

Annual Report
2003



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OPCON AB

2003 IN BRIEF

- Sales turnover in 2003 amounted to SEK 247.0 million (282.9 m).
- The loss after financial items was SEK 26.3 million (-18.4 m).
- The loss after tax was SEK 18.9 million (-12.7 m).
- Earnings per share after tax were SEK -2.66 (-1.90).
The Board proposes that no dividend be paid.
- Liquid funds at the end of the year amounted to SEK 19.7 million (30.5 m).
- Earnings have been negatively affected by lower sales turnover, restructuring costs and the low exchange rate of the US dollar.
- A decision was made to relocate the manufacture of ignition systems for small engines in China.
- The strategic acquisitions of Svenska Rotormaskiner AB (SRM) and Lysholm Technologies AB enhance Opcon's position as air systems for fuel cells and combustion engines enter a new phase.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Wednesday 21 April 2004 at 4 p.m. at Gällöfsta City's premises, Biblioteksgatan 29, Stockholm, Sweden.

The premises will be open for registration at 3 p.m. Registration must be completed by 4 p.m. for shareholders to be included in the share register.

Participation

Shareholders wishing to take part in the AGM should: a) be registered in the Shareholders' Register held by VPC AB (the Swedish Central Securities Depository) by Thursday 8 April 2004; b) notify the Board of their intention to attend via the following address:

Opcon AB, Box 30, 662 21 Åmål, Sweden, telefax +46 532 120 19, telephone +46 532 611 00, or email agren@opcon.se, by 12 noon on Tuesday 13 April 2004 at the latest. The notification shall include name, personal code number/organisation number and day-time telephone number.

Shareholders owning shares registered with a nominee must re-register the shares in their own name, before 17 April, in order to participate at the meeting.

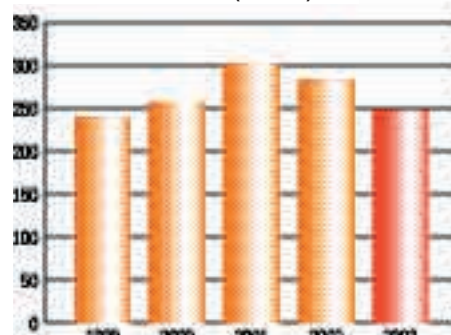
The Board proposes that no dividend be paid out for 2003.

FINANCIAL INFORMATION

Financial information about Opcon AB is provided in Swedish and English. Reports can be obtained from the company's website, www.opconab.com or by ordering them via telefax +46 532 120 19, or email info@opcon.se. Distribution will be via email.

The annual report can also be ordered from Opcon AB, Box 30, S-662 21 Åmål, Sweden.

SALES PERFORMANCE (SEK M)



Unique systems for a better environment

Opcon provides unique systems and products for the auto, small engine and engineering industries. Products include ignition and engine management systems, electro-mechanical devices, compressors and heat exchangers for cars, trucks, chainsaws, motorbikes and boats.

Opcon's business concept is to develop, manufacture and market systems and products that contribute to generating power that can help to reduce the environmental impact from end-products and thus promote better health and safety.

Opcon is a market leader in several areas. The Group's aim is to be the technology leader in each of its business areas.

The Group recorded sales turnover of SEK 247 million in 2003 and has activities in Sweden, the US and China, with its registered office in Åmål, Sweden.

Opcon AB is listed on the O-List of Stockholmsbörsen.

Growing demand for cleaner and more powerful engines

The main focus in 2003 was on maintaining our strategic development while implementing a savings programme that will help us achieve profitability in 2004. This was carried out during a year of temporary volume reductions.

In our annual report for 2002 we laid out our intentions for key activities in 2003. I will now make an assessment of our efforts in these areas:

- **Savings programme**

In our SEM and Autorotor subsidiaries we have implemented cutbacks and rationalisation measures worth a total of around SEK 18 million on an annual basis.

- **Relocation in low-cost country**

We announced that we would investigate establishing in a low-cost country where our priority would be production of ignition systems in large volumes. In 2003 the Board decided to start up a business in China, which will solve the profitability problems for ignition systems for small engines.

- **Expanded customer base**

An expansion of the customer base is a long-term goal in order to minimise the risk of exaggerated dependence on large customers. During the year Reac, Laminova and Autorotor received orders from new customers.

- **Increase the gap between ourselves and competitors regarding air systems for fuel cells**

Opcon Autorotor has been given responsibility, together with Volvo, Fiat, Renault, DaimlerChrysler and others, to develop an optimised air

system for fuel cell engines of the future.

Opcon's share in the project covers sub-systems such as frequency converter, electrical motor, compressor, heat exchanger and humidifying of incoming air. Half of the financing for the project comes from the EU Sixth Framework Programme.

- **Acquisition of companies that complement Opcon**

At the end of 2003 we completed the strategic acquisition of Svenska Rotormaskiner (SRM) and Lysholm Technologies.

- **Continued focus on ignition and drive systems for gas engines**

SEM has supplied ignition systems for Cummins industrial engines in 2003. Delivery of ignition and drive systems for vehicle engines will start in August 2004. In 2004 the systems will be introduced to European and American manufacturers of gas engines.

I would like to emphasise that we have managed to strengthen our positions in strategically important areas while reducing our costs during a tough year when volumes fell temporarily.

THE ACQUIRED COMPANIES

The purpose of acquiring SRM and Lysholm was to strengthen competence and competitiveness within the Group's fuel cell activities. Furthermore, synergies between the companies' products, logistics, manufacturing and marketing of compressors on the aftermarket will have positive effects

on profitability in the short term.

Svenska Rotormaskiner has pioneered the development of screw compressors in Sweden. Several large businesses are based around this technology. The company has over 30 active licence holders, including companies such as Thermo King, Kobe Steel, Atlas Copco and Carrier. The company will be Opcon's competence centre for the development of compressors for fuel cell and combustion engines.

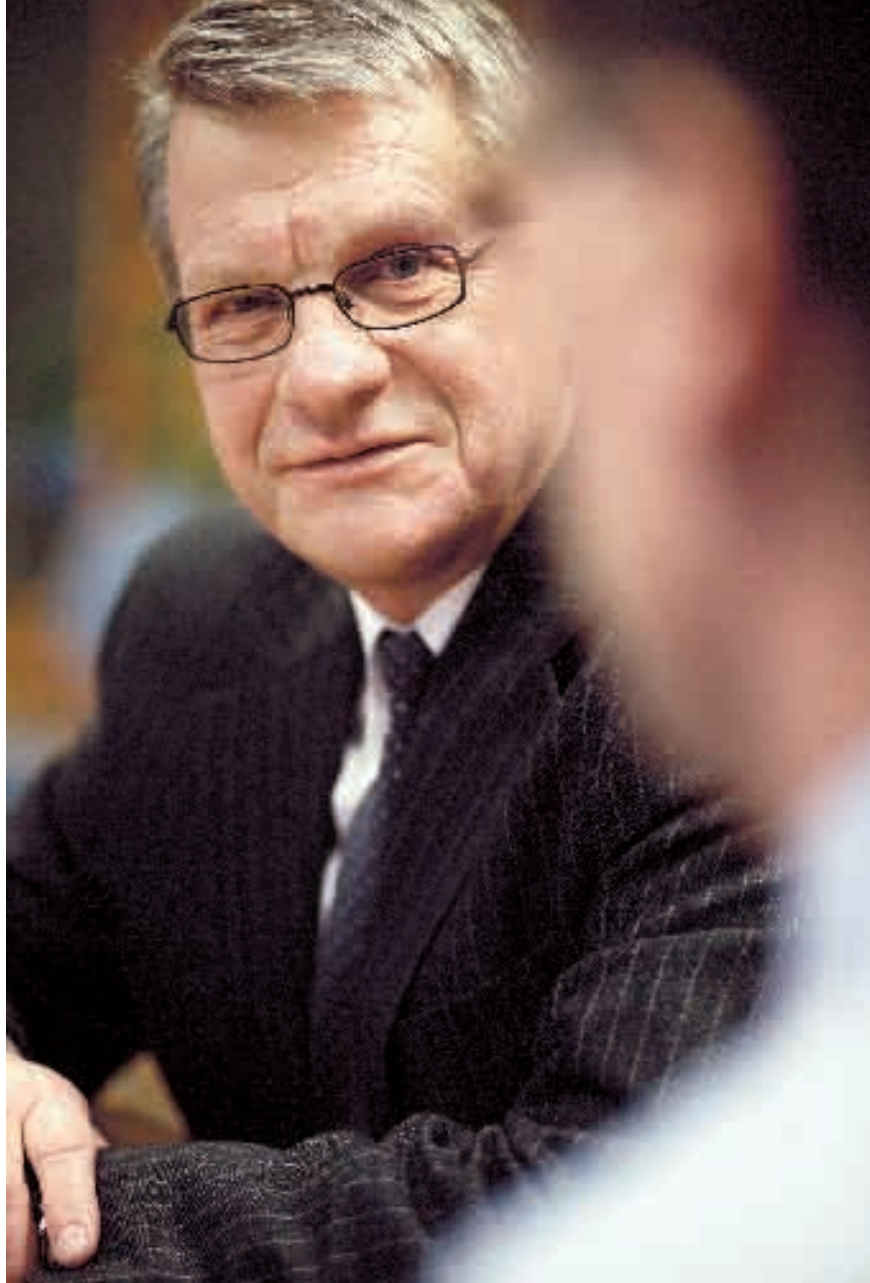
Through its award of a licence to US supplier Eaton (which has sales of USD 8 billion), Lysholm has received an OEM order from Ford GT. Manufacturing for this order will start in the second quarter of 2004.

Since 1995 the company has built up an aftermarket organisation that has competed with Opcon Autorotor. Project groups have been set up to co-ordinate administration, purchasing, manufacturing and marketing.

BUSINESS AREAS

A change in the Group's organisation will take place in 2004 as a result of the acquisition of the new companies and our intention of focusing on business development within the Group. We will be controlling and reporting the Group within the following business areas:

The Mechanics business area will have responsibility for air systems for engines of the future (fuel cell and combustion engines) that help end-users to reduce harmful emissions without com-



Sven G. Oskarsson, CEO

Opcon's establishment of manufacturing in China will give the business area the competitive edge it needs to win market shares and achieve sufficient profitability.

promising on performance.

The Electromechanics business area will have responsibility for electronic and electro-mechanical systems that help customers to reduce harmful emissions and increase safety for the end-product

The Asia business area will have responsibility for marketing in China, manufacturing and the establishment of a purchasing resource for Group companies.

The North America business area will have responsibility for marketing the Group's products on the US market.

During 2004 Group management will focus on co-ordinating the new organisation with the aim of swiftly realising synergies between existing Opcon companies and the newly acquired companies.

MARKETS

Opcon aims to do business in areas where the Group's products can improve environmental, health and safety aspects.

Electromechanics

The business area has won orders in the growth market of gas engines by delivering drive and ignition systems to Cummins. Newly developed products will be launched in 2004 with other gas engine manufacturers in Europe and the US.

Aids for disabled people represent a strong growth market. In 2003 the business area launched several new electro-mechanical devices with embedded intelligence for several of the leading wheelchair manufacturers in Europe and the US. Orders have been received and production will start in 2004.

Recreational vehicles (motorbikes,

snow scooters, water scooters, boats, etc.) will be exposed to new emissions requirements and a shift in technology will take place. The business area has developed a new engine management system for these applications.

Opcon's establishment of manufacturing in China will give the business area the competitive edge it needs to win market shares and achieve sufficient profitability within the area of ignition systems for smaller engines (1-5 hp).

The business area's competence centre will remain in Åmål and will be strengthened.

Mechanics

The Mechanics business area is a world leader in air systems for fuel cell engines of the future. All of the major carmakers are currently active in serious development projects that aim to replace combustion engines (one of the



Fuel cells are the only known functioning technology that can replace combustion engines to power vehicles in the future when the oil era comes to a close within a few decades. Opcon is involved in several EU projects designed to develop new fuel cell engines in coming years.

The savings programme launched in 2003 will yield results in 2004 and beyond.

largest markets in the industrial world) with fuel cell engines. This market is developing very strongly from a low starting point. Opcon will establish itself as a systems integrator concerning air systems for the PEM cell.

The PEM cell is being used in all the major development projects. It means delivering the following components as a system: frequency converter (from DC to AC), electrical motor (new, high rev motor), compressor (from surrounding pressure level to prescribed system pressure), intercooler (heat exchange of incoming air) and humidifier (maintains >90% relative humidity in incoming air).

The acquisition of SRM strengthens us due to the competence within the company in significant technological aspects such as dynamic machinery, thermodynamics, acoustics and heat exchange. These are key areas if Opcon's is to reach its goal of supplying the optimum air system.

Ford, General Motors, Mercedes, Mazda and others are involved in projects focused on high-performance

combustion engines. Compressor supercharging has yielded excellent results in these projects. Accordingly, projects with production starts timed for 2004 to 2008 are included in this business area. These OEM projects suit Opcon's organisation because they typically have annual volumes of 5,000 to 15,000 engines per year.

An aftermarket has been established, especially in the US, where the annual volume is 6,000 compressors per year. This market has good margins and is still growing. The fact that carmakers are now selecting screw compressors for their standard engines is prompting this market to grow swiftly.

In 2004 Opcon will participate in the structuring of this market so that it provides a platform for increased volumes in the future. At present the business area has a market share of over 90% of the aftermarket for screw compressors.

All new engine projects require efficient cooling of water, oil and air. Temperature balance problems must be solved. The business area has a unique heat exchanger, which has made its

breakthrough with Ford and General Motors for cooling air and oil.

Furthermore, two projects are being performed with the Malaysian company, Proton, concerning air and oil cooling.

Asia

In addition to having responsibility for ensuring that the Group has the lowest production costs for its products there will be an immediate campaign to sell the Group's ignition systems in the fast-growing domestic market in China.

The business area will also have the task of buying components, production equipment, etc. for Group companies. Significant savings can be made in tool purchasing, for example.

North America

Several of the Group's major projects are being carried out together with American customers. The decisive factor for a project is that there is advanced technical support close at hand.

During the year it is likely that Opcon Inc. will relocate to Detroit, Michigan, in order to provide faster and more efficient support to ongoing projects and to help with new platform programmes.

Another important assignment is to participate in the restructuring and build-up of aftermarket distribution of compressors and heat exchangers.

LOWER COSTS

The savings programme launched in 2003 will yield results in 2004 and beyond.

Thanks to cutbacks and rationalisation, SEM has managed to reduce its costs by around SEK 8.0 million annually.

Opcon Autorotor has also reduced its costs by around SEK 8.0 million annually mainly due to lower purchasing costs for compressor components but also to rationalisation of the production process and overhead reductions in the organisation.

The parent company has made cutbacks and reduced costs by around SEK 1.5 million per year.

There is potential to further reduce costs by achieving synergies with the newly acquired companies: There is double manning in some posts, larger volumes will yield lower purchasing costs, the same development projects that have been run at different companies can be eliminated and local rationalisation can be carried out, etc.

These potential savings are estimated at around SEK 10 million per year. These projects have been started and will be completed in 2004, although they will be offset by restructuring costs in connection with relocation of activities.

MOVING INTO PROFITABILITY

The Group has not reported a profit in recent years, mainly due to the strong focus on air systems for fuel cells but also due to problems setting up the production process for new products and the fall in sales to old customers.

Through the cost reduction measures described above and through increased volumes thanks to a good level of orders, the Group will move into profit during the year. The acquired companies will also boost profits for the Group.

Our vision – to be the leader in technology in our business areas – remains in place.

There is a high level of energy and desire among employees throughout the Group to achieve the goal of profitability.

PLATFORM FOR THE FUTURE

Our vision – to be the leader in technology in our business areas – remains in place. Our technical skills have always been the base for our business prospects, and they remain so. Now that we have decided to obtain the lowest cost for production we will gain the competitive edge that will help us capitalise on our technical competence.

Our business areas have around 70% of their activities concentrated on the drive line (engines and drive) of our customers' products. We foresee a shift in technology, both within the future design of combustion engines and in the emergence of fuel cell engines.

While visiting this year's SAE exhibition in Detroit I could see that we are involved in nearly all of the new engine concepts being presented by carmakers, both for fuel cell and combustion engines.

We are participating in GM's, Ford's and Mercedes' fuel cell cars and in Japanese fuel cell cars. We are also involved with Ford's and GM's new combustion engine concept with our compressors and intercoolers (heat exchangers).

Our aim is to secure a position as system supplier primarily for niche engines in the coming years. We have established a good position for future drive lines in both combustion and fuel cell engines.

In parallel with this goal we are looking for industrial applications for our products so that we can spread risk and speed up the time to market.

OUTLOOK FOR 2004

The following activities will be important for us in 2004:

- Obtaining synergies in the new organisation
- Creating business and technology alliances
- Developing an optimised air system for engines
- Establishing production in China through the Opcon (Suzhou) Technology Company Limited
- Production starts for new products by all our companies:
 - Drive and ignition system for Cummins
 - Ignition system in China
 - Control device system for Permobil and Invacare (wheelchairs)
 - Intercoolers for General Motors and Proton
 - Compressors for Ford
- TS certification (new quality system for the auto sector)
- Structuring of aftermarket sales of compressors in the US

With the measures already taken and by implementing the activities outlined above I am convinced that we can reach our overall goal of making the Opcon Group profitable in 2004.



Sven G. Oskarsson
CEO

Opcon develops, manufactures and markets systems that use unique technology to create the right conditions for cleaner and safer environment for people and machinery. The company's products are used in vehicles, chainsaws, motorbikes, fuel cell vehicles and boats.

HISTORY

The foundations of the current Opcon were laid during the First World War when imports of ignition devices for boats from Germany were halted and Svenska Elektromagneter AB was formed in Åmål to produce them. Production of ignition devices, mainly for boats, continued into the 1970s when electronic systems made their breakthrough. Electronic ignition systems for vehicles and small engines have dominated production at SEM AB since then.

The Group also produces electro-mechanical devices, screw compressors and heat exchangers, mainly for the auto industry.

ORGANISATION

The Group is based in Åmål, Sweden, and is organised in four business areas. These four business areas are: Electromechanics (SEM AB and Reac AB); Mechanics (Opcon Autorotor AB, Laminova Produktion AB and Lysholm Technologies AB); Asia (Opcon Suzhou Technology Company Ltd); and North America (Opcon Inc.).

SEM AB and Reac AB are located in Åmål. SRM AB, Lysholm Technologies AB and Opcon Autorotor AB operate from Nacka, Stockholm. Laminova Produktion AB has development and management functions in Sollentuna, and its production in Åmål. Opcon Inc. has its operations in Old Saybrook, Connecticut, USA. Opcon (Suzhou) Technology Company Ltd, currently being started up, is based in the Chinese city of Suzhou, outside Shanghai.

At the end of 2003 the

Opcon Group had 276 (309) employees, of whom 122 (135) are women.

Over the past ten years Opcon conducted intensive product development in the areas of engine management systems, control devices and air systems for engines. This development work was financed by private investment and the new share issue in connection with the 1998 stock exchange flotation.

This strategy meant that the company reported a loss for several years.

PRIORITIES

Development work has led to signed contracts and agreements under negotiation and to acquisitions. A solid base has been established for the Group's development.

The Group will now carry out the following measures:

- Strengthen development and commercialisation of patented systems that can contribute to a better environment, health and safety.
- Seek alliances in order to share financial and technical risks, especially with potential customers in order to secure orders.
- Strengthen the Group's competitive edge by obtaining the lowest manufacturing costs.
- Increase the number of industrial customers.
- Co-ordinate and structure sales channels.
- Start series production of compressors for combustion engines.
- Plan series production of air systems for fuel cell engines.

THE OPCON GROUP

OPCON AB

SEM AB

REAC AB

LAMINOVA PRODUCTION AB

OPCON AUTOROTOR AB

SRM AB

LYSHOLM TECHNOLOGIES AB

OPCON INC.

OPCON TECHNOLOGY COMPANY

- Start production of ignition systems in China.
- Co-ordinate administration, purchasing and production within the acquired companies (synergies).
- Take over production of ignition systems for customers who decide to outsource production.
- Seek alliances with, or acquisition of, companies that have complementing competence for our business areas.

Parent Company	Business Area	Company
Opcon AB	Mechanics	SRM AB
		Lysholm Technologies AB
		Laminova Produktion AB
		Opcon Autorotor AB
	Electromechanics	SEM AB
		Reac AB
	Asia	Opcon (Suzhou) Ltd.
	North America	Opcon Inc.



Fuel cell buses have entered service in Stockholm and other European cities as part of the EU's CUTE project. The only emission from these buses is harmless steam.

SEM AB

More efficient production and reduced costs will produce results in 2004

Sales turnover for SEM AB was SEK 140.9 million (172.2 m) and the loss after financial items was SEK 12.3 million (-9.3 m).

The main reason for the fall in sales turnover and the increase in the loss is the large fall in volumes of ignition cassettes delivered to Saab. Costs could not be cut quickly enough to compensate for this. Deliveries to Saab have fallen since 2002 due to the new models introduced by Saab and the decline in new car sales.

The company was also affected by one-off costs totalling SEK 2 million due to a fire in early 2003 at a supplier of components for ignition cassettes. As a result components had to be bought on the spot market at a higher price.

Another important reason for the fall in sales turnover is the small ignition systems product area, which has become a loss maker. One of the customers for this product closed down during the year because profitability was too low.

CHINA PROJECT STRATEGY

Over recent years the production of small ignition systems has gradually become unprofitable. In 2003 it was decided to relocate the entire production of small ignition systems to a new site in China.

The start-up of activities in China began in 2003. This project now has highest priority and the production start is planned for the third quarter of 2004.

The strategy for the China project is to win back old customers and win new



Svein Valheim, Managing director of SEM AB.

ones. Low production costs will make it easier to set competitive prices and production is expected to regain profitability by 2005.

The goals will be achieved through strict cost control and quality control in production, and through high delivery precision.

The global market for small ignition systems for hand-held equipment is estimated at 22 million units. SEM produces around 1.1 million small ignition systems. The company's goal is to increase its market share significantly and boost its current market share of 5% up to just under 20% by 2008.

Assembly of a circuit card.



For Opcon's operations in Åmål the relocation of production in China means that a small number of employees will lose their jobs. However, SEM expects that the launch of new products will eventually result in new job opportunities.

During 2003 staff were fully committed to implementing measures aimed at



Ignition system module for a chainsaw.



More efficient production and new products mean an improved outlook for SEM in 2004.

improving production efficiency and adapting the organisation. The results of improvements together with a reduction of both white-collar and blue-collar staff meant that costs can be reduced by around SEK 8 million on an annual basis starting in 2004.

Alongside these improvements SEM focused hard on raising quality during the year. This work is necessary but does involve extra costs.

NATURAL GAS ENGINES

Ignition systems for natural gas engines are currently a small market but con-

siderable global growth is expected for this niche. The volumes are small but the level of technology is high. Customers include manufacturers of natural gas engines for vehicles or reserve power stations.

SEM is managing a development project for ignition systems for natural gas engines. The first deliveries are planned for the third quarter of 2004.

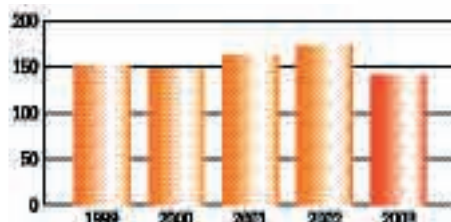
Another important project for the future concerns ignition systems for motorbikes, previously a significant market for SEM, although it is now much smaller. Using SEM Direct, the

company's engine management system, and with production based in China to ensure a competitive price level, there are good prospects for winning market shares.

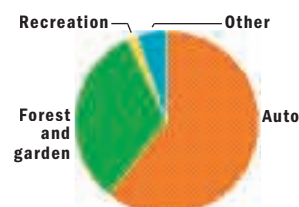
Changes in production and the launch of new products signal a much improved outlook for SEM in 2004. However, the initial costs of starting up production in China will mean that the company makes a small loss.

RESULTS (SEK MILLION)	2003	2002
Sales	140,9	172,2
Operating profit	-8,9	-5,7
Profit margin, %	-6,3	-3,3
Profit after financial items	-12,3	-9,3
Investment in machinery and equipment	6,1	9,2
Investment in research and development	4,4	6,6
Average no. of employees	140	174

SALES DEVELOPMENT (SEK M)



CUSTOMERS BY SECTOR



Actuators and inductive sensors to boost sales turnover

Sales turnover for Reac (Reac AB and its subsidiary Reac i Eskilstuna AB) reached SEK 53.7 million (56.7 m) and the profit after financial items was SEK 3.2 million (5.3 m).

The reason for the fall in sales turnover compared with the previous year was that volumes fell for several older products, while volumes for new products have not reached a level to offset the shortfall.

Extensive rationalisation of production was started in 2001 together with efforts to improve internal efficiency, and this work continued in 2003. It has resulted in cost reductions and higher profit contribution for the company's products.

GROWING NICHE MARKET

Work aimed at discovering new markets and developing new products continued in 2003. The product focus was on electrical actuators, Reac's most important product area, which has good prospects for growth.

One of the new products is RE25, an adjustable actuator, which is protected by a patent. RE25 is the most compact actuator on the market and has been developed especially for wheelchairs in collaboration with wheelchair manufacturers. The small dimension of components is crucial in this area and there is a clear trend towards miniaturisation.

Wheelchairs are a profitable and growing market for Reac.

Previously, actuators have been spe-



Svein Valheim, Managing director of Reac AB.

cially made for each application. Reac's focus on modularisation in production means that products can be adapted faster and easier for each customer. The new RE25 actuator can be used in several applications and there are good prospects of significant growth for this product in 2004 and beyond.

The company will also develop a number of devices in other sizes based on the same modularisation principle as RE25.

DRIVE-BY-WIRE APPLICATIONS FOR BOATS

Another niche market with significant growth potential is actuators for speed control on boats, the so-called drive-by-wire applications. In both marine and other areas the trend is away from mechanical speed control to control via electronic signals.

One of Reac's actuators for this market, RE1266, entered production in 2003 and series deliveries are made to Volvo Penta. The company is marketing its products extensively in this segment.

INDUCTIVE SENSORS

A third niche market with continuous growth – mainly due to lower costs



for processors – is position sensors, or inductive sensors. These are used, for example, to indicate the current gear in an automatic gearbox. In 2004 Reac will begin making deliveries to a heavy vehicle customer and there are good prospects for starting deliveries to more customers.

The company has succeeded in modifying its production process for position sensors and has replaced an epoxy material with a more environment-friendly plastic.

In 2003 the first deliveries were made of a shiftlock solenoid to a customer in



Left: Items previously soldered by hand are now soldered by robot in a fully automated process.



The assembly of the RE12 actuator for Volvo Penta.



The circuit card is assembled for a pension sensor in a Scania gearbox.



Reac's new RE25 actuator, specially developed for wheelchairs.

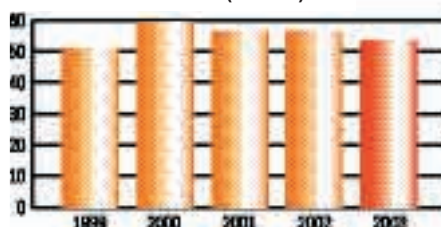
Germany that produces lever consoles for cars. The market for solenoids is expected to have weak to moderate growth.

During 2004 and beyond the prospects for the company look very posi-

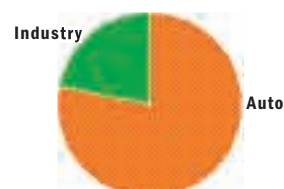
tive. Sales forecasts for actuators and inductive sensors are strong. New investment in production will not be required and profits are expected to be good.

RESULTS (SEK MILLION)	2003	2002
Sales	53,7	56,7
Operating profit	3,8	5,8
Profit margin, %	7,1	10,2
Profit after financial items	3,2	5,3
Investment in machinery and equipment	1,9	0,7
Investment in research and development	-	-
Average no. of employees	48	55

SALES DEVELOPMENT (SEK M)



CUSTOMERS BY SECTOR



Strong increase within fuel cells and aftermarket compressors

Sales turnover for Opcon Autorotor AB amounted to SEK 30.2 million (21.4 m) and the loss after financial items was SEK 7.5 million (-9.2 m).

The year saw strong growth within the company's two market areas, air systems for fuel cell engines used in vehicles and compressors for combustion engines on the auto aftermarket. Sales turnover climbed by around 40% in both sectors.

Opcon Autorotor is a market leader within air systems for fuel cell engines and is involved in development projects with most of the major carmakers across the globe. Several projects have resulted in pre-series production in 2003 or will do so in 2004. The company's objective is that the projects will lead to full series production in the future.

Several new, large development and delivery agreements were signed during



Roland Årlebäck, Managing director of Opcon Autorotor AB. Left this post in March 2004.

2003 with both established and new customers, including major carmakers in the US and Europe.

The largest order was from Ballard Power Systems Inc., a world leader in fuel cell technology. Deliveries to Ballard started during the year and will continue in 2004.

GOOD PUBLICITY

Opcon Autorotor is involved in the CUTE project, Clean Urban Transport for Europe. Fuel cell buses powered by hydrogen are being tested on public transport routes in Stockholm and nine other European cities. Three buses operated on a test route in central Stockholm in early 2004. Opcon Autorotor has developed and supplied compressors for the engines. In the summer of 2004 the buses will enter ordinary service for a trial period of two years.

Involvement in the CUTE bus project provides good publicity for Opcon, but fuel cells remain relatively unknown among the general public. The media has so far paid limited attention to the project, despite the fact that vehicles powered by hydrogen represent a technical revolution as well as being the only viable solution for a future society that

will not have access to current levels of oil supply, a situation that can arise within two to three decades.

Within the market for compressors the company carried on growing in 2003, and should continue growing in 2004.

It is primarily established customers that are increasing their purchases. The largest customer is Kenne Bell of the US, a leading supplier of supercharger accessories. 95% of Opcon Autorotor's sales to the aftermarket are in the US, with the remaining 5% in Europe.

During 2003 a partnership was started with a new distributor of compressors for the European market, which also meant that activities could be rationalised. The aim is to increase sales in Europe.

DEPENDENCE ON USD

The company's strong reliance on the US market, where payments are usually made in USD, had a negative effect on results in 2003. The strong fall in the dollar exchange rate meant that sales turnover was down by over SEK 1 million compared with the average exchange rate for the dollar in 2002 and despite currency hedging measures. Price rises offset currency losses to some extent.

Far-reaching and successful measures were implemented in 2003 to achieve quality assurance of the company's suppliers. This meant that contacts with several suppliers were terminated and more stable, long term contacts established with new suppliers. For several years Opcon Autorotor has had difficulties finding suppliers with sufficient delivery capacity. The reason was that these suppliers, primarily mechanical workshops, have not been hit hard by the recent recession.

RATIONALISATION

The company carried out an extensive rationalisation of its organisation during 2003. The number of employees was reduced from 23 at the start of the year to 17 at the end of the year.

Opcon Autorotor AB has supplied air systems to the fuel cell buses currently being tested in Stockholm and other European cities.





A pair of rotors for a screw compressor in close-up. The rotors rotate at around 15,000 revs per minute with an air column between them. The air is moved and compressed at the same time, boosting the compressors efficiency.

Despite this, production volumes increased and a new production record was set during November.

The company has strengthened its resources for future development projects by investing in new testing equipment in 2003.

Opcon Autorotor is involved in fuel cell research project financed by the Swedish energy authority, STEM, in co-operation with two other Swedish companies, NFO Drives AB and AB Kompositprodukter. The project aims to

produce improved air systems for production in 2005.

At the start of 2004 a new four-year project financed by the EU entitled HyTRAN was started (part of the EU's 6th frame agreement). The aim is to develop a completely new fuel cell engine, an optimised system for vehicles. Opcon Autorotor is responsible for the air system. The project manager is Volvo and other participants include Fiat, DaimlerChrysler, Renault, Peugeot, Volkswagen and DAF.



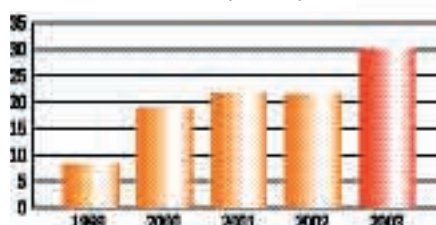
A pair of rotors with a gear system, to be assembled in a compressor housing for a fuel cell engine.



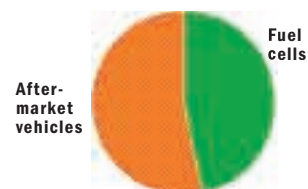
Assembling a compressor for the aftermarket.

RESULTS (SEK MILLION)	2003	2002
Sales	30,2	21,4
Operating profit	-6,7	-8,6
Profit margin, %	-22,2	-40,2
Profit after financial items	-7,5	-9,2
Investment in machinery and equipment	2,2	2,5
Investment in research and development	0,3	0,6
Average no. of employees	20	21

SALES DEVELOPMENT (SEK M)



CUSTOMERS BY SECTOR



LAMINOVA

PRODUCTION AB

Series production for the new General Motors engine platform signals key breakthrough

Sales turnover for Laminova Production AB amounted to SEK 15.4 million (18.8 m) and the loss after financial items was SEK 0.9 million (+1.9 m).

The company expected 2003 to be a moderate year. Sales up to the autumn went according to forecast but towards the end of the year several customers cancelled existing orders as car sales fell. This meant lower sales turnover than planned for Laminova and higher levels of stocks at the end of the year, which had a negative impact on results.

The lacklustre market at the end of 2003 changed significantly at the start of 2004 when Laminova received an order from GM for intercoolers for its new Echotech engine platform. The order was for significant volumes in the period 2004-2007.

This is Laminova's first order for series production for an OEM and it represents a breakthrough for the company's intercoolers, which are based on a different technology than similar products offered by competitors.

NEW ENGINE GENERATION

The order means that stocks remaining from 2003 can be sold in early 2004 and that production volumes for the first quarter of 2004 will significantly exceed forecasts. Deliveries to the Echotech engine will be considerable during the remainder of the year and will exceed the full-year forecast. The order was worth around SEK 6 million per year up to 2007, or SEK 20 million in total.



Thomas Johansson, Managing director of Laminova Production AB.

The Echotech engine is the latest development engine in the GM programme, and represents a new generation of more environmentally-adapted auto engines. Production will be more rational than before, and it will be the predominant engine for GM for many years ahead, so production volumes are expected to be large. There will be different models of the engine and it will be installed in several different GM models, including GM-owned Saab and Opel.

Laminova has been involved in the

Production of cores.



development of the intercooler for the Echotech engine since 2002. Now that full production has begun this project will be an important part of the company's business for several years ahead. Laminova's intercooler will be installed in the GM Saturn Sport Coupé and the new Chevrolet Cobalt.

FLEXIBILITY

An important reason for GM's choice of Laminova in the development of new products is the company's flexibility and speed. Unlike larger competitors, Laminova can produce new prototypes very quickly.

A UK company has helped design the intercooler for the Echotech engine.

In 2003 Laminova made a breakthrough in the Asian vehicle market, which is growing strongly. An order for oil coolers was signed with the carmaker Proton of Malaysia. Deliveries will start in 2004. Proton makes cars for the Asian market primarily, but also exports to Europe.

One of Proton's four-cylinder 1600



Left and below: The production process includes both visual inspection and automated measurement, which ensures the high quality of Laminova's cooler cores. Skilled personnel are a decisive resource.



cc engines will be equipped with Laminova's oil cooler.

During 2003 Proton together with one of Laminova's most important partners monitored Laminova's production process and its capability for high delivery reliability. The results were very positive and Laminova has received a further development project with Proton concerning an intercooler solution. The prospects for a production start in 2006-2007 look firm.

GROWING SHARE IN THE US

The predominance of the US market for Laminova's production volumes continues. The US market accounts for 80% of Laminova's sales. Exchange rate risks

have been cut by the payments in EUR that Laminova receive for deliveries for GM's Echotech engine, with an option to change to SEK.

Deliveries to Ford in the US, and especially its Crown Victoria police car model, are falling as the model is being phased out. Ford remains a profitable customer, however.

GOOD PR FROM RACING

The racing market is small but it has significant PR value for Laminova. During the year the company's sales network was extended with a Swedish distributor working in Scandinavia and Russia.

The development of the heat exchanger's water application continued in 2003

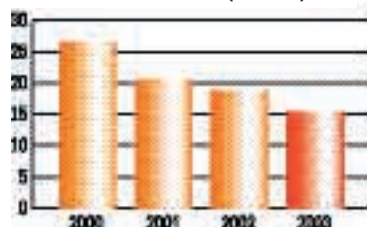
and a solution is expected during 2004.

The aim is to reach new customers outside the auto sector, mainly in the marine sector for heating pumps and cooling equipment.

Efforts in 2004 will also be focused on developing the automation of production.

RESULTS (SEK MILLION))	2003	2002
Sales	15,4	18,8
Operating profit	-1,4	0,9
Profit margin, %	-9,1	4,8
Profit after financial items	-0,9	1,9
Investment in machinery and equipment	1,8	0,7
Investment in research and development	-	-
Average no. of employees	13	15

SALES DEVELOPMENT (SEK M)



CUSTOMERS BY SECTOR



SRM AB

SVENSKA ROTORMASKINER

New service concept for civilian aircraft has significant earnings potential

Opcon AB acquired SRM AB (Svenska Rotormaskiner AB) on 30 December 2003. The company's sales turnover and earnings in 2003 have not affected the sales turnover and results of Opcon AB, or companies in the Opcon Group, during 2003.

Sales turnover for SRM AB reached SEK 41.4 million (46.4).

The significant weakening of the USD in 2003 hit profits, especially within SRM's licensing activities where 70% of earnings come from the US. Price adjustments in other projects offset the weak USD to a large extent.

The need for working capital, primarily in Lysholm Technologies AB, which was a part of the Rotor Group up to Opcon's acquisition of both SRM and Lysholm, squeezed liquidity for both SRM and Lysholm during 2003. The cause was the major investments carried out at both companies during the year to meet increased customer demands. Investment was made in new production equipment, an extended quality assurance and logistics system plus recruitment and training of staff.

TWO ACTIVITY AREAS

Activities within SRM are primarily organised in two areas: licensing and system sales.

The licensing area is further divided in two: air and gas compressors and cooler compressors.

SRM has around 30 active licence holders across the globe.

Support for existing licence holders



Rolf Hasselström, Managing director of Svenska Rotormaskiner AB.



continued during the year in the form of direct involvement in engineering design projects and more fundamental efforts aimed at developing and maintaining licence agreements.

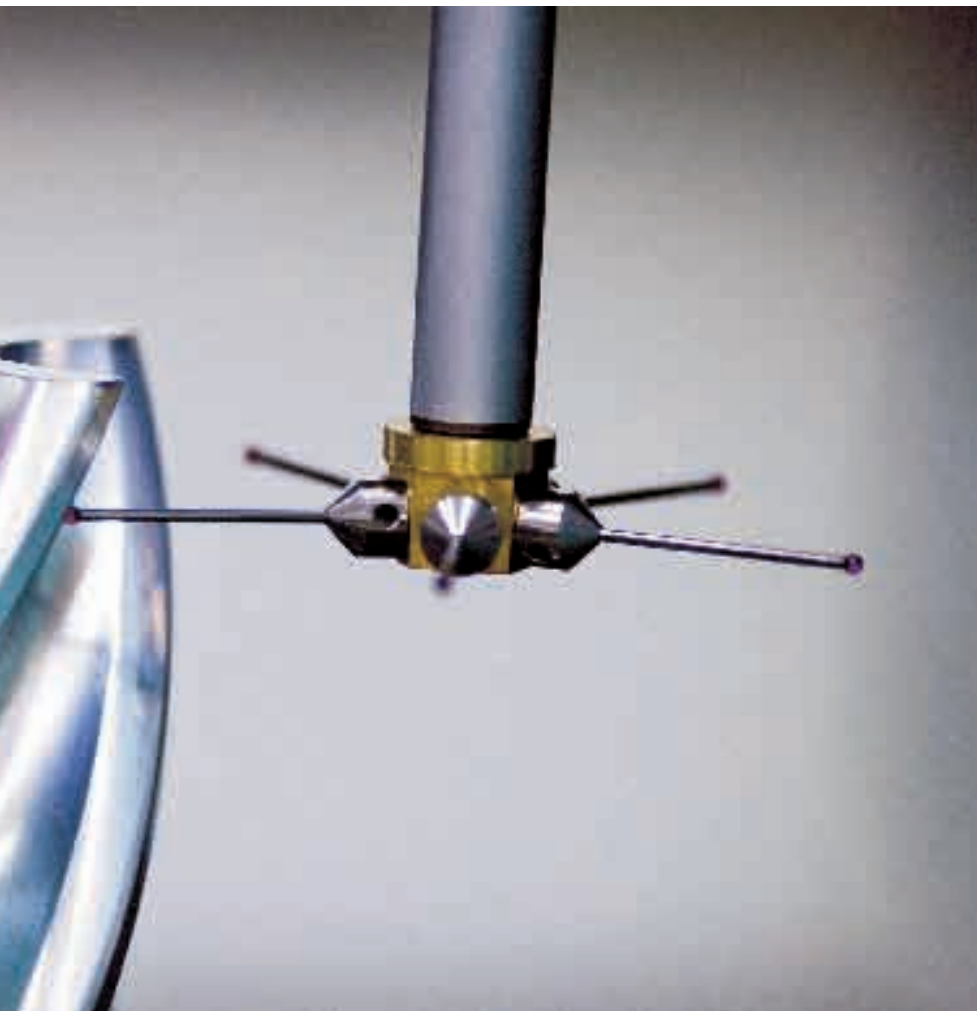
System sales are focused on cold air systems primarily for cooling and air conditioning of aircraft during ground service and flight preparation. Other sales include systems for improved

energy utilisation in the gas network, vacuum compressor systems for food applications and fuel cell compressor systems.

A major engineering design and production assignment, worth around SEK 10 million, was received in 2003 from SRM's largest licence holder. Implementation will take place primarily in 2004.

Following the grinding of its profile, a pair of rotors are examined.





Scanning measurement of the rotors requires high-precision measurement equipment.



Significant investments were made in personnel, technology, quality assurance and the logistics system during 2003.

One of the largest projects performed during the year involved engineering design and delivery of a large, two-phase air compressor for Nanjing Compressor Company in China.

PARTNERSHIPS

Within the system sales area a significant number of cold air systems has been produced and delivered to a customer in India.

A prototype unit has also been delivered as part of the commercialisation of a completely new service concept for civilian aircraft. Tests of the unit have been carried out in Dubai with satisfactory results. A partnership agreement has now been signed that should generate significant earnings potential from 2005 and beyond.

Work aimed at developing a vacuum compressor for a customer continued in 2003 and tests and final delivery of prototypes will be concluded in the second quarter of 2004. The system will then be commercialised by the customer starting in the final quarter of 2004.

Two gas expanders were delivered

to Taiwan and the Czech Republic to be used in the gas network and exploit the fall in pressure in the network and thus recover energy. Co-operation with Eaton Corporation of the US regarding fuel cells continued during the year with delivery and testing.

In 2004 and beyond SRM will further develop its licence business by continuing to give active support to licence holders and by developing applications. The company will also constitute a key component in the development of Opcon's air systems within Autorotor and Lysholm.

CONFERENCES

Preparations began in 2003 for SRM's conference in 2005. The conferences are held every fourth year and are open to all SRM licence holders. The purpose is to report on the development of technology. Technical reports are produced and distributed to SRM's licence holders as part of the company's commitment to technology transfer.



SRM's engineers use computer programs developed by the company.

LYSHOLM

TECHNOLOGIES AB

OEM deliveries for Ford's new sports car will start in 2004

Opcon AB acquired Lysholm Technologies AB on 30 December 2003. The company's sales turnover and earnings in 2003 have not affected the sales turnover and results of Opcon AB, or companies in the Opcon Group, during 2003.

Sales turnover for Lysholm Technologies AB amounted to SEK 46.8 million (20.7).

The need for working capital stifled liquidity during 2003 following extensive investments (see also the report for SRM).

Co-operation with Eaton in the US has, above all, required an increase in production capacity.

Lysholm will deliver a supercharger



Martin Stenbäck, Managing director of Lysholm Technologies AB.

for installation in Ford's new GT sports car, with commercial supplies to start in the second quarter of 2004.

BREAKTHROUGH

The order is a breakthrough for Lysholm as Ford is the company's first OEM customer and the launch of the Ford GT is a high profile project for Ford.

As the project progresses there will



Rotor testing.



Assembly of a gear wheel on a compressor.



be further OEM applications for customers in the US with a joint order value of between SEK 150-350 million over a period of four to five years. These projects started in 2003 and deliveries will be made in 2005.

Another new project is OEM sales to marine engine producer Mercury Racing of the US, with deliveries planned for 2004.

Aftermarket sales in the US developed well in 2003 as volumes continued to grow.

A number of new applications have been developed by Whipple Industries, Lysholm's distributor in the US. Commercialisation will start in 2004.

AFTERMARKET IN EUROPE

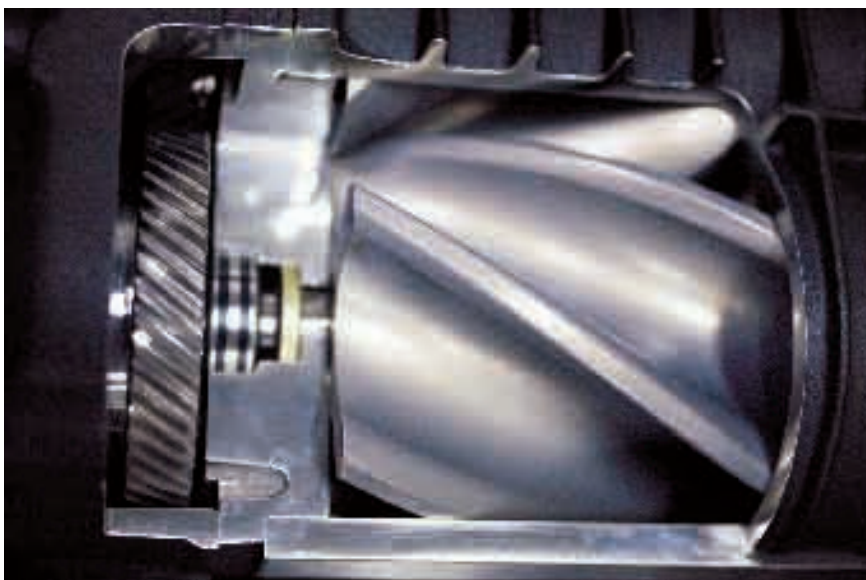
The European aftermarket is currently expanding.

An agreement was signed during the year with Bucker GmbH & Co



Drive axles for compressors.

in Germany concerning co-operation around the remanufacture, processing and service of superchargers for the European market.



A screw compressor for delivery to Bucker GmbH & Co in Germany.

OPCON INC.

A clear, growing interest in many of the Opcon Group's products



Stefan Dunert,
Managing director
of Opcon Inc.

Sales turnover for Opcon Inc. amounted to SEK 15.6 million (26.1 m) and the loss after financial items was SEK 0.6 million (-0.3 m).

The year proved to be a moderate one for the company due to the economic downturn in North America.

The low exchange rate for the dollar in 2003, which was only partly offset by price adjustments, meant that the company did not reach its expected volume increases in the aftermarket for Opcon Autorotor AB's compressors.

One of the products for which sales were down more than forecast was Laminova's heat exchanger used for cooling oil in the Ford Crown Victoria, a common police car in the US. This model has existed for many years and sales have been falling gradually.

GROWING PRODUCT PROGRAMME

The Opcon Group's product range for the American market will grow gradually. This will set demands on the sales organisation for increased efficiency and flexibility. In 2003, therefore, considerable effort was focused on restructuring the company's marketing, sales and distribution.

The acquisition of Svenska Rotor-maskiner AB and Lysholm Technologies AB – which were already established in the US market – will require further changes in the organisation. The aim will be to enhance the cost efficiency of Opcon's US activities.

The most important new additions to the product range are the products

made by Reac that will be launched on the market in 2004. Preparations have been made in the form of market surveys and the production of marketing materials. Work aimed at building a network of distributors for Reac's products started in 2003 and will continue into 2004.

Similarly, the sales network for Opcon Autorotor's screw compressors has been strengthened and this work will continue. This network consists of authorised kit builders on the large US aftermarket. Kenne Bell is one of the largest companies and is an important customer for Autorotor and for Opcon Inc.

The market for Kenne Bell increased in 2003 despite the weak economy and the company will add new car models to its range in 2004.

At the start of 2004 Opcon Inc. noted significant growth in interest for Opcon's products.

NEW DEVELOPMENT PROJECTS

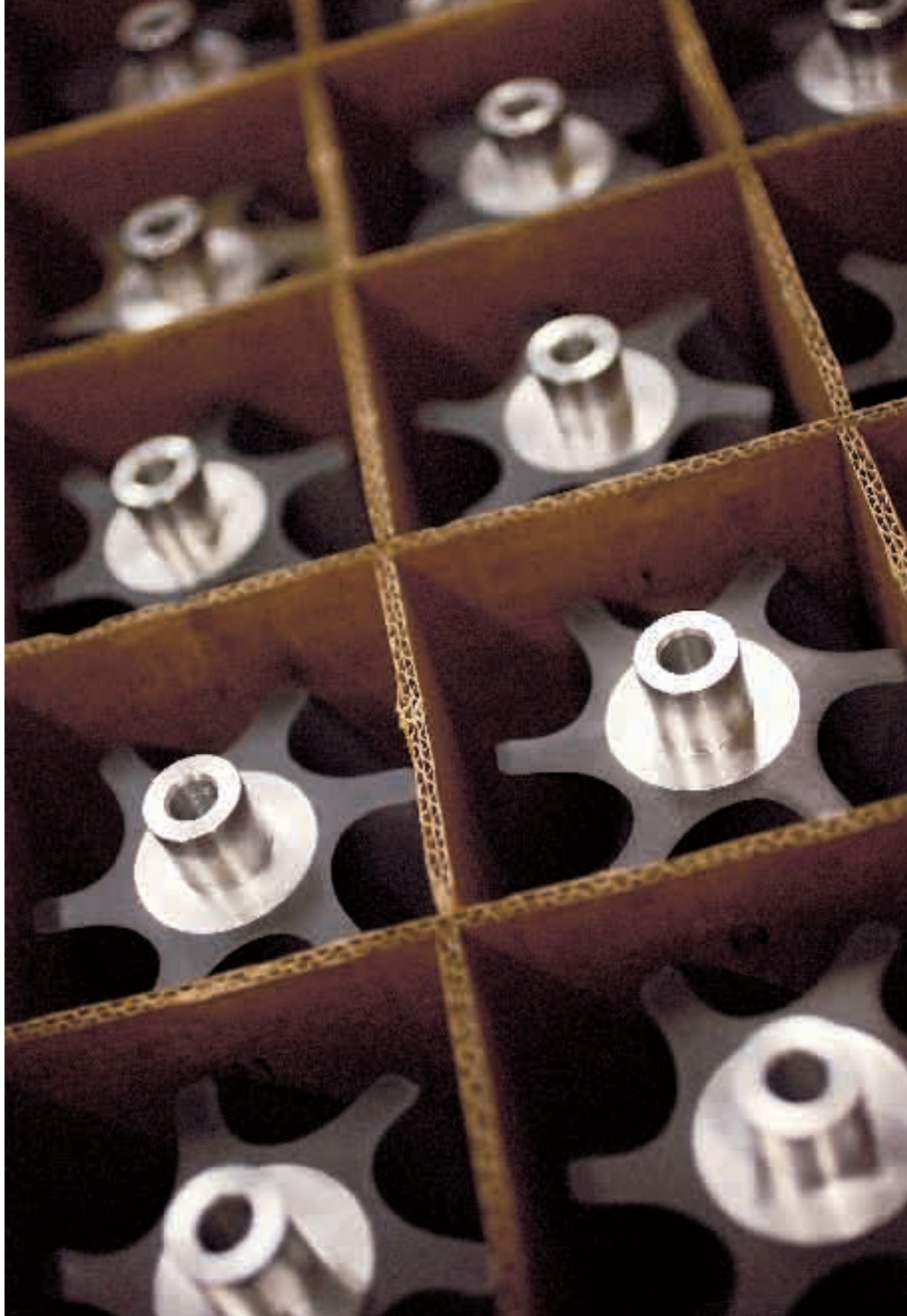
In 2003 there was growing interest in Laminova's oil coolers and intercoolers and this resulted in several new development projects together with other suppliers in the US.

This increased interest is partly due to the fact that Laminova has started supplying intercoolers to GM's new Echotech engine platform for two GM models. This engine is expected to dominate GM's production in coming years.

Ford's much publicised new sports car, the Ford GT, is equipped with Lysholm's screw compressor, which has led to significant growth in interest in screw compressors from both the aftermarket and OEM customers. This will result in new partnerships and deliveries in 2004 and 2005.

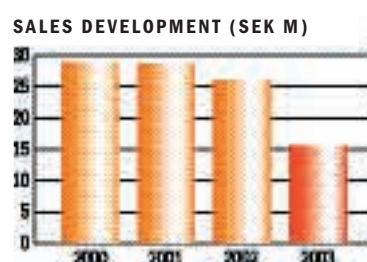
Laminova's intercooler core for the intercooler used in GM's new Echotech engine platform.





Rotors for compressors designed for the US aftermarket.

RESULTS (SEK MILLION)	2003	2002
Sales	15,6	26,1
Operating profit	-0,6	-0,3
Profit margin, %	-3,8	-1,1
Profit after financial items	-0,6	-0,3
Investment in machinery and equipment	0,0	0,1
Investment in research and development	-	-
Average no. of employees	3	4



CUSTOMERS BY SECTOR



5-YEAR SUMMARY OF THE GROUP

PROFIT AND LOSS STATEMENT (SEK 000)	2003	2002	2001	2000	1999
Net sales	246 979	282 936	301 780	256 289	238 751
Other operating income	0	0	4 719	0	0
Operating profit before depreciation	-1 301	7 036	29 148	30 836	17 465
Depreciation of tangible fixed assets	-16 155	-17 357	-18 819	-18 224	-19 194
Depreciation of intangible fixed assets	-6 038	-5 448	-5 267	-4 471	-4 247
Operating profit/loss	-23 494	-15 769	5 062	8 141	-5 976
Financial items	-2 758	-2 620	-2 505	-2 105	-2 009
Profit/loss after financial items	-26 252	-18 389	2 557	6 036	-7 985
Tax	7 310	5 683	-1 170	-1 901	2 059
Minority shares	0	0	1	-2	2
Profit/loss for the year	-18 942	-12 706	1 388	4 133	-5 924
BALANCE SHEET (SEK 000)	2003	2002	2001	2000	1999
Intangible assets	41 863	21 507	19 457	7 896	6 090
Tangible assets	72 893	66 257	71 898	69 421	76 212
Financial assets	22 162	14 095	8 570	9 321	11 222
Total fixed assets	136 918	101 859	99 925	86 638	93 524
Inventories	58 357	41 426	39 748	37 135	39 283
Accounts receivable – trade	51 036	42 306	52 882	51 698	45 077
Other current assets	14 176	10 378	20 423	8 671	5 577
Liquid funds/short-term investments	19 666	30 484	11 464	25 766	14 274
Total current assets	143 235	124 594	124 517	123 270	104 211
Total assets	280 153	226 453	224 442	209 908	197 735
Shareholders' equity	119 535	113 843	107 769	95 750	91 617
Minority shares	0	0	608	609	607
Interest-bearing provisions/liabilities	78 981	63 215	62 606	59 047	59 027
Deferred tax	2 100	1 677	1 976	656	655
Current non-interest-bearing liabilities	79 537	47 718	51 483	53 846	45 829
Total liabilities and equity	280 153	226 453	224 442	209 908	197 735

5-YEAR SUMMARY OF THE GROUP

SHAREHOLDERS' EQUITY AND RATIOS (SEK 000)	2003	2002	2001	2000	1999
Shareholders' equity	119 535	113 843	107 769	95 750	91 617
Net financial debt	59 315	32 731	51 142	33 281	44 753
Net operating assets	178 850	146 574	159 519	129 640	136 977
Return on equity, %	-16,2	-11,5	1,4	4,4	-6,3
Return on net operating assets, %	-14,4	-10,3	3,5	6,1	-4,7
Return on assets, %	-9,1	-6,5	2,7	4,2	-2,6
Gross margin, %	-0,5	2,5	9,7	12,0	7,3
Operating margin, %	-9,5	-5,6	1,7	3,2	-2,5
Profit margin, %	-10,6	-6,5	0,8	2,4	-3,3
Equity/assets ratio, %	42,7	50,3	48,3	45,9	46,6
Proportion of risk-bearing capital, %	43,4	51,0	49,2	46,2	47,0
Interest cover, x	-6,91	-3,98	1,78	3,33	-1,94
Debt gearing, %	66,1	55,5	58,1	61,7	64,4
R&D costs	24 575	22 888	17 772	12 533	9 576
of which capitalised	4 746	7 156	4 703	4 553	1 581
CASH FLOW (SEK 000)	2003	2002	2001	2000	1999
Cash flow from current activities	-3 283	3 335	28 259	28 731	15 456
Change in working capital	12 003	15 099	-17 912	450	-15 211
Cash flow from investment activities	-50 429	-19 494	-38 208	-17 710	-25 582
Cash flow from financing activities	30 891	20 080	13 559	21	6 300
Cash flow, net	-10 818	19 020	-14 302	11 492	-19 037
DATA PER EMPLOYEE (SEK 000)	2003	2002	2001	2000	1999
Average number of employees	239	284	326	308	313
Sales per employee	1 033	996	926	832	763
Operating profit per employee	-98	-56	16	26	-19

THE OPCON SHARE

The Opcon share has been listed on the O-list of Stockholmsbörsen since 1998.

During 2003 a new share issue took place (registered with the Swedish Patent and Registration Office on 31 January 2004), which increased the total number of shares by 1,450,000.

In April 2003 the AGM authorised the Board to increase the share capital by issuing a maximum of 2,100,000 new shares up to the date of the next Annual General Meeting. No other new share issues were carried out during the year.

OWNERSHIP

At the end of 2003 the largest owners of Opcon AB were Svenska Rotor AB, Four Seasons Venture Capital AB, Erling Edmundson and AB Kompositprodukter.

Together the four largest owners control 43.5% of the voting rights in the company.

At the end of 2003 Opcon had 2,232 shareholders.

SHARE PERFORMANCE

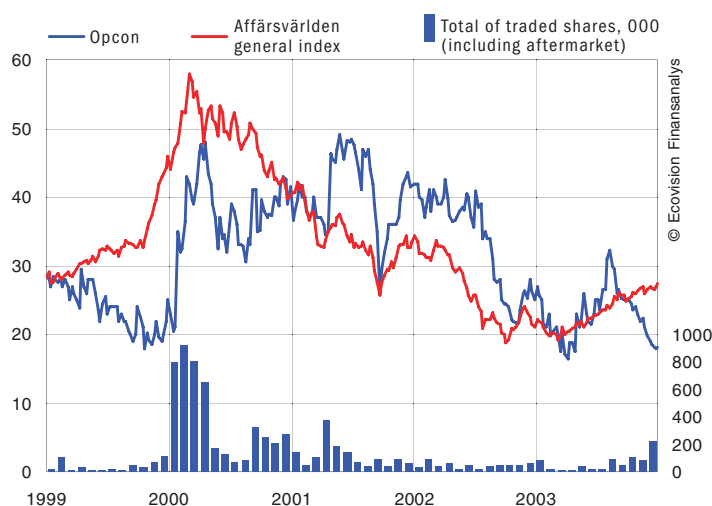
The share price at the start of the year was SEK 25.00, and the final price at the end of the year was SEK 18.10. The highest price during the year was SEK 32.20.

DIVIDEND

The Board proposes that no dividend be paid for the 2003 financial year.

OPTIONS SCHEME

Opcon AB had no options scheme in place during 2003.



DATA PER SHARE

	2003	2002	2001	2000	1999
Profit/loss per share, SEK	-2,66	-1,90	0,21	0,66	-0,95
Shareholders' equity per share, SEK	13,93	15,97	16,62	15,34	14,68
Dividend per share, SEK	0	0	0	0	0
Average total shares, 000	7129	6699	6484	6242	6242
No. of shares at end of 2003	8579	7129	-	-	-

LARGEST SHAREHOLDERS, 30 DECEMBER 2003

	No. of shares	Percentage
Svenska Rotor AB	1 450 000	16,9
Four Seasons Venture Capital AB	824 740	9,6
Erling Edmundson	738 360	8,6
AB Kompositprodukter	714 561	8,3
Deutsche Bank London	574 600	6,7
The Local Gov Pensions Inst. Finland	500 000	5,8
Deutsche Bank Frankfurt	387 800	4,5
Skandia	268 050	3,1
Sven-Gunnar Oskarsson	223 500	2,6
Kragmore Properties Ltd.	174 801	2,0

Source: VPC

SIZE OF SHAREHOLDING, 30 DECEMBER 2003

Holding	No. of owners	No. of shares	Holding, %
1-500	1 512	305 191	3,6
501-1000	430	380 596	4,4
1001-10 000	245	715 972	8,3
10 001-20 000	20	294 536	3,4
100 001-	25	6 882 412	80,2
	2 232	8 578 707	100,0

Source: VPC

OWNER DISTRIBUTION, 30 DECEMBER 2003

	No. of owners	No. of shares	Holding, %
Legal entity	166	6 108 652	71,2
Individuals	2 066	2 470 055	28,8
	2 232	8 578 707	100,0
of whom resident in Sweden	2 182	6 433 698	75,0

Source: VPC

REPORT OF THE BOARD OF DIRECTORS

GROUP OVERVIEW

Opcon's business concept is to develop, manufacture and market systems and products that contribute to generating environment-friendly power and can reduce the environmental impact of the end product and thus improve health and safety.

The Group's product range comprises ignition and engine management systems, electro-mechanical devices, screw compressors and heat exchangers. Customers are mainly in the automotive, small-engine and engineering industries.

The Group operates through four business areas.

As of 30 December 2003 Opcon had acquired Svenska Rotormaskiner AB and Lysholm Technologies AB. The acquired companies are active within screw compressors. Svenska Rotormaskiner AB awards licences and develops technology, while Lysholm Technologies AB is a production company.

The operations of the parent company, Opcon AB, comprise management and corporate services.

The company is located in Åmål, Sweden, and has been listed on the O-list of Stockholmsbörsen since 31 December 1998.

INVOICING AND RESULTS

THE GROUP

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

The operating loss was SEK 23.5 million, compared with a loss of SEK 15.8 million in 2002.

Earnings were negatively affected by one-off items amounting to SEK 4.5 million. These costs were mainly for the restructuring of activities, including the consequences of the decision to move production of ignition systems to China and the addition of acquired companies in the field of screw compressors.

The loss after financial items was SEK 26.3 million (-18.4 m). The loss after tax was SEK 18.9 million (-12.7 m), which corresponds to earnings per share of SEK -2.66 (-1.90).

The order book at the end of 2003 amounted to SEK 157 million (172 m).

Sales turnover for SEM AB fell 18% during the year due to a decline in deliveries of ignition systems to the auto

industry and the decommissioning of an ignition system for small engines. Earnings were affected by the falling volumes. Results were also affected by one-off costs of SEK 4 million. A completed cost-reduction programme will mean that costs in 2004 will be SEK 10 million lower than in 2003.

Sales turnover and earnings for Reac were affected by weaker demand from auto customers.

Opcon Autorotor AB's continued development of applications using screw compressor technology has resulted in increased assignments from the fuel cell sector and there is growth within the aftermarket for compressors for supercharging of combustion engines. Production capacity was raised during the year to match the 41% increase in sales. A rationalisation programme was also completed that is expected to result in lower costs of SEK 8 million in 2004 compared with 2003. Capacity costs, material costs and delivery delays had a negative effect on earnings.

Laminova Production AB has experienced a temporary downturn in deliveries to the auto industry. However, new customers and the launch of new products in 2004 should see the company regain a positive sales and earnings trend.

INVESTMENTS

THE GROUP

Investment in machinery and tools for Group companies during the year totalled SEK 12.6 million (17 m). The Group invests large resources in developing new technology. Development costs during the year amounted to SEK 19.8 million (15.7 m).

In addition, costs for research and development amounting to SEK 4.7 million (7.2 m) have been carried forward.

Most of amount carried forward is attributable to the development of a modular ignition system for motorbikes.

PARENT COMPANY

The parent company's investments in fixed assets amounted to SEK 0.4 million (1.7 m).

The price for the acquisition of Svenska Rotormaskiner AB and Lysholm Technologies AB amounted to SEK 33.5 million. Of this purchase sum, SEK 26.1

million was for 1,450,000 newly issued shares in Opcon AB.

RESEARCH AND DEVELOPMENT

The company's research and development is focused on the development, engineering design and testing of new products, or the improvement of existing ones, within the areas of air systems for fuel cells, compressors for supercharging of combustion engines, ignition and control systems for gas engines, module-based ignition systems for motorbikes and electrical actuators.

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%).

EMPLOYEES

At the end of 2003 the Group had 276 employees (309), of whom 122 (135) were women.

The average number of annual employees was 239 (284).

Further information about employees, salaries, social costs and sick leave is included in note 7.

THE ENVIRONMENT

THE GROUP

Opcon companies have received permission in accordance with current laws and statutes in order to conduct their activities.

Permission is granted by the National Chemicals Inspectorate and Labour Inspectorate and applies for the use of chemicals in the production process, including epoxy containing acid halogenide, methylene chloride and trichloroethylene.

Current permits from the National Chemicals Inspectorate are valid until 31 December 2005, while the permit from the Labour Inspectorate runs until 15 April 2004. New permits have been applied for and are being processed.

The Group's main environmental impact consists of emissions from the burning of oil for heating and transport and ventilation emissions. All waste from operations is recycled or destroyed.

According to the Folksam climate index, an annual survey of carbon dioxide emissions by listed Swedish companies, Opcon scores four stars out of a possible five.

FINANCIAL RISKS

The Group is exposed to a variety of financial risks that include the effects of changes in prices on the lending and capital markets and changes in exchange rates and interest rates.

The Group's main risk management programme focuses on the uncertainties in the financial markets and aims to minimise potential unfavourable effects of the Group's financial results. The Group uses derivative instruments such as currency hedging contracts to secure some of the exposure.

Risk management is handled by a central finance department (Group Finance) according to principles established by the Board. Group Finance identifies, evaluates and secures financial risk in close co-operation with the Group's operating units. The Board produces written principles for overall risk management and for specific areas such as currency risks, interest risks, the use of derivatives and the investment of surplus cash.

FOREIGN CURRENCY RISKS

The Group is active internationally and is exposed to exchange rate risks when it makes sales and purchases in foreign currencies. Exposure is mainly to the US dollar and the euro. Group companies use external hedging contracts.

Up to 50% of flows in foreign currency are hedged (mainly USD).

On the closing date there were no open hedging contracts. Due to the progress of the US dollar towards the end of 2003, the company has not yet signed its normal hedging contracts.

Of total Group invoicing, SEK 44.2 million (53.7 m) or around 18% (19%) is in US dollars, and SEK 22.2 million (15.7 m) or 9% (6%) is in euros.

The Group's purchases in foreign currency totalled SEK 50.7 million (77.5 m), of which SEK 13.8 million (31.3 m) was in US dollars, SEK 33.1 million (40.9 m) was in euros and SEK 3.7 million (5.3 m) was in other currencies.

INTEREST RATE RISKS

The Group's income and cash flow from operations are almost fully independent of changes in market-based interest rates. The Group has no significant interest-bearing assets. The Group's principle is to have around 50% of loans at fixed rates. At the end of the year 48% of loans were at fixed rates.

CREDIT RISKS

The Group has no significant concentration of credit risks. The Group has fixed guidelines to ensure that the sale of products and services are made to customers with a suitable credit profile. Most of the derivative contracts and cash transactions are restricted to financial institutions with a high credit rating.

LIQUIDITY RISKS

The handling of liquidity risks is based on safety first, which means maintaining sufficient liquid funds and sellable securities, available financing through sufficient agreed credit facilities and the possibility to close market positions. Due to the dynamic nature of the underlying activities Group Finance aims to maintain flexibility in financing by establishing agreement regarding removable credit.

PARENT COMPANY

The operations of the parent company cover internal services and the management of the Group's assets.

The shared functions of the Group are finance, administration, human resources, information, IT, the environment and property.

The parent company's invoiced sales amounted to SEK 19.4 million (20.8 m) and were derived mainly from rentals and corporate services to the subsidiaries.

The parent company made a loss after financial items of SEK 23.4 million (-6.4 m). The write-down of shares in subsidiaries had a negative effect of SEK 16.0 million.

The Group's liquid funds at the end of the year totalled SEK 7.9 million (19.2 m).

BOARD OF DIRECTORS AND ITS WORKING METHODS

Opcon AB's Board of Directors has five members. The Chief Executive Officer

is a member of the Board.

Working procedures for the Board are established annually in accordance with the Swedish Companies Act. Procedures include details about the division of responsibility among members of the Board, the chairman and the CEO.

The Board will make decisions on issues that are not a part of regular administration or are of major importance such as key financial measures, contracts, investments and organisational changes. The Board determines the financial policy of the company.

The Board's work follows an annual plan with a fixed agenda for each Board meeting. The company's Chief Financial Officer participates at Board meetings as the secretary. Other Group employees may make presentations to Board meetings.

Eight Board meetings were held in 2003.

The company's auditors attended one Board meeting.

OWNERSHIP STRUCTURE

The company has around 2,200 shareholders.

The total number of shares on 31 December 2003 was 7,128,707 shares, which was unchanged on the previous year.

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 largest individual shareholders are Svenska Rotor AB (16.9%), Four Seasons Venture Capital AB (9.6%), Erling Edmundson (8.6%), and AB Komposit-produkter (8.3%).

INTRODUCTION OF IFRS

From 2005 the company's financial reporting will be in accordance with the International Financial Reporting Standards (IFRS, previously IAS). The 2004 Annual Report will therefore be the last report to use the recommendations of the Swedish Financial Accounting Standards Council. The Q1 2005 interim report and the 2005 Annual Report will include an arrangement of the balance sheet and income statement (the company's financial reports) for 2004 in accordance with IFRS and with

the company's current accounting principles.

The recommendations of the Swedish Financial Accounting Standards Council have become very close to IFRS, although a number of differences remain.

These differences are increasing as IFRS makes new changes. The definitive form of all IFRS principles is not yet available.

The company monitors this situation continuously so that it can follow new procedures. Based on what is known today, the major differences between current accounting principles and future IFRS principles are expected to be as follows:

- Reporting of pensions (this difference will disappear with the introduction of RR29 in 2004)
- Reporting of financial instruments which means that more instruments will be reported at actual value and that requirements for allowing hedging accounting will be tightened up.
- Goodwill and certain intangible assets will not be able to be written off linearly. Instead it will be compulsory to assess each year if there is a need to make a write off.

The company's financial reports will also be affected by changed requirements for classification and reporting in accordance with IFRS. These changes will probably affect the key indicators for the company. At this stage the company cannot quantify these differences.

Initial training of the staff affected by these changes has been carried out and will be continued during 2004. The company also intends to supply information to the stock market and analysts during the final quarter of 2004 about the effects on the company's reporting of the introduction of IFRS.

OUTLOOK FOR 2004 AND BEYOND

Following the completion of the cost-reduction programme and due to increased volumes and the contribution from acquired companies, the Opcon Group expects to report a profit for 2004.

No significant events have occurred after the closing date.

SEM AB

During 2003 the efficiency of activities was improved and costs were cut, measures which will have full effect in 2004.

During 2004 a production site for small ignition systems will be established in China. The aim is to significantly increase the market share for small ignition systems.

Development projects are being performed regarding ignition systems for natural gas engines and motorbikes.

Activities in Åmål, Sweden, and in China are expected to be profitable in 2004.

REAC

The company's products are expected to generate strong sales in 2004 and beyond and produce increasing profits.

The company is focusing on profitable niche markets for electrical actuators and inductive sensors and expects to find new customers in these areas.

OPCON AUTOROTOR AB

Autorotor has a strong position in growth markets for air systems for fuel cell engines in vehicles and compressors for combustion engines on the auto aftermarket. Sales are expected to increase in both areas during 2004 and at lower cost than in 2003.

The company is involved in a large EU project aimed at developing new fuel cell engines together with leading carmakers, car technology companies and research institutions across Europe.

LAMINOVA PRODUCTION AB

Sales are expected to increase in 2004. The company has started series production of intercoolers for its first OEM customer, Ford in the US and its new Echotech engine platform. Deliveries are expected to be significant over several years.

Laminova is also starting to supply Proton in Malaysia in 2004.

SRM AB (SVENSKA ROTORMASKINER)

Opcon AB acquired SRM AB at the start of 2004. During 2004 and beyond SRM will further develop its licence business. The company will also be an important player in the development of Opcon's air systems.

LYSHOLM TECHNOLOGIES AB

Lysholm, which was acquired by Opcon at the start of 2004, will begin supplying superchargers to the new Ford GT sports car in 2004. Ford, USA, is the company's largest OEM customer. Deliveries to other Ford applications worth significant amounts will start in 2005 and last for several years.

Growth on the aftermarket is expected to continue in 2004.

The company will also start supplying boat manufacturer Mercury in 2004.

OPCON INC.

The company expects volumes for Opcon products to continue increasing on the American market as the product range expands.

The company is planning to move to Detroit, Michigan, during 2004 in order to get closer to key markets.

RESULTS AND FINANCIAL POSITION

The results and financial position of the Group and the parent company are presented in the following income statements, balance sheets, cash flow statements and notes to the accounts.

PROPOSED ALLOCATION OF LOSS

THE GROUP

The Group's accumulated loss according to the consolidated balance sheet amounts to SEK 16,745,000, including the loss from 2003 of SEK 18,942,000.

No allocation to restricted reserves is proposed.

PARENT COMPANY

Amount brought forward	
SEK	10,188,294
Group contribution received	
SEK	3,440,000
Loss for the year	
SEK	-22,354,940
Total SEK	-8,726,646

The Board and CEO proposes that the accumulated loss of SEK 8,726,646 be covered by transfer to a reserve fund.

INCOME STATEMENTS

SEK '000	NOTE	THE GROUP		PARENT COMPANY	
		2003	2002	2003	2002
	1, 2				
Net sales	3,4	246 979	282 936	19 406	20 766
Cost of goods/services sold		-213 013	-245 241	-18 911	-20 853
Gross profit	6, 7, 8, 9	33 966	37 695	495	-87
Selling expenses		-5 500	-7 053	-	-
Administrative costs		-31 128	-29 559	-9 365	-7 270
R&D costs	5	-19 829	-15 732	-	-
Other operating income		-	120	-	-
Other operating expenses		-1 003	-1 240	-	-
Operating profit/loss	6, 7, 8, 9	-23 494	-15 769	-8 870	-7 357
Profit/loss from financial investments	10				
Interest income		560	1 070	-	-
Interest expenses		-3 318	-3 690	-	-
Write-down of shares in Group companies		-	-	-16 072	-
Other interest income and similar p/l items		-	-	2 878	1 772
Interest expenses and similar p/l items		-	-	-1 373	-769
Profit/loss after financial investments		-	-	-14 567	1 003
Profit/loss after financial items		-26 252	-18 389	-23 437	-6 354
Tax on profit for the year	29	-	-140	-	1 053
Deferred tax	11	7 310	5 823	1 082	1 207
PROFIT/LOSS FOR THE YEAR		-18 942	-12 706	-22 355	-4 094
Earnings per share, (SEK)	12	-2,66	-1,90	-	-
Average number of shares, ('000)		7 129	6 699	-	-

BALANCE SHEETS

SEK '000	NOTE	THE GROUP		PARENT COMPANY	
		2003	2002	2003	2002
ASSETS	13				
Fixed assets					
Intangible fixed assets					
Capitalised expenditure for R&D	9, 14	8 588	8 877	-	-
Goodwill	15	25 433	12 130	-	-
Concessions, patents, licences, brands and similar rights	16	7 842	500	500	500
		41 863	21 507	500	500
Tangible fixed assets					
Buildings and land	17	6 128	6 392	6 128	6 392
Plant and machinery	18	44 653	40 473	131	161
Inventories, tools and installations	19	22 112	19 392	2 971	3 995
		72 893	66 257	9 230	10 548
Financial fixed assets					
Participations in Group companies	20	-	-	104 009	66 931
Deferred tax	11	21 169	14 056	11 270	10 188
Other long-term receivables	21	993	39	-	-
		22 162	14 095	115 279	77 119
Total fixed assets		136 918	101 859	125 009	88 167
Current assets					
Inventories					
Raw materials and consumables		28 509	23 314	-	-
Work in progress		20 656	7 235	-	-
Finished products and goods for resale		9 192	10 877	-	-
		58 357	41 426	-	-
Current receivables					
Receivables from Group companies		-	-	45 915	30 299
Accounts receivable – trade		51 036	42 306	45	224
Tax receivable		2 782	2 098	210	289
Other current receivables		4 650	2 574	160	64
Prepaid expenses and accrued income	30	6 744	5 706	1 561	3 347
		65 212	52 684	47 891	34 223
Current investments		7 000	7 000	-	-
Cash and bank balances		12 666	23 484	7 913	19 200
		19 666	30 484	7 913	19 200
Total current assets		143 235	124 594	55 804	53 423
TOTAL ASSETS		280 153	226 453	180 813	141 590

BALANCE SHEETS / continued

SEK '000	NOTE	THE GROUP		PARENT COMPANY	
		2003	2002	2003	2002
SHAREHOLDERS' EQUITY AND LIABILITIES	13				
Shareholders' equity					
Restricted equity					
Share capital	31	42 894	35 644	42 894	35 644
Share premium reserve		-	-	44 416	25 566
Statutory reserve		-	-	48 895	48 895
Restricted reserve		93 386	74 536	-	-
		136 280	110 180	136 205	110 105
Accumulated deficit/non-restricted equity					
Non-restricted reserves		2 197	16 369	-	-
Profit/loss brought forward		-	-	13 628	14 281
Profit/loss for the year		-18 942	-12 706	-22 355	-4 094
		-16 745	3 663	-8 727	10 187
Total shareholders' equity		119 535	113 843	127 478	120 292
Provisions					
Provisions for pensions	22	6 728	5 572	-	-
Other provisions	23	3 695	917	-	-
Deferred tax	11	2 100	1 677	-	-
		12 523	8 166	-	-
Long-term liabilities	24				
Liabilities to credit institutions		34 328	32 139	3 800	3 800
		34 328	32 139	3 800	3 800
Current liabilities	24				
Bank overdraft facilities	24	37 925	25 504	25 980	1 919
Accounts payable - trade		32 799	17 483	3 022	1 789
Liabilities to Group companies		-	-	11 813	11 061
Other current liabilities		9 643	5 909	471	512
Accrued expenses and prepaid income	25	33 400	23 409	8 249	2 217
		113 767	72 305	49 535	17 498
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		280 153	226 453	180 813	141 590
Pledged assets	26	103 800	86 300	6 800	6 800
Contingent liabilities	27	3 114	3 502	23 000	26 000

CASH FLOW STATEMENTS

SEK '000	NOTE	THE GROUP		PARENT COMPANY	
		2003	2002	2003	2002
	1, 28				
Operating activities					
Profit/loss before financial items		-23 494	-15 769	-8 870	-7 358
Received interest		560	1 070	2 878	1 773
Paid interest		-3 318	-3 690	-1 373	-769
Translation difference		-1 176	-1 221	-	-
Adjustments for non-cash items					
Depreciation		22 193	22 805	1 755	1 766
Current tax		-	140	-	-
Change to provisions		1 952	217	-	-
Cash flow from operating activities before change in working capital		-3 283	3 552	-5 610	-4 588
Change in working capital					
Increase (-)/decrease (+) in inventories		-16 931	-1 678	-	-
Increase (-)/decrease (+) in accounts receivable		-	-	179	995
Increase (+)/decrease (-) in other current liabilities		-12 528	20 621	-13 847	4 915
Increase (+)/decrease (-) in accounts payable – trade		-	-	1 233	-1 713
Increase (+)/decrease (-) in other current operating liabilities		41 462	-3 844	6 743	-2 845
Cash flow from operating activities after change in working capital		8 720	18 651	-11 302	-3 236
Investing activities					
Acquisition of tangible fixed assets, machinery and inventories		-12 549	-14 415	-436	-1 219
Acquisition of tangible fixed assets, machinery and inventories, net, through acquisition of companies		-10 277	-	-	-
Acquisition of intangible fixed assets, capitalised development costs, patents		-4 746	-7 156	-	-
Acquisition of intangible fixed assets, net, through acquisition of companies		-7 342	-	-	-
Acquisition of intangible fixed assets, goodwill and material rights		-14 809	-2 593	-	-500
Acquisition of financial assets (excluding deferred tax receivable), shares in subsidiaries		-954	-	-33 528	-9
Sales and scrapping of tangible fixed assets		248	4 670	-	14
Cash flow from investing activities		-50 429	-19 494	-33 964	-1 714
Financing activities					
Group contribution received		-	-	3 440	8 384
Group contribution paid		-	-	-	-4 622
Shareholders' contribution		-	-	-19 622	-
New share issue		26 100	20 000	26 100	20 000
Raised loans		2 189	471	24 061	-40
Change in minority interest		-	-608	-	-
Change in provisions		2 602	-	-	-
Cash flow from financing activities		30 891	19 863	33 979	23 722
CASH FLOW FOR THE YEAR		-10 818	19 020	-11 287	18 772
Liquid assets, opening balance		23 484	4 464	19 200	428
Liquid assets, closing balance		12 666	23 484	7 913	19 200

CHANGES IN SHAREHOLDERS' EQUITY

THE GROUP

SEK '000	SHARE CAPITAL	RESTRICTED RESERVES	NON RESTRICTED RESERVES	TOTAL SHARE- HOLDERS' EQUITY
Shareholders' equity on 31 December 2001	32 418	57 759	17 592	107 769
Exchange rate difference when translating foreign activities	-	-1 552	332	-1 220
Total changes in shareholders' equity not reported in income statement	0	-1 552	332	-1 220
Profit/loss for the year	-	-	-12 706	-12 706
Transfer between restricted and non-restricted equity	-	1 555	-1 555	-
New share issue	3 226	16 774	-	20 000
Shareholders' equity on 31 December 2002	35 644	74 536	3 663	113 843
Exchange rate difference when translating foreign activities	-	-1 296	-170	-1 466
Total changes in shareholders' equity not reported in income statement	0	-1 296	-170	-1 466
Profit/loss for the year	-	-	-18 942	-18 942
Transfer between restricted and non-restricted equity	-	1 296	-1 296	-
New share issue	7 250	18 850	-	26 100
Shareholders' equity on 31 December 2003	42 894	93 386	-16 745	119 535

CHANGES IN SHAREHOLDERS' EQUITY

PARENT COMPANY

SEK '000	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	STATUTORY RESERVE	NON RESTRICTED SHAREHOLDERS' EQUITY	TOTAL SHAREHOLDERS' EQUITY
Shareholders' equity on 31 December 2001	32 418	8 792	-	48 896	2 592	92 698
Effect of change in accounting principles on deferred tax	-	-	-	-	8 979	8 979
Adjusted opening balance, 2002	32 418	8 792	0	48 896	11 571	101 677
Group contribution received	-	-	-	-	8 384	8 384
Group contribution paid	-	-	-	-	-4 622	-4 622
Tax effect of Group contribution	-	-	-	-	-1 053	-1 053
Total changes in shareholders' equity not reported in income statement	0	0	0	0	2 709	2 709
Profit/loss for the year	-	-	-	-	-4 094	-4 094
New share issue	3 226	16 774	-	-	-	20 000
Shareholders' equity on 31 December 2002	35 644	25 566	0	48 896	10 186	120 292
Group contribution received	-	-	-	-	3 441	3 441
Total changes in shareholders' equity not reported in income statement	0	0	0	0	3 441	3 441
Profit/loss for the year	-	-	-	-	-22 355	-22 355
New share issue	7 250	18 850	-	-	-	26 100
Shareholders' equity on 31 December 2003	42 894	44 416	0	48 896	-8 728	127 478

NOTES TO THE ACCOUNTS

NOTE 1 ACCOUNTING AND VALUATION PRINCIPLES

Opon AB's and the Group's accounting and valuation principles have been drawn up in accordance with the annual accounts act and the recommendations and statements of the Swedish Financial Accounting Standards Council.

From this financial year, the following new recommendations of the Swedish Financial Accounting Standards Council are being applied:

Recommendation no. 2:02 Inventories
Recommendation no. 22 Presentation of financial statements
Recommendation no. 25 Segment reporting
Recommendation no. 26 Events after the balance sheet date
Recommendation no. 27 Financial instruments: Disclosure and classification
Recommendation no. 28 Accounting for government grants and disclosure of government assistance.

The application of the above recommendations has not had any significant effect on shareholders' equity, the current accounting period or those periods presented for purposes of comparison.

Starting in 2003 the parent company has implemented Council Recommendation no. 9 Income tax. The change of accounting principle has had an effect on the opening balance for shareholders' equity on 1 January 2002 of SEK 8,979,000 concerning the deferred tax receivable. In addition, the previous year's profit/loss was affected by SEK 1,207,000 concerning the change in the deferred tax receivable.

Consolidated accounts

The consolidated accounts include subsidiaries where the parent company directly or indirectly owns more than 50% of the votes, or has a decisive influence in another way.

Acquisition accounting is used for the consolidated accounts. This means that shareholders' equity in subsidiaries at the time of acquisition, defined as the difference between the real value of assets and liabilities, is fully eliminated. Consolidated equity therefore includes only the part of the subsidiary's equity that arises after the acquisition.

Goodwill consists of the amount by which the acquisition amount exceeds the actual amount of the Group's share in the acquired subsidiary's net assets at the time of acquisition.

Companies acquired during the year are included in the consolidated accounts with amounts for the period after acquisition. Results from companies sold during the year have been included in the consolidated income statement for the period up to the sale date.

All foreign subsidiaries of the Opon Group are classified as independent subsidiaries, and the current method is therefore used to translate their results. This means that the assets and liabilities of foreign subsidiaries are translated at the closing day rate. All items in the income statements are translated using the average rate for the year. Translation differences are added directly to the Group's shareholders' equity.

Internal profits within the Group are eliminated in full.

Goodwill consists of the amount by which the acquisition value exceeds the true value of the Group's share of the acquired subsidiary's net assets at the time of acquisition.

Receivables

Receivables are accounted for individually at the amount which they are expected to be paid.

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency are valued at the closing day rate. In cases where currency has been hedged, the valid futures rate applies.

Transactions in foreign currency are translated using the call rate on the transaction date.

In the case of hedging of future budgeted flows, the hedging instrument is not revalued when exchange rates change. The complete effect of the exchange rate change is recorded in the profit/loss statement when the hedging instrument falls due for payment.

Income

Sales of goods are reported when the product is delivered to the customer, in accordance with the sale terms. Sales are reported net after sales tax, discounts and exchange rate differences if a foreign currency is involved.

Intra-Group sales are eliminated in the consolidated accounts.

Income from rents is reported for the period over which the rental takes place.

Interest rate income is reported in accordance with the effective yield.

The principles for reporting income from services are described under the heading, 'Work in progress'.

Income tax

Reported income tax comprises the tax that shall be paid or paid back for the current year, adjustments due to previous years' tax payments and changes in deferred tax.

NOTE 1 ACCOUNTING AND VALUATION PRINCIPLES, CONTINUED

Estimates of all tax liabilities and tax receivables are made as nominal amounts and according to tax rules and rates already in place or which have been announced and are most likely to be implemented.

The associated tax effects of items recorded in the profit and loss account are also recorded in the profit and loss account. The tax effects of items recorded directly against shareholders' equity are also recorded against shareholders' equity.

Deferred tax is calculated using the balance sheet method for the temporary differences that arise between reported values and tax values for assets and liabilities. Temporary differences arise primarily through tax deficits.

Deferred tax receivables concerning deficit deductions or other future tax deductions are reported to the extent that it is probable that the deduction can be settled against surpluses in future taxation. Deferred tax receivables concerning temporary differences referring to investments in subsidiaries are not reported in Opon's consolidated accounts as the parent company in each case can control the timing for the return of the temporary differences and it is not considered probable that the return will take place in the near future.

Inventories

Inventories have been valued by applying the first in/first out (FIFO) principle, i.e. whichever is the lower of the acquisition value and the real value on the balance sheet date. Collective valuation is used for similar products. The acquisition value of fully and semi-finished products manufactured by the company have been assessed as the manufacturing costs of the goods including reasonable amount of the indirect manufacturing costs.

Work in progress

For completed service assignments, income and expenses are recorded that are related to the assignment and to the extent that the assignment is completed on the closing day (successive income recognition).

The extent to which an assignment is completed is determined by comparing expenses incurred by the balance day with estimated total expenses. In cases where a service assignment cannot be estimated reliably, revenues are recorded only to the extent that incurred assignment costs are likely to be remunerated by the customers. An expected loss on an assignment is recorded immediately as an expense.

Tangible fixed assets

Tangible fixed assets are recorded at their acquisition value minus depreciation. The cost of improving the performance of an asset beyond its original state increases the recorded value of the asset. The cost of repairs and maintenance is recorded as an expense.

Tangible fixed assets are depreciated based on their estimated economic life spans. When the depreciable amount of assets is determined the remaining value of the asset is taken into consideration where relevant. A linear depreciation method is used for all types of tangible fixed assets. The following depreciation times apply:

Buildings used in the business	25 years
Product-associated tools/product construction costs	3 years
Machinery and equipment	10 years
Vehicles/computer equipment	5 years
Inventories	10 years

When the recorded value of an asset exceeds its estimated recycling value, the asset is immediately written down to its recycling value.

Product-associated tools include the value of purchased or own manufactured equipment designed for producing goods. Product construction costs cover costs for constructing prototypes that will be later produced in series.

Product-associated tools and product construction costs are recorded under the heading "Inventories and tools" in the balance sheet.

Intangible fixed assets

Research and development

Research costs are recorded as expenses immediately. Costs for development projects (relating to constructing and testing new or improved products) are carried forward as intangible assets in the amount that these costs are expected to generate future financial benefits. Other development costs are recorded as they occur. Development costs recorded earlier are not carried forward as an asset in later periods.

Development costs carried forward are depreciated linearly over the period when the expected advantages are expected to benefit the company. The depreciation period does not exceed five years. Depreciation is included in the item entitled 'Research and Development costs'.

Depreciation of assets financed by government grants starts in the year when the acquisition value is established.

NOTES TO THE ACCOUNTS

NOTE 1 ACCOUNTING AND VALUATION PRINCIPLES, CONTINUED

Goodwill

Goodwill consists of the amount by which the acquisition value exceeds the true value of the Group's share of the acquired subsidiary's net assets at the time of acquisition.

Goodwill is depreciated linearly across the expected utilisation period. Goodwill arising from the major strategic acquisitions performed by the Group to extend its product range in associated business segments, is depreciated over a maximum of 15 years. Other Group goodwill is depreciated over five years. Depreciation of goodwill is reported in the income statement in the item entitled 'Other operating costs'.

The goodwill related to the acquisition of the Laminova companies will be depreciated over 15 years, because underlying rights for patents and technical know-how can be used for 15 years at least.

Other intangible fixed assets

Costs for acquiring patents, brands and licences are carried forward and depreciated linearly over their utilisation period as regulated by an agreement. This depreciation is included in the income statement under the item entitled 'Costs of sold goods'.

Write-down of intangible fixed assets

When there is an indication that an asset has fallen in value an assessment is made of the asset's reported value including goodwill. In cases where an asset's reported value exceeds its estimated recycling value the asset is depreciated immediately to its recycling value.

Depreciation

The linear depreciation method is used for all types of intangible fixed asset. The following depreciation times apply:

Costs carried forward for research and development	3-5 years
Patents, licences and rights	10-20 years
Goodwill	10-15 years

Segment reporting

Business segments contain products or services that involve risks and returns that are different to other business segments. Geographic markets supply products or services within a specific economic environment that involve risks and returns that are different from the risks and returns for units active in other economic environments. Within the Group and the parent company, business segments are classified as primary segments and geographic areas as secondary segments.

NOTE 4 SEGMENTS

Primary segment – business segments (in the segments below, companies acquired as of 30 December 2003 are not included).

Financial year 2003	SEM	Reac	Opcon Autorotor	Laminova Production	Opcon Inc.	Opcon	Elimination	The Group
External sales	140 337	53 619	29 334	5 686	15 507	2 496	–	246 979
Internal sales	533	40	912	9 681	81	16 910	–28 157	0
Total income	140 870	53 659	30 246	15 367	15 588	19 406	–28 157	246 979
Operating profit/loss	–8 869	3 760	–6 738	–1 362	–621	–24 942	15 278	–23 494
Net interest	–3 451	–547	–737	436	36	1 505	–	–2 758
Tax for the year	3 444	–1	2 082	60	–	1 082	643	7 310
Profit/loss for the year	–8 876	3 212	–5 393	–866	–585	–22 355	15 921	–18 942
Other information								
Assets	94 430	25 111	24 780	33 529	5 910	76 804	–61 456	199 108
Liabilities	85 993	17 058	16 421	3 539	311	53 334	–61 456	115 200
Investments	10 505	1 945	2 558	1 834	15	438	–	17 295
Depreciation	13 194	3 110	2 540	792	7	1 756	794	22 193

The Group is organised into four main business segments: ignition and engine management systems (SEM), electro-mechanical devices (Reac), screw compressors (Opcon Autorotor) and heat exchangers (Laminova Production).

Opcon Inc. is the Group's sales company on the US market and Opcon AB is the parent company of the Group. Investments refer to purchases of tangible and intangible assets.

NOTE 1 ACCOUNTING AND VALUATION PRINCIPLES, CONTINUED

Financial leasing agreements

When a leasing agreement means that the Group, as the lease holder, to all extents and purposes benefits from the economic advantages and shares the economic risks relating to the leased object, the object is reported as a fixed asset in the consolidated balance sheet. Corresponding commitments to pay leasing fees in the future are reported as a liability.

All the leasing agreements in the parent company, whether financial or operational, are recorded as operational leasing agreements.

State grants

State grants are reported at their true value when there is reasonable certainty that the grant will be received and the Group will fulfil all the associated conditions. State grants relating to costs are deferred and then reported in the period when the cost occurs that the state grant is intended to compensate. The grant is reported as a reduction of the cost.

State grants for the acquisition of intangible and tangible fixed assets reduce the assets' reported value.

Cash flow statement

The cash flow statement is produced using the indirect method. Reported cash flow includes only those transactions that involve deposits and payments.

NOTE 2 TRANSACTIONS WITH RELATED PARTIES

Purchases and sales between Group companies	2003	2002
The share of purchases and sales relating to Group companies is shown below as a percentage.		
The Group		
Purchases, (%)	12	12
Sales, (%)	10	10
Parent Company		
Sales, (%)	87	86
No purchases were made from Group companies in the parent company.		

The same principles for pricing are observed for purchases and sales between Group companies as for transactions with external partners.

NOTE 3 DISTRIBUTION OF INCOME

	The Group 2003	2002	Parent Company 2003	2002
Net turnover includes income from:				
Goods	244 383	280 101	–	–
Service	2 596	2 835	18 456	19 816
Rental income, operational leasing	–	–	950	950
	246 979	282 936	19 406	20 766

NOTES TO THE ACCOUNTS

NOTE 4 SEGMENTS, CONTINUED

Secondary segments – geographic areas

The Group's business is conducted primarily in two geographic areas. In Europe, especially Sweden, which is the Group's home market, business is conducted in all the business segments excluding Opcon Inc., which is active in the US only. No European country outside Sweden contributed more than 10% of the total consolidated sales or assets. Sales figures are based on those countries where customers are based. There are no sales between geographic areas. Assets and investments are reported where the assets are.

Country	Sales		Assets		Investments	
	2003	2002	2003	2002	2003	2002
Sweden	172 107	192 720	193 198	219 819	17 280	21 836
Europe	39 277	37 744	–	–	–	–
USA	31 022	45 375	5 910	6 634	15	35
Other countries	4 573	7 097	–	–	–	–
	246 979	282 936	199 108	226 453	17 295	21 871

NOTE 5 RESEARCH AND DEVELOPMENT WORK

The year's costs for research and development work within the Group amounted to SEK 19.8 million (15.7 m). Of this sum within the Group SEK 5.0 million (4.2 m) represents depreciation of costs carried forward for development activities.

NOTE 6 DEPRECIATION

	The Group		Parent Company	
	2003	2002	2003	2002
Depreciation included in cost of sold goods	15 640	16 433	1 660	1 639
Depreciation included in administration costs	286	428	96	127
Depreciation included in research and development costs	5 264	4 704	–	–
Depreciation included in other operating costs	1 003	1 240	–	–
	22 193	22 805	1 756	1 766

NOTE 7 AVERAGE NO. OF EMPLOYEES, WAGES, OTHER REMUNERATION AND SOCIAL COSTS

	The Group		Parent Company	
	2003	2002	2003	2002
In 2002 the average number of employees, broken-down into men and women, amounted to:				
Women	104	120	7	6
Men	135	164	8	9
Group total	239	284	15	15
Salaries and remuneration amounted to:				
The Board and CEO	5 129	5 442	1 189	1 098
Other employees	69 487	73 441	4 429	4 287
Total salaries and remuneration	74 616	78 883	5 618	5 385
Payroll overheads	24 626	26 735	2 048	1 872
Pension costs for other employees	6 815	5 488	957	613
Pension costs for Board and CEO	1 077	1 362	359	307
Total salaries, payroll overheads and pension costs	107 134	112 468	8 982	8 177
Average no. of employees	2003	2003	2002	2002
	Kvinnor	Män	Kvinnor	Män
Parent Company				
Sweden	7	8	6	9
The Group				
Sweden	103	133	113	152
USA	1	2	1	3
Total no. of employees	104	135	120	164

NOTE 7 AVERAGE NO. OF EMPLOYEES, WAGES, OTHER REMUNERATION AND SOCIAL COSTS, CONTINUED

Wages and remuneration divided by country	2003 Board and CEO	2003 Other employees	2002 Board and CEO	2002 Other employees
Parent Company				
Sweden	1 189	4 429	1 098	4 287
The Group				
Sweden	3 599	68 376	4 079	72 612
USA	1 530	1 111	1 363	829
Total wages and remuneration	5 129	69 487	5 442	73 441

Remuneration to senior executives

Principles

Remuneration to the Chairman of the Board and to Board members is determined by a vote at the Annual General Meeting.

Fees are not paid for committee work.

Remuneration to the CEO and other senior executives comprises a basic salary, other benefits (company car) and pension. There are no bonuses or variable compensation.

The Group does not operate an options scheme.

Pension benefits and other benefits to the CEO and other senior executives are a part of the total remuneration package.

Senior executives are the six people, including the CEO, who make up the senior management team.

Remuneration and other benefits during the year	Basic salary/ Board fee	Benefits	Pension cost	Other payment	Total
Board chairman	133	–	–	–	133
Board member Bengt Johnson	72	–	–	–	72
Board member Stig-Arne Blom	100	–	–	–	100
Board member Erling Edmondson	25	–	–	132	157
CEO	859	87	359	–	1 305
Other senior executives	4 372	391	1 213	274	6 250
	5 561	478	1 572	406	8 017

Pension expenses refer to expenses that affect the year's profit/loss. The pension premium for the CEO amounts to 35% of the pension-based salary.

Pension premiums for other senior executives amount to between 20-35% of the pension-based salary.

The retirement age for the CEO and other senior executives is 65.

Terms of dismissal

The company must give the CEO 24 months' notice of dismissal, while the CEO must give the company six months' notice. No redundancy payments will be made in addition to normal salary during the notice period.

For other senior executives, the company must give between 12-18 months' notice of dismissal, while senior executives must give the company three to six months' notice. No redundancy payments will be made in addition to normal salary during the notice period.

NOTES TO THE ACCOUNTS

NOTE 7 AVERAGE NO. OF EMPLOYEES, WAGES, OTHER REMUNERATION AND SOCIAL COSTS, CONTINUED

Procedures

The parent company's Board of Directors has authorised the Chairman of the Board to set salary and remuneration for the CEO. Salary and remuneration for other senior executives are set by the parent company's Managing Director and the CEO and chairman of the Board of the subsidiary in question.

	1 July 2003 – 31 Dec. 2003
Sick leave	
Total sick leave	6,4 %
Long-term leave	5,4 %
Sick leave, men	1,2 %
Sick leave, women	14,0 %
Employees <29 years	0
Employees 30-49 years	14,6 %
Employees >50 years	0,9 %

Long-term sick leave is defined as an uninterrupted period lasting 60 days or more. Long-term sick leave is given as a percentage of total sick leave, i.e. total sick leave divided by long-term sick leave.

NOTE 8 OPERATIONAL EXPENSES

	The Group		Parent Company	
	2003	2002	2003	2002
Exchange rate differences				
The operating profit/loss includes exchange rate differences regarding current receivables and liabilities amounting to	-3 188	1 295	-	-28
Unrealised profit/loss not affecting the year's result	-	482	-	-
Unrealised profit/loss affecting the year's result	-	244	-	-

Operational leasing contracts

Nominal value of future minimum leasing fees concerning non-revocable leasing agreements were as follows:

Leasing fees for the year	7 803	7 246	4 996	4 972
Year's rental income for items rented out	1 841	1 809	2 791	2 634
Future leasing fees within one year	7 546	7 017	4 948	4 968
Future leasing fees beyond one year & within five years	13 678	19 392	9 763	14 684
Future leasing fees beyond five years	-	-	-	-

Remuneration to auditors

Auditing				
Öhrlings PricewaterhouseCoopers	564	469	359	244
Other assignments				
Öhrlings PricewaterhouseCoopers	129	126	71	61

NOTE 9 GOVERNMENT SUBSIDY

	The Group		Parent Company	
	2003	2002	2003	2002
The Group				
The Government subsidy has reduced the cost of goods sold and is mainly an employment benefit	864	583	-	-
State subsidy from the State energy authority (STEM), which reduced the acquisition value for capitalised expenses for research and development	386	247	-	-
EU subsidy for the ELEVATE project, which reduced the acquisition value for capitalised expenses for research and development	-	203	-	-

NOTE 10 INTEREST INCOME AND INTEREST EXPENSES

	The Group		Parent Company	
	2003	2002	2003	2002
Interest income	560	1 070	284	285
Interest income, Group companies	-	-	2 594	1 488
	560	1 070	2 878	1 773
Interest expense	-3 318	-3 690	-1 147	-318
Interest expenses, Group companies	-	-	-226	-451
	-3 318	-3 690	-1 373	-769

NOTE 11 DEFERRED TAX

	The Group		Parent Company	
	2003	2002	2003	2002
Deferred tax income/expense for the year				
Deferred tax income regarding year's change in untaxed reserves	197	299	-	-
Previously unreported tax income regarding unutilised loss carry-forward	7 113	5 524	1 082	1 207
Total deferred tax in income statement	7 310	5 823	1 082	1 207

Tax regarding items recorded directly under shareholders' equity				
Deferred tax relating to change of accounting principles within parent company	-	-	-	8 979
Tax relating to Group contribution paid	-	-	-	-1 294
Tax relating to Group contribution received	-	-	-	2 347
	0	0	0	10 032

Difference between tax expense and tax expense based on current tax rate				
Reported profit/loss before tax			-23 437	-6 354
Tax according to current tax rate			6 562	1 779

Tax effect of non-deductible costs				
Write down of shares in subsidiaries			-4 500	-
Other items			-17	-41
Group contribution paid			-	-1 294
Group contribution received			-963	-2 347

Tax effect of non-taxable income				
Previously unreported deficit deduction			-	522
			-22 355	-7 735

Tax rate

The current tax rate is the rate for income tax in the Group. The tax rate is 28% (28%).

Temporary differences

Temporary differences arise when the recorded value of assets or liabilities is different to the tax value. Temporary differences regarding the following items have resulted in deferred tax receivables.

	The Group		Parent Company	
	2003	2002	2003	2002
Deferred tax liability regarding untaxed reserves	2 100	1 677	-	-
	2 100	1 677	0	0
Deferred tax receivable regarding deficit deduction	21 169	14 056	11 270	10 188
	21 169	14 056	11 270	10 188

NOTES TO THE ACCOUNTS

NOTE 11 DEFERRED TAX, CONTINUED

Deferred tax receivables and tax liabilities are offset when there is legal justification and when deferred tax relates to the same tax authority.

It is the assessment of the company that the deferred tax item in the balance sheet accurately reflects the estimated profit for the coming year.

	The Group		Parent Company	
	2003	2002	2003	2002
Temporary differences regarding investments in subsidiaries for which a deferred tax receivable is not reported				
Write down of shares in subsidiaries	16 072	-	16 072	-
	16 072	0	16 072	0

NOTE 12 EARNINGS PER SHARE

	2003	2002
The Group		
Profit/loss for assessing EPS	-18 942	-12 706
Average no. of shares	7 129	6 699
Earnings per share (EPS), SEK	-2,66	-1,90
Shareholders' equity per share, SEK	13,92	15,97

NOTE 13 FINANCIAL ASSETS AND LIABILITIES

	The Group		Parent Company	
	2003	2002	2003	2002
Fixed assets				
Deferred tax receivable	21 169	14 056	11 270	10 188
Other long-term liabilities	993	39	-	-
Current assets				
Accounts receivable	51 036	42 306	45	224
Receivables from Group companies	-	-	45 915	30 299
Other receivables	9 034	4 672	370	353
Short-term investments	7 000	7 000	-	-
Liquid funds	21 169	14 056	11	10
	110 401	82 129	57 611	41 074
Long-term liabilities				
Liabilities to credit institutes	34 328	32 139	3 800	3 800
Current liabilities				
Bank overdraft facilities	37 925	25 504	25 980	1 919
Liabilities to Group companies	-	-	11 813	11 061
Accounts payable - trade	32 799	17 483	3 022	1 789
Other short-term liabilities	43 043	29 318	8 720	2 729
	148 095	104 444	53 335	21 298

Concerning the above-mentioned assets and liabilities the reported value represents the best approximation of the actual value.

NOTE 14 CAPITALISED EXPENDITURE FOR DEVELOPMENT ACTIVITIES

	The Group		Parent Company	
	2003	2002	2003	2002
Opening acquisition value	14 687	18 915	-	-
Change for the year				
- Capitalised expenditure for the year	4 746	7 156	-	-
- Sales and scrapping	-	-11 384	-	-
Closing accumulated acquisition value	19 433	14 687	0	0
Opening depreciation	-5 810	-10 987	-	-
Change for the year				
- Sales and scrapping	-	9 385	-	-
- Depreciation for the year	-5 035	-4 208	-	-
Closing accumulated depreciation	-10 845	-5 810	0	0
Closing residual value acc. to plan	8 588	8 877	0	0

The acquisition value consists of costs for an air supply system for fuel cells, a modular ignition system for motorbikes and ignition systems for gas engines.

NOTE 15 GOODWILL

	2003	2002
Opening acquisition value	18 236	16 445
Change for the year		
- Capitalised expenditure for the year	14 809	2 093
- Translation differences	-634	-302
Closing accumulated acquisition value	32 411	18 236
Opening depreciation	-6 106	-4 916
Change for the year		
- Depreciation for the year	-1 003	-1 240
- Translation differences	131	50
Closing accumulated depreciation	-6 978	-6 106
Closing residual value acc. to plan	25 433	12 130

NOTE 16 CONCESSIONS, PATENTS, LICENCES AND SIMILAR RIGHTS

	The Group		Parent Company	
	2003	2002	2003	2002
Opening acquisition value	500	-	500	-
Change for the year				
- Acquisitions	-	500	-	500
- Through acquisition of subsidiary	15 857	-	-	-
Closing accumulated acquisition value	16 357	500	500	500
Opening depreciation acquired	-8 515	-	-	-
Closing depreciation	-8 515	0	0	0
Closing residual value acc. to plan	7 842	500	500	500

The Group:

The acquisition value consists mainly of patents and licensing rights.

Parent company:

The acquisition value consists mainly of rights to a patented electric motor for use in Opcon's air systems for fuel cells.

NOTES TO THE ACCOUNTS

NOTE 17 BUILDINGS AND LAND

	The Group		Parent Company	
	2003	2002	2003	2002
Buildings				
Opening acquisition value	6 588	6 588	6 588	6 588
Closing accumulated acquisition value	6 588	6 588	6 588	6 588
Opening depreciation	-1 317	-1 054	-1 317	-1 054
Depreciation for the year	-264	-263	-264	-263
Closing accumulated depreciation	-1 581	-1 317	-1 581	-1 317
Closing residual value acc. to plan	5 007	5 271	5 007	5 271
Assessed value, buildings	2 937	2 937	2 937	2 937
Land				
Opening acquisition value	1 121	1 121	1 121	1 121
Closing accumulated acquisition value	1 121	1 121	1 121	1 121
Closing residual value acc. to plan	1 121	1 121	1 121	1 121
Assessed value, land	578	578	578	578

NOTE 18 MACHINERY AND OTHER TECHNICAL PLANT

	The Group		Parent Company	
	2003	2002	2003	2002
Opening acquisition value	105 178	104 939	392	406
Change for the year				
- Purchase	6 729	5 938	-	48
- Through acquisition of subsidiary	20 264	-	-	-
- Sales and scrapping	-171	-5 699	-	-62
Closing accumulated acquisition value	132 000	105 178	392	392
Opening depreciation	-64 705	-62 687	-231	-263
Change for the year				
- Thorough acquisition of subsidiary	-15 057	-	-	-
- Sales and scrapping	171	5 074	-	62
- Depreciation for the year	-7 756	-7 092	-30	-30
Closing accumulated depreciation	-87 347	-64 705	-261	-231
Closing residual value acc. to plan	44 653	40 473	131	161

NOTE 19 INVENTORIES, TOOLS AND INSTALLATIONS

	The Group		Parent Company	
	2003	2002	2003	2002
Opening acquisition value	67 961	91 413	13 857	23 100
Change for the year				
- Purchases	5 820	8 477	438	1 171
- Through acquisition of subsidiary	13 069	232	-	-
- Sales and scrapping	-6 394	-32 161	-	-10 414
- Translation differences	-293	-	-	-
Closing accumulated acquisition value	80 163	67 961	14 295	13 857
Opening depreciation	-48 569	-68 422	-9 862	-18 789
Change for the year				
- Through acquisition of subsidiary	-7 999	-205	-	-
- Sales and scrapping	6 373	30 060	-	10 400
- Depreciation for the year	-8 135	-10 002	-1 462	-1 473
- Translation differences	279	-	-	-
Closing accumulated depreciation	-58 051	-48 569	-11 324	-9 862
Closing residual value acc. to plan	22 112	19 392	2 971	3 995

NOTE 20 PARTICIPATIONS IN SUBSIDIARIES

The Group	Co. reg. no.	Reg. office	Participation (%)
SEM AB	556023-5748	Åmål	100
Reac AB	556520-2875	Åmål	100
Reac i Eskilstuna AB	556533-8141	Åmål	100
Opcon Autorotor AB	556408-6485	Åmål	100
Laminova Production AB	556478-6705	Åmål	100
Svenska Rotormaskiner AB	556350-1393	Stockholm	100
Lysholm Technologies AB	556513-3898	Stockholm	100
Opcon Inc.		Old Saybrook, CT, USA	100

During the year Opcon AB made a shareholders' contribution to SEM AB and Opcon Autorotor AB to cover losses. After this, a write down was made to the book value for the opening value of the year.

Parent Company	Capital	Votes	Shares	Book value
SEM AB	100%	100%	24 090	14 881
Reac AB	100%	100%	20 000	8 500
Opcon Autorotor AB	100%	100%	50 000	5 000
Laminova Production AB	100%	100%	10 000	32 000
Opcon Inc.	100%	100%	1 000	8 000
Svenska Rotormaskiner AB	100%	100%	45 000	15 583
Lysholm Technologies AB	100%	100%	11 000	20 045
				104 009

Participations in subsidiaries	31 Dec. 2003	31 Dec. 2002
Opening acquisition value	66 931	66 922
Change for the year		
- Acquisition of participations	33 528	9
- Shareholders' contribution	19 622	-
Closing accumulated acquisition value	120 081	66 931
Change for the year		
- Write downs	-16 072	-
- Translation differences		
Closing accumulated write downs	-16 072	0
Closing book value	104 009	66 931

NOTE 21 OTHER LONG-TERM RECEIVABLES

	The Group		Parent Company	
	2003	2002	2003	2002
Opening acquisition value	39	39	-	-
Changes for the year				
- Through acquisition of subsidiary	954	-	-	-
Closing accumulated acquisition value	993	39	0	0
Closing book value	993	39	0	0

NOTE 22 PROVISIONS FOR PENSIONS AND SIMILAR COMMITMENTS

	The Group		Parent Company	
	2003	2002	2003	2002
Provisions in accordance with the Security of Income Act FPG/PRI pensions	6 728	5 572	-	-
	6 728	5 572	0	0

NOTE 23 PROVISIONS

	The Group		Parent Company	
	2003	2002	2003	2002
Other provisions				
Provisions at opening of the period	917	757	-	-
Provisions for the period	2 967	160	-	-
Utilisation during the period	-189	-	-	-
Provisions at closing of the period	3 695	917	0	0

NOTES TO THE ACCOUNTS

NOTE 24 BORROWINGS, INTEREST

	The Group		Parent Company	
Interest-bearing liabilities	2003	2002	2003	2002
Long-term				
Liabilities to credit institutions	34 328	32 139	3 800	3 800
Current				
Bank overdraft facilities	37 925	25 504	25 980	1 919
Liabilities to Group companies	-	-	11 813	11 061
	72 253	57 643	41 593	16 780
Total approved bank overdraft facility	40 000	26 500	26 000	2 000

Interest rates for a part of the Group's borrowings are renegotiated annually, the other part has floating rates.

Borrowings with fixed, annually renegotiated rates amount to around SEK 34 million, while borrowings with floating rates amount to SEK 34 million.

NOTE 25 ACCRUED EXPENSES AND PREPAID INCOME

	The Group		Parent Company	
	2003	2002	2003	2002
Accrued interest expenses	237	740	-	-
Accrued payroll expenses	2 403	2 601	55	62
Accrued holiday pay	10 538	10 148	1 159	987
Accrued payroll overheads	7 425	6 605	553	483
Other items	12 797	3 315	6 481	685
	33 400	23 409	8 248	2 217

NOTE 26 PLEDGED ASSETS

	The Group		Parent Company	
	2003	2002	2003	2002
For own provisions and liabilities				
Provisions in respect of pensions and similar commitments				
Corporate mortgages	8 000	8 000	-	-
Provisions in respect of liabilities to credit institutions				
Property mortgages	6 800	6 800	6 800	6 800
Corporate mortgages	89 000	71 500	-	-
Corporate mortgages pledged by subsidiaries concerning parent company's liabilities to credit institutions	-	-	72 000	-
Total own provisions and liabilities	103 800	86 300	78 800	6 800
	103 800	86 300	78 800	6 800

NOTE 27 CONTINGENT LIABILITIES

	The Group		Parent Company	
	2003	2002	2003	2002
Regarding debt to PRI	3 000	3 000	-	-
Conditional loan from NUTEK	-	391	-	-
Warranty (FPG/PRI)	114	111	-	-
Contingent liability for the benefit of other Group companies	-	-	23 000	26 000
	3 114	3 502	23 000	26 000

Possible liability

In connection with the purchase of Reac i Eskilstuna AB an agreement was reached which means that an additional payment may be made if Reac AB's turnover in 2005 reaches a certain level. A liability amount is not reported in these accounts because it cannot be accurately estimated at this point.

NOTE 28 ACQUISITION OF SUBSIDIARIES

During the year the following companies were acquired:

Company	Activity	Acquisition date	Participation
Svenska Rotormaskiner AB	Licensing/technology	30 Dec. 2003	100%
Lysholm Technologies AB	Compressor production	30 Dec. 2003	100%

The establishment of the final purchase sums for Svenska Rotormaskiner AB and Lysholm Technologies AB will be settled during 2004. In the accounts dated 31 December 2003 the purchase sums have been estimated as SEK 31,100,000, divided as follows:

Cash payment	SEK 5 000 000
True value of issued shares	SEK 26 100 000
Estimated additional sum	SEK 0

In addition the acquisition value is affected by acquisition costs of SEK 2,428,000. After the acquisition the parent company has made a shareholders' contribution amounting to SEK 2,100,000 which affects the acquisition value for the parent company.

For the two subsidiaries acquired during the year the total value of acquired assets and liabilities, purchase sums and the effect on Group liquid funds were as follows:

Goodwill	-14 809
Other intangible fixed assets	-7 342
Tangible fixed assets	-10 277
Financial fixed assets	-1 245
Inventories	-22 198
Other current assets	-23 075
Provisions	1 982
Long-term liabilities	2 904
Current liabilities	40 532
Total purchase sums	-33 528
Liquid funds in acquired companies	1 213
Effect on Group's liquid funds of year's acquisitions	-32 315
Total cash flow relating to investments in subsidiaries	-32 315

NOTE 29 TAX ON YEAR'S EARNINGS

	The Group		Parent Company	
	2003	2002	2003	2002
Tax relating to correction of previous tax	-	-140	-	-
Tax on Group contribution paid	-	-	-	-1 294
Tax on Group contribution received	-	-	-	2 347
	0	-140	0	1 053

NOTE 30 PREPAID EXPENSES AND ACCRUED INCOME

	The Group		Parent Company	
	2003	2002	2003	2002
Prepaid rent	591	477	383	407
Government/EU subsidy	79	1 352	-	341
Insurance premiums	546	374	274	198
Licence revenue	1 626	-	-	-
Other items	3 902	3 503	904	2 402
	6 744	5 706	1 561	3 348

NOTE 31 SHAREHOLDERS' EQUITY

A specification of the changes in shareholders' equity is included in the report entitled 'Changes in shareholders' equity'.

Shares	A shares	Total
Total no. of shares		
Total on 1 Jan. 2002	6 483 546	6 483 546
New share issue	645 161	645 161
Total on 31 Dec. 2002	7 128 707	7 128 707
New share issue	1 450 000	1 450 000
Total on 31 Dec. 2003	8 578 707	8 578 707

The nominal value of one share is SEK 5. All shares have been paid for in full. The company does not own its own shares.

SIGNATURES OF THE BOARD / Auditors' report

The Income Statements and Balance Sheets will be presented to the Annual General Meeting
on 21 April 2004.

The Board of Directors of Opcon AB
Åmål, Sweden, 25 March 2004

Hans Golteus
Chairman of the Board

Sven G. Oskarsson
CEO

Mats Lindgren

Björn E. Olsson

Bengt E Johnson

Ulrika Ahlquist
Employee representative, SIF

Bengt Magnusson
Employee representative, Metall

Auditors' report

To the general meeting of the shareholders of Opcon AB
Corporate identity number 556274-8623

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the managing director of Opcon AB for the year 2004. These accounts and the administration of the company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion of the annual accounts, the consolidated accounts and the administration based on our audit.

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

As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the

President. We also examined whether any board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the company's and the Group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden.

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

Karlstad, Sweden, 25 March 2004

ÖhrlingsPricewaterhouseCoopers AB
Ingvar Pramhäll
Authorised Public Accountant

THE BOARD OF DIRECTORS



Hans Golteus

Hans Golteus

Born 1942. Chairman of the Board of Opcon AB since 2003. Master of Science Electronics Engineering, KTH. President of Four Seasons Venture Capital AB, Stockholm. Board member of Brögger HRC AB, Boule Diagnostics Int. AB (chairman.), Emotron AB, Helsingborg, Enprotec Int. Group n.v., Essentys AB, Lund, European Furniture Group AB, Shipinvest Intressenter AB. Shareholding in Opcon: 0 shares.

Sven G. Oskarsson

Born 1942. Board member of Opcon AB since 1989. BoE. Chairman of the Board of SEM AB, Åmål, Reac AB, Åmål, Opcon Autorotor AB, Stockholm, Laminova Production AB, Stockholm och Opcon Inc., Old Saybrook, Connecticut, USA. CEO of Opcon AB, Åmål. CEO of Opcon Autosystems AB 1991-1994, CEO of SEM AB 1990-1996. Shareholding in Opcon: 223 500 shares.



Sven G. Oskarsson



Bengt E. Johnson



Björn E. Olsson



Mats Lindgren

Bengt E. Johnson

Born 1940. Board member of Opcon AB since 1997. Masters in Engineering, KTH 1965. Member of the Board of Somas Instrument AB, Säfte, and CS Produktion AB, Säfte, CEO of BTG Källe Inventing AB, Säfte, 1982-2000. Geschäftsführer BTG Prozesstechnik, Frankfurt, Germany, 1991-1993, member of Spectris AG management, Frankfurt, Germany, 1994-2000. Shareholding in Opcon: 0 shares.

Björn E. Olsson

Born 1945. Board member of Opcon AB since 2003. MBA Administration-Finance and Accounting, University of Lund 1968. Vice President, Finance and Administration, Kockums Industri AB, Linden Alimak AB and W Sonesson AB 1982-1987. President and CEO of SAB, NIFE 1982-87, Vice President Corp. Dev. at Investment AB Cardo Malmö 1987-90. President & CEO Harmon Industries, Kansas City, USA, 1990-2000. Board assignments: Green & Co.,



Ulrika Ahlquist



Bengt Magnusson

Malmö, Aimpoint AB, Malmö, Aimpoint Inc., Berryville, Arkansas, USA, Scan Coin AB, Malmö, Scan Coin Inc., Washington, USA, SAB Wabco, Malmö, Opcon Inc., Old Saybrook, USA. Shareholding in Opcon: 0 shares.

Mats Lindgren

Born 1941. Board member of Opcon AB since 2003. Master of Engineering, KTH 1965. Doctor of Engineering 1971. Associate professor 1975. Member of Ingenjörsvetenskapsakademien since 1984, university lecturer 1971-77, consultant in machine technology 1977-79. President and owner of AB Kompositprodukter, Vikmanshyttan. Shareholding in Opcon: 0 shares.

Ulrika Ahlquist

Born 1968. Board member of Opcon AB since 2001. Engineer. Employee representative, Union of Clerical and Technical Employees in Industry. Shareholding in Opcon: 0 shares.

Bengt Magnusson

Born 1957. Board member of Opcon AB since 1996. Assembler. Employee representative for the Swedish Metal Workers' Union. Shareholding in Opcon: 0 shares.

Sven G. Oskarsson, born 1942.
CEO of Opcon AB. Employed since 1990.
Shareholding in Opcon: 223 500 shares.

Göran Falkenström, born 1949.
Chief Financial Officer of Opcon AB.
Employed since 1983.
Shareholding in Opcon: 1 000 shares.

Svein Valheim, born 1960.
Managing Director of SEM AB and Reac AB. Employed since 2000.
Shareholding in Opcon: 0 shares.

Roland Ärlebäck, born 1946.
Managing Director of Opcon Autorotor AB. Employed since 1997. Left his position in March 2004.
Shareholding in Opcon: 2 000 shares.

Thomas Johansson, born 1967.
Managing Director of Laminova Production AB. Employed since 2001.
Shareholding in Opcon: 0 shares.

Rolf Hasselström, born 1951.
Managing Director of Svenska Rotormaskiner AB.
Shareholding in Opcon: Owns 30% of Svenska Rotor AB's 1 450 000 Opcon shares, 435 000 shares.

Martin Stenbäck, born 1957.
Managing Director of Lysholm Technologies AB.
Shareholding in Opcon: 0 shares.

Stefan Dunert, born 1955.
Managing Director of Opcon Inc.
Employed since 2001.
Shareholding in Opcon: 14 493 shares.

Ingvar Pramhäll, born 1942.
Authorised public accountant, Öhrlings PricewaterhouseCoopers.
Company auditor since 1989.

Actuator

A manoeuvring device that uses a switched electrical motor to perform a seamless linear pull or press movement. Used for adjustable tables and beds, for example.

Air system

The part of the fuel cell engine that supplies oxygen.

Compressor

A component that compresses gas. Opcon's compressors use screw-like rotors to press air and create higher pressure.

CUTE project

CUTE stands for Clean Urban Transport for Europe. Partly financed by the EU, this project will deliver and test 30 hydrogen-powered fuel cell buses in ten European cities, including Stockholm.

Emission

Release of substance to air, land or water. The word is often used for pollution, but can also apply to a natural process.

Engine management system

A system based on a microprocessor that measures key properties such as air temperature, pressure and engine revs, and uses this information to control fuel levels and ignition requirements.

Fuel cell

A device that converts fuel, e.g. hydrogen, together with oxygen to generate electrical energy without an intermediate stage. The reaction in the electro-chemical cell produces normal water as the end product.

Heat exchanger

In Opcon's operation this is an oil cooler that cools oil (engine, transmission, steering servo, fuel, etc.) using cooling fluid. Oil coolers often use the engine's existing cooling system, which is usually water-based. The unit can also be inverted during cold starts. Heat exchangers function effectively as intercoolers where intake air is cooled in a supercharged engine with a separate cooling fluid unit.

Intercooler

A pressurised air cooling system used on a supercharged engine to reduce the temperature of the compressed intake air. Cooling has two purposes: when the temperature falls the density of the intake air increases, which produces increased volumetric efficiency and thus enhanced performance. The lower temperature also helps to reduce the combustion temperature, which leads to lower levels of nitric oxides in exhaust gases.

OEM

Original Equipment Manufacturer, a supplier of components to the car industry.

PEM cell

Proton Exchange Membrane Fuel cell. The cleanest of all fuel cell types that is specially suited for powering buses, cars and other vehicles.

Prototype

A product made in small numbers for testing and evaluation.

Screw compressor

A compressor with two opposing screws which compresses air at a high pressure. See also, Compressor.

Supercharging

The process of feeding a combustion engine with over-pressure to get more air and fuel into the engine. Compressed combustion air is pumped in instead of air being sucked in, which increases engine power. Different types of compressors can be used for supercharging, such as turbo, root blower, scroll and screw compressor.

DEFINITIONS

Average number of shares

The average number of shares during the year, adjusted for bonus issue and split.

Change in working capital

Working capital at the end of the year minus operating capital at the start of the year.

Debt/equity ratio

Closing interest-bearing liabilities, in relation to closing shareholders' equity.

Earnings per share

Profit/loss for the year, in relation to the average number of shares.

Equity/assets ratio

Closing shareholders' equity, including minority shareholdings, as a percentage of the closing total capital.

Equity per share

Closing shareholders' equity, in relation to the average number of shares.

Financial net debt

Interest-bearing provisions and liabilities minus liquid funds and current investments.

Gross margin

Operating profit/loss plus depreciation, as a percentage of net sales.

Interest coverage ratio

Profit/loss after financial items plus financial expenses, as a percentage of finance costs.

Net investments

Investments in fixed assets minus sold fixed assets.

Operating capital

Balance sheet total minus non-interest bearing liabilities, plus liquid funds and current investments.

Operating margin

Operating margin, as a percentage of net sales.

Profit margin

Profit/loss after financial items plus financial items, as a percentage of net sales.

Research and development costs

Total research and development costs, including costs written off as well as capitalised research and development costs, excluding depreciation.

Return on operating capital

Operating profit/loss as a percentage of the average opening and closing operating capital.

Return on shareholders' equity

Profit/loss for the year as a percentage of the average opening and closing shareholders' equity.

Return on total capital

Profit/loss after financial items plus financial items, as a percentage of the average opening and closing balance sheet total.

Sales per employee

Net sales, in relation to the average number of employees.

Share of risk-bearing capital

Closing shareholders' equity, including minority shareholdings, plus deferred tax liability, as a percentage of the closing total capital.

Working capital

Current assets, excluding liquid funds and current investments, minus operating capital at the start of the year.



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