



GYLLING OPTIMA BATTERIES AB
ANNUAL REPORT 1997

OPTIMA
BATTERIES

THE ULTIMATE POWER SOURCE



GYLLING OPTIMA BATTERIES AB
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OPTIMA
BATTERIES

THE ULTIMATE POWER SOURCE



HISTORY

GYLLING GROUP OF SCANDINAVIA

”Gylling brings technical innovations into business”

The history of the Gylling group dates back to the 1920s, when Bertil Gylling senior realized the massive potential in a medium that was not yet widespread: radio. He formed Centrum Radio, which developed into one of the major radio brands in Sweden, famous for its slogan, “The radio with the wonderful tone.”

In the 1950s, Bertil Gylling junior developed technology for intercom systems that was launched under the name Centrum Intercom. This technology quickly became the market's leading intercom technology, and a major Swedish export firm was founded with subsidiaries in eight countries. Centrum Intercom was sold to the Swedish telecommunications group Ericsson in 1967.

In the early 1960s, Bertil Gylling also began 25 years of fruitful cooperation with what was then an unknown Japanese company: Sony. During this period, Sony developed into a leading radio and TV brand in Sweden.

In the 1970s, personal computers began to be introduced in Sweden, but the company that Gylling chose to import to Sweden was one of the smallest at the time—Apple Computer—whose potential few others realized back then.

During the same decade, Gylling also became the agent for the Korean company Samsung and successfully launched their products in Sweden.

In the early 1990s, Gylling's Norwegian subsidiary stumbled upon an American battery—the Optima—that had attracted little attention but had unusually strong starting power.

This product fit well with the Gylling group's profile: to develop and market technical innovations of high quality. In 1992, the Gylling group acquired Optima and the unique SpiralCell™ technology on which the battery was based. What was then a technology development company, with manufacturing on a small scale, has been further developed during the past five years under the guidance of the Gylling group.

Today, the Optima brand represents first-rate quality batteries in its niche markets and is winning a growing share of the world market. Products are manufactured in a high-tech, ultramodern plant in the United States.

The five-year start-up period has ended, and Optima is now entering the next phase, driven by customer needs and new applications for these unrivaled batteries.

Visit our web site at: www.optimabatteries.se

THE YEAR

IN BRIEF

- 5 Sales grew 44.2% in 1997, to SEK 287 million.
- 5 Earnings improved by SEK 47.6 million in 1997, to a profit of SEK 3.2 million.
- 5 Optima signed distribution agreements with Interstate Batteries Inc., the largest independent battery supplier in the United States, and with GNB Technologies Inc., the third largest battery manufacturer in the United States.
- 5 Optima has been selected to participate in the joint European hybrid and electric car project EUCAR.
- 5 Optima's shares were listed on the Stockholm Stock Exchange's O list on October 8, 1997.
- 5 In autumn 1997, Optima Batteries AB was certified by Bureau Veritas as compliant with ISO 9002 in its routines for marketing, sales, and associated services.



1998/1999 FINANCIAL INFORMATION

Annual meeting on June 9, 1998
Semi-annual report on August 25, 1998
Preliminary final accounts on March 4, 1999
Interim report for Q1 on May 11, 1999
Annual meeting on May 28, 1999
Semi-annual report on August 25, 1999
Interim report for Q3 on December 14, 1999

1998 ANNUAL MEETING

Shareholders in Gylling Optima Batteries AB (publ) are invited to attend the annual meeting to be held at 4:00 pm on Tuesday June 9 at Djursholms slott, Danderyd, Sweden. Refreshments will be served from 3:30 pm during registration of voting rights and proxies.

DIVIDEND

The board of directors and president propose that no dividend be paid for fiscal 1997.

NOTICE

Shareholders who wish to participate in the annual meeting must – be entered in the share registry maintained by the securities register center Vardepapperscentralen VPC AB at May 29, 1998, – notify the company of their intention to attend no later than 4:00 pm on Friday June 5, by mail to Gylling Optima Batteries AB, Box 742, SE-182 17 Danderyd, Sweden, or by telephone to +46 8 622-3200.

A shareholder whose stock is registered in the name of a trustee must have his or her trustee temporarily register the stock in the shareholder's own name to be entitled to attend the annual meeting. The shares should be registered well in advance of May 29, 1998. In notifying the company of intent to attend, a shareholder must give his or her name, personal identity number, address, and telephone number. The agenda for the meeting will be published in the Swedish newspaper Dagens Nyheter on May 22, 1998.

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B U S I N E S S C O N C E P T



Gylling Optima Batteries AB develops, produces, and markets rechargeable, zero-maintenance, high-quality batteries based on SpiralCell technology.

T H E U L T I M A T E P O W E R S O U R C E

OPTIMA BATTERIES SERVING SOCIETY-FOR SAFETY AND RELIABILITY.



OPTIMA YELLOW TOPS IN THE WHITBREAD OCEAN CRUISER EF EDUCATION.



OPTIMA YELLOW TOPS IN ELECTRIC WHEELCHAIRS BY ZVN OF HOLLAND.



OPTIMAS INSTALLED AS ORIGINAL PARTS IN ASTON MARTINS.



P R E S I D E N T ' S

M E S S A G E

During the past year, we have worked intensively to streamline battery manufacture in our new, high-tech production plant, and it is pleasing to see that our efforts have borne fruit—production is now flexible, fast, and reliable!

Investments yield returns

1997 was a turning point in the history of Gylling Optima Batteries. After two years of aggressive investment in production, product development, and quality, we succeeded in going from loss to profit. Profit after tax for the year was SEK 3.2 (1996: 44.4 loss) million. Sales surged 44.2%, to SEK 287 million. The Group is in a solid financial position, and the equity ratio improved in 1997, from 31% to 36%. The Company's shares were listed on the Stockholm Stock Exchange's O list on October 8, 1997.

Actual earnings were about SEK 17 million weaker than we had forecast in our prospectus. The difference was caused by a strong U.S. dollar, an extremely mild winter, unanticipated costs of warranties, and delayed contracts with two distributors in the U.S. The crisis in Asia also struck Optima in the form of lost sales. In all, demand for car batteries in the after-sales market was 7% weaker in 1997 than in 1996.

Optima consolidating and bolstering its position

When the Gylling group acquired Optima and its SpiralCell technology in 1992, it was a technology development company with manual production in old, rented premises. The number of employees was a little more than 30.

Since then, we have further developed the SpiralCell technology and the extremely complicated production process. Nowadays, Optima's batteries are mass-produced with exacting precision by about 200 employees in a recently constructed, ultramodern, highly automated factory in Aurora, Colorado.

Having secured high quality, capacity, and flexibility in our production, in 1997 we gradually realigned our resources to sharpen our focus on customers and markets.

Today, Optima is a recognized partner of General

Motors and Chrysler, the U.S. Air Force and Navy, and European manufacturers of wheelchairs and construction machinery. We have also been approved by NATO and supply the Norwegian, Danish, and Swedish defense forces.

In 1997, we gained a secure foothold in several new, large markets, chiefly Russia and Japan.

In November 1997, Optima Batteries was selected to participate in EUCAR, a European project to develop hybrid and electric vehicles.

At year-end, we signed key strategic distribution agreements with two leading battery distributors: Interstate Batteries Inc. and GNB Technologies Inc. These agreements will considerably bolster our position in the fiercely competitive U.S. market for car batteries as well as in segments for industrial, forestry, and agricultural machinery.

Quality and performance

Quality and performance are the lodestars of Gylling Optima Batteries. To move closer to Optima's vision of being a company at the cutting-edge of technology, internationally recognized as the most innovative, perceptive, and cost-effective manufacturer of high-performance batteries, during the year we invested aggressively in additions to our plant, developed several new types of battery, and extended and modified our marketing organizations.

More efficient production and more production lines

After intensive work fine-tuning the new plant in Aurora and the introduction of additional production lines, we can now manufacture several types of battery simultaneously. Our capacity is more flexible, production is more efficient, and the quantity of output that must be scrapped has decreased.

New products

Extensive research and development has yielded new, attractive products, and in 1998 we will launch four types of battery, modified for the U.S. and European markets. Our distributors have strongly requested a broader product program, which will grant us access to completely new markets.

New sales organization

In 1997, we built up a new sales organization in Sweden and the United States. The Swedish organization, Optima Batteries AB, which works with Europe and Asia, has been strengthened by the appointment of Bengt Hagander as president. Bengt Hagander comes from the TetraLaval group, having served the past four years as president of one of their sales companies in the United States, responsible for North and South America.

The U.S. market is served by Optima Batteries Inc., which has opened five warehouses at central distribution points in the United States to provide better service. In Mexico, the Company's products are being sold on a trial basis by Enermex, the country's dominant battery maker, which has subsidiaries in several South American countries.

Vigorous growth continues

To ensure further dynamic growth in 1998, we will redouble our marketing efforts. Our focus will be on our customers and the demands various markets make on products and service. By setting up market councils and working groups, we aim to make sure that experience from different countries and market segments is quickly applied to benefit customers.

To increase market penetration and sales in existing markets, we wish to intensify our cooperation with current distributors and dealers partly by augmenting our education and training through Optima University and by enhancing our authorized dealer concept.

We intend to cultivate new markets by entering new geographic regions, primarily eastern Europe and Asia, as well as completely new market segments, such as cleaning equipment, lawnmowers, and elevators, as well as maintenance and back-up voltage for data and telecommunications. The market for original equipment manufacturers (OEMs) is another new field we are starting to cultivate. We have already achieved breakthroughs with orders from wheelchair manufacturers and companies such as the defense contractor Bofors, the all-terrain vehicle maker Hägglunds, and the vibration compacting equipment maker Dynapac. The OEM market embodies massive potential, and

numerous OEM companies around the world are testing our batteries.

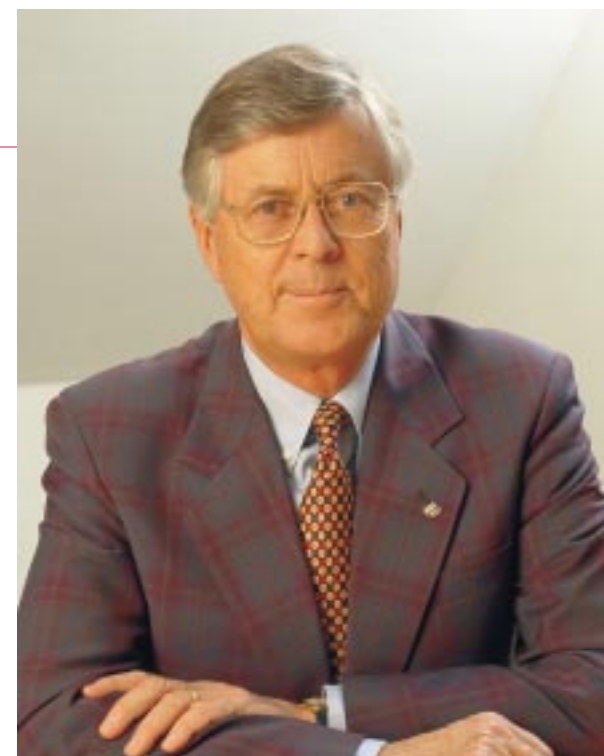
High hopes for the new year

Optima batteries are the best in their segment, and our business and market strategies are based on promoting the Optima brand and the unique characteristics of the SpiralCell technology. This message must permeate all communication, internal as well as external.

Behind us lie five intense and tough—but incredibly stimulating—years of bootstrapping. Optima would never have reached its current prominent position if not for the wholehearted, loyal efforts of its employees.

I wish to thank each and every one of you who has contributed to Optima's success.

Before us lies exciting, rapid development teeming with opportunity. I am convinced that Optima will continue to enjoy excellent success in 1998, with stable growth that will benefit the Company and its shareholders.



Bertil Gylling
Optima's majority shareholder and president



VISION, BUSINESS CONCEPT, STRATEGY AND GOALS

VISION

Gylling Optima Batteries AB will be internationally recognized as a pacesetter, innovative, and responsible company in segments for high-energy, electrochemical power sources.

BUSINESS CONCEPT

Gylling Optima Batteries AB develops, manufactures, and markets rechargeable, zero-maintenance, high-quality batteries based on SpiralCell technology.

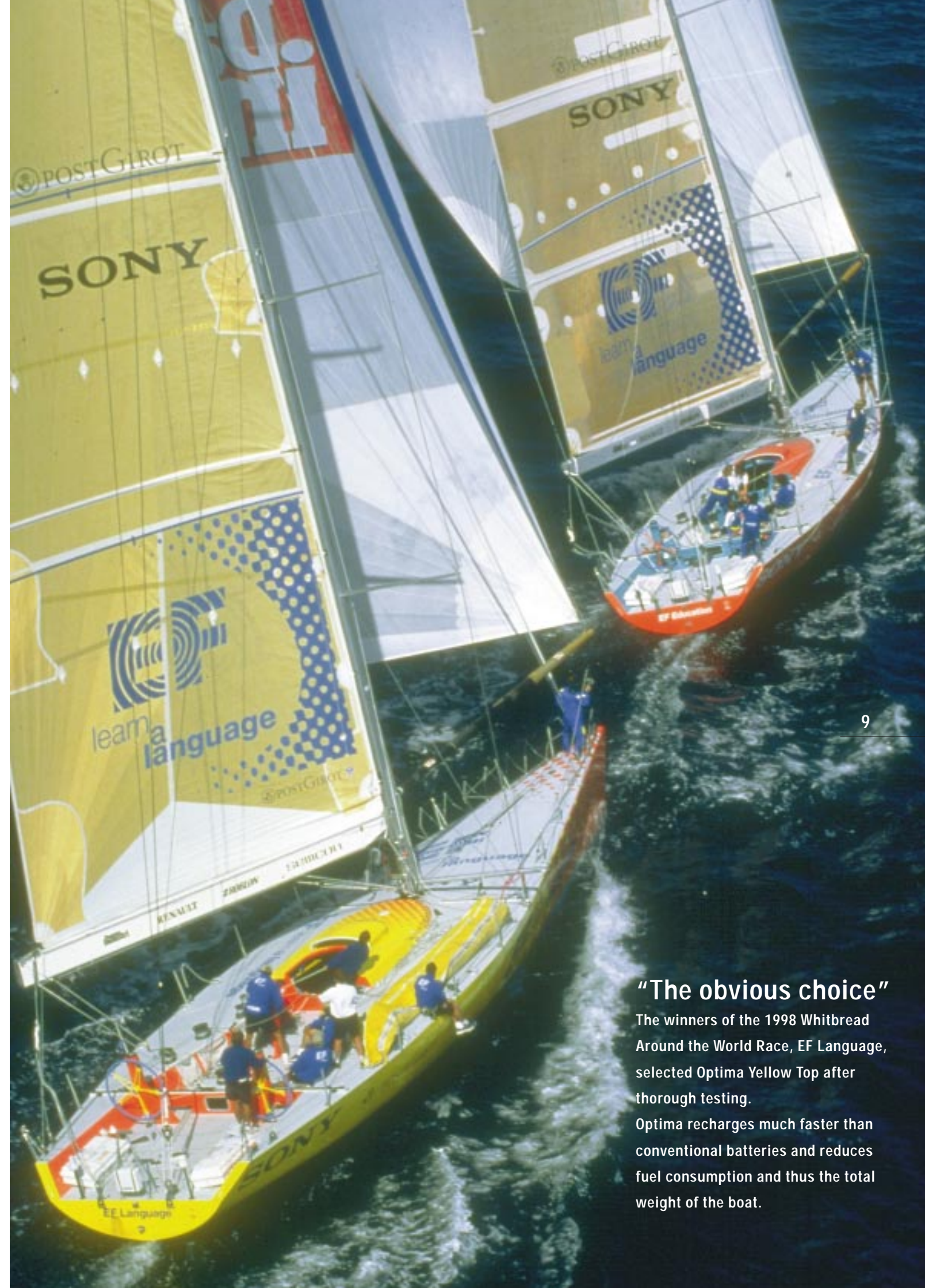
GOALS

Gylling Optima Batteries AB and its SpiralCell™ Technology brand will be at the forefront of the battery market in technology, quality, and performance.

STRATEGY

To achieve profitable growth and break into all markets for high-energy batteries, Gylling Optima Batteries AB will:

- Establish operations in new markets and for new applications
- Aggressively develop new types of battery
- Prioritize quality efforts throughout the Group
- Make all activities in the Group more cost-effective



“The obvious choice”

The winners of the 1998 Whitbread Around the World Race, EF Language, selected Optima Yellow Top after thorough testing.

Optima recharges much faster than conventional batteries and reduces fuel consumption and thus the total weight of the boat.



O P T I M A ' S

S P I R A L C E L L T E C H N O L O G Y

"Optima's technology has revolutionized the battery market"

A good, high-performance starter battery should be able to supply strong current for starting, recover quickly, work in extreme cold and heat, and resist vibration as well as need zero maintenance, be easy to charge, and be able to handle the greater power needs of modern vehicles.

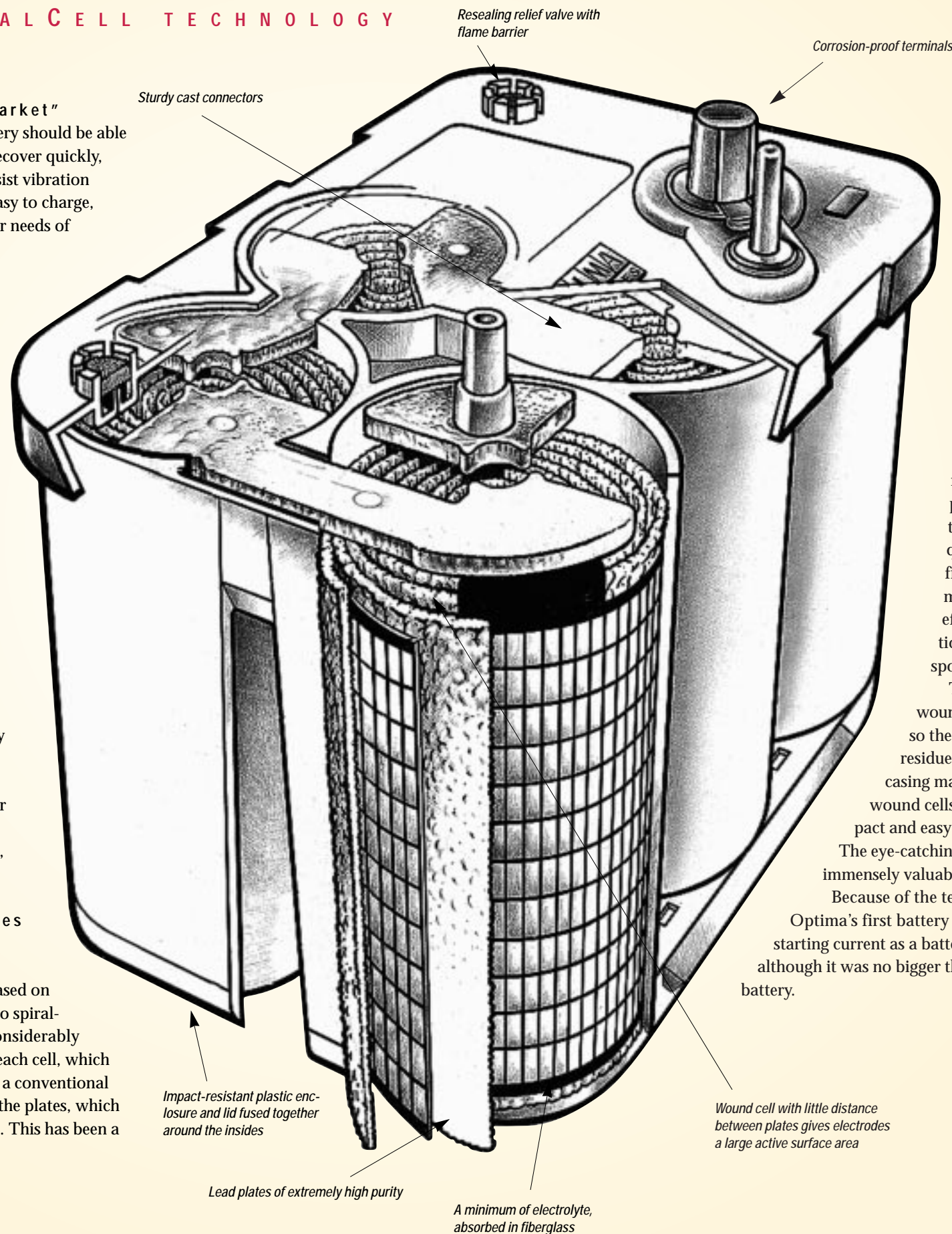
Prerequisites for starter batteries

A battery supplies more current the greater the surface area of its electrodes, the purer the lead in the electrodes, and the smaller the distance between the electrodes. A starter battery for vehicles must be of limited size, which also limits the surface area of the electrodes. In a traditional battery, the plates must be able to hang freely in the acid bath. Also, space is needed for materials released in the chemical reactions to fall to the bottom and for gas to rise to the surface. All in all, this means the plates cannot be situated that closely together.

The electrodes in a starter battery are made of lead grids that hold the active materials (lead oxide and spongy lead) in place. In a traditional battery, the lead grid must be fairly sturdy and reinforced with an alloy of antimony or calcium to withstand stress. These batteries are limited in their power output, because of high internal resistance.

The spiral-wound cell provides more power

The battery technology that Optima Batteries took over and developed is based on thin plates of pure lead being rolled into spiral-shaped cells (like a Swiss roll). This considerably extends the surface area of the lead in each cell, which is 50% to 100% more than the area in a conventional battery. There is less distance between the plates, which reduces internal resistance (2.8 mohm). This has been a



well-known fact in battery research for many years, but a major problem was how to keep the right quantity of acid bound in such a cell.

Fiberglass makes the difference
SpiralCell technology, which solved this problem, is based on the acid being absorbed in a specially made separation material of thin fiberglass floss, so that the lead plates can be wound very tightly. The finely adjusted quantity of acid in the fiberglass and the porous material have a positive effect on the chemical reactions of the lead oxide and spongy lead.

This compact design using wound cells produces no sludge, so the battery needs no space for residue. The special design of the casing matches the shape of the wound cells, making the battery compact and easy to fit into tight spaces. The eye-catching design has also proved immensely valuable in marketing. Because of the technology and design, Optima's first battery could supply as much starting current as a battery several times its size, although it was no bigger than a conventional car battery.



The first Optima battery released in the market was the Red Top, a starter battery with unusually high performance designed as a gas-recombinant battery, that is, it did not have to be refilled with water.

A battery is an electrochemical device that stores energy in a chemical state. When it is connected to an electrical circuit, the chemical energy is converted into electrical energy. In principle, all batteries have a similar design and consist of one or more electrochemical cells. Each cell is made up of positive and negative electrodes.

Batteries are often categorized by the materials used for the electrodes, such as nickel-cadmium or nickel-iron-sulfide. Batteries can also be described in terms of the electrode material and type of electrolyte (the dilute sulfuric acid). The most common type is the lead-acid variety.

The choice of electrode materials and electrolyte is decisive for the open circuit voltage of the cell, expressed in volts. The number of cells connected in series determines a battery's total open circuit voltage. A cell in a lead-acid battery has a voltage of 2 volts, and a standard battery for a car normally has six such cells, equaling 12 volts.

Lead-acid batteries biggest

Despite extensive research to find other materials, batteries using lead and acid have characteristics that are hard to beat. Lead is also cheap, making it possible to mass produce high-quality batteries with a combination of price and performance difficult to match using other materials.

Three major groups of lead-acid batteries

There are three main groups of lead-acid batteries.

Starter batteries for starting cars, other gasoline or diesel-powered vehicles, and large mechanical equipment must quickly deliver as much current as possible for a short time upon ignition but should also maintain a high voltage. They should be able to handle many "shallow" discharges despite extreme variations in temperature. Weight, design, and format are also key characteristics.

There are three types of starter battery. Traditional, open batteries must be checked regularly and topped off with water. "Zero-maintenance" open batteries have longer periods between maintenance but still gradually lose liquid through gassing. Gas-recombinant batteries, the third type, need not be topped off with water, because the gas that forms during charging recombines to form water, so the proper concentration is maintained in the electrolyte. A recombinant battery requires absolutely no maintenance.

Deep cycle batteries are used to power forklift trucks, electric wheelchairs, and other electric vehicles. These batteries are subjected to low current depletion for a long time, which means a high degree of discharge. One of the most important characteristics is that such a battery must endure repeated discharging and recharging. Deep cycle batteries have thicker electrodes with stronger grids and a greater surplus of active materials than starter batteries do.

Stationary batteries are used as reserve power for generators, computers, telecom exchange stations, surveillance systems, and similar applications. Characteristics crucial for these batteries are that they should be able to endure extended maintenance charging, hold much energy, and be able to quickly produce energy when the normal source of electricity is interrupted.

PRODUCTS

A POWERFUL CONCEPT



Red Top-The starter battery

Absolutely the best starter battery in any situation. Optima Red Top can get even very large engines to start at extremely low temperatures. Optima Red Top is specially designed to handle many starts, that is, quick, shallow discharges followed by recharging over and over again.

The original battery developed by Gates Rubber Inc., the Optima 800, was renamed Red Top when the Gylling group took over production.

This battery was poorly marketed in the early 1990s but, in a variety of tests, proved to have unique performance capacity considering its relatively small size. Red Top has three times the life span of conventional car batteries and can handle about 12,000 start cycles. It has been tested in vibration tests and endured 12 hours of vibrations at 4 g (33 MHz) but sustained no damage at all. Under extremely rough vibrations of 6 g, Red Top was intact after four hours, while other batteries fell apart after an hour.

The battery has also been shown to work even when one or more cells are damaged. In military tests, this battery was shot through several times and could still start a vehicle with no difficulty, while conventional batteries usually become unusable.

No fluid can run out of a Red Top, and it is impossible for short circuits to occur between the cells even when severely tampered with, so the battery can handle excessive knocks, colli-

sions, and impacts. This means that it can be located anywhere in a vehicle or a machine and that it is not hazardous to the environment.

The battery can also handle extreme variations in climate: It has worked at -40°C and was used in U.S. jeeps during the Persian Gulf War. In the latter case, the temperature in battery compartments often exceeded 100°C.

Red Top has proved particularly effective under rugged conditions such as in dump trucks, vibrating plate compactors, and forestry and agricultural machinery. The battery is suitable for vehicles that require exacting performance and quality, such as emergency vehicles and taxis equipped with many electronic devices, and as a starter for back-up power generators, such as for hospitals.

Other obvious areas of application are forestry and agricultural machinery, leisure and military craft, and racing cars. Prestigious auto-makers such as Aston Martin also use Red Top as original parts.



Yellow Top-Semi-deep-cycle battery

A battery with enormous strength and capacity. Yellow Top can be used in winches and other heavy, electricity-intensive machines in the 12-volt range and as a reliable power source in a mobile home or truck. The Optima Yellow Top is the ideal operating battery, combining superb power output with a long life span. This battery never lets you down, even at extremely low temperatures.

PRODUCTS

A POWERFUL CONCEPT

Yellow Top was introduced by Optima Batteries in 1997 and represented a key breakthrough in working a new market: original equipment manufacturers. Yellow Top is a "semi-deep-cycle" battery, a combination of a deep cycle battery and a starter battery, based on the SpiralCell technology, which can handle about 350 deep cycle discharges. In practical terms, this means that the battery can be discharged more than 1,000 times in the "normal" way during its lifetime.

Yellow Top's primary areas of application are in electric vehicles, lawn mowers, electric wheelchairs, and telecom switching stations and as a stand-by battery for computers. Yellow Top has already landed a major order from a Dutch manufacturer of electric wheelchairs.



Blue Top-The marine battery

A guaranteed "first start" battery that withstands extreme external stress. The Optima Blue Top is basically the same powerful battery as the Optima Yellow Top but was specially designed to resist corrosion by salt and water under tough maritime conditions. The battery has a robust, sealed case and terminals that are made of stainless steel and threaded to guarantee current even under severe vibration. Blue Top was designed with the special wingnuts required as a safety standard by the U.S. Navy.

Four batteries to be introduced in 1998

Four new batteries will be launched in 1998. Orange Top is a starter battery for cars in the European market, the placement of the terminals being designed to European standards. Two more car batteries—a large one and a small one—will be launched in the U.S. market.

A new, more powerful semi-deep-cycle battery with the Yellow Top design will be launched at the end of 1998. This will help Optima reach more market segments. The principal new segment is construction equipment, but segments for forestry equipment, excavation machinery, and large tractors with extensive electrical equipment are also targeted.

A new and exciting market is mid-sized trucks, mainly those used for distribution in cities which make short trips, are not allowed to idle long, and use much electricity in their panel lights or electric lift gates.





PRODUCTION

AURORA

Aurora—A high-technology plant for battery manufacture



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The factory in Colorado that Optima Batteries took over from Gates was actually a pilot plant in an old Samsonite factory from the 1910s. The facilities were not suited to battery manufacture, and the lease expired in 1997. At the old factory, there were slightly more than 30 staff, including several key people who for a number of years had been involved in developing Optima's Red Top. To retain the necessary knowledge base, Optima Batteries purchased an 80,000-square-meter industrial lot in Aurora, Colorado, and began building the new factory in 1994. In 1997, more than 200 people worked at the Aurora plant.

Batteries using SpiralCell technology are complicated to manufacture, and it turned out that several of the original machines had serious flaws and, above all, poor capacity for mass production. Svenska Creators Utveckling AB in Vikmanshyttan, Sweden, together with Optima Batteries developed modern machines now located in Aurora. At the end of 1995, the first part of the new factory was finished, with a capacity of 450,000 batteries a year. The plant is fitted to manufacture 1,500,000 batteries a year. During the first two years, the new plant suffered from expensive and complicated problems in commissioning equipment, resulting in delayed production starts, uneven quality, and a high rejection rate.

Quality and flexibility in focus

In 1997, a series of actions was taken. The watchwords for continued production at the factory are quality, flexibility, and productivity. Each production phase has been duplicated, which means greater production of more even quality and fewer interruptions. Previously, some parts of the machines that wound and punched the cells had to be changed each time a new type of battery was to be made. With double machine capacity, this is no longer necessary.

Most of the manual tasks are now performed with servo-controlled units to increase safety and precision and reduce the costs of production.

Previously, an unwarranted amount of lead oxide, an expensive component, was wasted because the same mixer was used for mixing the negative and positive blends of lead-oxide, acid, and water (the active paste). Now that two mixers are used, waste has dramatically decreased.

The time needed to dry the spiral cells has been halved. A new machine has been installed for vacuum-filling acid in the batteries, leading to considerably more even and quicker distribution of the acid. As additional quality assurance, batteries are now tested twice: directly after manufacture and before delivery. Since 1997, the final packaging, labeling, and distribution have been performed at a leased storage facility, making more space and resources available at the plant. Production capacity is about 1,000,000 batteries.

Previous high staff turnover

Aurora is in a region with a robust economy offering many job opportunities, and staff turnover was high until 1997. This resulted in efficiency and quality below par, more scrapped batteries, high costs for getting new staff up to speed, and an inordinate expense for products returned under warranty.

Action yields results

The actions Optima Batteries took to reduce staff turnover were chiefly to introduce bonuses and various benefits, a health program, a pleasant and dust-free work environment in modern, clean, and bright premises. The plant is the world's most modern battery factory, and the high-tech, knowledge-intensive production process attracts recruits much better than the older, more primitive, dirtier, and heavy manufacturing plant previously did.

Research and development

Optima will continue to invest major resources in developing SpiralCell technology. The goal is to use precisely formulated chemical compounds to create cells with more energy, improved life span, and better cycling characteristics. New ideas are continuously tested to improve the batteries' resistance to rugged external impact.

Optima follows developments in battery manufacturing to find opportunities for applying SpiralCell technology using new combinations of metals and electrolyte compounds.

The production equipment installed in the factory was produced mainly through in-house development efforts to meet the strict demands Optima makes on quality, efficiency, good environment, and effective materials management.

Product development works closely with production, and by using virtual reality techniques, theoretical drawings can be turned into actual models in a remarkably short time. The silicon prototypes thus produced can then be used in realistic field trials.

Development work can now quickly and flexibly fulfill the requirements and needs in the market.

Patents and product protection

The protection of Optima's intellectual property in its products is based on some 20 patents. The basic patent had already expired when Optima was acquired, but key portions of the battery technology developed since the basic patent was granted are still protected.

Protection of the complicated manufacturing process and confidentiality are judged to be strategically important for the future.

In addition, the Company has applied for the trademarks Optima Batteries®, SpiralCell Technology™, and the image of the cell. The technology and knowledge that these symbolize will always be of strategic interest and be safeguarded through undiminished secrecy.

Optima keeps a strict watch to ensure that the Company's intellectual property rights are not infringed and has successfully defended them to date.

Meeting environmental requirements with room to spare

Optima pursues an environmental program for its U.S. operations based on legislation governing demands for the internal and external environment.

The U.S. Environmental Protection Agency (EPA) monitors the external environment for waste materials and emissions from the manufacturing process. Optima employs specially trained staff to ensure that the environmental requirements are satisfied with room to spare.

Since 1996, Optima has had an excellent, cooperative relationship with the regulatory authorities concerning the plant in Aurora and has not received any warnings.

The internal environment is supervised by the Occupational Safety and Health Administration (OSHA), which also has rules specifying limits to lead content in the blood of employees and in the air. If the limits are exceeded, the employees must wear gas masks or move to a different work station.

The upper limit for lead in the blood is 50 µg*/dl. Through various efforts, Optima has successfully reduced the average lead content of employees' blood from 26.9 µg/dl in July 1996 to 17.8 µg/dl in April 1998. For the air, the upper limit is 50 µg/m³ during a single shift.

Today, only two work stations require gas masks. In 1998, these work stations will be fitted with a special ventilation system, so the safety equipment is no longer needed.

OSHA has designated Optima Batteries a model company for taking care of its employees' health and safety.

* µg = microgram





MARKETS

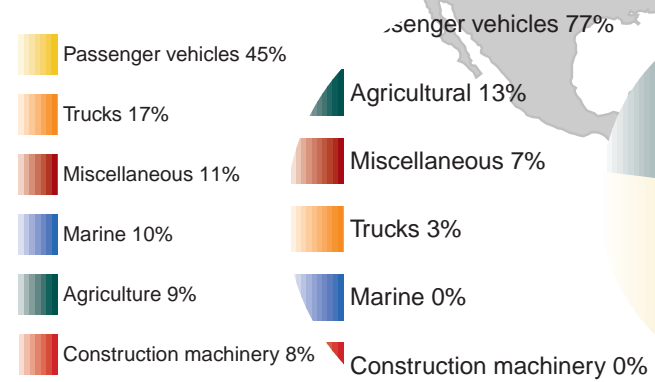
ORGANIZATION

MARKETS

SALES

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Optima Batteries Inc. North and South American Region

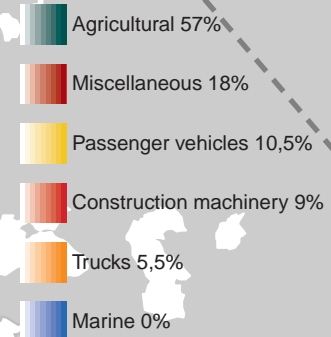


Optima Holding Company Inc.
Aurora, Colorado

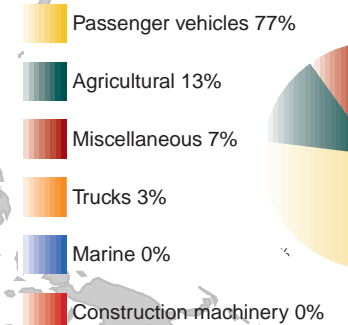
Gylling Optima Batteries AB
Stockholm

Optima Batteries AB
Stockholm

Optima Batteries AB European Region



Optima Batteries AB Asian Region



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MARKETS

BATTERIES

Optima invests in the global market
About 250 million batteries are sold each year, according to official statistics for the global market. The majority of these batteries, 175 million, are used in vehicles. Of these, about half are used in passenger cars, the others being used mainly in trucks, buses, and tractors.

During the past five years, the battery market has grown roughly 2% annually, chiefly in the segment for lead-acid batteries. Growth primarily comes from motorized vehicles, agricultural machinery, and construction equipment but is also driven by special applications such as wheelchairs, lawnmowers, cleaning equipment, golf carts, leisure boats, and telecommunications and computers.

In OECD countries, the battery market is growing at the same rate as GDP, while in Asia and eastern Europe the market is growing faster.

The market for automotive batteries is characterized by intensifying pressure on prices, and interest in new, better battery technologies is growing among manufacturers and users. Various initiatives in environmental legislation are also hastening development.

Optima's main segments

In the United States, the after-sales market represents about 73 million batteries a year. Roughly 20% are expensive, high-quality batteries, that is, the segment in which Optima competes. Some 62% of Optima's sales by volume are to the automotive market, while 9% are in the agricultural and forestry segment. In Europe, the after-sales market represents some 68 million batteries a year, and the relationship is reversed. Some 16% of Optima's sales are to the automotive market, while 57% are in the agricultural and forestry segment. Optima and its distributors can learn much from each other's experiences on these continents.

Positioning and sales

Market surveys in the United States show that when an old car battery breaks down, 60% of

users buy their new battery at the closest service station. Optima's batteries have several times greater starting power and more than double the life of comparable, competing batteries. Optima's batteries are priced twice as high as "conventional" batteries and are seldom available at small service stations or discount chains, because they are sold primarily at major service stations and stores for brand-name accessories where specially trained staff can inform customers about the particular advantages of each product.

In 1997, a number of actions were taken to position Optima Batteries in the professional and exacting industrial, agricultural, and construction segments. It is within these segments that Optima wishes to build recognition for its batteries as the best choice in the market. In addition, the Company has invested in the OEM segment for vehicles and machinery, where Optima, through several contracts in the primary market, can better ensure sales in the replacement market.

At the end of 1997, Optima Batteries signed contracts in the United States with Interstate Batteries Inc., a nationwide chain with 300 distributors and 205,000 dealers, and with GNB Technologies Inc., the third biggest battery producer in the United States, on the sale and distribution of Optima's batteries. Since then, Interstate has promoted Red Top as its top-of-the-line battery in advertising brochures and its in-house magazine. One consequence of these two agreements will be more vigorous efforts in the attractive segment for agricultural machinery in the United States.

In Europe, Optima's main markets and segments have been prioritized. This work will continue through 1998 and give rise to further specialized distribution channels with considerably more dealers than previously.

Competitors

Optima's closest competitors in the area of lead-acid batteries are the major manufacturers, in-

MARKETS

BATTERIES

cluding Exide Corporation, Hawker Energy Products, Johnson Controls, Delco, Varta, and Yuasa Battery of Japan. Of these, only Hawker Energy Products has access to part of the SpiralCell technology that Optima Batteries uses. However, Hawker Energy Products use the technology solely in the manufacture of small 2V batteries for hand-held power tools and flashlights. Other manufacturers work with traditional methods, using lead plates (prismatic batteries) and square cases. This technology is continuously being refined and could represent a threat, though not in the foreseeable future. Accordingly, Optima Batteries constantly monitors progress in this technology, too.

Optima University paves the way

SpiralCell technology and its advantages are not well known in the battery business, so back in 1993 Optima Batteries initiated special training for distributors and dealers. For this purpose, Optima University was founded, and the handbook *The Ups and Downs of Batteries* was produced. The handbook has been translated into 16 languages, and, in 1997, 2,000 people went through the training: 500 in the United States and 1,500 in Europe. In all, more than 10,000 people have been trained in the United States and Europe.

Dealers who have undergone training are certified as Authorized Educated Dealers and constitute a knowledgeable, professional, and faithful group of Optima vendors which has quickly grown in number.

Optima University is key to the strength of the Optima brand, which stands for batteries of the highest quality, and the SpiralCell technology's superior performance and unique technology that endures severe applications and challenging environments.



PRESSENS BILD

Designed for lunar rovers

Several products now used around the world were originally developed by space programs or for armed forces. This is also true of Optima's batteries.

SpiralCell technology was first developed by General Electric in the 1960s, when the company was assigned the contract to develop a lunar rover. Parts of General Electric's battery division and the spiral cell invention were later purchased by Gates Industries, a large, privately owned group in the United States.

Gates invested USD 10-15 million developing and introducing SpiralCell technology in starter batteries for passenger cars. The first battery, the Gates 650 (the number designated the cold-start capacity; conventional batteries having 300-400), had major defects and was withdrawn.

To avoid subjecting the Gates name to further risk, Gates renamed the battery Optima and launched the Optima 650 in 1988. Gates Industries neglected to market the battery, and U.S. battery distributors have traditionally sold batteries based on price and availability, so the new, expensive battery attracted little attention.

When the auto industry suffered a recession in the early 1990s, Gates decided to concentrate its business activities and put Optima and its patents on SpiralCell technology up for sale. However, this did not immediately attract a bid.

At about the same time, the Norwegian company Gylling Teknisk A/S had discovered the new U.S. battery and its exceptional performance and begun importing the battery for certain professional users' needs, such as for the Norwegian armed forces. Teknisk succeeded in attracting the interest of Bertil Gylling and getting the parent company Gylling Group of Scandinavia to test the battery in Sweden.

Optima was tested by users such as the defense contractor Bofors and the iron and steel group LKAB, in its large mining equipment. Its starting capacity and power were surprising. After thorough tests and sales of about 20,000 batteries, Gylling decided to try to obtain the agency for Europe.

When Gates was contacted, the U.S. company responded with an offer to sell all of the technology and transfer the small development company that was manufacturing the battery on a tiny scale.

The Gylling group was interested, and, after extensive negotiations in 1992, the acquisition was settled. The new battery companies in Sweden and the United States were named Optima Batteries AB and Optima Batteries Inc. The search to find a new factory for high-quality mass production began at the same time as the Gylling group quickly began working to acquire more expertise in battery manufacture and the battery market.



FIVE - YEAR

SUMMARY

CONSOLIDATED STATEMENTS OF INCOME IN BRIEF

SEK thousands	1993	1994	1995	1996	1997
Net sales	80,973	126,388	154,401	198,777	286,840
Operating income/loss before depreciation and amortization	7,458	17,492	- 20,312	- 30,726	14,102
Operating income/loss after depreciation and amortization	4,499	14,657	- 25,878	- 37,014	7,279
Net financial income and expense	- 655	- 1,494	- 4,359	- 7,708	- 4,051
Income/loss after financial net	3,844	13,163	- 30,237	- 44,722	3,228
Tax	- 1,437	- 4,359	6,960	158	-
Profit/loss for the period	2,407	8,804	- 23,277	- 44,564	3,228

CONSOLIDATED BALANCE SHEETS IN BRIEF

SEK thousands	1993	1994	1995	1996	1997
Fixed assets	20,788	101,827	94,685	88,694	104,519
Other current assets	2,302	6,356	10,554	8,382	22,379
Inventory	9,650	13,732	18,576	28,957	57,368
Accounts receivable	13,908	20,581	22,542	35,404	51,048
Cash and cash equivalents	7,133	360	85	81,902	2,826
Total assets	53,781	142,856	146,442	243,339	238,500
Shareholders' equity	21,279	27,054	1,740	76,563	83,606
Interest-bearing liabilities	15,668	81,403	96,921	113,793	99,935
Accounts payable	8,369	14,264	24,014	37,804	23,915
Other non-interest-bearing current liabilities	8,465	20,135	23,767	15,179	31,044
Total liabilities and shareholders' equity	53,781	142,856	146,442	243,339	238,500

FINANCIAL RATIOS

	1993	1994	1995	1996	1997
Gross margin (%)	9.21%	13.84%	- 13.16%	- 15.46%	4.92%
Operating margin (%)	5.56%	11.60%	- 16.76%	- 18.62%	2.54%
Profit margin (%)	4.75%	10.41%	- 19.58%	- 22.50%	1.13%
Equity ratio (%)	39.57%	18.94%	1.19%	31.50%	35.05%
Debt ratio (multiple)	0.74	3.01	55.70	1.49	1.20
Percentage shareholders' funds (%)	39.79%	19.05%	1.21%	31.48%	35.07%
Interest coverage rate (multiple)	6.87	9.81	- 5.94	- 4.34	1.35
Average number of employees	63	108	241	223	258
Number of batteries sold	170,000	247,000	301,000	378,000	437,000

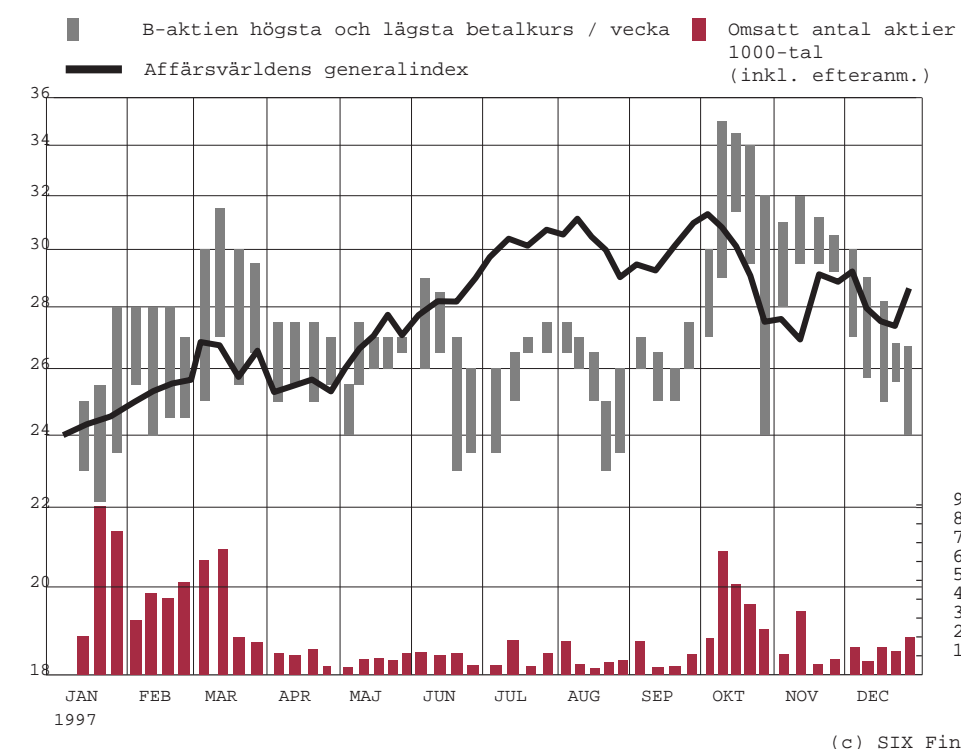
Per share data

Earnings per share after tax (SEK)	0.15	0.55	- 1.45	- 1.64	0.12
P/E ratio (multiple)	-	-	-	neg.	225
Shareholders' equity	1.33	1.69	0.11	2.82	3.08

SHARE PRICE

DEFINITIONS

Optima Batteries AB



In November 1996, Gylling Optima Batteries AB made a public offer of shares in the Company at a subscription price of SEK 12. The shares were subscribed several times over.

On January 16, 1997, the Company's shares were listed on the Stockholm Börsinformati-ons (SBI) list, whereupon the share was immediately traded up to about SEK 24.

On October 8, 1997, the shares were listed on the Stockholm Stock Exchange's O list.

(c) SIX Findat

DEFINITIONS

Gross margin. Revenues less expenses before depreciation and amortization, divided by revenues.

Operating margin. Operating income/loss after depreciation and amortization, divided by revenues.

Profit margin. Operating income/loss after financial net, divided by revenues.

Equity ratio. Shareholders' equity, divided by total assets.

Debt ratio. Interest-bearing liabilities, divided by shareholders' equity.

Percentage shareholders' funds. Shareholders' equity plus deferred tax liability, divided by total assets.

Interest coverage rate. Income/loss after financial net plus financial expenses, divided by financial expenses.

Earnings per share after tax. Profit/loss after tax, divided by number of shares.

P/E ratio. Market price of the share, divided by profit per share after actual tax.

Shareholders' equity per share. Reported shareholders' equity, divided by the number of shares outstanding.



MAJOR SHAREHOLDERS

STOCK OPTION PROGRAM

Share structure

The Company has a total of 27,164,667 shares, 2,499,750 of which are series A shares with one vote. Series B shares have one-tenth of a vote.

The Company has two stock option programs. Through these programs, a maximum of 1,220,000 new B shares can be subscribed for in the year 2001. If fully subscribed, the new shares would constitute 4.3% of share capital and 2.4% of voting rights, and the total number of shares would rise to 28,384,667.

Shareholders	Series A	Series B	Capital	Votes
Bertil Gylling and family	2,499,750	16,863,750	71.28%	84.29%
Kjell Spångberg, via companies		596,000	2.19%	1.21%
Lennart Brag, via companies		388,000	1.43%	0.78%
Pär M. Ericson		150,000	0.56%	0.30%
Other shareholders		6,667,167	24.54%	13.42%
Total	2,499,750	24,664,917	100%	100%
Proportion of institutional investors:				
SHB small companies fund		298,000		
State Street Bank and Trust		285,000		
Presidents and Fellows of Harvard College		156,200		
Falernia Investment AB		155,800		
Morgan Stanley Trust Company		150,000		
Wasa Liv		100,000		
Total		1,145,000	or 4.22%	2.73%

Changes in share capital

Date	Transaction	Change	Total share capital
Nov. 8, 1996	New issue	3,333,333.50	13,582,333.50
Oct. 30, 1996	New issue	2,250,000	10,249,000
Oct. 4, 1996	1:200 split	0	7,999,000
July 4, 1995	Bonus issue	7,199,100	7,999,000
Dec. 14, 1994	New issue	200,000	799,900
Nov. 16, 1992	New issue	549,900	599,900
Dec. 5, 1983	Company registered	50,000	50,000

Stock option program

1. The extraordinary meeting of shareholders held on October 30, 1996, authorized the board of directors to offer employees the opportunity of subscribing for debentures including options to subscribe for new shares. The terms of the employee offer were determined in consultation with Erik Penser Fondkommission AB to ensure that the offer would conform to market conditions at the time of the issue. Employees were allocated subscribed debentures with options to subscribe for 1,140,000 new B shares, which would correspond to 4.0% of share capital and 2.2% of votes in the Company if fully subscribed. In brief, stock option holders are entitled to subscribe from January 1 to December 31, 2001, for new B shares at a price of SEK 14, for a maximum of 1,140,000 shares in all. The premium for the stock options was SEK 3.00 per share.

2. The annual meeting of shareholders held on June 12, 1997, voted to issue debentures combined with options to subscribe for new shares. The decision entailed issuing a maximum of 80,000 debentures with a nominal value of SEK 10 each, neglecting shareholders' preferential rights to subscribe. The debentures mature on December 31, 1997, and pay annual interest of 6%. Each debenture is combined with a detachable option to subscribe for new B shares during the period January 1-December 31, 2001.

The subscription price for the new shares will be 150% of the average settlement price during the period July 7-13, 1997. Neglecting shareholders' preferential rights, the right to subscribe to this issue was assigned to the subsidiary Optima Batteries AB, which subsequently sold the stock options to employees in the Group designated by the board of directors of Optima Batteries AB.

The price of each stock option was SEK 3. If fully subscribed, the issue based on the stock options would increase the number of shares a maximum of 80,000 shares, corresponding to 0.3% of share capital and 0.2% of votes.

MANAGEMENT'S DISCUSSION

AND ANALYSIS

The board of directors and president of Gylling Optima Batteries AB (publ) present their report for fiscal 1997.

Business activities

The Group develops, manufactures, and sells lead-acid batteries based on the SpiralCell Technology™ method. Production is located in Aurora, Colorado, in the United States.

During the fiscal year, SEK 30 million was invested in machinery, the majority of which was financed through leasing agreements. Tasks have been automated to a great extent, and strategic units have been duplicated. Production is now running smoothly, yielding batteries of a high and uniform quality with a low rejection rate. Production can quickly and efficiently be reconfigured for different types of Optima product. Capacity has been designed to produce up to 1,000,000 batteries, depending on the product mix.

Optima has signed an agreement with a leased storage company that now stores the batteries produced and prepares them for distribution. In this way, resources in the factory have been released to be used for production.

In 1997, Optima Advanced Technology Inc. merged with Optima Inc. after development work with General Motors on the GEN 2 battery was concluded and the first prototypes were delivered.

Foreign exchange

Sales volumes in Europe and Asia were affected by the strong U.S. dollar, as all products are made in the U.S.

In 1997, the dollar strengthened against all major currencies. Against most European currencies, the change by year-end was about 15%. In Asia, the change was dramatic, with considerable variation among currencies.

Climate

Battery sales are cyclical in that sales are appreci-

ably stronger in the autumn and winter. The 1997/98 season was mild throughout Europe and in North America extraordinarily temperate. The upshot was weaker demand for batteries.

According to Battery Council International (BCI), global shipments of 12V batteries in the after-sales market declined roughly 7% in 1997 from the preceding year.

Markets and earnings

Sales advanced 44.2% in fiscal 1997, with a more expensive product mix, to SEK 287 million. A total of 437,000 (378,000) batteries were sold, 16% more than in 1996.

Profit for the year, at SEK 3.2 million, was up SEK 47.6 million.

Having begun as a one-product company in the after-sales market, the Company launched its Yellow Top deep-cycle battery and the marine version, Blue Top, in 1997. These are substantially more expensive than the Red Top starter battery and are aimed at entirely different groups of consumers.

Growth came from the United States. In November 1997, Optima signed contracts with Interstate Batteries Inc., the leading independent distributor of batteries in the United States, and with GNB Technologies Inc., the third biggest battery producer in the United States. Optima will become their top-of-the-line battery. The contracts were signed much later than originally intended, so sales and marketing activities originally planned were delayed.

In Europe, Optima prioritized and defended its pricing structure in a shrinking market under intense pressure to cut prices at the same time as it succeeded in sustaining sales volumes.

In Asia, financial turbulence had a different impact on countries in the region, bringing on a harsh business climate in the region. Optima's market initiatives must therefore be seen in a long-term perspective and are now concentrated on Japan, where sales advanced, and China.



MANAGEMENT'S DISCUSSION

AND ANALYSIS

Shareholders

Bertil Gylling and family control 71.28% of the share capital and 84.29% of the voting rights. Other members of the board of directors control, directly or indirectly, 4.18% of the capital and 2.29% of the votes. Institutional investors control 4.22% of the capital and 2.73% of the votes. Other shareholders control 20.32% of the capital and 10.69% of the votes.

Outlook

Optima's operations through 1997 were focused on creating a well-functioning, efficient, and flexible plant in Aurora, Colorado. Extensive research and development has now yielded new, attractive products that will be introduced in 1998. Optima's product range will further penetrate existing markets and open up completely new market segments.

A solid foundation has been laid for boosting sales volumes. Resources will now be directed towards sales, marketing, and the establishment of new distribution channels.

On the whole, the battery market entered 1998 with excessive inventory. Early on, sales were sluggish, chiefly owing to continued unseasonably mild weather. However, shipments of batteries have increased during the spring.

Proposed appropriation of profit
The annual meeting of shareholders has the following funds (in SEK thousands) at its disposal.

Retained earnings	1,011
Profit for the year	583
	1,594

The board of directors and president propose that profit be appropriated as follows:

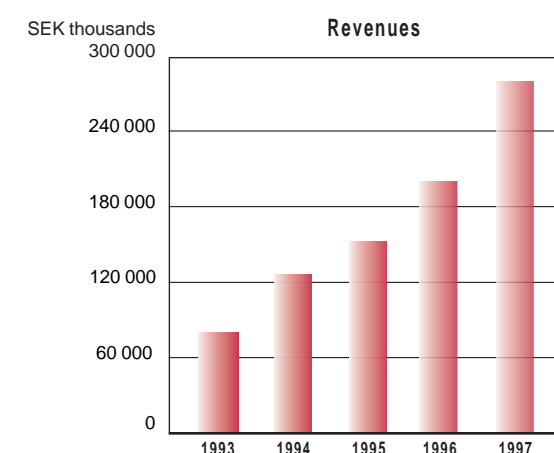
Appropriated to the legal reserve	0
Distributed as a dividend to shareholders	0
To be carried forward to the 1998 accounts	1,594
	1,594

Group

The Group's retained losses totaled SEK 49,913 thousand. No appropriation to restricted shareholders' equity has been proposed.

INCOME STATEMENT

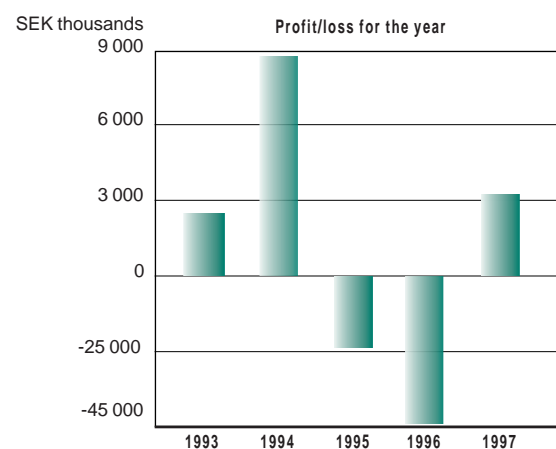
SEK thousands	Notes	Group 1997	Group 1996	Parent company 1997	Parent company 1996
Net sales	1	286,840	198,777	6,060	88,133
Cost of goods sold		- 197,393	- 171,948	- 2,962	- 72,688
Gross income		89,447	26,829	3,098	15,445
Selling and marketing expenses		- 47,702	- 31,273	-	- 12,595
Administrative expenses		- 23,031	- 17,732	- 3,875	- 1,400
Research and development expense		- 11,435	- 7,544	-	-
Other operating expenses		-	- 7,294	-	-
Operating income/loss		7,279	- 37,014	- 777	1,450
Income/loss from financial investments					
Other interest income and similar revenues	7	5,098	662	5,026	101
Interest expense and similar costs		- 9,149	- 8,370	- 2,666	- 2,110
Income/loss after financial net		3,228	- 44,722	1,583	- 559
Appropriations	8	-	-	- 1,000	-
Tax	9	-	158	-	-
PROFIT/LOSS FOR THE YEAR		3,228	- 44,564	583	- 559





BALANCE SHEET

SEK thousands	Notes	Group		Parent company	
		Dec. 31, 1997	Dec. 31, 1996	Dec. 31, 1997	Dec. 31, 1996
ASSETS					
Fixed assets					
Tangible assets					
Buildings and land	11	53,015	47,439	–	–
Machinery and other technical plant	11	25,390	24,894	–	–
Equipment, tools, and installations	11	2,810	385	20	990
Fixed plant under construction	11	6,786	4,997	–	–
Total tangible fixed assets		88,001	77,715	20	990
Long-term financial investments					
Shares in subsidiaries	12	–	–	72,317	56,577
Long-term receivables	13	16,518	10,979	–	10,650
Total financial assets		16,518	10,979	72,317	67,227
Total fixed assets		104,519	88,694	72,337	68,217
Current assets					
Inventories etc.					
Finished goods and goods for resale		57,728	28,957	–	13,205
Total inventories etc.		57,728	28,957	–	13,205
Current receivables					
Accounts receivable		51,048	35,404	–	13,996
Receivable from subsidiaries		–	–	51,232	–
Other current receivables	3	17,719	2,644	17,267	2,472
Prepaid expenses and accrued revenues	14	4,660	5,737	312	2,858
Total current receivables		73,427	43,785	68,811	19,326
Cash and cash equivalents		2,826	81,903	1,907	80,029
Total current assets		133,981	154,645	70,718	112,560
TOTAL ASSETS		238,500	243,339	143,055	180,777



BALANCE SHEET

SEK thousands	Notes	Group		Parent company	
		Dec. 31, 1997	Dec. 31, 1996	Dec. 31, 1997	Dec. 31, 1996
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	15				
Restricted equity					
Share capital: 27,164,667 shares, par value SEK 0.50.		13,582	13,582	13,582	13,582
Restricted reserves		119,937	116,517	119,841	116,421
Total restricted equity		133,519	130,099	133,423	130,003
Non-restricted equity					
Retained earnings/losses		– 53,141	– 8,972	1,011	1,570
Profit/loss for the year		3,228	– 44,564	583	– 559
Total non-restricted equity		– 49,913	– 53,536	1,594	1,011
Total shareholders' equity		83,606	76,563	135,017	131,014
Liabilities					
Provisions					
Tax allocation reserve	16	–	–	133	133
Deferred tax	17	37	37	–	–
Total provisions		37	37	133	133
Long-term liabilities					
Subordinated debentures	20	2,399	2,399	2,399	2,399
Bond loan	20	64,613	58,223	–	–
Liabilities to financial institutions	20	–	3,091	–	3,091
Other long-term liabilities		3,030	6,018	3,030	5,910
Total long-term liabilities		70,042	69,731	5,429	11,400
Current liabilities					
Liabilities to financial institutions	20	27,556	26,964	–	9,466
Advances to customers		–	6	–	5
Accounts payable		23,915	37,804	431	10,912
Liabilities to subsidiaries		–	–	–	13,130
Other current liabilities		11,226	17,092	73	2,249
Accrued expenses and prepaid revenues	19	22,118	15,142	1,972	2,468
Total current liabilities		84,815	97,008	2,476	38,230
Total liabilities		154,894	166,776	8,038	49,763
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		238,500	243,339	143,055	180,777
Assets pledged	20	72,764	158,653	0	12,000
Contingent liabilities	21	2,041	2,041	16,201	2,041

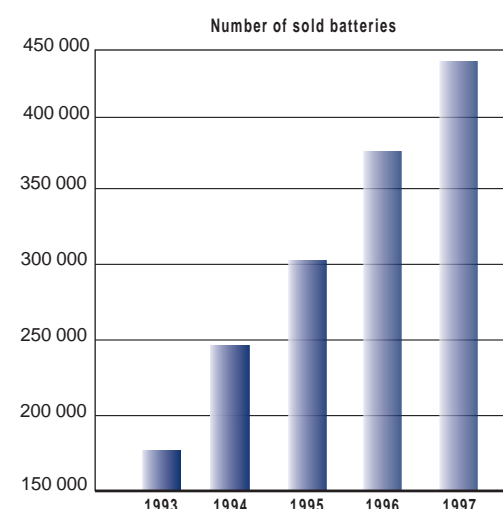


CASH FLOW STATEMENT

ACCOUNTING AND

VALUATION PRINCIPLES

SEK thousands	Group		Parent company	
	1997	1996	1997	1996
Cash flow in core operations				
Operating income/loss	3,228	- 44,722	583	- 559
Adjustments for items not affecting cash flow				
- Depreciation and amortization	6,738	6,287	5	308
- Translation differences	- 10,205	- 3,242	-	-
- Capital gains on the sale of fixed assets	54	8,762	-	-
- Corporate income tax paid	-	158	-	-
Cash flow from core operations before changes in working capital	- 185	- 32,757	588	- 251
Changes in working capital				
- Inventory	- 28,772	- 10,381	13,205	- 9,235
- Other current receivables	- 29,641	- 10,808	- 49,484	- 9,387
- Current liabilities	- 12,193	33,134	- 35,753	16,004
Cash flow from core operations	- 70,791	- 20,812	- 71,444	- 2,869
Investment activities				
Acquisition of fixed assets	- 6,023	- 4,421	- 25	- 1,054
Investment in shares and participations	-	-	- 15,740	- 34,350
Sales of equipment	-	-	989	-
Cash flow from investment activities	- 6,023	- 4,421	- 14,776	- 35,404
Financing activities				
New stock issue	-	119,901	-	119,901
Long-term receivables	- 5,539	- 2,000	10,650	- 10,632
Long-term liabilities	310	- 10,850	- 5,972	9,001
Paid stock options issued	2,966	-	3,420	-
Cash flow from financing activities	- 2,263	107,051	8,098	118,270
Change in cash	- 79,077	81,818	- 78,122	79,997
Cash at beginning of year	81,903	85	80,029	32
Cash at end of year	2,826	81,903	1,907	80,029



General accounting principles and changes in 1997

In 1997, the Company adapted its accounts to the new Swedish Annual Accounts Act. This primarily resulted in changes in the organization of the income statement and balance sheet. Corresponding changes have been made in figures from previous years to allow comparability. The new rules had no material effect on the Company's valuation principles.

The cash flow analysis was prepared based on the Swedish Financial Accounting Standards Council's draft recommendation on cash flow disclosure.

Consolidated accounts

The consolidated accounts comprise the parent company and the subsidiaries Optima Batteries AB and Optima Holding Company Inc. The final accounts were prepared based on the Financial Accounting Standards Council's recommendation on consolidated financial statements, which prescribes that the parent company's book value of shares in each subsidiary be eliminated against shareholders' equity in the subsidiary at the time of acquisition. In accordance with the Council's recommendation on consolidated financial statements, no untaxed reserves are included in the Group, as they have been divided into deferred tax liability (28%) and restricted reserves in consolidated shareholders' equity.

Subsidiaries in the Group are independent, so the current method is used to translate the foreign subsidiary's balance sheet and income statement. By the current method, all assets and liabilities in the subsidiary are translated at the exchange rate prevailing on the closing date, while all items in the income statement are translated at an average rate. Translation differences arise because of the difference between the average rate used for the income statement and the rate on the balance date and because of differences in calculating net investments at one rate at the beginning of the year and another rate at year-end. Translation differences are reported directly in consolidated shareholders' equity, divided into restricted and non-restricted reserves.

A substantial portion of the Company's reve-

nues and expenses are denominated in U.S. dollars, so a significant change in the value of the dollar vis-à-vis the Swedish krona can substantially affect the translation difference included in shareholders' equity.

In contrast to the preceding year, in 1997 the accounts for the subsidiary Optima Holding Company Inc. were converted based on Swedish generally accepted accounting principles (Swedish GAAP). This conversion produced a negligible difference in earnings according to U.S. and Swedish GAAP.

Valuation of assets and liabilities

All assets and liabilities have been entered at purchase cost unless otherwise specified in the notes to the accounts. A relevant proportion of external interest paid during the construction period that is attributable to the new factory in the United States has been capitalized under Buildings in the balance sheet. In the consolidated accounts, receivables and liabilities in foreign currencies have been valued at the rate prevailing on the balance date, except for a foreign currency loan by the parent company of USD 550,000, which is effectively hedged by the investment in the U.S. subsidiary's shares. As per the Swedish Accounting Standards Board's recommendation R7, loans and investments have been valued at historical exchange rates.

Inventory

The inventory in the parent company and the Group was valued at purchase cost less obsolescence, determined on an individual basis.

Plant and installations

Machinery and equipment are depreciated according to plan over five years in the parent company and two to 19 years in the Group.

Buildings in the Group are depreciated over 40 years. Depreciation is based on each asset's purchase cost and takes into account the estimated service life of the asset.

Research and development expense

All costs of research and development are expensed on an ongoing basis.



NOTES

Amounts in SEK thousands, unless otherwise stated.

Note 1 Net sales and earnings by segment were distributed as follows:

Group		
Net sales refers to sales of batteries.		
Net sales were distributed among geographic markets as follows:		
	Net sales	
	1997	1996
North America	264,883	183,277
Europe and other markets	105,887	88,133
Elimination of sales within the Group	– 83,930	– 72,633
Total	286,840	198,777

Parent company

Net sales of the parent company consist chiefly of royalties. Since January 1, 1997, all battery sales are conducted by the subsidiary Optima Batteries AB.

Note 2 Purchases and sales between Group companies

Invoicing between Group companies totaled SEK 83,930 (72,633), corresponding to 22.6% (26.7%) of total sales.

Note 3 Transactions with affiliated companies

The Group has a leasing contract with an affiliated company entailing an annual charge of SEK 6,339 (2,338) thousand.
Accounts receivable from affiliated companies total SEK 16,308 (0) thousand in the Group. Gylling Invest AB has granted loans to the Group totaling SEK 13,014 (19,257) thousand. Other liabilities to affiliated companies equal SEK 0 (3,176) thousand. All transactions with affiliated companies are on strictly commercial terms.

Note 4 Average number of employees

	1997		1996	
	Number of employees	of whom, men	Number of employees	of whom, men
Parent company				
Sweden	2	100%	1	100%
Parent company total	2	100%	1	100%
Subsidiaries				
Sweden	12	75%	12	75%
United States	244	78%	210	83%
Total in subsidiaries	256	78%	222	82%
Group total	258	78%	223	82%

Note 5 Salaries, other remuneration, and payroll overhead

	1997		1996	
	Salaries and other remuneration	Payroll overhead (pension costs included)	Salaries and other remuneration	Payroll overhead (pension costs included)
Parent company	639	285 (78)*	–	– (–)*
Subsidiaries	69,676	15,355 (1,239)	63,002	14,357 (935)
Group total	70,315	15,640	63,002	14,357

*Of the parent company's total pension costs, SEK 29 (0) thousand pertain to the board of directors and president. The Company's outstanding pension obligations to these people are SEK 0 (0).

**Of the Group's total pension costs, SEK 229 (149) thousand pertain to the board of directors and president. The Group's outstanding pension obligations to these people are SEK 0 (0).

Salaries and other remuneration: breakdown by country and between the members of the board and the president and all other employees

	1997		1996	
	Board and president (including bonuses etc.)	Other employees	Board and president (including bonuses etc.)	Other employees
Parent company in Sweden	240	399	0	0
Subsidiaries in Sweden	674	3,011	582	2,065
Subsidiaries in the US	1,375	64,615	552	59,803
Group total	2,289	68,025	1,134	61,868

Note 6 Contracts for severance pay

Severance pay of up to two annual salaries could be paid to two executives in the Group.

Note 7 Other interest income and similar revenues

	Group		Parent company	
	1997	1996	1997	1996
Interest	1,569	662	1,497	101
Exchange rate differences	3,529	–	3,529	–
Total	5,098	662	5,026	101

Note 8 Appropriations

	1997		1996	
Group contributions paid		1,000		–
Total		1,000		–

Note 9 Tax on profit for the year

	Group		Parent company	
	1997	1996	1997	1996
Corporate income tax	–	– 158	–	–

Note 10 Leasing contracts

Operating leases have been entered into as follows:

	Group	Parent company
	Machinery/ Equipment	Machinery/ Equipment
Fees due for payment		
1998	20,080	–
1999	19,674	–
2000	15,849	–
Due after the year 2000	10,317	–
Leasing fees for the year totaled	17,594	–

Note 11 Tangible fixed assets

	Group		Parent company	
	1997	1996	1997	1996
Machinery and other technical plant				
Purchase cost, opening balance	39,898	55,671	–	–
Investment for the year	3,792	1,388	–	–
Sales/retirement	– 498	17168	–	–
Reclassifications	– 2,457	–	–	–
Translation differences for the year	5,808	–	–	–
Accumulated purchase cost, closing balance	46,543	39,891	–	–
Depreciation, opening balance	15,003	20,472	–	–
Sales/retirement	– 279	– 9,515	–	–
Depreciation for the year	4,244	4,040	–	–
Translation differences for the year	2,185	–	–	–
Accumulated depreciation, closing balance	21,153	14,997	–	–
Book value	25,390	24,895	–	–

Other equipment and fittings				
Purchase cost, opening balance	1,637	1,567	1,446	393
Investment for the year	992	1,149	25	1,053
Sales/retirement	–	– 1,085	– 1,446	–
Reclassifications	2,457	–	–	–
Translation differences for the year	27	–	–	–
Accumulated purchase cost, closing balance	5,113	1,631	25	1,446
Depreciation, opening balance	1,252	321	457	149
Sales/retirement	–	– 1,065	– 457	–
Depreciation for the year	934	1,990	5	307
Translation differences for the year	117	–	–	–
Accumulated depreciation, closing balance	2,303	1,246	5	456

Buildings and land				
Purchase cost, opening balance	49,588	49,589	–	–
Investment for the year	317	–	–	–
Translation differences for the year	7,218	–	–	–
Accumulated purchase cost, closing balance	57,123	49,589	–	–
Depreciation, opening balance	2,224	714	–	–
Depreciation for the year	1,645	1,436	–	–
Translation differences for the year	239	–	–	–
Accumulated depreciation, closing balance	4,108	2,150	–	–

Facilities under construction				
Purchase cost, opening balance	4,997	3,115	–	–
Investment for the year	6,786	1,882	–	–
Sales/retirement	– 4,997	–	–	–
Accumulated purchase cost, closing balance	6,786	4,997	–	–

Book value	6,786	4,997	–	–
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Note 12 Shares in Group companies

	Parent company			
Shares and participations in Group companies				56,577
Purchase cost, opening balance				15,740
Capital infusions				–
Book value, closing balance				72,317
	Capital holding	Voting interest	No. of shares	Book value
Optima Holding Company Inc.	100%	100%	1,000	72,117
Optima Batteries Inc.	100%	100%	–	–
Oriole Marketing Inc.	100%	100%	–	–
Optima Advanced Technologies, Inc.	100%	100%	–	–
Optima Batteries AB	100%	100%	8,000	200
Total				72,317

Information on subsidiaries' registration numbers and registered offices:

	Co. reg. no.	Reg'd. office
Optima Holding Company Inc.		Denver, Colorado
Optima Batteries Inc.		Denver, Colorado
Oriole Marketing Inc.		Denver, Colorado
Optima Advanced Technologies, Inc.		Denver, Colorado
Optima Batteries AB	556110-7748	Danderyd

Note 13 Loans and contingent liabilities for the benefit of senior management

The Group has a claim on a senior executive equaling SEK 505 thousand. The interest rate on the claim is 6.5%. The claim is secured by 150,000 options in Gylling Optima Batteries.

Note 14 Prepaid expenses and accrued revenues

	Group		Parent company	
	1997	1996	1997	1996
Prepaid rent	65	227	–	–
Accrued interest	197	172	–	–
Prepaid insurance	2,264	1,284	–	34
Accrued interest on bonds	464	447	–	–
Accrued fees	–	2,821	–	2,821
Other items	1,670	786	312	3
Total	4,660	5,737	312	2,858

Note 15 Changes in shareholders' equity

Group	Share capital	Restricted reserves	Non-restricted/ losses forward for the year	Profit/loss reserves	Total
Amount at January 1	13,582	116,517	– 8,972	– 44,564	76,563
Appropriation of earnings			– 44,564	44,564	0
Stock options to employees		3,420	– 455		2,965
Translation differences			850		850
Profit/loss for the year				3,228	3,228
Amount at December 31	13,582	119,937	– 53,141	3,228	83,606

Parent company	Share capital	Legal reserve	Retained earnings	Profit/loss for the year	Total
Amount at January 1	13,582	116,421	1,570	– 559	131,014
Appropriation of profits			– 559	559	0
Stock options to employees		3,420			3,420
Profit/loss for the year				583	583
Amount at December 31	13,582	119,841	1,011	583	135,017



NOTES

AUDITORS' REPORT

Note 16 Untaxed reserves

	1997	1996
Profit equalization reserve, tax year 1995	133	133
Total	133	133

Note 17 Deferred tax

Group

The tax expense for the Group is greatly affected by federal and state tax regulations in the United States. The tax rate in states where the Group conducts business varies from 5% to 34%. According to U.S. tax legislation, companies that report a loss can use as a credit tax payments made in up to three preceding years, in other words, those payments can be used to offset future tax expense. The U.S. subsidiary reported a taxable profit for 1997, entitling it to report a liability to the tax authorities for previous years' prepaid taxes. For this reason, the Group has reported no tax for 1997.

The U.S. subsidiary has unutilized loss carryforwards totaling SEK 56,711 (58,580) thousand. Applying the current tax rate of approximately 39%, the future tax-effective deductions for these loss carryforwards are SEK 22,117 (22,846) thousand. Deferred tax in the parent company has been calculated as 28% of untaxed reserves.

Parent company

Note 18 Bank overdraft facilities

Group

The credit limit on the bank overdraft facility is SEK 37,776 (34,235) thousand.

Parent company

The credit limit on the bank overdraft facility is SEK 0 (10,625) thousand.

Note 19 Accrued expenses and prepaid revenues

	Group		Parent company	
	1997	1996	1997	1996
Accrued interest	1,632	1,262	1,057	898
Accrued costs of personnel	8,888	5,848	100	276
Accrued guarantee expenses	2,251	495	—	—
Accrued royalties	2,833	14	—	—
Exchange differences on foreign loans	1,374	1,647	—	—
Other items	5,140	5,876	815	1,294
Total	22,118	15,142	1,972	2,468

Note 20 Assets pledged and maturity of liabilities

Group

Liability	Liability at Dec. 31,	Due for payment			Assets pledged	Liability at Dec. 31, 1996
		Within one 1997	One to five years	After five years		
Liabilities to financial institutions	25,471	25,471	—	—	1)	30,055
Bond loan	66,699	2,086	—	64,613	2)	62,840
Liabilities to shareholders	2,399	—	2,399	—	—	2,474
Total	94,569	27,557	2,399	64,613		95,369

Assets pledged for the Group's own liabilities and provisions

	1997	1996
1) Chattel mortgages	33,060	84,086
2) Real estate mortgages	39,704	74,567
Total	72,764	158,653

Parent company

Liability	Liability at Dec. 31,	Due for payment			Assets pledged	Liability at Dec. 31, 1996
		Within one 1997	One to five years	After five years		
Liabilities to financial institutions	—	—	—	—	1)	9,439
Liabilities to shareholders	2,399	—	2,399	—	—	2,399
Total	2,399	—	2,399	—		11,838

Assets pledged for the Group's own liabilities and provisions

	1997	1996
2) Chattel mortgages	—	12,000
Total assets pledged	—	12,000

Note 21 Contingent liabilities

Group

	1997	1996
Shareholders' contributions	2,041	2,041
Total contingent liabilities	2,041	2,041

Parent company

	1997	1996
Surety bonds on behalf of Group companies	14,160	—
Shareholders' contributions	2,041	2,041
Total contingent liabilities	16,201	2,041

Note 22 Bond loans

The issue costs for the bond loans 1994A and 1994B issued in the United States totaling SEK 2,343 thousand have been capitalized in the consolidated accounts under long-term receivables. The capitalized issue costs are being depreciated during the term of the bond loan at a rate of about one-twentieth annually.

Stockholm, May 15, 1998


Bertil Gylling
President and Chairman of the Board


Göran Lövgren


Kjell Spångberg


Lennart Brag

To the annual meeting of shareholders in Gylling Optima Batteries AB
Company registration number 556236-8448

We have examined the annual report, consolidated financial statements, accounts, and the administration of Gylling Optima Batteries AB by the board of directors and president for the fiscal year 1997. The board of directors and president are responsible for the accounting records and administration. Our responsibility is to express an opinion on the annual report, the consolidated financial statements, and the administration based on our audit.

The audit was conducted in accordance with generally accepted auditing standards. This means that we planned and performed the audit to ensure to a reasonable extent and to our satisfaction that the annual report and consolidated financial statements did not contain any material misstatements. An audit entails examining a selection of the underlying documentation to verify amounts and other information reported in the accounting records. An audit also includes an evaluation of the accounting principles and the board of directors' and president's application of these principles as well as an overall assessment of the information in the annual report and consolidated financial statements. We have examined significant decisions, actions taken, and the circumstances in the Company to be able to assess whether the president or any member of the board could be liable to pay compensation to the Company or, in some other way, has acted contrary to the Swedish Companies Act, the Annual Accounts Act, or the Company's articles of incorporation. We believe that our audit has provided a reasonable basis for the statements made below.

The annual report and consolidated financial statements were prepared in accordance with the Annual Accounts Act, so that we recommend

- that the income statement and balance sheet for the parent company and the Group be adopted and
- that the profit in the parent company be appropriated in accordance with the proposal in the management's discussion and analysis.

The members of the board and the president have not taken any action nor been negligent in any manner that we judge would entitle the Company to compensation, so that we recommend

- that the president and members of the board of directors be discharged from liability for the fiscal year.

Stockholm, May 16, 1998



Stefan Hultstrand
Authorised Public Accountant
ERNST & YOUNG



Stefan Mattsson
Authorised Public Accountant
EFFEKTIV REVISION



BOARD OF DIRECTORS AND AUDITORS



BOARD OF DIRECTORS

Back row, from left:
PÄR M. ERICSON (born 1952). Deputy member of the board. Chief financial officer. Member of the board since 1992 and active in the Gylling group since 1982.
Shareholding: 150,000 B shares, 100,000 stock options.

KJELL SPÄNGBERG (born 1953). Ph.D. Economics, member of the board since 1996. Assignments: Chairman of Entra Data AB, member of the boards of Intenia International AB, Sendit AB, and others.
Shareholding: 100,000 stock options and 596,000 B shares via companies.

THOMAS GYLLING (born 1956). Deputy member since 1992.
Shareholding: 2,540,000 B shares.

Front row, from left:
GÖRAN LÖVGREN (born 1936). Vice president of Scania and deputy CEO, member of the board since 1996. Various assignments in the Scania group.
Shareholding: 0.

BERTIL GYLLING (born 1929). President, CEO, and chairman of the board since the Company was founded in 1992.
Shareholding: 1,999,750 A shares, 5,863,750 B shares.

LENNART BRAG (born 1959). M.Sc. Engineering. Member of the board since 1996. Assignments: partner in S.E.P. Normart, France, chairman of the board of Denison Hydraulics France, chairman of the Swedish section of Lycee International, France, vice chairman of Houston Carriers Inc., United States.
Shareholding: 100,000 stock options and 388,000 B shares via companies.

AUDITORS

STEFAN HULTSTRAND
Born 1955. Authorised Public Accountant Ernst & Young AB.
Auditor for Optima since 1992.

STEFAN MATTSSON
Born 1954. Authorised Public Accountant Effektiv Revision KSM AB.
Auditor for Optima since 1996.

SENIOR MANAGEMENT



BERTIL GYLLING

BERTIL GYLLING
(born 1929, M.B.A.)

President, CEO, and chairman of the board since 1992. Active in Gylling companies since 1950.
Shareholding: 1,999,750 A shares, 5,863,750 B shares.



PÄR M. ERICSON

PÄR M. ERICSON
(born 1952, M.B.A.)

Vice president, controller and CFO. Member of the Company's board since 1992.
Shareholding: 150,000 B shares, 100,000 stock options.



BENGT HAGANDER

BENGT HAGANDER
(born 1956, M.Sc. Engineering)

President of Optima Batteries AB since January 1, 1998.
Shareholding: 0



ROBERT L. KUBIK

ROBERT L. KUBIK
(born 1945, M.Sc. Engineering)

President of Optima Batteries Inc. since 1997.
Shareholding: 300,000 stock options.



STEVE SCHARNHORST

STEVE SCHARNHORST
(born 1959, M.Sc. Engineering)

Vice president of Optima Batteries Inc. Employed since 1996.
Shareholding: 40,000 stock options.

FEES PAID TO THE BOARD

Regular members of the board who are not employees of the Company receive an annual fee of SEK 50,000; deputy members who are not employees of the Company receive a fee of SEK 3,000 for each board meeting attended. The president and chairman of the board, Bertil Gylling, receives neither a salary nor a fee from the Company.