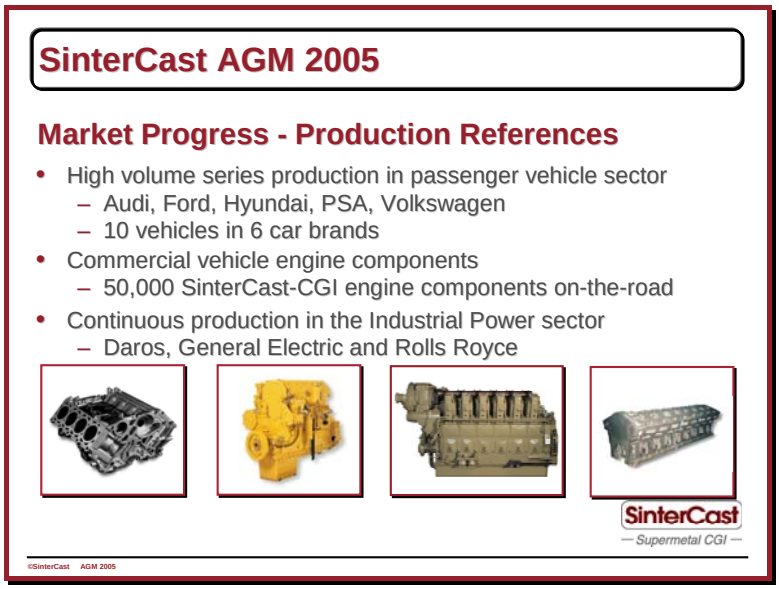
Managing Director's Report
Dr Steve Dawson
President & CEO

Annual General Meeting - Bolagstämma
Stockholm
18 May 2005

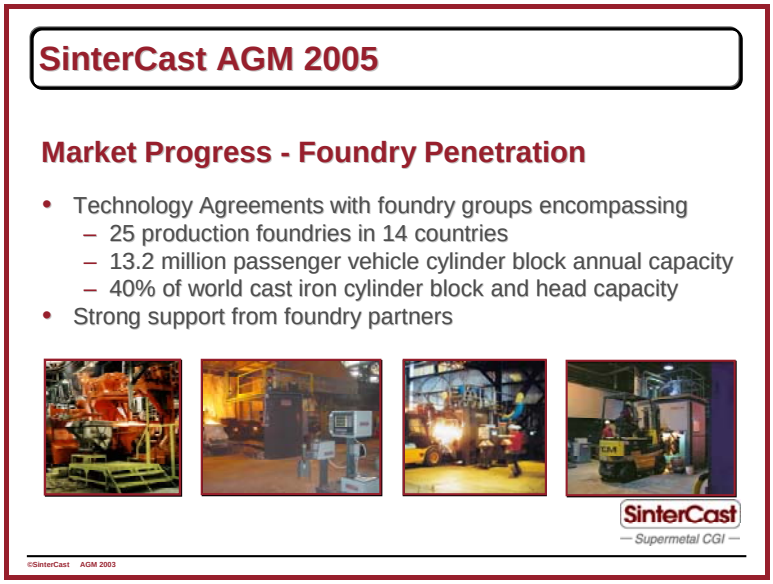
Good afternoon and welcome.

For me, the theme of our 2004 Annual Report was "Proven". The word *proven* represents the biggest difference in our company between this year and even as recently as last year's AGM. The series production from the last twelve months didn't *prove* anything new to the SinterCast employees or our Board. We knew that we had done our homework. We knew our technical capability. And we knew that we were ready. What the series production of the past twelve months and the running vehicles on the road have done is to *prove* SinterCast-CGI to the rest of the foundry and automotive industries. Over the past years, we have met many concerns from the OEMs regarding foundry consistency and manufacturing, and I believe that we did a very good job to overcome those concerns and provide confidence. But despite all of those efforts and successes, there is no question that the production over the past twelve months has been our strongest sales message. I would therefore like to begin by looking at our volume production.



As Professor Indra mentioned, SinterCast-CGI cylinder blocks are now available in the Audi 2.7 litre V6 and 3.0 litre V6 engines and in the upgraded 4.2 litre V8 that was recently launched at the Vienna Motor Symposium. Together with Ford, our cylinder blocks are used in the 2.7 litre V6 Lion engine and we also have a new high volume production commitment with Hyundai, where two of our engineers are this week to continue the pre-production activity for Hyundai's new SinterCast-CGI V6 engine. With PSA Peugeot-Citroën, the Citroën C6 is available in Dealer showrooms with the Lion V6 engine, as is the Peugeot 607. And of course Volkswagen is using the Audi V6 engines in both the Touareg and the Phaeton. This is SinterCast's passenger vehicle market penetration to date. It is currently possible to purchase a SinterCast-CGI engine in ten different vehicles and six different car brands.

We also have ongoing series production in the commercial vehicle sector. Over the last two years SinterCast has produced approximately 50,000 cylinder liners at the Caterpillar foundry which are currently running in Caterpillar engines on the road. We also have continuous production in the industrial power sector for Daros Piston Rings, for General Electric Transportation Systems locomotive engines in the United States and for Rolls-Royce Power Engineering. SinterCast's current monthly production corresponds to approximately 200,000 engine equivalents per year.

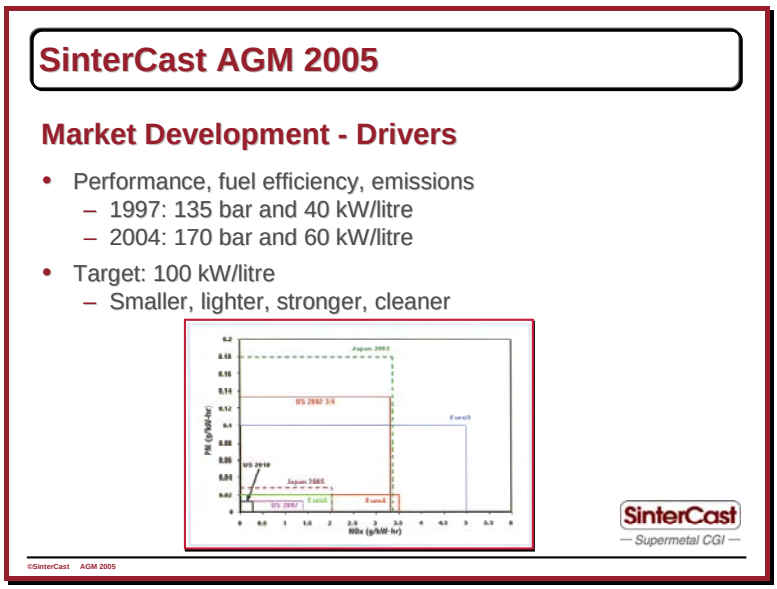


With that as our foundation in series production, we can look at our foundry penetration. SinterCast currently has technology agreements with foundry groups that represent 25 different foundries in 14 countries. Last year, SinterCast's 25 foundry partners produced 13.2 million cast iron cylinder blocks for passenger vehicle application. In consideration of the industry split between cast iron and aluminium passenger car cylinder blocks, those 13.2 million blocks represent 40% of all passenger vehicle cast iron cylinder blocks in the world. I would also like to present the foundry penetration in another way, with reference to the Americas. Currently, every independent cylinder block and cylinder head foundry in North and South America is a SinterCast licensee. So again, very strong foundry penetration. Our foundry partners respect our technology, they respect our professional business approach and they support us throughout the industry. They actively promote SinterCast-CGI as they quote on new projects, and they tell the OEMs that they are confident in CGI and in the support they receive from SinterCast.

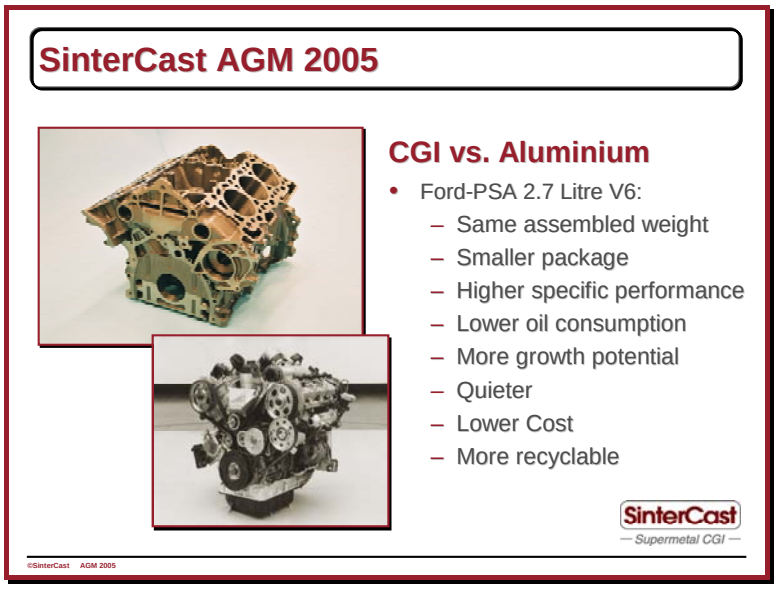
Beyond the current series production and foundry penetration, we can also look forward to discuss our growth opportunities. Of course, we will grow together with our existing foundry and OEM Customers. We will grow as the programs that have already been announced continue to ramp-up and we will grow as new production programs are launched, for example, new engines or new derivatives of existing engines. We will also grow in terms of System 2000 installations where our current foundry partners will expand SinterCast-CGI production to other lines and require additional System 2000 installations. Beyond our current partners, SinterCast will also establish new foundry partnerships and new OEM partnerships for new programs, both in our traditional home markets of the Americas and Europe and in new geographical sectors, primarily Asia, both for domestic production and for export.

We will also benefit from the development of emissions legislation. In particular, Korea, China and Russia have all adopted Euro-style and therefore pro-diesel legislation. We have already seen the benefits of this with the Hyundai V6 engine in Korea that will be produced both for the domestic market and also for export to Europe. Longer term, we see similar development opportunities in China, Russia and other Asian countries.

Finally, we will continue to work together with our technology partners throughout the industry, using their presence and respected image to establish new Customer introductions and, in some sectors, market representation. While we don't talk a lot about our partnerships in the share market, we do emphasize these relationships in the Customer market. I really want to stress the value of these relationships. Our partners are everywhere and they hear about new programs from day one. As Professor Indra said earlier, if you are not in on a program from the beginning, it is very difficult to change it. Our relationships with these insider companies, particularly Ashland Casting Solutions and Grainger & Worrall, alert us to new programs and allow us to sway the programs toward CGI.

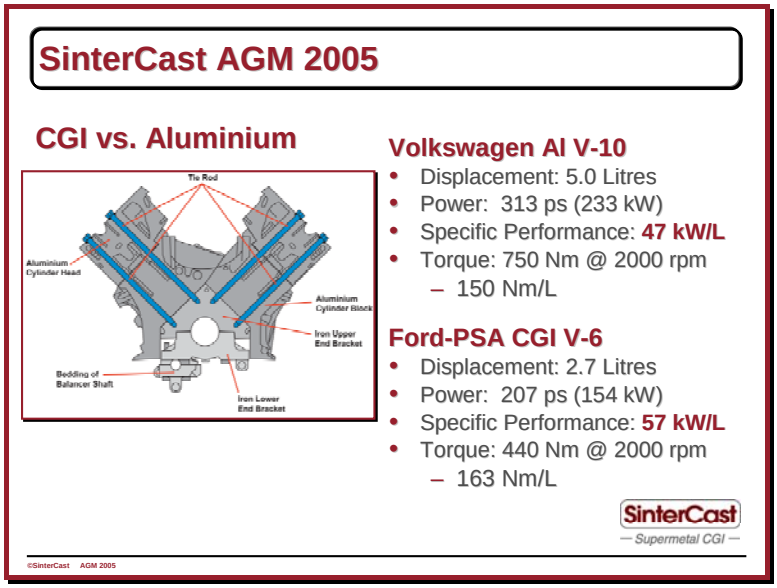


We have opportunities and we have drivers. The drivers for SinterCast-CGI will always be performance, fuel efficiency and emissions. If we consider the performance of diesel engines over the last seven years, we can see that the performance has improved from 40 kW/litre in 1997 to 60 kW/litre in 2004. Just think of things in the industry that have improved by 50% in the last seven years. Maybe computer processing speed and computer memory, but in the mechanical industry it is really unheard of to have such a development over the past seven years. And the development is not finished. Here in Europe, several OEMs have announced targets of 100 kW/litre, and to achieve this target while making their engines smaller, lighter, stronger and more environmentally friendly. The graph at the bottom of this overhead shows the difference in emissions legislation as a function of time, for nitrogen oxides and particulate matter, or soot. You can see the change in Europe from the Euro III standard to the Euro IV standard and finally to Euro V, progressively becoming more stringent. Likewise for the 2003 and 2005 standards in Japan. However, the most interesting challenge for the diesel is in the American market. These targets are legislated and they must be met. Legislation will continue to drive engine manufacturers toward higher performance from smaller packages, and SinterCast will benefit from this.



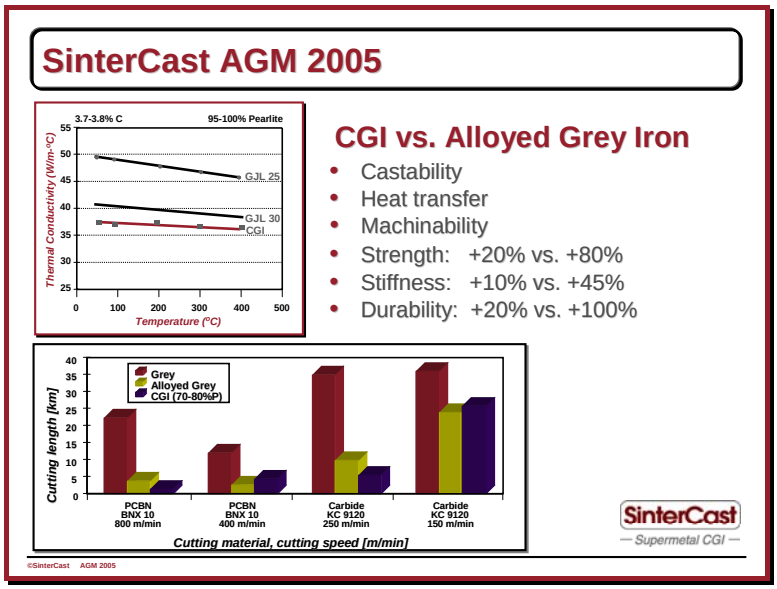
I would also like to provide a more detailed overview about materials and specifically to compare CGI to aluminium, conventional grey cast iron and alloyed grey cast iron. For those of you who joined us in October at the Shareholder Open House together with Jaguar and Land Rover here in Stockholm, we looked at this overhead for the first time and I would like to do it again today for our larger group. This overhead shows our Ford 2.7 litre V6 Lion engine. What most people don't know is that the engine initially began as an aluminium design, but didn't pass the durability test. So the engineers revised the design and again it failed durability. Finally, they did a third design iteration to make it as strong as possible, but again it failed durability. After the third iteration, CGI became the mainstream material for the engine program.

Because CGI is stronger, each of the main bearing walls in the bottom of the engine could be made thinner. As a result, the CGI engine became over 30 mm shorter than the original aluminium engine. As the cylinder block was over 30 mm shorter, both of the cylinder heads were also over 30 mm shorter and therefore lighter. The crankshaft was likewise shorter and again, lighter. All of the components that traverse the length of the engine became shorter and lighter, and in the end, the fully assembled CGI engine was the same weight as the original aluminium engine. This message is a key part of our education campaign throughout the industry. Of course, an iron cylinder block will always be heavier than an aluminium cylinder block but we don't put cylinder blocks into cars we put fully assembled engines. There is every opportunity that a fully assembled CGI engine will be entirely weight competitive with an aluminium engine of equivalent displacement or performance. While the SinterCast-CGI engine was the same fully assembled weight as the aluminium engine, it also provided a smaller package size and had higher specific performance in terms of kW/litre. It had lower oil consumption because the cylinder bores remained straighter. It had more growth potential because we could continue to increase the performance over the ten year life of the engine. It was quieter in operation. It was made to a lower cost and, at the end of its life, it was more recyclable. This is the technical argument set that made Ford choose CGI for this program.

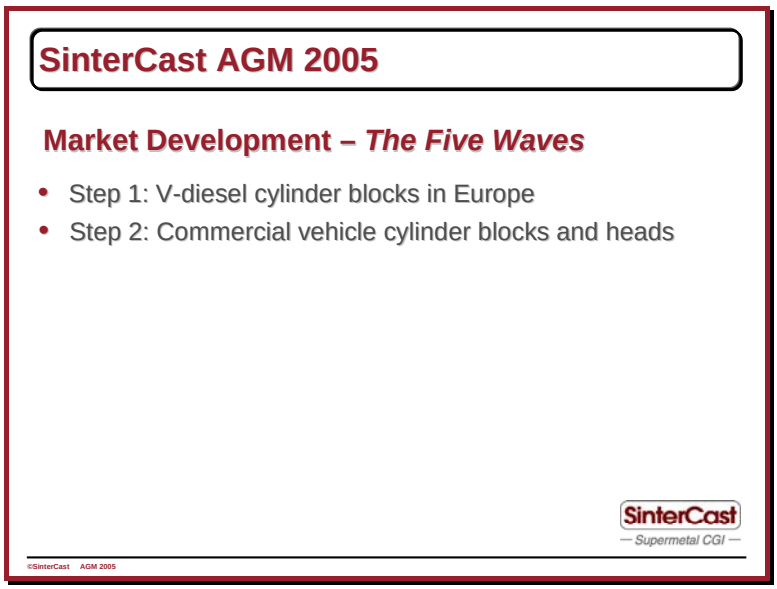


We have another CGI vs. aluminium reference that appeared in our 2004 Annual Report. This overhead shows the 5.0 litre Volkswagen V-10 engine. Volkswagen refers to it as an aluminium engine, and in some ways it is. It has an aluminium cylinder head, and an aluminium cylinder block, but at the very bottom, it relies on iron to withstand the operating load. Normally, the bolts that attach the cylinder head to the cylinder block, would anchor directly in the block. However, in this case holes have been drilled all the way through the block and the bolts have been anchored into the iron, transferring all of the operating load to the iron. Even though the Volkswagen V-10 is presented as an

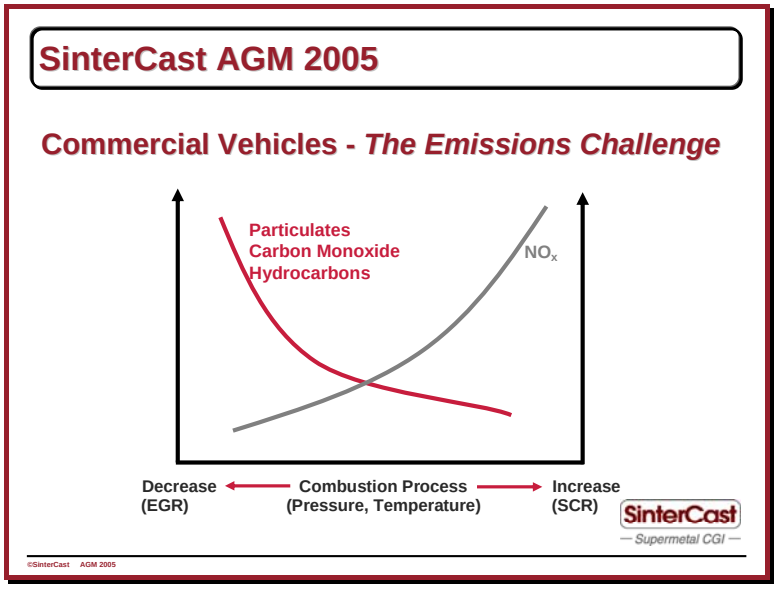
aluminium engine, it is the iron which carries the load in this engine block. And even with the more complex and more expensive construction, the engine is only running at 47 kW/litre. Certainly, the engine has a lot of power - 313 horsepower and 750 Newton metres of torque - but it derives its power from its size and not from its work load. A specific performance of 47 kW/litre is more or less where the industry was in 1998. When we compare it to the 57 kW/litre of the Ford Lion V6 engine, or the 58 kW/litre of the Audi V6, the CGI engines have over 20% higher specific performance and also a higher specific torque. This is the benefit of the stronger material, SinterCast-CGI.



I would also like to take this opportunity to compare CGI with grey iron. This is a rather technical overhead but I think it is important to determine the market opportunity for the different materials. Iron is composed of a series of atoms, and these atoms are all aligned in a well-defined grid. You can think of the iron atoms as oranges on the shelf in a grocery store. The way that iron fails is that when a force is applied, the oranges - or the atoms - just step over each other. The way to make a material stronger, such as alloyed grey iron, is to add some other alloying elements. In our orange analogy, it's like adding some grapefruits. These larger atoms require more energy for the iron atoms to step over and the net result is an increase in strength. However, the presence of the larger atoms also increases the hardness and makes castability and machining more difficult. In fact, the castability of alloyed grey iron (GJL 30) is about the same as CGI. The heat transfer is also only about 5% better than CGI instead of the 20-25% difference between normal grey cast iron and CGI. Finally, for machining with carbide tooling, we see the tool life decrease between grey iron and CGI is more or less in line with the increased strength of CGI. However, when we add the hardening agents to achieve alloyed grey iron we also decrease the tool life to effectively the same level as CGI. It is a challenge for SinterCast to educate the designers about these differences. Designers are not materials engineers. We have to help them understand that grey iron isn't always grey iron. We must avoid that the same name 'grey', doesn't make alloyed grey iron seem known, comfortable and accepted. The increase from normal grey iron to alloyed grey iron provides only 10 or 20% increase in strength and stiffness and only a 20% increase in the fatigue strength or durability. The message to the designers must be that, if you are willing to incur those penalties in castability, heat transfer and manufacturing, then why not take CGI and get a full 80% increase in tensile strength, more than 45% increase in stiffness and double of the fatigue life. The designers are starting to embrace this message but we must continue our education campaign.



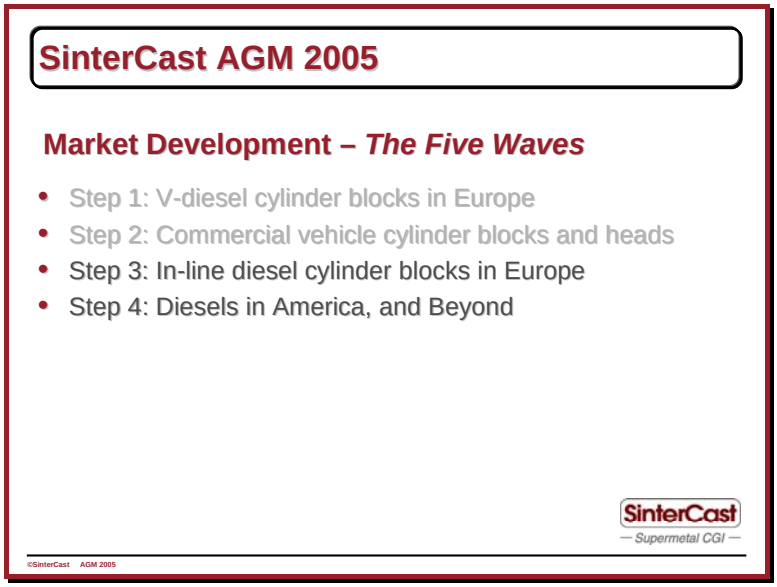
With that as background, I would like to review our Five Wave scenario which SinterCast continues to use to provide a breakdown of the different market sectors. Of course, we have a very good penetration in the first wave the V-diesels here in Europe. We currently have four different engines in production and running on the road in ten different vehicles. This provides a very good reference to start the CGI market development. On the commercial vehicle side, I referred to the 50,000 cylinder liners that we have out on the road in Caterpillar engines today. As yet, we don't have any public announcement of commercial vehicle cylinder blocks or cylinder heads, however, the pre-cursor for that is the new installations at the Tupy-Mauá foundry - which is Tupy's commercial vehicle foundry - and by the fact that Hyundai chose their in-house foundry with commercial vehicle production for their CGI installation.



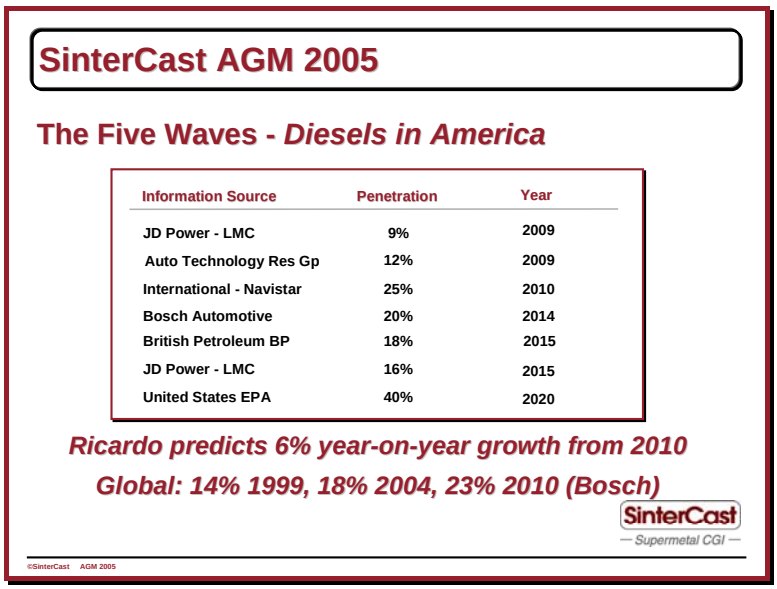
The challenge in the commercial vehicle sector is the emissions trade-off between nitrogen oxides and particulates, carbon monoxide and hydrocarbons. Every manufacturer has to make a decision. It is possible on the one hand to increase the pressure and the temperature in the combustion to get a very efficient burn that reduces the particulates, the carbon monoxide and the hydrocarbons and at the

same time provides better fuel efficiency and power. However, under these conditions, the nitrogen oxides are increased. Alternatively, commercial vehicle OEMs can approach the trade-off from the other side, by decreasing the pressure and the temperature, for example by exhaust gas recirculation, to satisfy NO_x emissions, and contending with the higher particulate concentration after the combustion.

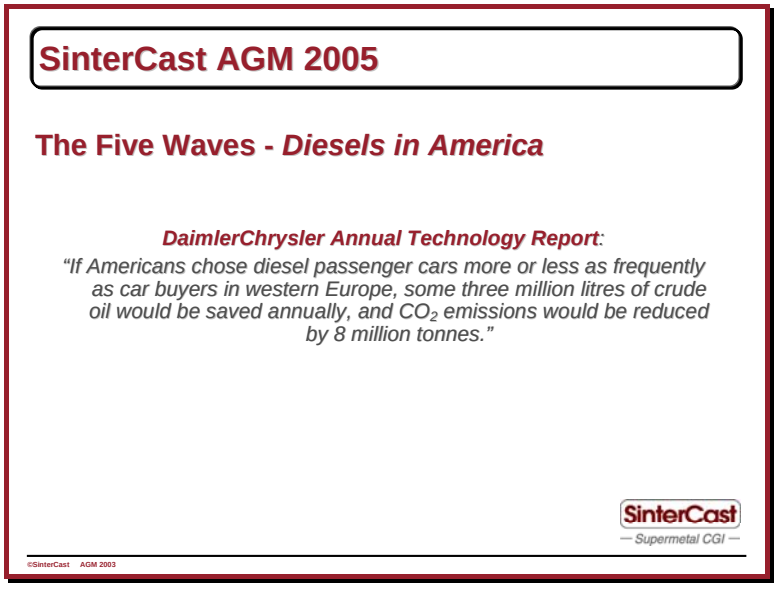
With the heavy-duty sector, the application of CGI is favoured by the use of higher pressures and higher temperatures because the higher combustion forces need stronger materials, and this is the way that we can initially differentiate between the various truck manufacturers. Those who are using high performance, together with SCR (Selective Catalytic Reduction) will require CGI earlier. Those manufacturers who start with EGR (Exhaust Gas Circulation) will come to CGI in the next phase of their engine development. Eventually, both approaches will lead toward CGI as emissions legislation continues to become more stringent.



The third wave is for inline diesel engines, initially here in Europe. As we said in the Annual Report, we continue to support some programs in this wave, with the initial CGI launch being applied to 10 - 20% of the total volume of an engine family to provide higher performance, while the remainder of the production remains in grey iron. As performance and emissions requirements increase, more of the production will migrate toward CGI. The fourth wave is for Diesels in America - and Beyond, where 'Beyond' refers to those countries that are adopting Euro style pro-diesel legislation, principally Korea where we already have the Hyundai start, China and Russia. But of course the most interesting near-term market is America because it is a big market and it is already developing new diesel engines and legislating low sulphur fuel for the end of 2006.

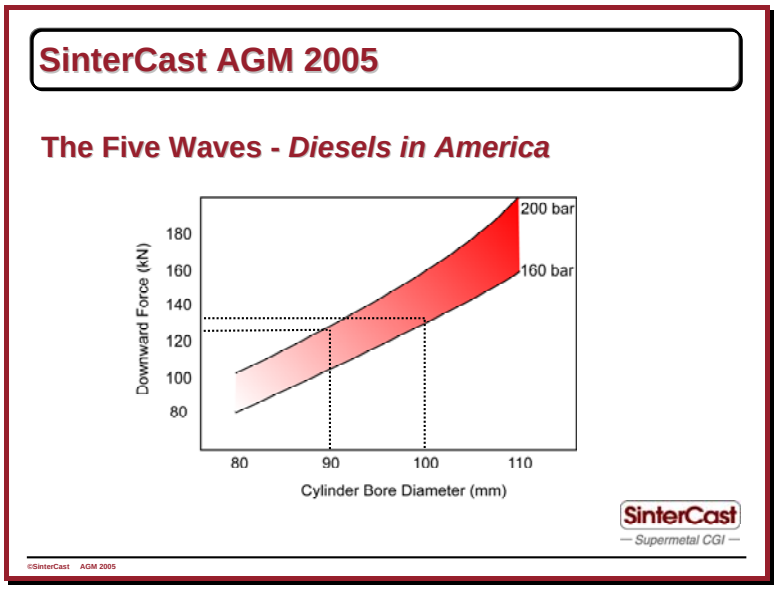


This overhead shows a summary of forecasts by different companies involved in the automotive industry. Today, the diesel penetration in the United States is less than 2% and this is generally agreed to increase to around 10% by 2010. Even the EPA in the United States forecasts up to 40% diesel penetration in 2020 while, as recently as five years ago, the EPA would have been uniformly, anti-diesel. Ricardo, the engine design consulting firm based in the UK, is predicting a 6% year-on-year growth of diesels in America after 2010, which is more or less exactly the same growth rate that diesels have had here in Europe since 1999. Globally, Bosch is predicting that while global diesel penetration was 18% last year, this could grow to 23% by 2010. Most of that growth will come from outside Europe, because Europe is now at 50% diesel penetration and this is expected to plateau at around 60%. This saturation in Europe indicates that most of the new diesel growth is going to come from overseas, what we call 'America-and-Beyond'.

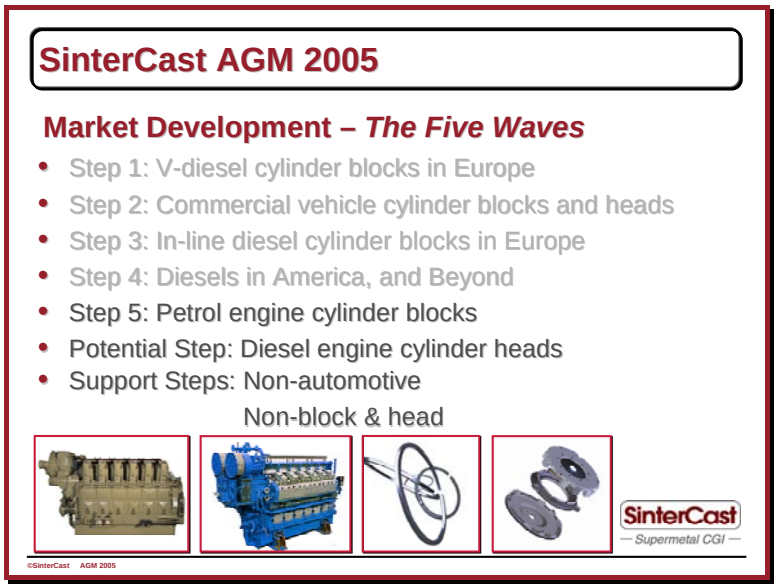


I would also like to share an interesting quote from the DaimlerChrysler Annual Technology Report stating that if Americans chose diesel passenger cars at the same rate as we do here in Western Europe, America would be able to save three million litres of crude oil per year while CO_2

emissions would be reduced by about eight million tonnes. This statistic clearly demonstrates why the US government and the EPA are interested in increased diesel penetration in North America.



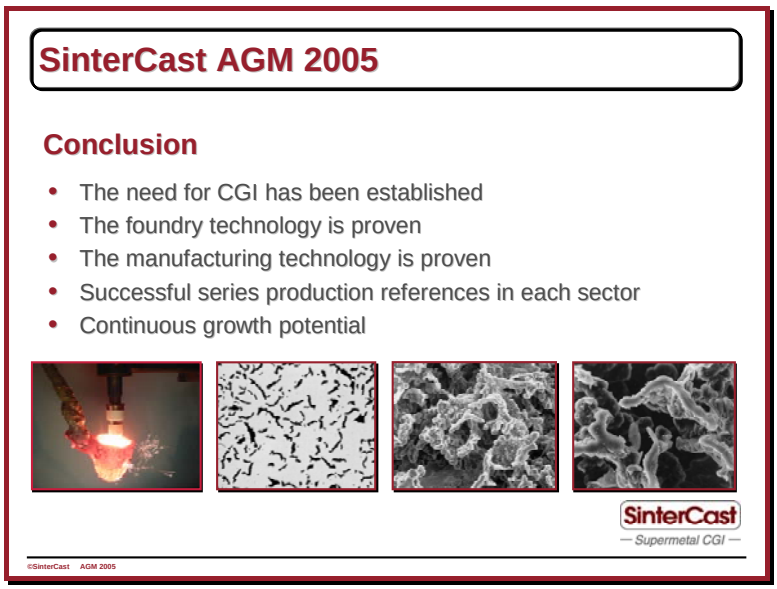
Some people may claim that the diesel engines in America will be bigger and can therefore run slower to provide power through displacement rather than by engine loading. However, I made a small calculation to show the effect of the larger cylinder bore diameter in America. As the cylinder bore diameter is increased, the larger piston surface exerts more pressure onto the bottom of the engine. As shown in this overhead, if the average European cylinder bore diameter is 90 mm and they run at the high end of the operating range, at around 190 bar, they will have a certain down force that must be absorbed by the engine. If the American engines have a larger bore diameter of approximately 100 mm, even if they operate at the bottom end of the range, they will actually have more force transferred to the bottom of the engine. So even if the American engines are larger and run at slightly lower pressures, they will still have a need for stronger materials. Diesels in America remains as a strong market opportunity for CGI and for SinterCast.



The fifth wave is for petrol engines. These engines will build on the foundry and machining confidence from the first four waves. We are currently working together with two OEMs on petrol engine investigations and we expect to make additional prototypes over the next years. We also have the potential step for diesel engine cylinder heads as pressures continue to increase and as the aluminium heads begin to come to the limit of their strength and durability. Again, we have active development programs in this area and have delivered prototypes already this year for a new diesel engine.

Finally, we will continue to secure additional production revenues from beyond the core automotive block and head market. We have ongoing series production for General Electric Transportation Systems, Rolls-Royce Power Engineering, Daros Piston Rings and the flywheels for Aston Martin. This production is currently at about 50,000 engine equivalents per year and we have every reason to believe that the near-term growth could provide on the order of 100,000 engine equivalents from this supplemental sector.

With that as a review of the market opportunity, I would like to summarise our strategy for going forward. I am confident that we are on the right path and that we have the support of our Customers. We will continue to focus on being *the CGI Company*. We will be the best through the precision of our control technology, the reliability of our products, the competency of our engineering support and our breadth of CGI know-how. We will grow our ability to support every aspect of every CGI program, through our own competence and through our technical partnerships. While we maintain that focus in our Customer market, I would also like to address our share market and how we provide information to our shareholders. We will continue to provide information through our Press Releases, the Quarterly Reports, and also Website Updates. We will also continue with the Ask the President forum. However, we will not continue the Audio Q&A WebCasts following each Interim Report. I believe that the Company has evolved to a point where we have to focus more and more on only two things, namely, activities that bring revenue to the Company and activities that bring value to the shareholders. Both of these elements boil down to series production and Customer support. We have come to the point where we need to put every available day on the support of our Customers, the ongoing series production and the development of new market opportunities.



In conclusion, the need for CGI has been established as the industry continues to strive for smaller, lighter and more performant engine packages. The foundry technology and the manufacturing technology have both been *proven*. We have successful production references in each of the passenger vehicle, the commercial vehicle and the industrial power sectors and most importantly, we have the opportunity for continuous growth potential by the ramp-up of our existing production programs, by the introduction of new production programs and by the opening of new geographical sectors.

Thank-you.