







Third-quarterly report 1 January – 30 September 2000

Progress over Q3 was good – in terms of sales, profits, cash flow and the order book

-  **Sales for January-September totalled SEK 182.8 million (173.6 m).**
-  **The profit after financial items was SEK 2.4 million (-5.8 m).
(of which funds returned by SPP amounted to SEK 5.7 million).**
-  **Cash flow continued to improve. During Q3 liquid assets rose
from SEK 13.7 million to SEK 21.2 million.**
-  **The order book increased by 20% during the year and reached SEK 147 million.
Orders received for air systems for fuel cell projects climbed significantly.**
-  **Rapid growth in the fuel cell sector will generate growth in sales
and profits for the future.**
-  **A positive trend is expected in sales, profits and cash flow in Q4 and in 2001.**

THE GROUP

Summary

Sales for the January-September period totalled SEK 182.8 million, compared with SEK 173.6 million in the same period last year.

The company made a profit of SEK 2.4 million (-5.8 m), which represents an improvement of SEK 2.5 million, excluding the effect of returned SPP funds, compared with last year.

The results for the period include revenue recognition of funds returned from SPP, worth SEK 5.7 million.

Q3 saw a significant boost to profits and cash flow. Compared with the losses of SEK 2.9 million in Q2 and SEK 1.8 million in Q1, the profit of SEK 1.3 million in Q3 represents a strong turnaround. Liquidity also rose over the quarter. At the end of September liquid assets totalled SEK 21.2 million, compared with SEK 13.7 million at the end of June.

Important agreements were signed during the quarter. Opcon AB's subsidiary, SEM AB, signed a 4-year agreement with Husqvarna, a member of the Electrolux Group. This agreement has strategic importance because it will help the Group reach its established growth targets. The agreement means that SEM AB will supply most of Husqvarna's requirements for small ignition systems for its chainsaws. A further agreement has been signed within the fuel cell sector. The agreement between Opcon Autorotor AB and Plug Power Inc of the US includes an order for developing an air supply system for a stationary fuel cell application. Opcon's CEO presents a more detailed view of the future of fuel cells in a supplement to this report.

Financial position

The Group's liquid assets totalled SEK 21.2 million (17.5 m) and interest-bearing liabilities stood at SEK 59.0 million (60.3 m).

Cash flow in Q3 continued to progress well. Current activities have contributed SEK 16.4 million (-6.1 m) during the year. Total cash flow, after investments and financing, was SEK 7.0 million, compared with a negative cash flow of SEK 15.8 million last year. Cash flow is expected to remain positive in Q4 2000. The Group's equity/assets ratio stands at 44.2%.

Investments

Investment in machinery and tools over the period amounted to SEK 9.5 million (16.3 m).

Employees

At the end of September 2000 the headcount was 345, compared with 346 at the end of September 1999.

SEM AB

Sales in January-September totalled SEK 107.0 million (111.5 m). The operating loss for the period was SEK 0.1 million (+7.6 m) excluding the effect of returned SPP funds. Lower sales and a reduced operating profit were due to less deliveries of ignition cassettes for the Saab V6 engine over the first six months. This reduction was expected at the start of the year but it remained throughout the period. Compared with last year, fewer deliveries to the after-sales market for Saab have also affected the sales and profit figures.

The operating profit was further affected by one-off costs, and the company has increased its investment in development.

An agreement was signed during the period with Husqvarna regarding the supply of most of the ignition systems Husqvarna requires for its chainsaws. The agreement is for four years and is worth around SEK 100 million. The agreement shows that a Swedish supplier can be competitive in this sector and it increases the company's opportunities for doing more business with other customers in this sector. The agreement also underpins the company's position as one of the world-leading manufacturers of ignition systems for small engines used in chainsaws and hand-held equipment.

SEM Drive AB

SEM Drive AB increased its sales figure by 17% during the first nine months of 2000 while orders received climbed by 36% compared with the same period in 1999. The increase was achieved on the back of industrial customers making new orders. Changes in the product range have produced better operating margins.

The company made a profit of SEK 1.2 million (-2.5 m), excluding the effect of returned SPP funds, which represents a marked improvement for the current year. Sales stood at SEK 42.0 million (36.0 m).

Transformator-Teknik AB

Sales and orders received were at the same level as last year but the profit was down due to pressure on margins. During September orders received climbed by 22% and are forecast to be 4% above last year for the full year.

Sales in January-September stood at SEK 22.5 million (21.8 m). The company's operating profit of SEK 1.2 million (1.4 m), excluding the effect of returned SPP funds, was hit by one-off costs and greater pressure on the prices of key products. The company is increasing the level of its activities in Estonia.

Opcon Autorotor AB

Sales and orders received continued to rise during the period. Sales totalled SEK 11.8 million (6.0 m).

The company has started work on the development projects that are being carried out with world-leading companies and will result in new engine concepts for combustion and fuel cell engines. Fuel cell development projects are on the increase throughout the world.

During the period Opcon Autorotor AB signed an agreement lasting several years with a compressor distributor in the US. The agreement means that the company has safeguarded additional volumes for the next five years, and that the company's involvement in the US market is generating continued growth. Compared with last year the operating profit continued to improve and the loss after nine months was SEK 0.7 million (-6.1 m), excluding the effect of returned SPP funds. The result includes a one-off item worth SEK 1.5 million, which was received for signing a development agreement reported in Q1 2000.

Parent company

The parent company made a loss after financial items during the period of SEK 1.8 million (-3.5 m).

COMMENTS REGARDING 2000 AND 2001

A continued positive trend is expected in the results in Q4 2000 and in 2001.

Growth will be organic, based on the unique technologies within the Group and on delivery agreements that have been signed. Growth is also expected from planned acquisitions.

The increasing importance of the US market, especially for SEM AB and Opcon Autorotor AB, will mean that a manufacturing and sales organisation will be required in the US. It is planned that this organisation will be established in partnership with a US company.

SEM AB's four-year agreement with Husqvarna will mean a significant boost to volumes from 2001 onwards. During the current year investment will begin in new production equipment. The order means that an extra 25 employees will be recruited.

New digital ignition systems have been launched and attracted great interest from European motorbike manufacturers. The company has also secured orders for prototypes from leading manufacturers in the US and Europe.

Saab is planning to build more V6 engines, which will mean increased demand for ignition cassettes.

SEM AB continues to focus on ion-sense technology by integrating it into the development of new engine management systems for the more environment-friendly combustion engines of the future.

SEM Drive AB reported a strong improvement in sales and orders received during the year. Orders received are currently 36% above last year's levels and an annual increase of 17% is forecast. With volumes continuing to rise during the remainder of the year, the company will be able to report a significant improvement in profits compared with last year. This positive trend is expected to continue during 2001.

Transformator-Teknik AB is progressing according to plan and will not achieve the same result levels as last year, although profitability will remain good compared with the norms for this segment. Continued production in Estonia will enable the company to win market shares and retain customers without compromising margins. An acquisition is probable during the year to complement operations. Increasing pressure on prices is being noted in the Swedish market for the company's products.

Opcon Autorotor AB has a unique position in a new growth market – fuel cells for mobile applications. During the period, the company received its first order for an air supply system for stationary fuel cells. The company's order portfolio is the largest it has ever been and more and more customers are choosing Opcon Autorotor AB's air supply systems for fuel cell and combustion engines. Orders will result in increased deliveries of air-supply systems for fuel cell and combustion engines during 2001.

Due to the rapid pace of development in fuel cell engines, the company can quickly generate returns on its investments, and these returns should remain high over the long term.

Four important agreements have been signed during the year.

These agreements will mean high usage of existing resources and therefore improved profits for Opcon Autorotor AB during the year compared with last year.

Future information

- ◆ Press release of the financial statement for 2000: 22 February 2001.
- ◆ Annual Report for 2000: April 2001
- ◆ AGM: 26 April 2001 in Stockholm.

The Group

Income statement (SEK 000)	Jan-Sept 2000	Jan-Sept 1999	Last 12 months	Full year 1999
Net sales	182 774	173 665	247 890	238 751
Operating profit/loss	4 062	-4 263	2 349	-5 976
Financial items	-1 587	-1 544	-2 052	-2 009
Profit/loss after financial items	2 475	- 5 807	297	-7 985
Tax	-	-	-	-
Minority shares	-101	-263	164	2
Profit/loss for the period	2 374	-6 070	461	-7 983
Balance sheet (SEK 000)	000930	990930		991231
Fixed assets	74 570	79 711		82 348
Current assets	93 150	90 268		89 937
Liquid funds	21 247	17 530		14 274
Total assets	188 967	187 509		186 559
Shareholders' equity	82 815	82 354		80 441
Minority shareholdings	709	873		607
Interest bearing provisions and liabilities	59 005	60 325		59 027
Long-term non interest bearing liabilities	655	656		655
Current non interest bearing liabilities	45 783	43 301		45 829
Total shareholders' equity and liabilities	188 967	187 509		186 559
Key figures	Jan-Sept 2000	Jan-Sept 1999	Last 12 months	Full year 1999
Operating margin, %	2.2	-2.5	0.9	-2.5
Return on operating capital, %	-	-	0.6	-5.1
Return on equity, %	-	-	-1.0	-12.4
Earnings per share, SEK	0.38	-0.97	0.07	-1.28
Equity per share, SEK	13.27	13.19	13.27	12.89
Equity/assets ratio, %	44.2	44.4	44.2	43.4
No. of shares, thousands	6 242	6 242	6 242	6 242
Cash flow statement (SEK 000)	Jan-Sept 2000	Jan-Sept 1999	Last 12 months	Full year 1999
Cash flow from current activities	16 373	-6 126	22 744	245
Cash flow from investment activities	-9 480	-16 313	-18 749	-25 582
Cash flow from financing activities	80	6 658	-278	6 300
Total cash flow	6 973	-15 781	3 717	-19 037

	Jan- March 2000	Apr-June 2000	July-Sept 2000	Jan- March 1999	Apr-June 1999	July-Sept 1999	Oct-Dec 1999
Income statement (SEK 000)							
(Per quarter)							

Net sales	59 574	64 785	58 415	57 440	67 946	48 249	65 116
Operating profit/loss	-2 403	4 624	1 841	-2 748	-1 743	228	-1 713
Financial items	-540	-585	-462	-805	-574	-165	-465
Profit/loss after financial items	-2 943	4 039	1 379	-3 553	-2 317	63	-2 178
Tax	0	0	0	0	0	0	0
Minority shares	88	-118	-71	-94	-95	-74	265
Profit/loss per quarter	-2 855	3 921	1 308	-3 647	-2 412	-11	-1 913

Balance sheet (SEK 000)

	31-03-00	30-06-00	30-09-00	31-03-99	30-06-99	30-09-99	31-12-99
Fixed assets	79 606	76 489	74 570	80 593	80 437	79 711	82 348
Current assets	93 923	96 000	93 150	93 660	95 727	90 268	89 937
Liquid funds	10 384	13 677	21 247	22 894	19 973	17 530	14 274
Total assets	183 913	186 166	188 967	197 147	196 137	187 509	186 559

Shareholders' equity	77 586	81 507	82 815	84 777	82 365	82 354	80 441
Minority shareholdings	520	638	709	703	799	873	607
Interest bearing provisions and liabilities	57 885	56 576	59 005	54 410	59 942	60 325	59 027
Long-term non interest bearing liabilities	655	655	655	656	656	656	655
Current non interest bearing liabilities	47 267	46 790	45 783	56 601	52 375	43 301	45 829
Total shareholders' equity and liabilities	183 913	186 166	188 967	197 147	196 137	187 509	186 559

Key figures

Operating margin, %	-4.0	7.1	3.2	-4.8	-2.6	0.5	-2.6
Equity/assets ratio, %	42.5	44.1	44.2	43.4	42.4	44.4	43.4
No. of shares, thousands	6 242	6 242	6 242	6 242	6 242	6 242	6 242

Åmål, Sweden, 31 October 2000

Opcon AB (publ) 556274-8623

The Board of Directors

The company's auditors have not reviewed this quarterly report.

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Opcon's business concept is to develop, manufacture and market systems and products that help to generate clean and environment-friendly power. The Group includes SEM AB, SEM Drive AB and Transformator-Teknik AB, which perform manufacturing in Åmål, Sweden, and Opcon Autorotor AB, which is based in Nacka near Stockholm. The Group's products are used in ignition systems and engine management systems, electro-mechanical devices, screw compressors and transformers. The Group's customers are mainly in the auto, small engine and engineering industries. The Opcon Group has around 340 employees and has its head office in Åmål, Sweden. Opcon AB is listed on the O list of the Stockholm Stock Exchange.



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Opcon in a cleaner world for people and machines

Demand for hydrocarbons used in transport, heating and production of electricity is on the increase, which means a big impact on our environment. But at the same time, international conventions have been signed aimed at reducing carbon dioxide levels in the air. It would seem that these two facts are irreconcilable. However, one way of meeting increased demand for energy while minimising the environmental impact is fuel cell technology. That was the claim made at an exhibition entitled Fuel Cells Week, held in London this October.

The fuel cell was invented in the 1830s by William Grove but it did not gain significant use until the 20th century when the Americans began using it for their space programme. A fuel cell was used to provide electricity for the Apollo spacecraft. The great advantage of this technology is that a fuel cell generates just energy and water – nothing else. No particles, no emissions of sulphur dioxide, carbon dioxide or carbon monoxide. It's also twice as efficient and silent.

Throughout the world today there is growing concern about, and greater awareness of, the environmental problems caused by energy production and by car exhaust pollution. Major cities, such as Los Angeles, Mexico City, Bangkok and Sao Paulo, require emergency measures in order to safeguard public health. In Sao Paulo, for example, there are 70,000 city buses, and 25% of them are replaced every year.

There is no doubt that stricter laws and regulations will be implemented to reduce emissions. This will have a major impact on transport manufacturers and their choice of systems. Fuel cells will soon begin to take an increasing share of the market in the transport sector and also within the market for production of commercial and industrial energy.

Estimates vary as to how long it will take to introduce a new technology that will require a new infrastructure for fuel distribution. Even the most conservative forecasts suggest that there will be considerable growth in the markets mentioned above.

Ballard, one of the major fuel cell developers, judges that the auto market alone will be worth around USD 18 billion for fuel cell systems by 2015. Other observers forecast that the market for commercial applications will be worth USD 15 billion within ten years. Meanwhile, the oil companies predict that the number of industrial sites is set to double, which will ratchet up demand for energy even further.

Public transport vehicles and other public sector users are managed centrally, which will make it easy to convert them to fuel cell technology. In the US over one million vehicles are bought each year by public authorities. These fleets will be the first to use fuel cells and they will quickly constitute a sufficient number of vehicles to ensure that filling stations will be built. The market will then start to grow and produce the large volume effect that will be needed to make fuel cell vehicles cost-effective. The latest generation of DaimlerChrysler's Necar model has come close to achieving the cost targets that have been set for large volume production.

The debate around fuel cells has focused on the means of transport because of the effect on the environment and the large volumes involved, but fuel cell technology will also be applicable in consumer products and in industrial sites that consume between 1 watt and 1 megawatt. The technology is not limited in terms of energy or capacity.

Several fuel cell businesses are now focusing on energy production for the home. The aim is that a fuel cell can supply a house with electricity, heating and cooling. The homeowner will then decide whether or not to be connected to the electricity supply network. In the US and several European countries that have reserves of natural gas, fuel cells will become a large market that will grow quickly.

US and German companies are planning to launch fuel cell sites for homes in 2002 and 2003.

The fuel cell is a very attractive energy generator powered by hydrogen. Fuel supplies are not a problem. When the environmental benefits are added it can be seen that the cost to society of using fuel cells is much lower than current methods that involve the combustion of hydrocarbons.

How do the financial markets view fuel cells?

The slogan now is: after IT, ET. Energy Technology is set to take over after the excitement of the IT age. If you invested in ET shares in September 1999 you would have earned a 110% return on your investment by October 2000, according to Impax Capital Corporation Ltd of London.

The financial markets are beginning to talk more and more about a hydrogen society and its benefits. It is understood that the fuel cell will play an important role in the new energy society, although there is initial resistance to building the infrastructure for fuel supplies and meeting the cost targets set by car makers.

Businesses that invest in fuel cell technology and the products of the future will see significant growth in volumes, profitability and share value. Opcon has a unique air supply system (compressor/expander) that helps the fuel cell to obtain high efficiency, both in mobile and stationary applications, enabling the entire process (electricity, heating and cooling) to be utilised for efficient energy generation.

October 2000

Sven G. Oskarsson

CEO