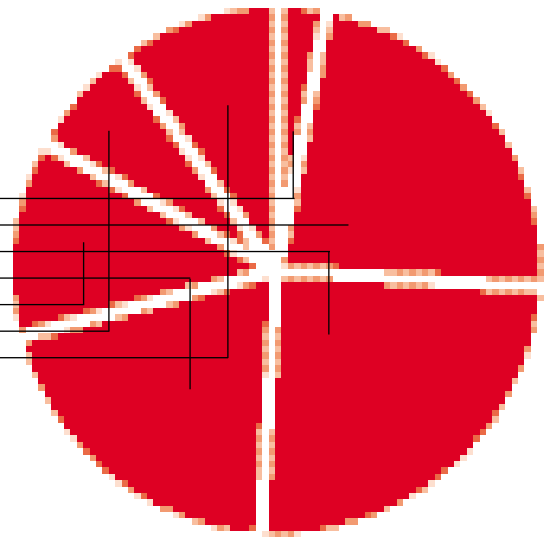
### Average employment duration

< 1 year	13 %	(20 %)
1–3 years	31 %	(41 %)
> 3 years	56 %	(39 %)



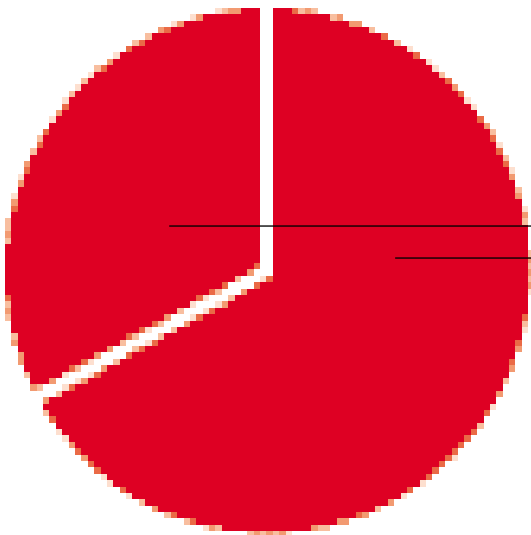
### Age of personnel

<25	3 %	(6 %)
26–30	23 %	(24 %)
31–35	25 %	(23 %)
36–40	20 %	(19 %)
41–45	12 %	(11 %)
46–50	7 %	(7 %)
>51	10 %	(10 %)



### Education

Secondary school	33 %
College/University	67 %





# Structural capital

## Added value for customers

Despite a tough market situation in 2003, Semcon managed to maintain sales at the same level as 2002. One of the reasons is the good customer relations built up and developed over a long period. This is reflected in the high level of return business. Customer capital is one of many important parts of structural capital. Together they create added value for the customer.

### **PACKAGED SERVICE OFFER**

It is easy to begin co-operation with Semcon. Within key areas for our customers we have packaged our services into concepts that clearly describe benefits and working methods for the customer. The concepts are based on proven working methods combined with several competence areas within Semcon. For our customers this means better and faster development because our co-operation is simple and straightforward. The concepts can be easily adapted for different customers and they give a clear picture of the profit to be gained from our co-operation.

### **PARTNERSHIP MODEL**

Industrial companies are increasingly focusing on their core

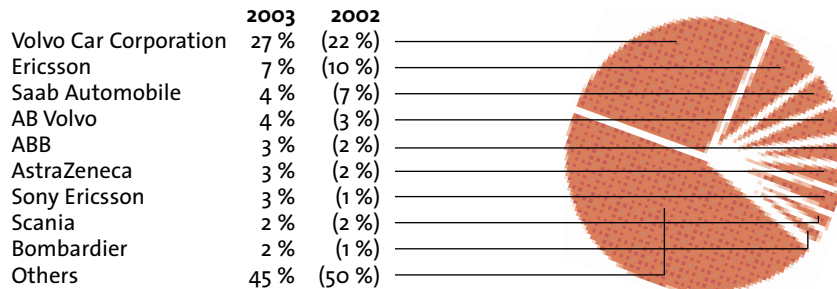
activities, which opens new opportunities for strategic partnerships. Semcon's model means that we take over parts or all of the development processes of the customer, including staff and development resources, in areas where we have extensive experience and specialist competence. This enables us to manage strategic development and improve the efficiency of activities, which improves results for customers.

### **PROJECT METHODS**

Through its international partnership with Ericsson Project Management Institute (EPMI) Semcon has exclusive rights to supply and develop training and consultancy services based on the PROPS project management model. In addition



### Semcon's largest customers



Our good long-term relationships with customers give us a very high level of return business year after year. Looking at Semcon's largest customers in 2003 we can see that the biggest change compared with 2002 is that sales to Volvo Car Corporation have grown strongly while Ericsson's performance affected us negatively. Concerning Volvo Car Corporation we have achieved a good balance in sales among different business areas, which distributes risk in a satisfactory way and lessens the overall risk of being too dependent on a single customer.

to supplying these services to our customers, the method is also used within Semcon.

#### A STRONG BRAND

For a business-to-business company, Semcon's brand is also unusually well-known to many people, inside and outside the industry. This is partly due to various successful marketing and sponsoring investments, but also to the large networks that our staff have built up by working professionally with customers. The company's strong brand facilitates recruiting and makes it easier to be the first choice for customers. A consistent graphic profile has also contributed to creating a clear and strong identity. Semcon aims to be seen as attractive, modern and dynamic by customers, current and future employees, shareholders, partners, etc.

#### COST STRUCTURE

Staff costs are the largest costs for a consulting business. Other costs include project costs, which must be matched by earnings, administration costs, depreciation and financial costs.

During 2003 Semcon completed Fast2Profit, an extensive programme of measures aimed at increasing revenue and cutting costs.

#### SOCIAL COMMITMENT

During the year Semcon donated to the children's cancer fund and to the Anna Lindh memorial fund. We are also involved in several networks aimed at boosting national growth, preventing unemployment and increasing security and diversity in the workplace. Semcon also makes presentations and arranges seminars free of charge at colleges and universities aimed at spreading Semcon's specialist competence to younger academics.

#### INVESTMENTS

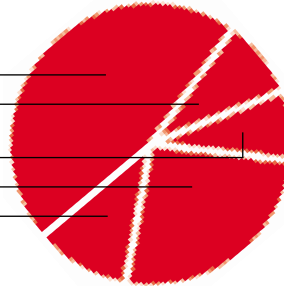
During the year Semcon invested SEK 22.8 million in machinery, inventories and licences, most of which was in connection with the completion of Semcon Tech Center.

#### IT SUPPORT/SECURITY

All Semcon's offices are linked in a high-capacity network.

### Sales per industry

	2003	2002
Vehicle	46 %	(43 %)
Telecom	9 %	(7 %)
Medical & LifeScience	8 %	(7 %)
Industry	26 %	(28 %)
Other	11 %	(15 %)



“By continually improving the quality of our services we can increase our customers’ profitability and bring them greater success.”

Employees can also always keep themselves updated via Semcon’s extranet all over the world.

The extranet always provides the latest information about what is happening within the company. Employees report the hours they work via TIMEIT™, an internet-based system developed by Semcon. In our personnel data system we can follow the development of individuals and the organisation and we can search among competencies to gain a picture of the current situation measured against development targets. To minimise risks and disruptions in IT systems Semcon works pro-actively with IT security. Reliability and security in our computer systems were put to the test at the start of the year when we moved from seven different offices in Göteborg to Semcon Tech Center. Our computer operations were transferred without a blip.

Semcon is directly connected to several of our key customers’ IT environments, which means that these customers review our IT systems. Our auditors also perform a similar review each year. In recent years no complaints have been made about how Semcon manages IT.

### PRO-ACTIVE QUALITY PRODUCES BETTER SOLUTIONS

Quality assurance activities progressed successfully during the past year. The biggest gain is the considerable support our staff has received and the increased reliability of work in projects.

Semcon’s business system has now been adapted to match the PROPS method. Semcon has also upgraded its certificate according to the new ISO 9001:2000 standard.

Our quality work receives a positive response from our customers. Surveys performed when projects end show that customers give Semcon an average score of 4 on a scale of 1 to 5 where 5 means very satisfied. Regarding costs of quality non-conformance, our aim is that lost revenue in

relation to sales shall not exceed 2.0 per cent, a target we have met with a clear margin. By continually improving the quality of our services we can increase our customer’s profitability and bring them greater success.

### SEMCON’S ENVIRONMENTAL WORK – INVESTING IN THE FUTURE

One of Semcon’s overall environmental goals is to provide competence that can contribute to reduced environmental impact. By supplying environmental competence to our projects and assignments we can help our customers with their environmental work. Connecting environmental work to our business is also a way of creating the best forces for lasting effects.

During 2003 we worked to draw up significant and appealing environmental goals. These goals now permeate the environmental work of our business units: developing better environmental products and processes in our focus sectors.

On top of this we endeavour to reduce carbon dioxide emissions caused by business travel. A more restrictive company car policy, clearer travel policy and car-sharing lists are some of the activities that will help us achieve our goals.

Re-certifying our environmental management system in accordance with ISO 14001 was Semcon’s primary environmental goal for 2003, which was achieved in the autumn. During the year we have received a good response for the way we work with the environment, for example via second-party audits and through the Folksam climate index 2003, which gave Semcon five stars out of a possible five for our work on climate-changing emissions.

In 2004 Semcon will pour significant resources into further training of key personnel and into developing efficient tools for environmental analyses in engineering design and product development. The main challenge is to make environmental issues a natural part of our daily work.





Semcon Tech Center at Lindholmen Science Park in Göteborg, one of Europe's most expansive development areas. Other Semcon offices are close by.

## Semcon gathers strength for future assignments

A development centre designed for spontaneous meetings and with built-in competitive advantages. That's how you can describe Semcon Tech Center at Lindholmen Science Park in Göteborg, one of Europe's most expansive development areas. The neighbours are a decent bunch, too – Ericsson, AB Volvo and many other cutting-edge businesses. It's an excellent site for one of Sweden's largest design and development companies.

Six years ago a decision was made to gather together most of Semcon's offices in Göteborg under one roof. Last spring the Semcon Tech Center opened and 500 of the company's 1,500 employees moved in. It was no ordinary office they started work in. Open spaces and many natural meeting points make it easy to meet, exchange ideas, establish new work methods and socialise. In Semcon Tech Center it's simple to work together in cross-functional competence teams, where colleagues' broad and deep competence can be fully utilised. It means we can solve our customers' problems faster and more efficiently.

Semcon has also built competitive advantages into the building. To enhance flexibility around 1,000 square metres of space has been allocated as project rooms. Because many of Semcon's projects are highly confidential, many of the rooms meet strict secrecy demands. Other project rooms are so-called war rooms, where the walls are covered with computer screens. The idea is that all decision-makers can be brought together to discuss the project at the same time. The overall picture on one screen, details on a second and a video conference on a third.



# International opportunities

## We're on our way

Since 2000 we have established a stronger international presence. During 2003 we focused on the UK and we also have activities in Denmark, Norway and Malaysia, and via partners in Australia, China and Spain.

### GROWING INTERNATIONALLY

Semcon's recipe for successful international expansion is to grow together with our customers, preferably organically and through new partnerships. The great challenge is to grow overseas at a pace that we can manage. We must have respect for the problems we will face and the length of time needed.

### DRIVING FORCES

The leading businesses in the Nordic region are becoming more and more global and they are choosing fewer but larger suppliers. Successful companies must be able to act in all markets.

Semcon's long-term business objective is to be one of three main suppliers for these companies. Operating internationally also gives opportunities for employees to develop and strengthen Semcon's position as an attractive employer.

### FACTORS BEHIND GLOBAL DEVELOPMENT

- Increased competition
- Large corporations want to work with fewer, larger suppliers
- Fast development and launch times for various products
- Price pressures
- Technical development
- Tougher market situation

### INTERNATIONAL BUSINESS IN SWEDEN

Semcon works internationally from Sweden. Several projects are being performed around the world on behalf of customers. The total share of Semcon's sales arising from international business accounts for 13 per cent (15) of total sales.

### CUSTOMERS

Here are just some of the customers – sector by sector.

**Vehicle:** AB Volvo, Bombardier, Saab Automobile/GM, Scania, Volvo Car Corporation/Ford.

**Medical & LifeScience:** Alpharma, AstraZeneca, Gambro, Getinge, Novo Nordisk, Pfizer.

**Telecom:** Ericsson, Nokia, Sony Ericsson, Telia Sonera.

**Industry:** ABB, Akzo Nobel, IMI, Swedish Match, Tetra Pak.

### SEMCON CONTACTS OVERSEAS

UK	Arthur Hill
Malaysia	Erika Klinger
Norway	Jens Christian Granrud
Denmark	Finn Wollesen
Australia	Andrew Elford
China	Jack Yu
Spain	Rickard Romander



A large cruise ship, the Queen Mary 2, is shown from a low angle, sailing on the ocean. The ship is white with a dark hull and has many windows. The sky is blue and the water is dark. The ship is moving towards the viewer, creating a wake in the water.

# Fresh air on the oceans

She's the largest, most expensive and maybe even the most beautiful. The Queen Mary 2 made her maiden voyage across the Atlantic in 2003. The luxury liner is 345 m long, 40 m wide and 72 m tall and was commissioned by the famous British Cunard line. Construction cost a cool 780 million US dollars.

ABB Industries (Marine Ventilation) was responsible for the ventilation system onboard. Semcon's subsidiary, Knud E. Hansen, was a supplier to ABB for this project. Semcon's services included support for engineering design, installation and fine-tuning. Semcon spent more than 25,000 hours on the project and during construction 15 Semcon engineers were stationed at the Chantiers de l'Atlantique shipyard in St. Nazaire, France.

The Queen Mary 2 has everything from small cabins to two-storey suites. The ship can carry 2,600 passengers and 1,300 crew. The dining hall can seat 1,700 guests, with one waiter per table. That gives some idea of the ventilation volumes the vessel must be capable of handling.

Designing an air-conditioning system for a ship is very different to designing the same thing for a building on land. Production times, space on board, passenger demands, safety

requirements and the extreme environments that the vessel faces on the high seas, are just some of the key factors.

ABB was awarded the contract thanks to its extensive experience of air-conditioning on ships that stretches back to the 1930s. This experience has given ABB the knowledge necessary to deliver a complete system for the Queen Mary 2.

To keep costs low and maintain competitive strength the French shipyard that built the liner developed a unique shipbuilding production method. Today the yard's methods are based more on co-ordination rather than the traditional role.

Suppliers no longer just deliver equipment. They are responsible for planning, designing, purchasing, fitting, testing and starting up. To provide space for all these suppliers, the Queen Mary 2 was produced in modules.





## Watching out for the customer

Since starting up 25 years ago Semcon has always aimed to build close and long-term relationships with customers. It's not just about delivering the best technical solution, but about building up trust over time. It's about being sensitive to customer demands and being close by, ready to supply the right resources and the right team. Quite simply, helping the customer to achieve simpler, faster and better development.

Semcon has several experienced and dedicated people who have worked for many years with key customers in our focus sectors. These are our Key Account Managers. They have extensive knowledge of their sectors, they know what demands are set, they know their customer's business and they know the right people. These managers are responsible for co-ordinating Semcon's entire business offer to each prioritised customer. They continually develop partnerships with customers and produce the best business concepts.

### Vehicle

Scania	Jacob Ferrer. ( <a href="mailto:jacob.ferrer@semcon.se">jacob.ferrer@semcon.se</a> )
AB Volvo	Reine Lindqvist ( <a href="mailto:reine.lindqvist@semcon.se">reine.lindqvist@semcon.se</a> )
Saab (GM)	Anders Grundberg ( <a href="mailto:anders.grundberg@semcon.se">anders.grundberg@semcon.se</a> )
VCC (Ford)	Björn Magnusson ( <a href="mailto:bjorn.magnusson@semcon.se">bjorn.magnusson@semcon.se</a> )
Autoliv, Saab	Göran Westberg ( <a href="mailto:goran.westberg@semcon.se">goran.westberg@semcon.se</a> )

### Medical & LifeScience

AstraZeneca,	
Pfizer	Pontus Ödqvist ( <a href="mailto:pontus.odqvist@semcon.se">pontus.odqvist@semcon.se</a> )

### Telecom

Ericsson	Benjamin Meilink ( <a href="mailto:benjamin.meilink@semcon.se">benjamin.meilink@semcon.se</a> )
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### Industry

Tetra Pak	Peter Hedberg ( <a href="mailto:peter.hedberg@semcon.se">peter.hedberg@semcon.se</a> )
ABB	Claes Andersson ( <a href="mailto:claes.andersson@semcon.se">claes.andersson@semcon.se</a> )



# Definitions

**Operating margin.**

Profit after depreciation as a percentage of operating income.

**Net profit for the year.**

Profit for the year after tax.

**Interest cover ratio.**

Profit after net financial items plus financial expenses divided by financial expenses.

**Return on average shareholders' equity.**

Net profit for the year as a percentage of average shareholders' equity.

**Return on average capital employed.**

Profit after net financial items plus financial expenses as a percentage of average capital employed.

**Capital employed.**

Shareholders' equity plus interest bearing liabilities.

**Equity/assets ratio.**

Shareholders' equity as a percentage of the balance sheet total.

**Share of risk bearing capital.**

Shareholders' equity plus provisions divided by the balance sheet total.

**Debt/equity ratio.**

Interest bearing liabilities divided by shareholders' equity.

**EPS after tax.**

Profit for the year divided by the number of shares issued.

**EPS including options.**

Profit for the year divided by the number of shares issued plus options.

**Shareholders' equity per share before dividend.**

Shareholders' equity divided by the number of shares issued.

**Price per share/equity.**

Price per share divided by shareholders' equity per share.

**P/E ratio.**

Price per share divided by earnings per share.

**P/S ratio.**

Price per share divided by sales per share.

**Average number of employees.**

Average number of yearly employees.

**Sales per employee.**

Sales divided by the average number of employees.

**Value added per employee.**

Profit after depreciation plus payroll expenses and social security contributions divided by the average number of employees.

**Profit after net financial items per employee.**

Profit after net financial items divided by the average number of employees.



# Semcon's shares

Semcon's shares were launched on Stockholmsbörsen's O-List on 26 May 1997. The introduction price was SEK 31.5.

## SHARE CAPITAL

Semcon's share capital is SEK 17 391 021, divided between 17 391 021 shares, each with a nominal value of SEK 1. All shares confer an equal right to a share of the company's assets and profits. Each share gives the entitlement to one vote.

## OPTIONS SCHEME

No new options scheme was introduced in 2003. The options scheme that ended in December 2003 did not result in any conversions to shares. The remaining options scheme, for which 217,900 options have been subscribed, dates from 2002. Each option gives the holder the right to subscribe for one new share during the period 1 June to 31 August 2005, at a price of SEK 63 per share. The dilution effect will be 1.2 per cent and the number of shares will amount to 17 608 921 after full conversion.

## PRICE TREND AND TURNOVER

During 2003 the share price rose by 19 per cent from SEK 13.0 to SEK 15.5. The SX-All-Share index fell over the same period by 30 per cent. During the final quarter Semcon's share price rose by 63 per cent compared with the SX-All-Share index, which rose by 13 per cent. The highest price paid in 2003 was SEK 16.5 on 18 November and the lowest was SEK 5.8 on 18 March. During the year the average volume of trading was SEK 1.1 million per day. At the end of 2003, Semcon's market value was SEK 270 million.

## DIVIDEND POLICY

The Board of Directors has established a dividend policy whereby Semcon AB's dividends shall correspond to 30–50 per cent of profits after tax over the long-term.

## DIVIDEND

Taking into account the Semcon Group's loss in 2003, the Board has decided to propose to the AGM that no dividend will be paid for the year. No dividend was paid for 2002.

## OWNERSHIP STRUCTURE

The spread of share ownership was broadened in 2003. On 31 December 2003, Semcon had 6 050 shareholders (4 883). 54.8 per cent (69.0) of these held 500 or fewer shares. Owners with more than 100 000 shares represented 40.4 per cent (68.5) of the share capital and voting rights. Foreign holdings totalled 18.6 per cent (34.4) of the shares on 31 December 2003, of which 5.5 per cent is held in Finland and 3.1 per cent in the UK. The 10 largest holders have 35.2 per cent of Semcon's share capital.

## CONTACTS WITH THE EQUITY MARKET

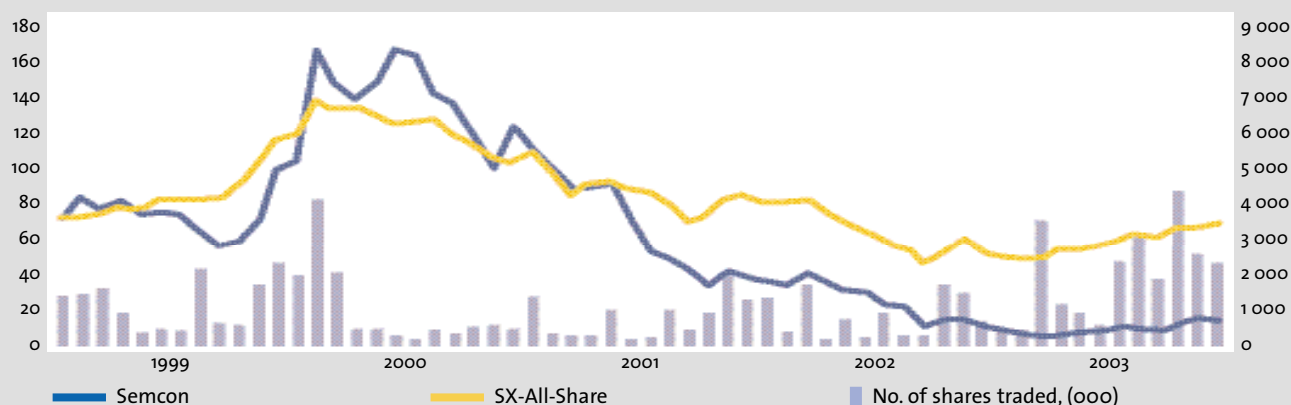
Semcon has carried out a number of investor and analyst meetings in Sweden and abroad. During the year financial analysts have monitored Semcon, including:

Company	Name
Alfred Berg	Patrick Clase
Enskilda Securities	Andreas Joelsson, Lars Sveder
Handelsbanken	Peter Trigarszky
Kaupthing Bank	Daniel Djurberg
Redeye	Stefan Nelson

## ANNUAL REPORT AND INTERIM REPORTS

The annual report and interim reports are published in Swedish and English. The reports are distributed to shareholders who have expressed an interest. Printed reports can be ordered from our head office: Semcon, Theres Svenssons gata 15, Göteborg, Sweden, and via telephone +46 31 721 00 00, fax +46 31 721 03 33 or email, bodil.johansson@semcon.se. The reports are published via press releases and on Semcon's website [www.semcon.se](http://www.semcon.se).

The diagram below shows Semcon's share performance since 1998 based on the closing price at the end of each month. The SX All-Share rate is indexed so that both curves start at the same value.





# SHARE CAPITAL

Date	Type of issue	Number of shares issued	Total number of shares after issue	Share capital after issue
7 March 1997	Company formed	500 000	500 000	500 000
14 April 1997	Cash issue	4 003 700	4 503 700	4 503 700
14 April 1997	Issue in kind	496 300	5 000 000	5 000 000
25 April 1997	Cash issue	12 338 521	17 338 521	17 338 521
31 Augusti 2001	Cash issue	52 500	17 391 021	17 391 021

## KEY FIGURES PER SHARE 31 DECEMBER 2003

	2003	2002	2001	2000	1999
Earnings per share after tax (SEK)	-3.31	0.05	0.08	1.99	3.38
Earnings per share including options (SEK)	-3.31	0.05	0.08	1.89	3.26
Shareholders' equity per share before dividend (SEK)	5.20	8.49	8.56	8.57	7.83
Shareholders' equity per share incl. options (SEK)	5.13	8.30	8.48	8.14	7.43
Price per share/equity per share (times)	3.0	1.5	4.6	14.6	12.8
Proposed dividend per share (SEK)	0.0	0.0	0.0	0.5	1.4
P/E ratio	neg	238.7	504.4	62.8	29.6
P/S ratio	0.23	0.19	0.61	2.15	2.01
Share price 30/12 (SEK)	15.50	13.00	39.50	125.00	100.00
Market value 30/12 (SEK million)	270	226	687	2 167	1 734
Number of shares at year-end (ooo)	17 391	17 391	17 391	17 339	17 339
Average number of shares (ooo)	17 391	17 391	17 356	17 339	17 339
Number of options (ooo)	218	382	164	928	764

\* Definitions, page 51.

## LARGEST HOLDINGS ON 31 DEC. 2003

Shareholder	Number of shares	Percentage
NORDEA BANK INCL. FUNDS	1 208 711	6.95
AB TRACTION	1 064 400	6.12
LANNEBO	868 700	5.00
CARLSON	677 500	3.90
SEB INCLUDING FUNDS	550 424	3.16
JP MORGAN CHASE BANK	475 000	2.73
HANS JOHANSSON INCLUDING COMPANIES	453 600	2.61
SHB INCLUDING FUNDS	289 178	1.66
BOSTON MONETARY AUTH OF SPF	275 000	1.58
CARL WESTIN ASSOCIATES AB	261 000	1.50
<b>Total</b>	<b>6 123 513</b>	<b>35.21</b>
Other ownership	11 267 508	64.79
<b>Grand total</b>	<b>17 391 021</b>	<b>100.00</b>

Source: VPC AB's Shareholder Register on 31 December 2003.

## OWNERSHIP STATISTICS

Size	Number of shareholders	Percentage	Number of shares	Percentage
1-500	3 318	54.9	743 193	4.3
501-1 000	1 223	20.2	1 109 947	6.4
1 001-10 000	1 337	22.1	4 430 277	25.5
10 001-100 000	148	2.4	4 075 125	23.4
100 001-	24	0.4	7 032 479	40.4
<b>Total</b>	<b>6 050</b>	<b>100.0</b>	<b>17 391 021</b>	<b>100.0</b>

Source: VPC AB's Shareholder Register on 31 December 2003.

# Five-year summary

(SEK 000)	2003	2002	2001	2000	1999
<i>Income statement</i>					
Net sales	1 198 719	1 200 201	1 126 628	1 007 233	863 501
Operating expenses	-1 251 517 ****	-1 190 090	-1 120 978	-957 172	-779 080
Operating profit after depreciation	-52 798	10 111	5 650 **	50 061 **	84 421
Financial income	1 732 **	1 785	2 009	1 682	735
Financial expenses	-4 104	-4 778	-4 888 **	-1 286 **	-719
Profit/loss after financial items	-55 170 **	7 118	2 771	50 457	84 437
Tax	-2 399	-6 171	-1 409	-15 879	-25 795
<b>Net profit/loss for the year</b>	<b>-57 568</b>	<b>947</b>	<b>1 362</b>	<b>34 578</b>	<b>58 642</b>
<i>Balance sheet</i>					
Capitalized development expenditure	3 950	3 300	4 386	4 329	2 808
Goodwill	49 139	77 973	83 743	57 929	19 652
Machinery/equipment/property	38 749	43 316	52 414	54 840	53 083
Financial fixed assets	16 490	21 041	19 660	12 050	—
Stock-in-trade	335	125	315	1 264	1 673
Work in progress	136 491	87 138	89 211	72 263	71 044
Accounts receivable	122 769	254 494	222 595	171 658	128 750
Other current assets	64 451	35 626	36 528	49 071	14 177
Cash and bank balances	40 748	33 072	7 049	12 542	66 073
<b>Total assets</b>	<b>473 122</b>	<b>556 085</b>	<b>515 901</b>	<b>435 946</b>	<b>357 260</b>
Shareholders' equity	90 406	147 594	148 921	148 637	135 727
Minority shares	17	180	426	297	297
Long-term liabilities and provisions	45 725	70 891	131 294	110 650	36 812
Current liabilities	336 974	337 420	235 260	176 362	184 424
<b>Total shareholders' equity and liabilities</b>	<b>473 122</b>	<b>556 085</b>	<b>515 901</b>	<b>435 946</b>	<b>357 260</b>
<i>Cash flow statement</i>					
Cash flow from current activities	42 703	40 834	36 757	44 739	126 361
Cash flow from investments activities	-28 693	-16 835	-31 389	-76 602	-60 037
Cash flow from financing activities	-6 334	2 024	-10 861	-21 668	-24 274
<b>Change in liquid assets</b>	<b>7 676</b>	<b>26 023</b>	<b>-5 493</b>	<b>-53 531</b>	<b>42 050</b>
<i>Key figures</i>					
Increase/decrease in sales (%)	-0.1	6.5	11.9	16.6	21.8
Operating margin (%)	-4.4	0.8	0.5	5.0 *	9.8
Interest cover ratio (times)	-12.4	2.5	1.5	40.2 *	118.4
Return on average shareholders' equity (%)	-48.4	0.6	0.9	24.3 *	49.5
Return on average capital employed (%)	-34.3	5.6	3.3	27.5 *	68.3
Equity/assets ratio (%)	19.1	26.5	28.9	34.1	38.0
Dept/equity ratio (times)	0.05	0.43	0.42	0.45	0.18
Number of shares at year end (000)	17 391	17 391	17 391	17 339	17 339
Average number of shares (000)	17 391	17 391	17 356	17 339	17 339
Number of options (000)	218	382	164	928 *	764
EPS after tax (SEK)	-3.31	0.05	0.08	1.99 *	3.38
EPS including options (SEK)	-3.31	0.05	0.08	1.89	3.26
Shareholders' equity per share before dividend (SEK)	5.20	8.49	8.56	8.57	7.83
Price per share/equity per share (times)	3.0	1.5	4.6	14.6	12.8
P/E ratio	neg	238.7	504.4	62.8	29.6
Average number of employees.	1 504	1 581	1 585	1 504 *	1 173
Sales per employee (SEK 000)	797	759	711	670 *	736
Value added per employee (SEK 000)	523	535	507	479 *	505
Profit/loss after net financial items per employee (SEK 000)	-36.7	4.5	1.5	33.6	72.0
Investments in machinery and equipment (SEK 000)	22 370	14 755	24 991 ***	26 886	26 825
Investments in subsidiaries' shares (SEK 000)	169	3 766	31 762	41 120	30 722

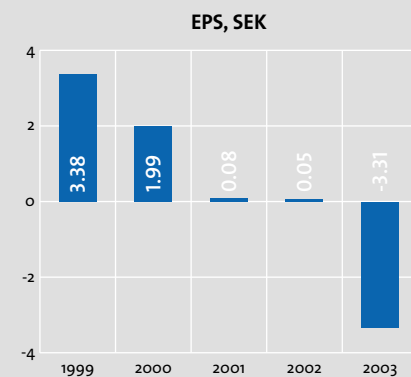
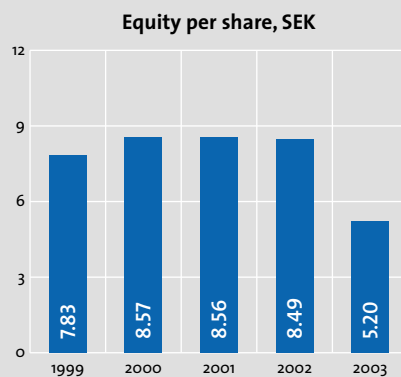
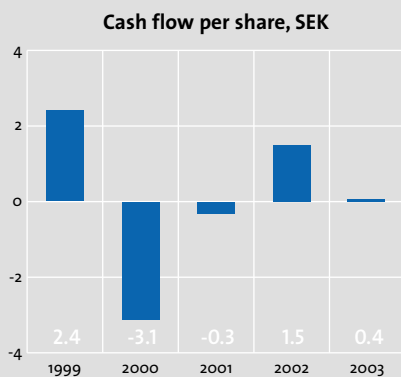
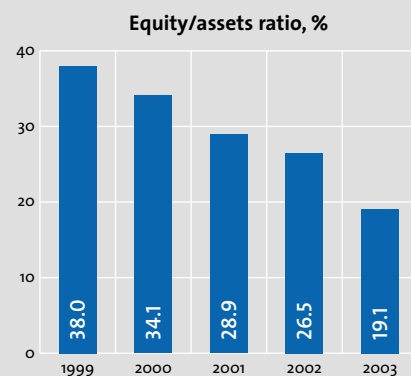
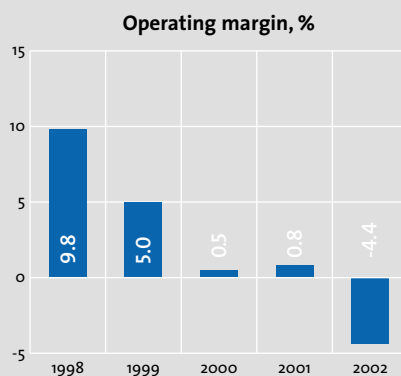
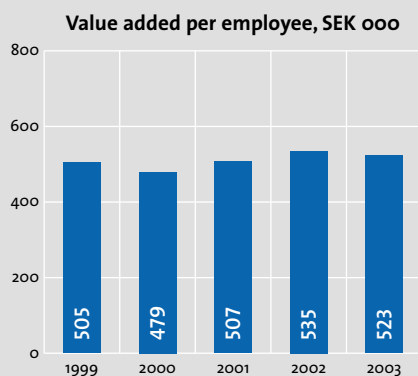
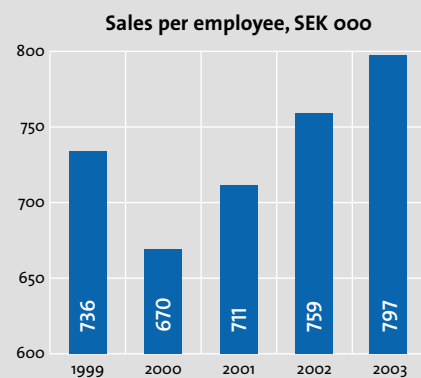
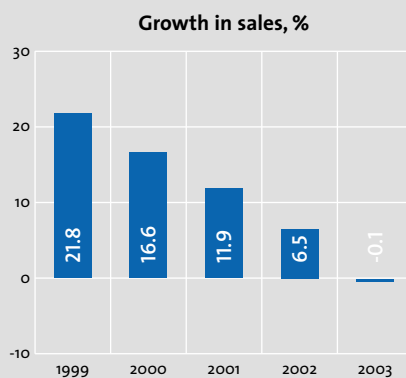
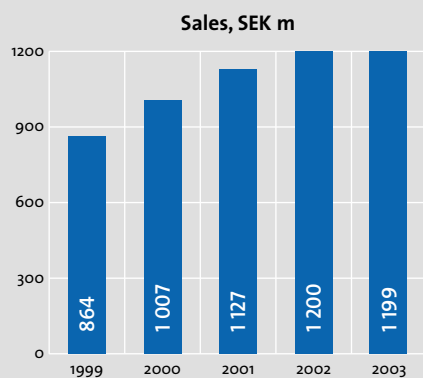
\* Including refund from SPP of SEK 19.6 million in 2000.

\*\* Including minority interest of SEK 1,000 in 2003, SEK 411 000 in 2001 and SEK 911 000 in 2000.

\*\*\* Of which SEK 25,000,000 is a provision for estimated purchase prices.

\*\*\*\* Of which SEK 11,631,000 is goodwill depreciation.





# Directors' report

The Board and CEO of Semcon AB (publ.) co. reg. no. 556539-9549 herewith present the annual report and consolidated accounts for the 2003 financial year.

## BUSINESS ACTIVITIES

Semcon AB (publ.) is the parent company in a Group consisting of 29 companies in accordance with note 9.

As a close partner to industry Semcon provides human and technical competence that improves customers' results. Semcon provides industrial design and development competence in the Design & Development, Informatic and Innovation business areas.

Semcon has operations in the following locations: Göteborg (HQ), Asker, Helsingborg, Karlstad, Karlskrona, Kista, Kuala Lumpur, Copenhagen, Linköping, London, Ludvika, Lund, Oskarshamn, Oxelösund, Stenungsund, Stockholm, Södertälje, Trollhättan, Västerås, and Växjö.

## THE WORK OF THE BOARD OF DIRECTORS

The Board of Directors has five members, three employee representatives and one deputy employee representative.

During the year the Board held five ordinary meetings and 11 extraordinary meetings. The Board follows the procedures set out for the division of work between the Board and the CEO. At the ordinary meetings the Board has dealt with the company's and Group's financial situation. In addition to this, strategic issues such as acquisitions, starting new activities, closing unprofitable segments and the organisation, have been dealt with.

The company's accountants are present at Board meetings and state their views on the internal control and financial reporting of the Group.

Annemarie Gardshol, Pia Gideon, Carl-Åke Jansson and Hans Johansson were re-elected to the Board at the AGM. Christian W Jansson was re-elected as Chairman of the Board.

## OPTIONS SCHEME

No options schemes were introduced in 2003. The options scheme that ended in December 2003 did not result in any conversions to shares. The remaining options scheme, for which 217 900 options have been subscribed for, dates from 2002. Each option gives the holder the right to subscribe for one new share during the period 1 June to 31 August 2005, at a price of SEK 63 per share. The dilution effect will be 1.2 per cent and the number of shares will amount to 17 608 921 after full conversion.

There is a further options scheme for leading executives in the company. This scheme consists of 236 000 call options. The options run until 3 July 2006 and each one gives the owner the right to buy one share in Semcon AB at a price of SEK 42. Semcon has signed a share-swap agreement to secure the commitment relating to the options scheme.

## RESEARCH AND DEVELOPMENT

The predominant part of Semcon's development costs are for development within the framework of customer projects. Development costs are otherwise relatively insignificant amounts and normally such that they can be registered directly in the accounts. Exceptions include costs for development of specific programs or technical platforms.

## COMPANY ACQUISITIONS

Semcon Informatic SRT AB was acquired on 24 June in connection with the acquisition of the assets and liabilities of Service Readiness Technology from Saab Automobile AB. On 5 May the remaining 1 per cent of Semcon Extern Engineering AB was acquired and on 1 October Semcon Innovation AB acquired the remaining 9 per cent of Zpearpoint AB.

## KEY EVENTS DURING THE YEAR

- New partnership agreements with Ericsson and GM (Saab Automobile) within Informatic.
- Partnership with Volvo Car Corporation extended by one year.
- Semcon selected as Long Term Preferred Supplier by Volvo Car Corporation for another year.
- Akzo Nobel signed an order concerning the implementation of FastTrack at all its units throughout the world.
- Orders worth around SEK 12 million from FMV, the Swedish Defence Materiel Administration and from Volvo Car Corporation worth SEK 25.5 million.
- Semcon's subsidiary Zystems by Semcon selected as IBM partner of the year in Europe.
- Activities concentrated in new design and development facility, Semcon Tech Center
- Semcon introduced a new, market-adapted organisation with three new business areas: Design & Development, Informatic and Innovation.

## BUSINESS AREAS

The Design & Development business area focuses on design and development of products and production systems. We have gathered together our production development activity here, including our international activities. The Informatic business area develops product information that helps users to use products and systems in an optimum way. The Innovation business area develops businesses with strong business concepts marketed under individual brands.

## CONVERSION TO IAS/IFRS

Prior to the conversion to International Accounting Standards (IAS/IFRS) an overall inventory has been made of the differences between current accounting procedures and IAS procedures. No significant differences were discovered. Reporting of benefit-based pensions will require some adjustments, although it is not expected to involve significant amounts.



## FINANCIAL OVERVIEW

### Sales and results/financial position

The Group's sales were at around the same level as in 2002 and amounted to SEK 1 198.7 million (1 200.2), a tiny fall of 0.1 per cent. The operating loss was SEK 52.8 million (+10.1) and the loss after net financial items was SEK 55.2 million (+7.1). That Semcon managed to retain sales at last year's level was mainly due to several outsourcing projects, more assignments where we took complete responsibility and good growth in Norway. The operating margin was -4.4 per cent (+0.8).

The prime causes of the negative results are the problems in Denmark and the weak market that led to cutbacks in activities and an SEK 55.4 million charge to earnings. Furthermore, we allocated SEK 10.5 million to a reserve for high-risk projects, we made an SEK 11.6 million one-off write-down of goodwill, wrote down the value of shares in associated companies by SEK 3.9 million and diverted SEK 5.0 million into a reserve to cover unreliable credit. Excluding these items, we would have made an operating profit of SEK 33.6 million. The EPS after tax was SEK -3.31 (+0.05). The return on average shareholders' equity amounted to -48.4 per cent (+0.6). The equity/assets ratio was 19.1 per cent (26.5) and shareholders' equity was SEK 90.4 million (147.6 m), corresponding to SEK 5.20 per share before the dividend (8.49). The Group's liquid assets totalled SEK 40.7 million (33.1 m). SEK 0 million (52.4 m) has been utilised of bank overdraft facilities set at SEK 36 million (100). Pre-sold invoice receivables amounted to SEK 124.0 million (0.0 m) on 31 December 2003.

Results for the business areas were as follows. Design & Development reported sales of SEK 775.7 million (838.9 m), which represents 65 per cent (70) of total Group sales. The operating loss was SEK 61.2 million (0.0), which meant a margin of -7.9 per cent (0.0). Informatic reported sales of SEK 243.9 million (199.9), which represents growth of 22.1 per cent. The operating profit was SEK 13.8 million (13.8), which meant a margin of 5.7 per cent (6.9). Innovation reported sales of SEK 179.1 million (161.4 m). The operating loss was SEK 5.4 million (-3.7), and the margin was -3.0 per cent (-2.3).

### Investments

Semcon invested SEK 22.8 million (14.9) in 2003, mainly in networks. Investments in programming development was SEK 0 million (1.1). million (14.8). Investment in goodwill arising from the purchase of net assets in a business was SEK 8.5 million (0.0). Investment in shares in subsidiaries was SEK 0.2 million (4.0).

### Employees

At the end of the year there were 1 442 (1 570) employees, which is a reduction of 8.2 per cent compared with last year. The average number of employees during 2003 was 1 504 (1 581), of whom 24 (23) per cent are female. The average age of employees is 37 (36).

## DIVIDEND POLICY

The Board considers that the size of future dividends should be based on Semcon's long-term growth, profits and capital requirements for continued expansion with regard to its financial targets. The long-term aim is to pay out between 30 and 50 per cent of the profit after tax to Semcon's shareholders.

The Board considers that the company's equity/assets ratio shall be a minimum of 35 per cent. One of Semcon's aims for the future is to expand to create long-term growth in value for shareholders. If conditions are right, with consideration to financial targets and investment alternatives for continued expansion, the Board intends to pay out higher dividends when appropriate. Because of the results of the Semcon Group, the Board will propose to the AGM that no dividend be paid for the 2003 financial year. No dividend was paid in 2002.

### GOALS FOR 2004

- To regain profitability, improve the equity/assets ratio and carry on winning market shares.
- To refine and strengthen the business offers in the respective focus industries.
- To increase the share of total solutions and value-based business.
- More strategic partnerships with customers through outsourcing agreements.
- To increase the network of consultants and business partners in complementary areas.

### OUTLOOK FOR 2004

We saw increased activity during the final quarter of 2003 and expect the market to stabilise in 2004. The continuing trend of more corporations choosing fewer and bigger suppliers benefits Semcon. Our growth prospects look to be fastest within Vehicle, followed by Medical & LifeScience, Industry and Telecom. In 2004 we expect to report a profit for the full year.

### PARENT COMPANY

Sales amounted to SEK 21.5 million (17.5 m) and the profit after net financial items was SEK 22.3 million (20.1). During the year the company's net loans were reduced by SEK 6.2 million. Net investments amounted to SEK 3.8 million.

### PROPOSED ALLOCATION OF PROFITS, SEK 000

The AGM has the following profit at its disposal:

Profit brought forward	54 290
Profit for the year	15 924
Group contribution	-17 176
Total	53 038

The Board proposes that the profits be distributed as follows:

Carried forward	53 038
Total	53 038

According to the consolidated balance sheet, non-restricted equity amounts to SEK 6,035,000. No allocations are required to be made to restricted reserves.



## Risk and sensitivity analysis

Calculating the value of a consultancy firm like Semcon is governed by a number of different factors. By analysing them it is possible to create a sound insight into the risk exposure of the company.

### FACTORS AFFECTING SEMCON'S VALUE

#### Employees and customers

The greatest risk in a know-how intensive company is that the employees quit, or the right employees are not recruited. Unsuccessfully completed assignments can also affect results. The risk is limited however because in most cases the consultant participates in the customer's project and continual checks are carried out during a project.

In addition, consultant liability insurance agreements are signed in accordance with industry practice. This corresponds to the liability for the project and amounts to a maximum 120 basic payments (using the Swedish Social Security base payment scale).

Customer relations are the most important factor in a consultancy company's success. Thanks to skilled consultants who carry out assignments in a way that exceeds customer expectations, the customers return. A good relationship is created by initiative, openness, competence, involvement and reliability.

#### Global factors and changing markets

There are also a number of external factors that affect the customers' use of consultants.

- Stiffening global competition and shorter product life cycles make the industry apply itself more towards design and product development.

- Sweden's relatively good position in many of Semcon's areas of operation gives a good starting point for international expansion.
- Greater technology and IT usage in products increases complexity. This in turn requires more specialist competence. Customers cannot afford time and resources to develop all the competence themselves.
- Continued environmental awareness and new environmental requirements mean that product and product development must be constantly monitored to secure the greatest possible environmental regard for materials and method choice as well as to increase re-cycling possibilities.

#### Less suppliers

The consultancy companies chosen as primary suppliers by the leading Swedish industrial firms have significant advantages.

Industrial firms want to work with less suppliers giving better control of the quality of the consultants. Semcon has been chosen as primary supplier via long-term cooperation built on mutual trust with the largest industrial firms.

This means that Semcon always receives requests for assignments and that they are bigger, and in certain cases entails comprehensive measures.

#### Outsourcing

Customers are focusing more and more on their core activities and put other activities out to tender.

These create opportunities for a long-term partnership aimed at improving operations that so often have come as a second priority to the customer. Outsourcing is carried out in areas that include IT support, technology information, testing, construction and training.



### Business cycle

Semcon's customer base consists mainly of Swedish industrial companies. Semcon believes that the breadth of this customer base reduces dependence on individual sectors and economic cycles, and that Semcon is therefore mainly affected by the general economic cycle for Swedish exports.

### Seasonal variations

As most of Semcon's assignments are ongoing assignments invoiced by the hour, results are strongly influenced by the number of hours available. The summer period, when most employees take holidays, is a weak period for consultancy firms, and even the length of the Christmas holiday can have a decisive effect on profits during Q4. The greatest influence on Semcon's growth is seen from Vehicle, followed by the Industry and Medical & LifeScience sectors.

The earnings trend for Semcon is dependent on the number of fixed price projects, available hours, the utilisation level and prices. The number of available hours depends on the number of employed consultants, speed of recruitment and access to suitable engineers.

Available hours are also affected by factors such as holidays and opportunities for overtime. Changes in the number of available hours influence both consultancy income and operating costs (salaries).

During 2003, Semcon actively changed towards value based sales, which in turn increased. During the latter part of the year a breakthrough occurred in sales of the in-house developed products.

This development has been carried out to expand Semcon's earnings capacity. However, investments also mean that risk levels increase. The utilisation ratio is also a key factor for Semcon's profitability. Changes in utilisation ratios only marginally affect operating expenses. The price level is controlled by factors such as the combined expertise

of the company, the individual competence of the consultant, market demand and general inflationary pressures.

### Effect on profits

A change of +/- 1 % in the following variables would have affected the operating profit for 2003 as follows:

Utilisation level SEK 13.0 million. Average fee SEK 10.7 million

### Project risks

A customer can, in certain cases, cancel a project at short notice. This can result in a risk where Semcon is not always guaranteed full cost coverage, especially for those consultants who cannot immediately be transferred to another project. With fixed rate projects the company exposes itself to the risk that a project cannot be finished within the given cost frame.

### Financial risks

Semcon's activities are exposed to different financial risks, which means that Semcon continually minimises these risks.

### Currency risks

Semcon has a marginal exposure to currency risks, because a majority of the customers are Swedish.

### Interest rate risks

Interest-bearing liabilities stood at SEK 4.5 million (36.0). besides this is an interest-bearing undertaking for a transferred account receivable amounting to SEK 99.2 million (0).

### Credit risk

Semcon judges that the risk with outstanding accounts receivable is low, since bad debts are written-down and the majority of account receivables are receivables with well-established, listed companies with a sound equity/assets ratio.

# Income statement

SEK 000	NOTE	THE GROUP		PARENT COMPANY	
		2003	2002	2003	2002
OPERATING STATEMENT					
Net sales	1, 2	1 198 719	1 200 201	21 483	17 549
Operating expenses					
Purchase of goods and services		-222 629	-168 616	—	—
Other external expenses	3	-145 768	-125 315	-7 104	-4 816
Staff costs	4	-832 489	-862 644	-10 762	-9 600
Amortisation of intangible assets	5	-23 513	-11 490	-607	-607
Depreciation of tangible assets	5	-22 078	-23 053	-184	-300
Share in associated company's profit	9	-5 040	1 028	—	—
Operating profit/loss		-52 798	10 111	2 826	2 226
Financial items					
Interest income and similar items	6	1 732	1 785	226	309
Group contribution received		—	—	22 210	20 235
Interest expense and similar items	7	-4 104	-4 778	-2 887	-2 649
Profit/loss after financial items		-55 170	7 118	22 375	20 121
Appropriations					
Provisions for tax allocation reserve		—	—	—	-192
Excess depreciation		—	—	184	628
Profit before tax		-55 170	7 118	22 559	20 557
Tax on profit for the year	8	-2 399	-6 171	-6 635	-5 913
Minority interest for the year		1	—	—	—
PROFIT/LOSS FOR THE YEAR		-57 568	947	15 924	14 644
EPS, SEK		-3.31	0.05	—	—



# Balance sheet

SEK 000	NOTE	THE GROUP		PARENT COMPANY	
		31 Dec 03	31 Dec 02	31 Dec 03	31 Dec 02
ASSETS					
Fixed assets					
Intangible fixed assets	5				
Goodwill		49 139	77 973	—	—
Computer programs		3 950	3 300	615	1 222
Tangible fixed assets	5				
Plant and machinery		2 271	2 390	—	—
Equipment		17 772	14 412	194	358
Computers		11 945	18 508	18	38
Property		6 761	8 006	—	—
Financial fixed assets					
Shares in subsidiaries	9	—	—	48 845	45 045
Shares in associated company	9	7 055	11 961	—	—
Deferred tax recoverable	8	9 435	9 080	—	—
Total fixed assets		108 328	145 630	49 672	46 663
Current assets					
Receivables from subsidiaries		—	—	58 314	41 363
Stock and commodities		335	125	—	—
Accrued non-invoiced income	10	136 491	87 138	—	—
Accounts receivable	11	122 769	254 494	—	—
Other receivables	12	43 784	8 151	6 144	14 910
Prepaid expenses and accrued income	13	20 667	27 475	89	256
Cash and bank balances		40 748	33 072	32 232	49 529
Total current assets		364 794	410 455	96 779	106 058
TOTAL ASSETS		473 122	556 085	146 451	152 721

# Balance sheet continued

SEK 000	NOTE	THE GROUP		PARENT COMPANY	
		31 Dec 03	31 Dec 02	31 Dec 03	31 Dec 02
SHAREHOLDERS EQUITY AND LIABILITIES					
Shareholder´ equity	14				
Restricted equity					
Share capital (17,391,021 shares at a nom. SEK 1)		17 391	17 391	17 391	17 391
Restricted reserves		66 980	60 413	25 140	25 140
Non-restricted equity					
Profit brought forward		63 603	68 843	37 114	39 646
Profit/loss for the year		-57 568	947	15 924	14 644
Total shareholders´ equity		90 406	147 594	95 569	96 821
Minority shares					
Minority shares in subsidiaries		17	180	—	—
Total minority shares		17	180	—	—
Untaxed reserves					
Accumulated excess depreciation		—	—	212	396
Tax allocation reserve	15	—	—	39 722	39 722
Total untaxed reserves		—	—	39 934	40 118
Provisions					
Deferred tax	8	33 615	31 221	—	—
Other provisions	16	7 613	28 840	—	—
Total provisions		41 228	60 061	—	—
Long-term liabilities					
Liabilities to credit institutions	17	4 497	10 830	4 497	10 747
Total long-term liabilities		4 497	10 830	4 497	10 747
Current liabilities					
Liabilities to credit institutions	18	—	52 448	—	—
Accounts payable		45 659	38 602	2 495	2 294
Other liabilities		66 710	66 864	1 783	1 177
Accrued expenses and prepaid income	19	224 605	179 506	2 173	1 564
Total current liabilities		336 974	337 420	6 451	5 035
TOTAL SHAREHOLDERS´ EQUITY AND LIABILITIES		473 122	556 085	146 451	152 721
Memorandum items					
Guarantees pledged	20	4 255	4 255	—	—
Pledged assets	21	126 811	1 104	2 826	52 448



# Shareholders' equity

THE GROUP SEK 000	SHARE CAPITAL	RESTRICTED EQUITY	UNRESTRICTED EQUITY	TOTAL SHARE- HOLDERS' EQUITY
Opening balance 2002	17 391	72 881	58 649	148 921
Exchange rate differences	—	—	-102	-102
Loss risk in initial SWAP agreements*	—	—	-3 840	-3 840
Options scheme**	—	1 668	—	1 668
Transfer between non-restricted and restricted equity	—	-15 097	15 097	—
Allocation to reserve fund	—	961	-961	—
Profit for the year	—	—	947	947
<b>Shareholders' equity 31 December 2002</b>	<b>17 391</b>	<b>60 413</b>	<b>69 790</b>	<b>147 594</b>
Exchange rate difference***	—	—	-210	-210
Loss risk in initial SWAP agreements*	—	—	590	590
Allocation to reserve fund	—	50	-50	—
Transfer between non-restricted and restricted equity	—	6 517	-6 517	—
Profit for the year	—	—	-57 568	-57 568
<b>Shareholders' equity 31 December 2003</b>	<b>17 391</b>	<b>66 980</b>	<b>6 035</b>	<b>90 406</b>
PARENT COMPANY SEK 000				
Opening balance 2002	17 391	23 472	54 441	95 304
Options scheme**	—	1 668	—	1 668
Group contribution paid	—	—	-20 548	-20 548
Tax on Group contribution	—	—	5 753	5 753
Profit for the year	—	—	14 644	14 644
<b>Shareholders' equity 31 December 2002</b>	<b>17 391</b>	<b>25 140</b>	<b>54 290</b>	<b>96 821</b>
Group contribution paid	—	—	-23 855	-23 855
Tax on Group contribution	—	—	6 679	6 679
Profit for the year	—	—	15 924	15 924
<b>Shareholders' equity 31 December 2003</b>	<b>17 391</b>	<b>25 140****</b>	<b>53 038</b>	<b>95 569</b>

\* To hedge the undertakings in the call option scheme, Semcon has a share swap agreement. The loss risk in this agreement of SEK 3,840,000 in 2002 and SEK 3,250,000 in 2003, is reported directly against shareholders' equity.

\*\* Two options schemes were initiated in 2002. In one 217,900 options were subscribed for at a premium of SEK 7 each. The total paid in premium after deductions for the company's costs was SEK 990,000. The second scheme, aimed at the company's executive management, allotted 236 000 call options at a premium of SEK 4.80 each. The total paid in premium after deductions for the company's costs was SEK 678,000.

\*\*\* The closing accumulated exchange rate difference amounted to SEK 535,000.

\*\*\*\* Consists of the reserve fund SEK 3,467,000, share premium reserve SEK 17,399,000 and option premiums SEK 4,274,000.

# Cash flow statement

SEK 000	NOTE	THE GROUP		PARENT COMPANY	
		1 Jan 03– 31 Dec 03	1 Jan 02– 31 Dec 02	1 Jan 02– 31 Dec 02	1 Jan 02– 31 Dec 02
<i>Current activities</i>					
Operating profit after depreciation and write-downs		-52 798	10 111	2 826	2 226
Depreciation		32 960	34 543	791	907
Write-downs		16 498	—	—	—
Share in associated companies' results		1 173	-1 028	—	—
Profit from machinery & equipment sold		4 657	268	—	50
<b>Cash flow from current activities</b>		<b>2 490</b>	<b>43 894</b>	<b>3 617</b>	<b>3 183</b>
Interest received		1 732	1 532	226	309
Interest paid and similar items		-4 104	-4 778	-2 886	-2 649
Income tax paid		-12 170	-7 339	6 797	-2 121
Cancelled provision		—	-4 500	—	—
<b>Cash flow from current activities before change in working capital</b>		<b>-12 052</b>	<b>28 809</b>	<b>7 754</b>	<b>-1 278</b>
<i>Change in working capital</i>					
Increase/decrease in current receivables		114 156	-31 862	-21 526	5 221
Increase/decrease to work in progress and stock		-49 563	2 263	—	—
Increase/decrease in current liabilities		-9 838	41 624	8 170	2 216
<b>Total change in working capital</b>		<b>54 755</b>	<b>12 025</b>	<b>-13 356</b>	<b>7 437</b>
<b>Cash flow from current activities</b>		<b>42 703</b>	<b>40 834</b>	<b>-5 602</b>	<b>6 159</b>
<i>Investment activities</i>					
Investments in shares in subsidiaries	22	-169	-3 766	-3 800	—
Group contributions made		—	—	-23 855	-20 548
Investments in intangible fixed assets		-8 921	-96	—	—
Investments in tangible fixed assets		-22 370	-13 905	—	-30
Payments from sales of financial fixed assets		—	401	—	—
Payments from sales of machines and inventory		2 767	531	—	—
<b>Cash flow from investment activities</b>		<b>-28 693</b>	<b>-16 835</b>	<b>-27 655</b>	<b>-20 578</b>
<i>Financing activities</i>					
Group contributions received		—	—	22 210	20 235
Change in overdraft facilities		—	8 396	—	—
Amortization of loans		-6 334	-8 040	-6 250	-8 003
Income from option scheme		—	1 668	—	1 668
<b>Cash flow from financing activities</b>		<b>-6 334</b>	<b>2 024</b>	<b>15 960</b>	<b>13 900</b>
<b>CASH FLOW FOR THE YEAR</b>		<b>7 676</b>	<b>26 023</b>	<b>-17 297</b>	<b>-519</b>
<b>Liquid assets at the start of the year</b>		<b>33 072</b>	<b>7 049</b>	<b>49 529</b>	<b>50 048</b>
<b>Liquid assets at year-end</b>		<b>40 748</b>	<b>33 072</b>	<b>32 232</b>	<b>49 529</b>



# Accounting and valuation principles

The Annual Report has been prepared in accordance with Swedish GAAP. The consolidated accounts have been drawn up in line with the Swedish Annual Accounts Act (1995:1554) and the recommendations of the Swedish Financial Accounting Standards Council. The recommendations that came into force in 2003 have not meant any significant changes to the company's accounting principles.

## CONSOLIDATED ACCOUNTING

In addition to the Parent company the Group consists of all subsidiaries where the Group owns shares and directly or indirectly has the majority of voting rights, or through agreements has a controlling influence. These consolidated accounts have been prepared in accordance with the purchase method, which means that consolidated equity includes the parent company's own equity and the proportion of the subsidiaries' own capital earned after the time of acquisition. The difference between the acquisition value and the equity of the acquired company according to the acquisition analysis is allocated as consolidated goodwill. Amortisation of goodwill is carried out after individual assessments of an item's economic life. Goodwill is reviewed annually and adjusted if the conditions for evaluating it have changed. Untaxed reserves are divided partly into a deferred tax liability (28 per cent) and a remaining part, which is reported under restricted reserves. As a result, the consolidated income statement excludes all appropriations that affect the value of untaxed reserves. The tax proportion of these items is included with this year's tax in the income statement, and the equity portion is included in the net profit for the year.

Foreign subsidiaries have been classified as independent units. When calculating the income statements and balance sheets of foreign subsidiaries, the current method has been applied. This means that the balance sheets are converted at the closing day's rate and the income statements are converted at the average rate for the year. Translation differences are carried directly to shareholders' equity.

Associated companies are included where the Group has a minimum holding of 20 per cent of the voting rights or in any other way has a significant influence but where there is no parent/subsidiary relationship. The equity method has been applied in the consolidated accounts for accounting associate companies. This means that the value of the shares in the associated companies is raised or lowered by the share of the associated companies' profit or loss for the year and reduced by the amount of dividend received. The shares of the associated company's profits in the income statement are reported in the Group's share of profits before tax and the share of the tax cost is reported in the tax costs for the year.

## REVENUE RECOGNITION

### Income from sales of services

The Group applies the percentage of completion method.

Work in progress is taken up as revenue in line with work being carried out. Fixed rate work is taken up as revenue in proportion to the respective assignment's degree of completion on the closing date after reservation for loss risks. The degree of completion is assessed without accrued assignment expenses for work carried out in relation to the assignment's estimated total cost. On account invoices received appears as a net liability in the balance sheet while processed income appears under current assets as accrued non-invoiced income.

## Project risks

A customer can, in certain cases, cancel a project at short notice. This can result in a risk where Semcon is not always guaranteed full cost coverage, especially for those consultants who cannot immediately be transferred to another project. With fixed rate projects the company exposes itself to the risk that a project can not be finished within the given cost frame.

## INCOME FROM SALES OF HARD- AND SOFTWARE

Income from sales of hard and software which is not of significant value is reported upon delivery.

## RECEIVABLES AND LIABILITIES IN FOREIGN CURRENCIES

Receivables and liabilities in foreign currencies are valued at the closing day rates. Exchange rate differences on current receivables and liabilities are included in the operating profit/loss while the differences on financial receivables and liabilities are included under financial items.

## STOCK

Stock has been valued according to the principle of the lowest value.

## RESEARCH & DEVELOPMENT COSTS

The majority of Semcon's development costs concern developments in the framework of customer projects. In other cases the company's development costs are of an ongoing nature. These costs however are not considered to be significant. Exceptions to this are costs incurred for the development of specific programs or technical platforms, which are capitalized when the product is considered commercially viable, and when other criteria are met according to RR 15, these are capitalized at their acquisition cost.

## FIXED ASSETS

Machinery and equipment as well as investment in leased premises, have been valued at the purchase price with deductions for accumulated depreciation according to plan. Reporting of development expenditure for computer programs has been done at accrued expense. Accrued expenses have been capitalized from the time that it was decided that software was commercially viable. The company's management has examined the current assets' value to identify any possible writing-down requirements.

## DEPRECIATION PRINCIPLES FOR FIXED ASSETS

Depreciation according to plan has been based on the item's estimated life as follows:

- Machines and plant depreciated over 5 years.
- Computers depreciated over 3 years.
- Equipment depreciated over 5 years.
- Property depreciated over 30 years.
- Goodwill amortized over 5–10 years.
- In-house developed software depreciated over 5 years.

## ALLOCATIONS

Allocations have occurred in accordance with the Swedish Financial Accounting Standards Council's recommendation, "Allocations, contingent liabilities and contingent assets" (RR16), which means that uncertain liabilities concerning payment amount and payment times are shown as allocations.

## GROUP CONTRIBUTION/SHAREHOLDERS' CONTRIBUTION

Group contributions are shown in accordance with the Swedish Financial Accounting Standards Council's recommendations, meaning that Group contributions and shareholders' contributions are reported directly against shareholders' equity at a fictive corporate tax rate of 28 per cent.

## TAX

The Group applies the Swedish Financial Accounting Standards Council's recommendations on income tax (RR9). The Group's tax expense or tax income are reported as current tax, changes in deferred tax as well as tax attributable to shares in associated companies.

### Current tax

This tax is calculated on the taxable profit for the period according to the tax regulations in each country. Current tax also includes possible adjustments from previous taxation.

### Deferred tax

This tax is calculated on the basis of the taxable, respectively tax-deductible, temporary differences between the reported and fiscal value of assets and liabilities. Loss carry-forwards have only been taken into account to the extent where it is possible that the loss carry-forward can be used within the foreseeable future.

## LEASING

Semcon does not have any financial leasing contracts. Leasing charges regarding operational leasing are written off in conjunction with utilisation. This coincides with actual leasing charges during the current year.

## PENSIONS

The Semcon Group's pension commitments correspond to the applicable commitments in each country where business is done.

The predominant part has been paid to an insurance company. Other pension obligations have been entered as a liability.

## OPTIONS SCHEMES

### Warrants

Premiums received concerning warrants issued for the subscription of new shares are reported, after deductions for costs, directly against shareholders' equity. The outstanding warrants dilution effects are reflected in the estimated earnings per share after dilution.

### Call options

Premiums received concerning call options, issued to senior management, are reported, after deductions for costs, directly against shareholders' equity. Semcon has signed a share swap agreement to hedge its undertakings in the call option scheme. The annual cost for this agreement is reported as employee costs. Loss risks based on the share price on the closing day are reported directly against shareholders' equity.

## SEGMENT ACCOUNTING

The Group's segment consists of the business areas Design & Development, Informatic and Innovation, which are described in further detail in the Directors' Report. The Group reports sales between the segments at current market prices. These sales between the segments are meanwhile relatively small and have been eliminated directly in each segment, i.e. sales that are reported are for sales to external customers.

## FINANCIAL RISKS

Semcon's activities are exposed to different financial risks, which means that Semcon continually minimises these risks.

### Interest rate risks

Interest-bearing liabilities stood at SEK 4.5 million (36.0). Besides this is an interest-bearing undertaking for a transferred account receivable amounting to SEK 99.2 million (0).

### Reporting of sales of account receivables

Semcon has signed an agreement for the sale of the Group's Swedish account receivables. Sold accounts receivable are not reported in the balance sheets. Known loss risks are reserved and reported as current liabilities. The remaining part of the measure for repayment is reported as contingent liabilities.

### Currency risks

Semcon has a marginal exposure to currency risks, because a majority of the customers are Swedish.

### Credit risks

Semcon judges that the risk with outstanding accounts receivable is low, since bad debts are written-down and the majority of account receivables are receivables with well-established, listed companies with a sound equity/assets ratio.

## REPORTING BORROWINGS

Borrowings burden the profits of the period they refer to.

# Notes

## NOTE 1 INFORMATION ABOUT THE BUSINESS AREAS

SEK M	DESIGN & DEVELOPMENT		INFORMATIC		INNOVATION		ELIMINATIONS		THE GROUP TOTAL	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Income*	775.7	838.9	243.9	199.9	179.1	161.4	—	—	1 198.7	1 200.2
Profit/loss per business area	-61.2	-0.0	13.8	13.8	-0.4	-4.7	—	—	-47.8	9.1
Undistributed costs**									—	—
Profit/loss participation ***					-5.0	1.0			-5.0	1.0
<b>Operating profit/loss</b>									<b>-52.8</b>	<b>10.1</b>
Interest income									1.7	1.8
Interest expenses									-4.1	-4.8
Tax for the year									-2.4	-6.2
<b>Net profit/loss for the year</b>									<b>-57.6</b>	<b>0.9</b>
<i>Other information</i>										
Assets	233.4	304.6	87.9	97.8	45.4	50.7	-26.9	-40.7	339.8	412.4
Share of equity					7.0	12.0			7.0	12.0
Undistributed assets									126.3	131.7
<b>Total assets</b>									<b>473.1</b>	<b>556.1</b>
Liabilities	156.4	143.1	81.4	53.0	47.8	42.6	26.9	40.7	312.5	279.4
Undistributed liabilities									70.2	129.1
<b>Total liabilities</b>									<b>382.7</b>	<b>408.5</b>
Investments	18.7	14.0	11.2	1.0	2.6	4.4			32.5	19.4
Depreciation	19.3	21.3	3.2	2.7	9.7	9.6			32.2	33.6
Undistributed depreciation									0.8	0.9

\* Sales between business areas are not included as income as they make up an insignificant part of the income.

\*\* Undistributed liabilities such as general administration costs, head office costs and central costs are directed to the respective business areas as a percentage of income.

\*\*\* Includes write-downs of participations in associated companies of SEK 3.9 million (2003).

## NOTE 2 NET SALES

Purchases/sales between Group companies amounts to SEK 137,256,000 (130,444,000) and concerns all principle services. The minority interest share of the operating profit totals SEK 1,000 (0). More than 90 % of the Group's income and costs are for activities in Sweden.

## NOTE 3 INFORMATION REGARDING REMUNERATION TO THE AUDITORS

THE GROUP SEK 000	2003	2002
<i>For auditing and advice, plus other contributions resulting from observations made during auditing work:</i>		
Ernst&Young	1 946	1 363
<i>For independent advice given by:</i>		
Ernst&Young	1 621	2 295
<b>Total</b>	<b>3 567</b>	<b>3 658</b>

## NOTE 4 EMPLOYEES

*Average number of employees*

THE GROUP	2003		2002	
	AVERAGE NUMBER OF EMPLOYEES	OF WHICH MALE,%	AVERAGE NUMBER OF EMPLOYEES	OF WHICH MALE,%
Sweden	1 411	76	1 461	77
Denmark	65	75	91	83
Norway	23	75	29	86
Malaysia	5	60	—	—
<b>Group total</b>	<b>1 504</b>	<b>76</b>	<b>1 581</b>	<b>77</b>
<b>PARENT COMPANY</b>				
Sweden	8	63	7	44
<b>Parent company total</b>	<b>8</b>	<b>63</b>	<b>7</b>	<b>44</b>



*Salaries, other remuneration and payroll overheads*

SEK 000	2003			2002		
	SALARIES AND OTHER REMUNERATION	SOCIAL SECURITY EXPENSES (OF WHICH PENSIONS)		SALARIES AND OTHER REMUNERATION	SOCIAL SECURITY EXPENSES (OF WHICH PENSIONS)	
Parent company	6 469	4 114	(1 640)	5 380	3 653	(1 521)
Subsidiaries Sweden	495 041	227 794	(48 065)	520 212	227 399	(44 227)
Subsidiaries UK	340	97	(60)	—	—	(—)
Subsidiaries Norway	14 129	3 078	(668)	11 706	1 318	(318)
Subsidiaries Denmark	41 819	3 160	(2 415)	59 067	7 092	(3 402)
Subsidiaries Malaysia	1 371	155	(0)	—	—	(—)
<b>Group total</b>	<b>559 169</b>	<b>238 398</b>	<b>(52 848)</b>	<b>596 365</b>	<b>239 462</b>	<b>(49 468)</b>

*Of which remuneration to the Board of Directors and CEO*

SEK 000	2003			2002		
	SALARIES AND OTHER REMUNERATION (OF WHICH BONUS)	PENSION COSTS		SALARIES AND OTHER REMUNERATION (OF WHICH BONUS)	PENSION COSTS	
CEO	2 306	(—)	884	1 520	(—)	880
Board of Directors	550	(—)	—	550	(—)	—
Other senior executives	6 964	(1 213)	945	9 942	(1 370)	1 660

The company has no outstanding pension obligations, except as described above.

In 2003 the Chairman of the Board received SEK 220,000 and the other external member also received SEK 330,000 in total. One member received SEK 57,600 in consultancy fees (70,997). The CEO's bonus scheme consists of a bonus to be paid if Semcon's profits exceed a certain level. No bonus was paid for 2003. The CEO is entitled to a retirement benefit in the form of a pension scheme. The premium for such a scheme is 35% of his annual salary and bonus up to 20 basic amounts and 25% of such salary in the range of 20 to 50 basic amounts. Semcon is required to give the CEO 12 months' notice of termination of employment and the CEO is required to give Semcon 6 months' notice. If Semcon wishes to terminate his employment agreement, the CEO will receive final compensation amounting to 18 months' salary. His employment agreement also includes a non-competition clause, according to which the CEO may not engage in any competitive business activities 18 months from the time of termi-

nation of his employment. The CEO has the right to retire at 60 with continued compensation equivalent to 70 per cent of annual salary and potential bonuses up to 65. The company has not nominated a remuneration committee. Remuneration to the CEO is decided by the Board and remuneration to other senior executives is decided by the CEO. Other senior executives have no agreements regarding termination of employment. The pension agreements for senior executives follows the ITP plan.

**Senior executives, by gender**

Semcon's Board of Directors is made up of eight members, four external members, the CEO and three employee representatives. Four of the eight members are female. The Group management consists of five people, of which one is female.

**Sick leave**

Sick leave is shown on page 42.

# NOTE 5 FIXED ASSETS

THE GROUP SEK 000	2003	2002
<i>Goodwill</i>		
Opening acquisition value	99 885	95 348
Purchases	8 491	4 537
Cancelled allocation	-15 334	—
Closing accumulated acquisition value	93 042	99 885
Opening depreciation	21 912	11 605
Depreciation for the year	10 412	10 307
Cancelled depreciation	-52	—
Closing accumulated depreciation	32 272	21 912
<b>Closing residual value according to plan</b>	<b>60 770</b>	<b>77 973</b>
Write-down	-11 631	—
<b>Closing booked value</b>	<b>49 139</b>	<b>77 973</b>
<i>Computer programs</i>		
Opening acquisition value	6 107	6 010
Purchases	2 120	97
Closing accumulated acquisition value	8 227	6 107
Opening depreciation	2 807	1 624
Depreciation for the year	1 470	1 183
Closing accumulated depreciation	4 277	2 807
<b>Closing residual value according to plan</b>	<b>3 950</b>	<b>3 300</b>
<i>Plant and machinery</i>		
Opening acquisition value	15 026	13 590
Purchases	606	1 436
Closing accumulated acquisition value	15 632	15 026
Opening depreciation	12 636	11 954
Depreciation for the year	725	682
Closing accumulated depreciation	13 361	12 636
<b>Closing residual value according to plan</b>	<b>2 271</b>	<b>2 390</b>
<i>Equipment</i>		
Opening acquisition value	41 885	41 983
Purchases	12 904	1 872
Sales/disposals	-5 323	-1 970
Closing accumulated acquisition value	49 466	41 885
Opening depreciation	23 960	18 899
Sales/disposals	-2 555	-1 634
Depreciation for the year	6 776	6 695
Closing accumulated depreciation	28 181	23 960
Opening depreciation	3 513	3 513
Closing accumulated depreciation	3 513	3 513
<b>Closing residual value according to plan</b>	<b>17 772</b>	<b>14 412</b>
<i>Computers</i>		
Opening acquisition value	95 246	101 036
Purchases	8 356	11 447
Sales/disposals	-8 511	-17 237
Closing accumulated acquisition value	95 091	95 246
Opening depreciation	76 738	78 079
Sales/disposals	-6 925	-16 773
Depreciation for the year	13 333	15 432
Closing accumulated depreciation	83 146	76 738
<b>Closing residual value according to plan</b>	<b>11 945</b>	<b>18 508</b>

THE GROUP SEK 000	2003	2002
<i>Property</i>		
Buildings		
Opening acquisition value	5 400	5 400
Closing accumulated acquisition	5 400	5 400
Opening depreciation	794	550
Depreciation for the year	244	244
Closing accumulated depreciation	1 038	794
<b>Closing residual value according to plan</b>	<b>4 362</b>	<b>4 606</b>
Write-down	1 000	—
<b>Closing booked value</b>	<b>3 362</b>	<b>4 606</b>
<i>Land</i>		
Opening acquisition value	3 400	3 400
Closing accumulated acquisition value	3 400	3 400
<b>Closing residual value according to plan</b>	<b>3 400</b>	<b>3 400</b>
Assessed value for buildings	7 336	7 336
Assessed value for land	943	943
<b>Assessed value total</b>	<b>8 279</b>	<b>8 279</b>

#### *Leases and tenancy agreements*

The Group has a number of leasing agreements, mainly relating to private cars. The cost of these for the year was SEK 5,607,000 (6.438,000). Existing leasing agreements are based on market conditions with remaining leasing agreements due to mature within one to three years. Furthermore the Group rents office space at around 20 locations in Sweden. All of these tenancy agreements were signed under market conditions and for normal periods of time. The cost of the leasing agreements is SEK 2,761,000 and due within one year of the closing date and SEK 957,000 due within 2–5 years from the closing date. No part is due later than 5 years from the closing date.

PARENT COMPANY SEK 000	2003	2002
<i>Computer programs</i>		
Opening acquisition value	3 036	3 036
Closing accumulated acquisition value	3 036	3 036
Opening depreciation	1 814	1 207
Depreciation for the year	607	607
Closing accumulated depreciation	2 421	1 814
<b>Closing residual value according to plan</b>	<b>615</b>	<b>1 222</b>
<i>Equipment</i>		
Opening acquisition value	820	969
Sales/disposals	—	-149
Closing accumulated acquisition value	820	820
Opening depreciation	462	371
Sales/disposals	—	-97
Depreciation for the year	164	188
Closing accumulated depreciation	626	462
<b>Closing residual value according to plan</b>	<b>194</b>	<b>358</b>
<i>Computers</i>		
Opening acquisition value	426	396
Purchases	—	30
Closing accumulated acquisition value	426	426
Opening depreciation	388	276
Depreciation for the year	20	112
Closing accumulated depreciation	408	388
<b>Closing residual value according to plan</b>	<b>18</b>	<b>38</b>



**NOTE 6 INTEREST INCOME AND SIMILAR ITEMS**

THE GROUP SEK 000	2003	2002
Interest income	1 732	1 532
Profit from sale of shares	—	253
<b>Total</b>	<b>1 732</b>	<b>1 785</b>
PARENT COMPANY SEK 000		
Interest income	226	309

**NOTE 7 INTEREST EXPENSES AND SIMILAR ITEMS**

THE GROUP SEK 000	2003	2002
Interest expenses	-3 394	-3 800
Exchange rate difference	-710	-978
<b>Total</b>	<b>-4 104</b>	<b>-4 778</b>
PARENT COMPANY SEK 000		
Interest expenses	-2 887	-2 649

**NOTE 8 TAX ON PROFIT FOR THE YEAR**

THE GROUP SEK 000	2003	2002
Current tax	734	13 720
Previously assessed tax	-375	1 067
Deferred tax cost on temporary differences	6 180	467
Deferred tax recoverable for temporary differences	-4 140	-9 083
<b>Total</b>	<b>2 399</b>	<b>6 171</b>
PARENT COMPANY SEK 000		
Current tax	8	160
Deferred tax recoverable for temporary differences	-52	—
Tax on Group contribution paid	6 679	5 753
<b>Total</b>	<b>6 635</b>	<b>5 913</b>
Profit/loss before tax	-55 170	7 118
Tax according to current rate of tax	-15 448	1 993
Depreciation and write-down of goodwill	6 147	3 055
Non-deductible costs	1 658	2 025
Non-taxable income	-265	-1 640
Adjustments for previous years' tax	-375	1 067
Write-down of shares in subsidiaries, associated companies	8 467	—
Non-booked deferred income taxes recoverable (deficit)	2 825	—
Effects of other rates of tax abroad	-23	-329
Other	-587	—
<b>Tax for the year</b>	<b>2 399</b>	<b>6 171</b>

Temporary differences apply in cases where assets or liabilities reported and taxable values are different. The Group's temporary differences have resulted in deferred tax liabilities and deferred tax income receivables for the following:

THE GROUP SEK 000	2003	2002
<b>Deferred tax liabilities</b>		
Untaxed reserves	18 203	18 186
Accrued income shown in the Group	14 841	12 184
Consolidated surplus value in buildings	571	851
<b>Total</b>	<b>33 615</b>	<b>31 221</b>
<b>Deferred income taxes recoverable</b>		
Assessed shortfall	5 002	6 029
Reversal of depreciation	4 034	2 631
Pension commitment in Norway	399	420
<b>Total</b>	<b>9 435</b>	<b>9 080</b>

The taxable loss carry-forward is SEK 23,700,000. For SEK 10,089,000 of this, no deferred income taxes recoverable have been reported. Deferred income tax recoverables have been reported at SEK 4,034,000 as it is judged likely that the taxable surplus will be available in future, against which this deficit can be offset.

**NOTE 9 FINANCIAL FIXED ASSETS**

PARENT COMPANY	SUBSIDIARY	SHARE OWNERSHIP	VOTING RIGHTS	BOOK VALUE SEK	CO. REG. NO	REGISTERED OFFICE
Semcon AB	Semcon Förvaltnings AB	100 %	100 %	37 580 630	556530-6403	Göteborg
	Semcon International AB	100 %	100 %	300 000	556534-4651	Göteborg
	Semcon Innovation AB	100 %	100 %	4 100 000	556581-8613	Göteborg
	IT Matters AB	100 %	100 %	6 864 545	556436-0831	Göteborg
	<b>Total</b>			<b>48 845 175</b>		
Semcon Förvaltnings AB	Semcon Engineering AB	100 %	100 %		556213-1762	Göteborg
	Semcon Competence Development AB	100 %	100 %		556241-0638	Göteborg
Semcon Engineering AB	Semcon Sweden AB	100 %	100 %		556555-8193	Göteborg
	Limited partnership share in Zkill.net KB	1 share			969680-6786	Göteborg
Semcon Sweden AB	Semcon Extern Engineering AB	100 %	100 %		556369-6755	Göteborg
	Integritech AB	91 %	91 %		556572-6170	Göteborg
	Pharma Life Science Scandinavia AB	100 %	100 %		556606-0363	Göteborg
Semcon Extern Engineering AB	Semcon IT Solutions AB	100 %	100 %		556271-9129	Göteborg
Semcon IT Solutions AB	Semcon Project Management AB	100 %	100 %		556568-6408	Göteborg
Semcon Project Management AB	Semcon Informatic Production AB	100 %	100 %		556563-6692	Göteborg
Semcon Informatic Production AB	Zooma by Semcon AB	100 %	100 %		556609-7845	Göteborg
	Semcon Informatic Solutions AB	100 %	100 %		556542-5419	Göteborg
	Semcon Informatic SRT AB	100 %	100 %		556645-3337	Göteborg
Semcon International AB	Semcon Engineering UK Ltd	100 %	100 %		2 993 766	Grantham, UK
	Knud E. Hansen A/S	100 %	100 %		110 338	Copenhagen, DK
	Semcon Norge AS	100 %	100 %		984 602 456	Asker, Norge
	Semcon Asia Pacific Ltd	100 %	100 %		598 276-V	Kuala Lumpur
Semcon Innovation AB	Zystems Solution by Semcon AB	100 %	100 %		556581-8639	Göteborg
	Semcon Sweden Network AB	100 %	100 %		556590-3118	Göteborg
	Zipper AB	100 %	100 %		556583-0170	Göteborg
	Zpearpoint AB	100 %	100 %		556633-6045	Göteborg
Zipper AB	Zipper Tech AB	100 %	100 %		556587-6579	Göteborg
	Zipper Systems AB	100 %	100 %		556566-0460	Göteborg
Semcon Sweden Network AB	Complimentary share in Zkill.net KB	1 share			969680-6786	Göteborg
IT Matters AB	Pelmatic AB	100 %	100 %		556410-9832	Göteborg

**THE GROUP**
**SHARES IN ASSOCIATED COMPANY**

Semcon Innovation AB	Euromation AB	20 %	7 055 109	556232-0134	Skövde
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The Group's shareholders' equity is SEK 2,448,000 less than if the shareholding was shown according to the acquisition value method.

SHARE IN ASSOCIATED COMPANIES' PROFIT/LOSS	2003	2002
Profit/loss part before tax	-1 173	1 028
Write-down of shares	-3 867	—
<b>Total</b>	<b>-5 040</b>	<b>1 028</b>

### Group companies' activities

A short description follows of the operating companies. Other companies in the Group have no current activities.

Semcon AB is responsible for Group-wide issues such as strategy, information, marketing, accounting, finance and human resources.

Semcon Sweden AB's activities provide consultancy services in industrial technology, analyses and testing, consultancy activities for IT and computers as well as selling hardware and software plus management consulting. The company has three subsidiaries. Semcon Extern Engineering AB works mainly with consultancy activities in industrial technology. Pharma Life Science Scandinavia AB works in the medi-tech and Integritech AB works in the IT sector. Semcon Informatic Production AB works with technical information. The company has three subsidiaries, Zooma by Semcon AB that works with

corporate films and corporate websites. Semcon Informatic Solutions AB and Semcon Informatic SRT AB both work with technical information. Semcon Project Management AB is active in project management.

Semcon International AB is the parent company to the Group's foreign subsidiaries. Semcon Norge AS and Semcon Engineering UK Ltd work with consultancy in industrial technology. Semcon Asia Pacific Ltd works with project management. Knud E. Hansen A/S is active in marine design.

Semcon Innovation AB is the parent company to the Group's development subsidiaries. Systems Solution by Semcon AB and Zipper AB and their subsidiaries Zipper Tech AB and Zipper Systems AB are active in IT infrastructure and IT strategies. The company Zpearpoint AB works with recruiting engineers. Semcon Innovation AB owns 20 per cent of Euromation AB and works in the industrial maintenance and automation segments.

### NOTE 10 ACCRUED NON-INVOICED INCOME

Accrued non-invoiced income is shown in the annual accounts at an invoice value in 2003 of SEK 53,004,000

(43,513,000) in line with the work in progress. No value is shown in the subsidiaries for work in progress, but is accounted for at the time of invoicing.

### NOTE 11 FACTORING

The company used factoring during the year. According to agreed conditions Semcon receives remuneration for 80 % of the invoice value when selling. When payments have been made by the customer the remaining 20 % is received. If final payment is not made within 90 days of the due date Semcon has pledged to buy back the entire receivable. On 31 December 2003 the total amount of sold, but not fully paid accounts receivable stood at SEK 123,984,000 (0).

### NOTE 12 OTHER RECEIVABLES

THE GROUP SEK 000	2003	2002
Tax receivable of	15 390	4 135
PARENT COMPANY SEK 000		
Tax receivable of	5 857	13 483

### NOTE 13 PREPAID EXPENSES AND ACCRUED INCOME

THE GROUP SEK 000	2003	2002
Accrued income	2 960	7 441
Other items	17 707	20 034
<b>Total</b>	<b>20 667</b>	<b>27 475</b>

### NOTE 14 DIVIDEND TO SHAREHOLDERS

A dividend of SEK 0/share (0) will be paid.



**NOTE 15 TAX ALLOCATION RESERVE**

PARENT COMPANY SEK 000	2003	2002
Tax allocation reserve tax – 99	13 605	13 605
Tax allocation reserve tax – 00	13 832	13 832
Tax allocation reserve tax – 01	8 184	8 184
Tax allocation reserve tax – 02	3 909	3 909
Tax allocation reserve tax – 03	192	192
	<b>39 722</b>	<b>39 722</b>

**NOTE 16 OTHER ALLOCATIONS**

THE GROUP SEK 000	2003	2002
Additional purchase price *	4 313	25 000
Loss risk in connection with SWAP agreement	3 250	3 840
Guarantee reserves	50	—
<b>Total</b>	<b>7 613</b>	<b>28 840</b>

\* Allocation for additional purchase price of the subsidiary Zipper AB. The additional purchase price will be calculated on 2001–2004's results. The additional purchase price agreement has been renegotiated with the majority of the sellers during the year. The new agreement means that the previous owners will receive part of the purchase price upon the possible sale of Zipper AB to an external buyer. No allocation has been calculated as there is no current reason to believe that any payment will occur. The drop in allocation corresponds to reduced goodwill value and certain payments in connection with the renegotiation.

**NOTE 17 LONG-TERM LIABILITIES**

THE GROUP SEK 000	2003	2002
Due date within one year from the closing day	4 497	6 333
Due date within 1–5 years from the closing day	—	4 497
Due date after 5 years from the closing day	—	—
<b>Long-term liabilities to credit institutions</b>	<b>4 497</b>	<b>10 830</b>
<b>PARENT COMPANY SEK 000</b>		
Due date within one year from the closing day	4 497	6 250
Due date within 1–5 years from the closing day	—	4 497
<b>Long-term liabilities to credit institutions</b>	<b>4 497</b>	<b>10 747</b>

**NOTE 18 BANK OVERDRAFT FACILITY**

The approved bank overdraft facility amounts to SEK 36,000,000 (100,000,000), of which SEK 0 (52,448,000) has been utilised.

**NOTE 19 ACCRUED EXPENSES AND PREPAID INCOME**

THE GROUP SEK 000	2003	2002
Staff-related costs	118 215	115 882
Prepaid income	77 118	48 280
Other items	29 272	15 344
<b>Total accrued expenses and prepaid income</b>	<b>224 605</b>	<b>179 506</b>
PARENT COMPANY SEK 000		
Staff-related costs	1 583	1 241
Other items	590	323
<b>Total accrued expenses and prepaid income</b>	<b>2 173</b>	<b>1 564</b>

**NOTE 20 PLEDGED ASSETS**

THE GROUP SEK 000	2003	2002
<i>Own liabilities to credit institutions</i>		
Property mortgages	4 255	4 255
<b>Total pledged assets</b>	<b>4 255</b>	<b>4 255</b>
PARENT COMPANY SEK 000	2003	2002
<b>Total pledged assets</b>	—	—

**NOTE 21 CONTINGENT LIABILITIES**

THE GROUP SEK 000	2003	2002
Contingent liabilities for accounts receivable	123 984	—
Guarantees	2 827	1 104
<b>Total contingent liabilities</b>	<b>126 811</b>	<b>1 104</b>
PARENT COMPANY SEK 000	2003	2002
Guarantees for subsidiaries	293	52 448
Guarantees	2 533	—
<b>Total contingent liabilities</b>	<b>2 826</b>	<b>52 448</b>

The company has an agreement with the former owner of the subsidiary Zipper AB for them to retain a certain amount of the purchase price upon the possible sale of Zipper AB to an external buyer. Whether payment of the additional purchase price will materialize, and in which case at what amount, cannot be calculated. Potential payment will be 23–40% of the purchase price. Future payment of the additional purchase price will only affect Semcon's cash flow, in relation to the liquid assets being retained, upon the possible sale of the company.

## NOTE 22 INVESTMENTS IN SHARES IN SUBSIDIARIES

During the year, the company acquired the remainder of Semcon Extern Engineering AB and Zpearpoint AB. Furthermore the company acquired Semcon Asia Pacific Ltd and Semcon Informatic SRT AB. The value of assets and liabilities according to the acquisition balance were:

THE GROUP SEK 000	2003	2002
Intangible fixed assets	7	4 668
Machinery and equipment	—	850
Current receivables	—	5 047
Liquid assets	781	200
Work in progress	—	1 055
Current liabilities	—	-7 971
Minority interest	162	117
<b>Purchase price paid</b>	<b>950</b>	<b>3 966</b>
Liquid assets in acquired companies	-781	-200
<b>Effect of the Group's liquid funds</b>	<b>169</b>	<b>3 766</b>

Göteborg 17 March 2004

Christian W Jansson  
*Chairman of the Board*

Pia Gideon

Annemarie Gardshol

Carl-Åke Jansson

Hans Johansson  
*CEO*

Our audit was issued on 17 March 2004

Göran Ekström  
*Authorized Public Accountant, Ernst & Young AB*

Björn Grundvall  
*Authorized Public Accountant, Ernst & Young AB*



# Auditors' Report

## **TO THE ANNUAL GENERAL MEETING OF SEMCON AB (PUBL.) COMPANY REG. NO. 556539-9549**

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the CEO of Semcon AB for the 2003 financial year. These accounts and the administration of the Company are the responsibility of the Board of Directors and the CEO. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts, and the administration, based on our audit.

We conducted our audit in accordance with Generally Accepted Accounting Principles in Sweden. Those principles require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the CEO as well as evaluating the overall presentation of information in the annual accounts

and consolidated accounts. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the liability, if any, to the Company by any Board Member or the CEO, or whether they have in any other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act and, thereby, give a true and fair view of the company's and the Group's financial position and results of operations, in accordance with Generally Accepted Accounting Principles in Sweden.

We recommend to the general meeting of shareholders that the income statements and balance sheets of the parent company and the Group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the CEO be discharged from liability for the financial year.

Göteborg 17 March 2004

Göran Ekström

*Authorized Public Accountant*

Björn Grundvall

*Authorized Public Accountant*









# The Board

**1. Pia Gideon** Born 1954. Board member since 2000. Corporate Communications manager at the Ericsson Group.

**2. Christian W Jansson** Born 1949. Chairman of the Board since 2000. Managing Director and CEO of KappAhl AB. Board assignments: Chairman of the Boards of Föreningssparbanken Sjuhärad AB and Carmel Pharma AB. Board member of Bibliotekstjänst AB. Shareholding, own and affiliated: 263 000 shares and 10 000 warrants.

**3. Carl-Åke Jansson** Born 1943. Board member since 1987. Managing Director of Lindås Invest AB. Chairman of the Board of Precision Products Ltd. in Chesterfield, UK. Shareholding, own and affiliated: 55 000 shares and 10 000 warrants.

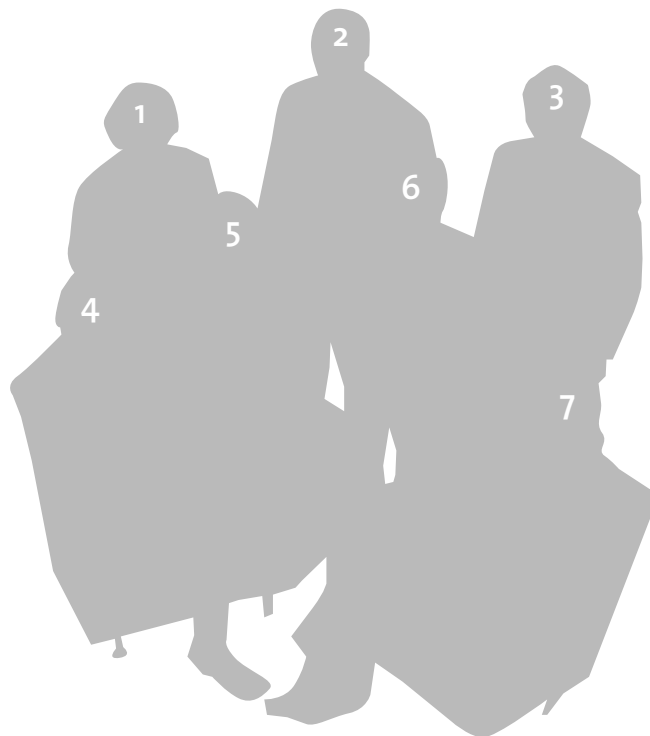
**4. Mikael Isberg** Born 1953. Consultant at Semcon Design & Development. Employed since 1989. Shareholding, own and affiliated: 500 shares.

**5. Hans Johansson** Born 1955. Board member and CEO. Board member of Viamare Boats AB, Sportmanship and CHAMPS (Chalmers Advanced Management Programs). Employed since 1983. Shareholding, own and affiliated: 453 600 shares, 14 000 warrants and 75 000 call options.

**6. Annemarie Gardshol** Born 1967. Board member since 2001. Responsible for global strategic development at Gambro. Shareholding, own and affiliated: 300 shares.

**7. Birgitte Wallenberg** Born 1965. Consultant at Semcon Informatic. Employed since 2000. Shareholding, own and affiliated: 400 warrants.

**Not in picture: Anita Veines** Born 1969. Consultant at Semcon Informatic. Employed since 2000. Shareholding, own and affiliated: 200 warrants.





# Senior management

**1. Hans Johansson** Born 1955. Board member and CEO. Board member of Viamare Boats AB, Sportmanship and CHAMPS (Chalmers Advanced Management Programs). Employed since 1983. Shareholding, own and affiliated: 453 600 shares, 14 000 warrants and 75 000 call options. Part of the Group Management.

**2. Michael Brusberg** Born 1964. Strategic development, Semcon AB. Employed since 2001.

**3. Nina Llado-Ristorp** Born 1965. Semcon Design. Deputy MD of Semcon Sweden AB. Employed since 1989.

**4. Bengt Nilsson** Born 1957. CFO of Semcon AB. Employed since 1992. Shareholding, own and affiliated: 134 000 shares, 10 600 warrants, 25 000 call options. Part of the Group Management.

**5. Elisabeth Henriksson** Born 1970. Leadership and competence development, Semcon AB. Employed since 1998.

**6. Lars-Inge Sjöquist** Born 1958. Deputy MD of Semcon Sweden AB and business area manager of Informatic. Employed since 1995. Shareholding, own and affiliated: 10 000 shares, 20 000 call options. Part of the Group Management.

**7. Caroline Krensler** Born 1967. Strategic development, Semcon AB. Employed since 1995. Shareholding, own and affiliated: 6 500 shares, 12 000 warrants, 20 000 call options. Part of the Group Management.

**8. Jonathan Krensler** Born 2003.

**9. Mikael Gustavsson** Born 1963. Deputy MD of Semcon Sweden AB. Employed since 1996. Shareholding, own and affiliated: 1 500 shares, 11 000 warrants, 20 000 call options. Part of the Group Management.

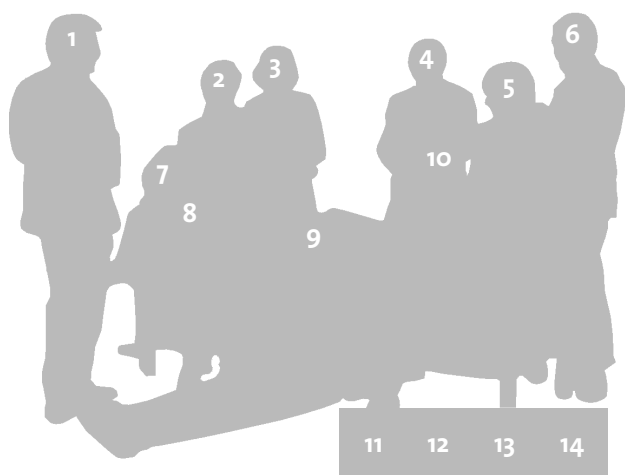
**10. Pierre Dicksson** Born 1963. Company lawyer of Semcon AB. Employed since 2002.

**11. Catharina Sjögren** Born 1967. Semcon Industrial management. Deputy MD of Semcon Sweden AB. Employed since 1992.

**12. Johan de Verdier** Born 1961, MD of Zipper AB. Employed since 2001.

**13. Mats Nygård** Born 1956. MD of Zystems Solution by Semcon AB. Employed since 2001.

**14. Mats Franzén** Born 1959. IT Solutions, Deputy MD of Semcon Sweden AB. Employed since 1997.







## The Annual General Meeting

Shareholders in Semcon AB (publ.) are hereby invited to the Annual General Meeting on Tuesday 27 April 2004 at 6 p.m. in Semcon's HQ at Theres Svenssons gata 15 in Göteborg. Registration starts at 5 p.m. Registration must have been carried out before 6 p.m. for shareholders to be included on the voting list.

### **PARTICIPATION**

Shareholders wishing to take part in the AGM should:

- be registered in the Shareholders' Register held by VPC AB (the Swedish Central Securities Depository) by Friday 16 April 2004.
- have notified the company of their intention to attend by 4 p.m. Tuesday 20 April 2004 .

### **NOTIFICATION OF ATTENDANCE**

Notification of attending the meeting can be made by post to: Semcon AB, 417 80 Göteborg, by telephone to: +46 31 721 03 08, by fax to: +46 31 721 03 33, or by email to: bodil.johansson@semcon.se no later than 4 p.m. Tuesday 20 April 2004. Notification should include name, address and telephone number, as well as civic identification number or corporate registration number, shareholding and any assistant if relevant.

### **NOMINEE SHAREHOLDERS**

Shareholders who have their shares registered with a nominee must temporarily re-register their shares in their own name with VPC AB to have the right to apply to attend the meeting. Shareholders wishing to re-register their

shareholding should inform their nominee in good time before Friday 16 April 2004.

### **DIVIDENDS**

In view of the Semcon Group's loss, the Board of Directors will propose to the AGM that no dividends be paid for 2003. No dividend was paid for 2002.

### **FINANCIAL AGENDA**

Annual General Meeting	27 April 2004
Q1 report	27 April 2004
Q2 (half-year) report	26 August 2004
Q3 report	21 October 2004

### **FINANCIAL INFORMATION**

Information about Semcon's business, financial reporting, activities and press releases etc. can be found on Semcon's website [www.semcon.se](http://www.semcon.se).

Subscribing for financial information can be done by email on Semcon's website.

### **PRINTED MATERIAL**

As part of Semcon's desire to be as cost effective as possible, all of Semcon AB (publ.)'s new shareholders receive a letter where they are asked if they wish to receive, until further notice, Semcon's financial reports by post. Previous years' Annual Reports and quarterly reports are available at: [www.semcon.se](http://www.semcon.se) or can be ordered by telephone on: +46 31 721 00 08 or by email to: bodil.johansson@semcon.se.



## Head office

### Semcon AB

417 80 GÖTEBORG  
Visiting address:  
Theres Svenssons gata 15  
Tel: +46(0)31-721 00 00  
Fax: +46(0)31-721 03 33

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### Göteborg

417 80 GÖTEBORG  
Visiting address:  
Theres Svenssons gata 15  
Tel: +46(0)31-721 00 00  
Fax: +46(0)31-335 81 75

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### Other offices in Göteborg

Semcon Test Center  
Visiting address: Götaverksgatan 10  
417 55 GÖTEBORG  
Tel: +46(0)31-721 00 00  
Fax: +46(0)31-721 06 49

VCC Project Center  
Gustaf Larsons väg 1  
405 31 GÖTEBORG  
Tel: +46(0)31-721 04 00  
Fax: +46(0)31-721 04 19

Project and Prototyping Center  
Ruskvädersgatan 6  
418 34 GÖTEBORG  
Tel: +46(0)31- 721 00 00  
Fax: +46(0)31- 53 21 24

### Helsingborg

Drottninggatan 7  
252 21 HELSINGBORG  
Tel: +46(0)42-12 75 90  
Fax: +46(0)42-13 34 70

### Johanneshov

Box 5028  
121 05 JOHANNESHOV  
Visiting address: Veterinärgränd 6  
Tel: +46(0)8-522 250 00  
Fax: +46(0)8-522 250 25

### Karlskrona

Thore Christoffersgatan 6  
371 33 KARLSKRONA  
Tel: +46(0)455-30 75 50  
Fax: +46(0)455-31 15 91

### Karlstad

Östra Torggatan 2 C  
652 24 KARLSTAD  
Tel: +46(0)54 -14 03 00  
Fax: +46(0)54-15 61 24

### Kista

Box 1099  
164 25 KISTA  
Visiting address: Isafjordsgatan 21  
Tel: +46(0)8-562 929 00  
Fax: +46(0)8-793 91 40

### Linköping

Box 407  
581 04 LINKÖPING  
Visiting address: Hertig Karlsgatan 4  
Tel: +46(0)13-470 86 00  
Fax: +46(0)13-470 86 01

### Ludvika

Box 296  
771 26 LUDVIKA  
Visiting address: Valhallavägen 2  
Tel: +46(0)240-141 24  
Fax: +46(0)240-183 03

### Lund

Kaprifolievägen 1  
227 38 LUND  
Tel: +46(0)46-270 83 00  
Fax: +46(0)46-270 84 99

### Olofström

Östra Ringvägen 147  
293 40 OLOFSTRÖM  
Tel: +46(0)455-30 75 50  
Fax: +46(0)455-31 15 91

### Oskarshamn

Box 31  
572 21 OSKARSHAMN  
Visiting address:  
Södra Långgatan 15-17  
Tel: +46(0)491-124 00  
Fax: +46(0)491-124 90

### Oxelösund

Sjögatan 28  
613 33 OXELÖSUND  
Tel: +46(0)155-25 56 04  
Fax: +46(0)155-25 56 06

### Stenungsund

Box 51  
444 21 STENUNGSUND  
Visiting address: Ängsvägen 7  
Tel: +46(0)303-37 80 40  
Fax: +46(0)303-37 80 41

### Stockholm

S:t Göransgatan 66  
112 33 STOCKHOLM  
Tel: +46(0)8-562 906 00  
Fax: +46(0)8-562 906 40

### Södertälje

PO Box 59  
151 21 SÖDERTÄLJE  
Visiting address: Förrådsvägen 3  
Tel: +46(0)8 554 224 50  
Fax: +46(0)8-554 224 60

### Trollhättan

Kardanvägen 37  
461 38 TROLLHÄTTAN  
Tel: +46(0)520-40 08 00  
Fax: +46(0)520-40 08 99

### Västerås

Box 37  
721 04 VÄSTERÅS  
Visiting address: Nygårdsgatan 12  
Tel: +46(0)21-17 90 00  
Fax: +46(0)21-12 22 76

### Växjö

V:a Esplanaden 9 B  
352 31 VÄXJÖ  
Tel: +46(0)470-78 09 00  
Fax: +46(0)470-78 09 29

### Örebro

Net City/23  
701 83 ÖREBRO  
Visiting address: Forskarvägen 1  
Tel: +46(0)21-17 90 00

### Australia

Andrew Elford  
37 Callabonna Street  
Westlake, 4074, Queensland  
Tel: +61 400 100 578  
Fax: +61 7 3376 16 86

### Denmark

Knud E. Hansen A/S  
Islands Brygge 41-43  
DK-2300 COPENHAGEN  
Tel: +45 328 313 91  
Fax: +45 328 313 94

### China

Jack Yu  
Sage Concept.com  
Tel: +86 10 8256 4877  
Fax: + 86 10 8256 4876

### Malaysia

Semcon Sdn. Bhd.  
Unit 742, Block A 7th floor  
Kelana Centre Point  
Jalan S57/19, KELANA JAYA  
47301 PETALING JAYA  
Tel. +60 12 393 3486

### Norway

Semcon Norge AS  
Lensmannsli 4  
N-1386 ASKER  
Tel: +47 452 900 00  
Fax: +47 667 852 62

### Spain

Rickard Romander  
Greenlight Project Management SL  
C/Buganvilla 6  
28036 MADRID  
Tel: +34 609 199 853  
Fax: +34 911 412 076

### The UK

Semcon Engineering UK Ltd  
19 St Catherine's Road  
Grantham Lincs  
NG31 6TT  
Tel: +44 7850 6125 61

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### Zipper by Semcon

#### Göteborg

417 80 GÖTEBORG  
Visiting address:  
Theres Svenssons gata 15  
Tel: 020-83 10 00  
Fax: 020-83 10 10  
Phone abroad:  
+46(0)31-721 01 00  
Fax abroad:  
+46(0)31-721 01 99

#### Stockholm

PO Box 1007  
164 21 KISTA  
Visiting address: Färögatan 3  
Tel: 020-83 10 00  
Phone abroad: +46(0)721 01 00  
Fax: +46(0)8-793 91 40

#### Zystems by Semcon

417 80 GÖTEBORG  
Visiting address:  
Theres Svenssons gata 15  
Tel: +46(0)31-721 00 00  
Fax: +46(0)31-335 81 75



