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## Results January-December 2000

- Several car and truck manufacturers are committed to CGI engine programmes for production starting between 2002-2005.

### Market Development

During the year 2000, several automotive companies have committed their next generation of diesel engines to Compacted Graphite Iron (CGI). These decisions not only reflect their confidence in the CGI foundry process, machining, design principles and economics, but also their realisation that grey iron and aluminium are unable to simultaneously satisfy performance, durability and engine size requirements. Competitive pressures within the automotive industry, combined with Euro IV emissions legislation in 2005, are taking CGI from low volume niche applications toward volume production with product launches beginning in 2003. Sinter Cast's integral role in establishing industry confidence in all aspects of CGI manufacture is now being planned with production commitments to Sinter Cast's foundry partners. However the timing of public announcements on the CGI programmes is controlled by the automotive manufacturers.

In addition to passenger car development, several heavy duty truck CGI programmes are progressing through their prototyping and test phases. CGI is widely accepted in the heavy duty truck sector as an ideal material to meet the next generation of performance and emissions targets. Truck manufacturers are currently developing CGI solutions for cylinder blocks, cylinder heads and cylinder liners. SinterCast is integrally involved in development programmes leading toward volume production. Truck applications may begin niche production in 2002 and 2003 with a view to larger series production in 2004 and 2005.

### Machining

The year 2000 has seen the final step in solving the problems encountered in volume CGI production in a modern transfer line. The leading OEMs now fully accept that the grey iron approach to cylinder boring of using high speed cutting with PCBN (polycrystalline cubic boron nitride) is not applicable to CGI. It has been accepted that grey iron is unique in that machinability improves with increasing cutting speed. SinterCast has convened industry consortiums to study machinability and the results of these activities have led to an industry understanding of the differences between CGI and grey iron and the development of novel CGI machining practices.

The accepted approach to CGI cylinder boring is to use conventional low speed cutting techniques, but to achieve the required cycle times by the use of multiple insert tooling. The industry-wide effort during 2000 to optimise these tools resulted in successful transfer line trials during 2000 confirming the acceptability of this approach. Improvements continue to be made to the carbide cutting material to support this development while leading OEMs further investigate new material improvements to further optimise high volume economics.

In November 2000, PTW of the Darmstadt University of Technology in Germany, held a one-day CGI machining workshop in which leading suppliers presented their own CGI tooling solutions to the OEM industry. Adam Opel and Audi also gave presentations outlining their approaches and planning details for high volume production. The machine tool suppliers and the transfer line producers are now taking over the development and implementation responsibilities and are currently optimising CGI transfer line construction in preparation for high volume passenger car production.

### Installations

SinterCast process control systems for CGI production have been installed at foundries Halberg, in Germany, VDP in Italy, Cifunsa in Mexico, Caterpillar in the USA and Tupy in Brazil. One additional system has been installed at the SKF foundry in Sweden for ductile iron production. In addition to these commercial installations, SinterCast also has a system for CGI prototyping and development at Isuzu in Japan.

### Delivery of probes

During the period, approximately 3,300 SinterCast sampling probes have been delivered to customers. These probes are being used for prototype castings and production. The SinterCast probe is the most accurate thermal analysis device in the world. Its resolution is critical for the successful volume production of CGI engine blocks and cylinder heads, which requires a narrow CGI specification to avoid shrinkage defects and to optimise machinability and engine performance.

## **Customer production**

During the period, Allen Power Engineering, part of the Rolls-Royce Group, United Kingdom, has concentrated production of CGI cylinder heads and engine frames for large stationary diesel engines at the VDP foundry in Italy. As a result of this concentration their production at Sakana, Spain has been discontinued. Caterpillar continues to produce SinterCast CGI engine components in USA. The Halberg foundry in Germany continues to produce the Audi 3.3 litre V8 CGI diesel engine cylinder block. Although these SinterCast CGI production activities have so far resulted in only limited volumes, they represent important technical references for SinterCast vis-à-vis the automotive and heavy diesel engine industries. Likewise, the daily operation of the System 2000 for ductile iron production at the SKF foundry provides valuable confirmation of the robustness and reliability of Sinter Cast's automated process. The SinterCast System 2000 is appreciated throughout the industry as state-of-the-art technology easily operated by foundry personnel for volume production.

## **Patents**

SinterCast owns 24 patents and patent applications. Two new patent applications are currently being drafted.

## **Competition**

SinterCast enjoys the highest respect among the world's foundries and automotive companies for process control technology, and CGI volume production know-how. No other method has been proven suitable for CGI volume production of engine blocks and cylinder heads.

## **Operating Result and Investments**

The Group's turnover for 2000 amounted to SEK 4.0 million (SEK 6.1 million for the previous year). The turnover mainly relates to income from production and demonstrations. The turnover is SEK 2.1 million lower than the previous year, mainly due to less revenue from installations compared to 1999. The result for the Group, after calculated tax, amounted to SEK -37.4 million, SEK -8.3 per share (SEK -40.7 million, SEK -9.6 per share). The result includes repayment to the Group by SPP, the Swedish pension fund, amounting to SEK 1.0 million. Other operating income and other operating expenses relate to sub-letting of office space in SinterCast Ltd. The financial net is SEK 0.5 million lower than the previous year, primarily due to changes in the Group's results. Items affecting comparability in the Parent Company for 1999 and 2000 consist of provisions for receivables and conditional shareholders' contributions to Group companies, amounting to SEK 16.9 million (SEK 19.7 million). SinterCast SA, Switzerland has been closed down at the end of year 2000. Investments by the Group during the period amounted to SEK 2.0 million (3.0 million).

## **Liquidity**

The Group's liquidity on 31 December 2000 amounted to SEK 46.0 million (SEK 82.1 million). Although the Company anticipates some initial income as from 2001, SinterCast will not generate positive cash flow by 2001. Including the income from existing production the liquidity should see the Company through until mid 2002. In the current year SinterCast expects decisions to be made by automotive manufacturers for volume production of SinterCast CGI components. Based on this the Board is confident that the Company will be able to find an appropriate financial solution in the form of new equity, debt or a combination of both.

## **High Risk**

Until a decision on large-scale production has been announced and the Company's long term financing has been resolved, the risk remains high.

## **Annual Report**

The Annual Report will be available in mid-April and will be sent to all registered shareholders and to those who have requested such information. The Annual Report will also be found on the SinterCast website: <http://www.sintercast.com>

## **Annual General Meeting**

The Annual General Meeting of SinterCast AB (publ) will be held on Monday, 21 May 2001 at 15:00 hours, at the premises of the Royal Swedish Academy of Engineering Sciences (IVA), Grev Turegatan 16, Stockholm.

## **Interim Reports and Preliminary Financial Result**

The Interim Report January-March 2001 will be issued on 17 May 2001.

The Interim Report January-June 2001 will be issued on 16 August 2001.

The Interim Report January-September 2001 will be issued on 21 November 2001

The Preliminary Financial Result for 2001 will be issued on 20 February 2002.

Stockholm, 22 February 2001

On behalf of the Board of Directors

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President and CEO

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