

Opcon AB (publ)

Financial statement 2003 Interim report for 1 October-31 December 2003



Sales turnover in 2003 amounted to SEK 247.0 million (282.9 m), of which SEK 62.3 million (69.7 m) was in the final quarter.

The loss after financial items was SEK 26.3 million (-18.4 m), of which SEK 11.7 million (-12.1 m) was in the final quarter.

Earnings have been negatively affected by lower sales turnover, restructuring costs and the low exchange rate of the US dollar.

The loss after tax was SEK 19.3 million (-12.7 m), of which SEK 8.8 million (-8.2 m) was in the final quarter.

Earnings per share after tax were SEK -2.71 (-1.90).

Earnings per share after tax in the final quarter were SEK -1.23 (-1.15).

The Board proposes that no dividend be paid.

The manufacture of ignition systems for small engines is being moved to China.

Completed strategic acquisitions enhance Opcon's position as air systems for fuel cells and combustion engines enter a new phase.

Net profit forecast for 2004, including acquired companies.

Rationalisation and cost-cutting programmes will mean lower costs in 2004 compared with 2003.

THE GROUP

October-December 2003

Sales turnover for the final three months of 2003 reached SEK 62.3 million (69.7 m).

The fall in turnover compared with last year was due to continued reduced deliveries of ignition systems and heat exchangers for vehicles. The drop in volumes has been partly offset by increased volumes to fuel cell customers.

At the end of the period the order book for the Opcon Group stood at SEK 157 million (172 m).

The loss after financial items was SEK 11.7 million (-12.1 m).

The loss after tax was SEK 8.8 million (-8.2 m), which represents SEK -1.23 per share (-1.15). Restructuring costs and one-off items of around SEK 4.5 million have affected results.

The decision to move production of small ignition systems to a newly started production company in China had a negative effect on productivity and profitability in the final quarter.

Earnings for Opcon Autorotor AB and Laminova AB continued to be negatively affected by the weak US dollar. This applies especially for deliveries to the US aftermarket. Sales volumes for heat exchangers for the US market remained weak in the final quarter.

As of 30 December 2003 Opcon had acquired Svenska Rotormaskiner AB and Lysholm Technologies AB. The acquisitions secure key strategic resources within screw compressors and will improve Opcon's future profitability and development.

January-December

Sales turnover in 2003 amounted to SEK 247 million, compared with SEK 283 million in 2002.

The loss after financial items was SEK 26.3 million (-18.4 m).

The loss after tax was SEK 19.3 million (-12.7 m), which corresponds to earnings per share of SEK -2.71 (-1.90).

The main reason for the decline in earnings is the fall of SEK 35.9 million in sales turnover compared with the previous year, which was partly due to the loss of a large ignition systems customer. The Group continues to focus on new applications within the ignition and air system segments. During the year a charge of SEK 20.3 million (15.7 m) was posted for various development projects that are expected to lead to new production orders.

Financial position

The Group's liquid funds at the end of the year amounted to SEK 19.7 million (30.5 m) and interest-bearing liabilities amounted to SEK 79.0 million (63.2 m). The Group's equity/assets ratio was 42.6% (50.3%).

Opcon's shares

The total number of shares at the end of the period was 7,128,707, which was unchanged since the same date in 2002.

An approved issue of new shares that had been completed but not registered by the end of the year increased the total number of shares by 1,450,000. The new shares were registered on 31 January 2004. The 2003 Annual General Meeting authorised the Board to make a decision to issue at most 2,100,000 new shares. Of this amount, 1,450,000 new shares have been issued. Approval for the

issuing of the remaining 650,000 shares is valid until the next AGM.

At present there is no options scheme for employees.

Investments

Investment in machinery and tools during the final quarter totalled SEK 1.5 million (4.1 m). In addition, costs of SEK 1.1 million (3.2 m) for research and development were activated.

Investment in fixed assets during the year was SEK 12.6 million (17.0 m). Costs of SEK 4.7 million (7.2 m) for research and development were activated.

Employees

At the end of the period the Group had 276 employees (309).

Parent company

The parent company reported sales turnover of SEK 5.1 million (5.8 m) in the final quarter. Sales primarily concern invoicing for internal administration services and building rents. The parent company's loss after financial items for the same period was SEK 18.7 million (-1.6 m). The write-down of shares in subsidiaries had a negative effect of SEK 16.0 million on earnings. Other costs include Group management costs and other Group administration costs. For the full year, sales turnover was SEK 19.4 million (20.8 m) and the operating loss after financial items was SEK 23.4 million (-6.4 m).

At the end of the year liquid funds in the parent company totalled SEK 7.9 million (19.2 m).

Sales turnover and operating profit per company (product area), SEK million

		Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
		2003	2002	2003	2002
SEM	Ignition systems				
	Sales turnover	37.2	44.7	140.9	172.2
	– of which, internal turnover	0.1	0.1	0.5	0.6
	Operating profit/loss	-3.3	-5.7	-8.9	-5.7
	Investment	1.4	4.6	10.5	15.8
	Depreciation	3.7	3.7	13.2	13.8
	Assets	88.4	96.5	88.4	96.5

	Debt	86.0	90.6	86.0	90.6
	Balance sheet total	88.4	96.5	88.4	96.5
REAC	Electrical and mechanical control devices				
	Sales turnover	13.3	13.1	53.7	56.7
	– of which, internal turnover	-	-	-	-
	Operating profit/loss	0.2	0.8	3.6	5.6
	Investment	0.6	0.1	1.9	2.8
	Depreciation	1.1	0.7	3.3	3.5
	Assets	26.6	29.3	26.6	29.3
	Debt	16.7	20.7	16.7	20.7
	Balance sheet total	26.6	29.3	26.6	29.3
Opcon					
Autorotor	Compressors				
	Sales turnover	7.9	7.6	30.2	21.4
	– of which, internal turnover	0.1	0.9	0.9	0.9
	Operating profit/loss	-2.0	-1.6	-6.7	-8.6
	Investment	0.4	1.1	2.6	3.2
	Depreciation	0.8	0.1	2.5	2.1
	Assets	21.4	23.0	21.4	23.0
	Debt	16.4	17.8	16.4	17.8
	Balance sheet total	21.4	23.0	21.4	23.0
Laminova					
Production	Heat exchangers				
	Sales turnover	2.4	3.6	15.4	18.8
	– of which, internal turnover	1.1	2.5	9.7	13.6
	Operating profit/loss	-1.4	-0.8	-1.9	0.4
	Investment	0.3	0	1.8	0.7
	Depreciation	0.4	0.3	1.3	1.2
	Assets	33.5	34.9	33.5	34.9
	Debt	2.0	3.7	2.0	3.7
	Balance sheet total	33.5	34.9	33.5	34.9
Opcon Inc USA	Compressors Heatexchangers				
	Sales turnover	2.3	3.5	15.6	26.1
	– of which, internal turnover	0.1	-	0.1	-
	Operating profit/loss	-1.2	-2.5	-0.9	-0.6
	Investment	-	-	-	-
	Depreciation	-	0.1	0.3	0.4
	Assets	5.9	9.3	5.9	9.3

	Debt	0.3	2.1	0.3	2.1
	Balance sheet total	5.9	9.3	5.9	9.3

SEM AB

During the period a decision was taken to transfer production of small ignition systems to China. Restructuring is necessary to solve profitability problems within this product area. Competition from low-cost countries has increased, which makes it impossible to maintain profitable volume development at the current site.

The cost reduction is estimated at SEK 20 million for current volumes. The transfer is expected to be completed by the end of 2005. Restructuring costs and other one-off items have affected results by SEK 4 million.

REAC AB

Sales turnover in the final quarter was at last year's level, but fell somewhat for the full year. The introduction of new products, which was planned for the final quarter, will now take place during the first quarter of 2004 and is expected to boost sales turnover by around 20%.

Opcon Autorotor AB

Demand increased for the company in 2003 in both the project and aftermarket sectors. This led to a rise in sales turnover during the final quarter compared with the final quarter in 2002. Costs remain too high, however, and as announced the company will continue to focus on cutting costs of materials and improving production efficiency.

Laminova Production AB

A continued fall in volumes during the final quarter mainly for deliveries to Ford in the US (via Opcon Inc.) led to a loss for the quarter. At the end of the year an order was received from a new customer, which is expected to boost sales turnover by around 25%. Deliveries will start in the first quarter of 2004. Indications of higher volumes from existing customers suggest that the earnings trend looks more favourable.

Opcon Inc.

Sales and earnings are strongly dependent on the volumes generated for Laminova's products on the US market.

Company acquisitions

The acquisitions of Svenska Rotormaskiner AB (SRM) and Lysholm Technologies AB at the end of 2003 represent a strategic move aimed at reinforcing competence and competitive strength in the Group's fuel cell business. There are also synergies involved in terms of the acquired companies' products, logistics, purchasing, manufacturing and marketing of compressors, which should improve profits. The acquisition is expected to give a positive boost to the Group's key financial indicators.

SRM innovated double-screw technology. Several international companies have historically based their operations on this technology. The company currently has around 35 active licence holders, including Carrier, York, Trane and Thermo King. The company will be the Opcon Group's centre for the development of air compressors for both fuel cell and combustion engines. Through the licence awarded to Eaton, Lysholm has received orders for compressors from Ford GT. Production for this order started in the first quarter of 2004. The company has also established a distribution channel to the aftermarket in the US in competition with Autorotor.

Outlook

Group management will focus in 2004 on co-ordinating activities with the aim of swiftly achieving synergies from the acquisitions of Svenska Rotormaskiner AB and Lysholm Technologies AB.

In the new organisation that will be established there will be an increased focus on profiling the company on the growing fuel cell market. Resources will be allocated

to the development of optimum air systems for fuel cell engines.

SEM's production start-up of ignition systems in China will sharpen the company's competitive edge and provide opportunities to win market share through more aggressive pricing.

Production in China is expected to start by the end of 2004 so that volumes start to increase in 2005.

Orders for the Group began strongly at the start of 2004.

Volume growth of around 15% is predicted for the Group in 2004, mainly due to the introduction of new products.

Laminova will deliver new products to GM's and Proton's cars, SEM will deliver new drive and ignition systems to Cummins' vehicles, REAC will start deliveries of new control devices to European wheelchair producers, and the newly acquired Lysholm Technologies will deliver its first compressors to Ford in the first quarter of 2004.

A net profit is forecast for the Opcon Group, including the newly acquired companies, in 2004.

Current programme of measures

In the most recent Annual Report it was stated that after 2003 a period of sustainable growth is expected thanks to new products. Several top priority projects were also listed for 2003. A report on these activities is given below.

Rationalisation programme

SEM's programme has been completed and has cut costs by around SEK 10 million annually.

Opcon Autorotor has also completed a programme that will cut costs by around SEK 7 million annually.

The parent company (Opcon) has completed cut-backs that will lead to annual savings of SEK 1.5 million.

Assessment of establishing in low-cost country

It was decided in 2003 to establish a production company for ignition systems in China. Production of small ignition systems will be moved to China in 2004. It is estimated that production of current volumes of small ignition systems can be carried out in China at an annual cost saving of around SEK 20 million.

Increased efforts aimed at broadening the customer base

In 2003 REAC started production of two new products that will enter series production in 2004.

Continued introduction of ignition and drive systems for gas engines

In 2003 SEM delivered ignition systems for Cummins' industrial gas engines. Deliveries of ignition and drive systems for Cummins' gas engines for vehicles will start in June 2004. During 2004 the product will be introduced to other gas engine manufacturers in the US and Europe.

Increase the headstart gained on competitors within air systems for fuel cells

Autorotor has been awarded a development project within the EU Framework 6 programme concerning the development of optimised fuel cell systems in association with Volvo, DaimlerChrysler, Fiat and DAF. The recent company acquisitions made by Opcon strengthen the company's profile in this area.

Accounting principles

This report has been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation (RR 20). The same accounting principles have been used as were used in the most recent Annual Report.

This financial statement has been checked by the company's auditors.

Future information

- ◆ 2003 Annual Report: April 2004
- ◆ AGM: 21 April 2004
- ◆ Q1 report: 21 April 2004

- ◆ Q2 report: 18 August 2004
- ◆ Q3 report: 19 October 2004

Åmål, Sweden, 25 February 2004

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**Consolidated income statement
(SEK 000)**

	Oct-Dec 2003	Oct-Dec 2002	Jan-Dec 2003	Jan-Dec 2002
Net sales	62 296	69 663	246 979	282 936
Expenses for sold goods	-56 610	-65 162	-212 585	-245 241
Gross profit	5 686	4 501	34 394	37 695
Sales and administration expenses	-10 358	-11 112	-36 628	-36 612
Research and development expenses	-5 808	-4 214	-20 302	-15 732
Other operating income	-	120	-	120
Other operating expenses	-253	-475	-1 003	-1 240
Operating profit/loss	-10 733	-11 180	- 23 539	-15 769
Profit/loss from financial assets	69	355	560	1 070
Profit/loss from financial liabilities	-1 004	-1 274	-3 318	-3 690
Profit/loss after financial items	-11 668	- 12 099	-26 297	-18 389
Tax	2 901	4 015	6 964	5 683
Minority shares	-	-98	-	-
Profit/loss for the period	-8 767	-8 182	-19 333	-12 706
Earnings per share (SEK)	-1.23	-1.15	-2.71	-1.90
No. of shares (000)	8 579	7 129	8 579	7 129
Average no. of shares (000)	7 129	7 129	7 129	6 699

**Consolidated balance sheet (SEK
000)**

	31-12-03	31-12-02
Fixed assets		
Goodwill	17 781	12 130
Other intangible fixed assets	16 430	9 377
Tangible fixed assets	72 901	66 257
Financial fixed assets	2 306	39
Deferred tax receivable	20 823	14 056
Total fixed assets	130 241	101 859
Current assets		
Inventories	62 854	41 426
Receivables	67 741	52 684
Liquid funds, including current investments	19 666	30 484
Total current assets	150 261	124 594
Total assets	280 502	226 453
Shareholders' equity	119 445	113 843
Interest-bearing provisions and liabilities	78 980	63 215

Long-term non interest bearing liabilities	3 137	1 677
Current non interest bearing liabilities	78 940	47 718
Total shareholders' equity and liabilities	280 502	226 453
Pledged securities	103 800	86 300
Contingent liabilities	3 114	3 502

Key figures	Oct-Dec 2003	Oct-Dec 2002	Jan-Dec 2003	Jan-Dec 2002
Operating margin, %	-17.2	-16.0	-9.5	-5.6
Return on operating capital, %	-	-	-14.5	-10.3
Return on equity, %	-	-	-16.6	-11.5
Profit/loss per share, SEK	-1.23	-1.15	-2.71	-1.90
Equity per share, SEK	13.92	15.97	13.92	15.97
Equity/assets ratio, %	42.6	50.3	42.6	50.3
No. of shares, thousands	8 579	7 129	8 579	7 129
Average no. of shares, thousands	7 129	7 129	7 129	6 699

Change in shareholders' equity

Shareholders' equity, according to balance sheet, opening balance	113 843	107 769
New share issue	26 100	20 000
Translation difference	-1 165	-1 220
Profit/loss for the period	-19 333	-12 706
Shareholders' equity, closing balance	119 445	113 843

Consolidated cash flow statement (SEK 000)	Oct-Dec 2003	Oct-Dec 2002	Jan-Dec 2003	Jan-Dec 2002
Cash flow from current activities	5 733	372	7 039	18 434
Cash flow from investment activities	-2 030	-2 032	-16 717	-19 494
Cash flow from financing activities	104	-860	-1 140	20 080
Total cash flow	3 807	- 3 264	-10 818	19 020

Consolidated income statement (SEK 000) (Per quarter)	Jan-March 2003 0	April-June 2003	July-Sept 2003	Oct-Dec 2003	Jan-March 2002	April-June 2002	July-Sept 2002	Oct-Dec 2002
Net sales	66 515	68 914	49 254	62 296	78 287	76 047	58 939	69 663
Operating profit/loss	-3 154	-5 409	-4 243	-10 733	-1 992	-2 147	-450	-11 180
Financial items	-593	-625	-605	-935	-337	-733	-631	-919
Profit/loss after financial items	-3 747	-6 034	-4 848	- 11 668	-2 329	-2 880	-1 081	-12 099
Tax	1 030	1 835	1 198	2 901	898	558	212	4 015
Minority shares	-	-	-	-	87	81	-70	-98
Profit/loss per quarter	-2 717	-4 199	-3 650	-8 767	-1 344	-2 241	-939	-8 182
Consolidated balance sheet (Per quarter)	31-03-2003	30-06-2003	30-09-2003	31-12-2003	31-03-2002	30-06-2002	30-09-2002	31-12-2002
Fixed assets	103 807	105 235	104 895	130 241	100 639	101 985	102 406	101 859
Current assets	101 360	100 012	89 481	130 595	114 811	109 184	105 175	94 110
Liquid funds	25 192	19 856	15 859	19 666	10 346	12 826	33 748	30 484
Total assets	230 359	225 103	210 235	280 502	225 796	223 995	241 329	226 453

Shareholders' equity	111 302	107 103	103 453	119 445	106 425	104 184	123 245	113 843
Minority shareholdings	-	-	-	-	520	440	509	-
Interest bearing provisions and liabilities	61 415	63 724	61 972	78 980	61 158	61 377	63 546	63 215
Long-term non interest bearing liabilities	1 676	1 676	1 676	3 137	1 976	1 976	1 976	1 677
Current non interest bearing liabilities	55 966	52 600	43 134	76 940	55 717	56 018	52 053	47 718
Total shareholders' equity and liabilities	230 359	225 103	210 235	280 502	225 796	223 995	241 329	226 453
Key figures								
Operating margin, %	-4.7	-7.8	-8.6	-17.2	-2.5	-2.8	-0.8	-16.0
Equity/assets ratio, %	48.3	47.6	49.2	42.6	47.4	46.7	51.3	50.3
No. of shares, thousands	7 129	7 129	7 129	8 579	6 484	6 484	7 129	7 129

Opcon makes the world cleaner

The first fuel cell buses are now being tested in Stockholm and other European cities as part of the CUTE project. All of them are equipped with Opcon's air systems. Anyone can travel on the buses and test the technology of tomorrow. Travel on the buses is free until the summer. The buses are very quiet and the only emission is normal water. The engine is a fuel cell that converts hydrogen and oxygen into electricity.

The hydrogen tank, fuel cell and air intake are located on the roof, while the electrical engine that drives the bus is under the floor. The fuel cell engine is the only known workable technology for a world facing dramatic climate changes, where oil reserves are running out (the US, the home of the car, owns only 2% of the world's oil supplies), and where the environmental effects of traffic must be solved by setting tougher emission requirements. No-one can say today when the fuel cell engine will finally replace the combustion engine, but technological development is very fast within one of the world's largest markets.

Within current fuel cell vehicles, Opcon's air system has a market share of 80%. Leading carmakers such as Mercedes, Ford, General Motors, Renault, Volkswagen, Nissan, Chrysler and Ecobus all use our systems. We have been involved from the start in this exciting journey and we are investing strongly to stay involved in the development and commercialisation of products that contribute to cutting emissions and improving the environment.

Part of this work involves our involvement in the Hytran project (part of the EU's Sixth Framework Programme) together with Volvo, Fiat, DaimlerChrysler, Renault, Peugeot, DAF and others. The aim is to develop an optimised fuel cell system for vehicles. Opcon has responsibility for the air system, which consists of a frequency changer, electrical motor, compressor, heat exchanger, moisturiser and control equipment. The recent

acquisitions of Svenska Rotormaskiner AB and Lysholm Technologies AB strengthen Opcon in the fuel cell area and in technology for more powerful and cleaner combustion engines.



FOTO: JOHAN EKLUND

Three fuel cell buses are now operating in the centre of Stockholm. Opcon hopes to be able to offer shareholders a trip on one of them in connection with the AGM in April.



ILLUSTRATION: MAIMI PARIK SOURCE: ENVIRONMENTAL OFFICE, STOCKHOLM

The fuel tanks of fuel cell buses are filled with hydrogen, produced by renewable electricity. The only emission is harmless steam.