

Annual Report

2017/2018



We contribute to a healthier
and safer society.

SECTRA
Knowledge and passion

“Sectra’s success is attributable to the fact that we always put the customer first. We are well positioned to continue delivering a strong performance and our goal for the future is clear.”

Torbjörn Kronander, President and CEO.

Read more from Torbjörn Kronander about Sectra’s performance and prospects on page 12.

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Why Sectra exists

The world's population trend is placing demands on increased and more efficient care

To maintain a high quality of care despite today's population trend, the healthcare sector is being forced to accomplish more with the same or fewer resources. Sectra helps hospitals across the world to become more efficient, enabling them to care for more patients and save more lives.

Modern means of communication are making society more vulnerable and require increased security

Eavesdropping, unauthorized data access, and disruptions in communication systems and critical infrastructure could result in serious negative consequences for society and the individual. Sectra helps critical social functions, government officials and diplomats to use modern technology to exchange information securely, thereby contributing to a stable and secure society.



Sectra was founded in 1978 by a team of researchers at Linköping University. The founders' vision—that Sectra would become an international information security and medical IT company—has become a reality. Read more about the company's [history](#) on page 36.

What Sectra does and what sets us apart

The combination of medical IT and information security makes Sectra unique. The company's operations are conducted as separate business areas, with their own resources for research, development, sales and support. Synergies and knowledge sharing between the operations are increasing, partly as a result of the growing need in the healthcare sectors to protect systems and patient data from unauthorized access and cyberattacks.

What

Offering for more efficient healthcare

Medical images play a key role in diagnostics and the determination of an appropriate treatment. Sectra develops IT solutions and services for storing, viewing and working with medical images. Cancer diseases, osteoarthritis and orthopaedic surgery represent some of the most costly and resource-intensive areas in the healthcare sector—areas where the company's offering facilitates diagnosis, planning and patient monitoring. Sectra also helps to raise the quality of medical education by providing solutions for interacting with medical images and sharing educational materials.

Read more about [Imaging IT Solutions](#) and [Business Innovation](#)—the operating areas in which Sectra's medical activities are conducted—on pages 20 and 26.

Offering for a more stable and secure society

The secure transfer of information plays a key role in maintaining stability in many of society's functions. Sectra develops products and services that increase cybersecurity by protecting some of society's most sensitive information and communications. The offering includes certified secure voice and data communications as well as security analysis and monitoring of critical IT and OT systems for such functions as electricity and water supply.

Sectra's security operations are conducted under [Secure Communications](#). Read more on page 33.

How

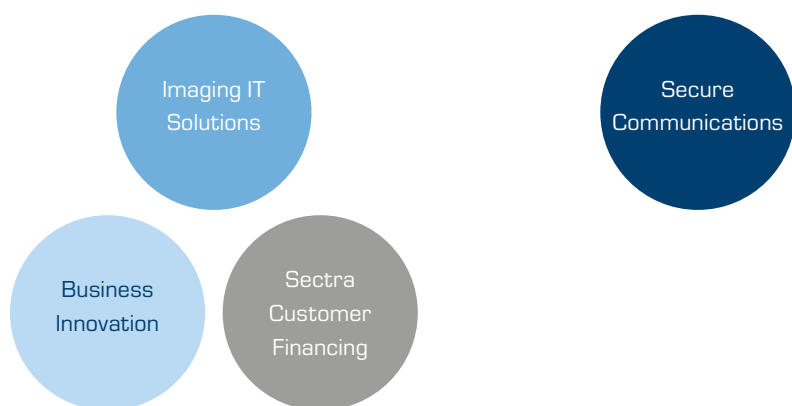
Driven by knowledge and passion

Sectra's products and services are recognized for their stability and usability. Internal and external customer satisfaction surveys have also clearly shown that what sets Sectra apart from its competitors is its employees—a group of highly skilled individuals who are more than happy to share their experience and are prepared to walk that extra mile to solve customers' problems. They do everything they can to understand the needs and challenges of their customers, and they use this knowledge to simplify and improve customers' daily operations. This is why customers choose Sectra and why they remain loyal for a long time.

This unique "Sectra spirit" is built on a strong corporate culture. Combined with innovation and technological excellence, this forms the basis for Sectra's success. It is also the key to the company's close, long-term cooperation with its customers.

Sectra's culture is based on:

- A strong drive to always meet or exceed customer expectations.
- Continuous improvement and innovations in high-tech fields.
- Offering solutions that benefit both individuals and society.
- Taking initiative and assuming responsibility—acting and acting smart.
- Collaboration with demanding customers and competent end-users to create solid solutions.
- Tolerance and respect for each other as individuals and friends.
- Job satisfaction and humor.



"The knowledge to meet expectations.
The passion to exceed them."

Who Sectra creates value for

Examples of users of Sectra's systems



Diagnostic imaging operations

Use medical images and systems for viewing, storing and sharing these images to enable more efficient diagnosis and communication of answers. Having a shared solution for various medical disciplines, such as radiology, mammography, pathology and cardiology, facilitates cooperation between departments—known as integrated diagnostics—which plays an important role, for example, in cancer care.

Orthopaedic clinics

Use systems for planning and follow-up of orthopaedic surgery to achieve better treatment results. These systems also help to cut costs by reducing the amount of time spent in the operating theater.

Medical and veterinary schools

Use interactive visualization technology and digital educational material based on real patient cases. This enables more flexible teaching and gives students a better understanding of the variations in human and animal anatomy and bodily functions.



Authorities, governments and defense organizations

Use crypto products to exchange sensitive information without risking information leaks.



Energy companies

Use risk and security analysis and data traffic monitoring in critical IT/OT systems to reduce the risk of access violations and interruptions or disruptions to the companies' production and distribution of, for example, electricity and water.



Sustainable business development

With a vision of a healthier and safer society

Sectra's business operations have been formed by the company's passionate founders and employees with a genuine belief that its expertise and technology can be used to change society for the better. Contributing to a better and more sustainable society is still Sectra's strongest incentive.

Vision

Sectra's vision is to contribute to a healthier and safer society.

Mission statements

To increase the effectiveness of healthcare, while maintaining or increasing the quality of care.

To strengthen the stability and efficiency of society's most important functions through solutions for critical IT security.

Sectra's focus areas for corporate social responsibility

Ensuring customer satisfaction

Ensuring employee satisfaction and development

Improving the efficiency of healthcare

Pursuing a long-term approach

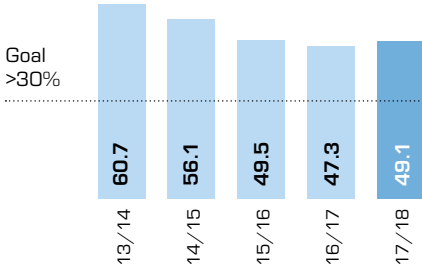
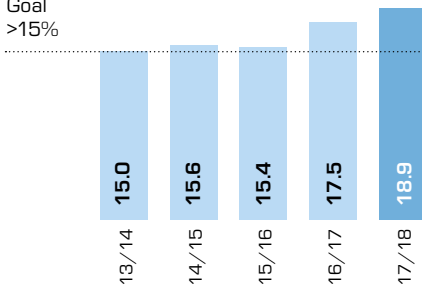
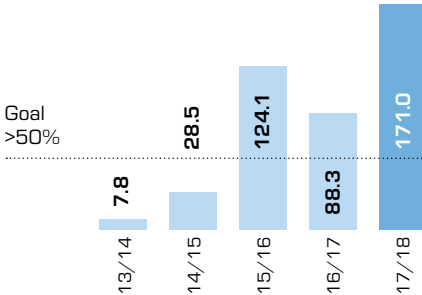
Contributing to a safer society

Business ethics

Read more about Sectra's work related to [sustainability and corporate social responsibility](#) on page 50.



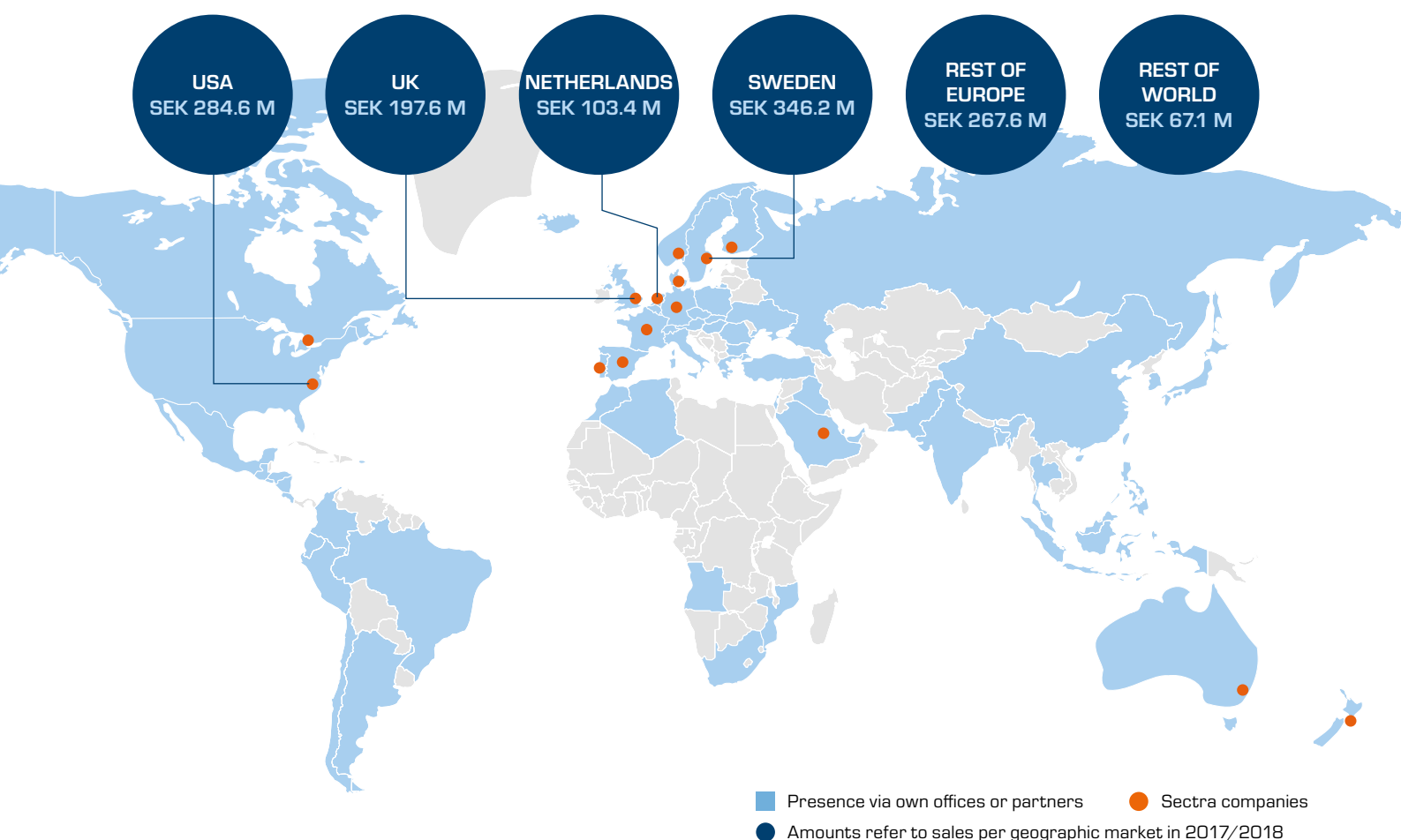
Financial goals and overall strategies

Financial goals in order of priority	Why this goal	Status												
1. Stability The equity/assets ratio is to be at least 30%.	A strong financial position provides security for customers and enables investments in products, services and areas that create additional value. A strong balance sheet also enables Sectra to finance managed-services agreements with customers, which is a major advantage since demand for these types of agreements has grown in recent years.	<p>The equity/assets ratio exceeds the strategic goal. The decline in recent years is due to a deliberate downward adjustment of the capital structure to bring it into line with the long-term goal.</p>  <table><tr><th>Year</th><th>Ratio (%)</th></tr><tr><td>13/14</td><td>60.7</td></tr><tr><td>14/15</td><td>56.1</td></tr><tr><td>15/16</td><td>49.5</td></tr><tr><td>16/17</td><td>47.3</td></tr><tr><td>17/18</td><td>49.1</td></tr></table>	Year	Ratio (%)	13/14	60.7	14/15	56.1	15/16	49.5	16/17	47.3	17/18	49.1
Year	Ratio (%)													
13/14	60.7													
14/15	56.1													
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16/17	47.3													
17/18	49.1													
2. Profitability The operating margin (EBIT margin) is to be at least 15%.	A healthy operating margin means that the business transactions in which Sectra can provide the most value are given higher priority than devoting resources to areas in which such value is lower. Favorable profitability enables Sectra to implement growth initiatives that generate a strong long-term return for its shareholders.	<p>Profitability has displayed a positive trend in recent years through structural changes, additional customers, a higher proportion of license and service sales, product development and a more efficient delivery organization.</p>  <table><tr><th>Year</th><th>Margin (%)</th></tr><tr><td>13/14</td><td>15.0</td></tr><tr><td>14/15</td><td>15.6</td></tr><tr><td>15/16</td><td>15.4</td></tr><tr><td>16/17</td><td>17.5</td></tr><tr><td>17/18</td><td>18.9</td></tr></table>	Year	Margin (%)	13/14	15.0	14/15	15.6	15/16	15.4	16/17	17.5	17/18	18.9
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13/14	15.0													
14/15	15.6													
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3. Growth Operating profit (EBIT) per share is to grow by at least 50% over a five-year period.	Profit growth is a more relevant goal for the company than higher sales since the proportion of software, services and deliveries via the Internet increases at the expense of hardware deliveries, for example. The goal is calculated per share in order to include the effects of potential acquisitions paid for with treasury shares and other dilution effects. This places the focus on ensuring that each acquisition results in higher operating profit per share, which is in the best interests of the shareholders.	<p>The growth in profit per share is a result of growing sales and Sectra's long-term efforts to boost cost-efficiency while increasing the proportion of higher-margin products, such as software licenses.</p>  <table><tr><th>Year</th><th>Profit per share</th></tr><tr><td>13/14</td><td>7.8</td></tr><tr><td>14/15</td><td>28.5</td></tr><tr><td>15/16</td><td>124.1</td></tr><tr><td>16/17</td><td>88.3</td></tr><tr><td>17/18</td><td>171.0</td></tr></table>	Year	Profit per share	13/14	7.8	14/15	28.5	15/16	124.1	16/17	88.3	17/18	171.0
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13/14	7.8													
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17/18	171.0													

Group-wide strategies

- Customers and customer satisfaction are always assigned top priority to enable long-term growth.
- International expansion mainly in areas and regions where Sectra holds an established position. This will primarily be achieved through organic growth, supplemented by acquisitions that strengthen the Group's organic growth.
- Expansion into new geographic markets following thorough analysis and at a controlled pace as Sectra achieves a strong position in existing markets.
- Close relationships with demanding customers to ensure that Sectra's solutions meet market demands for quality, functionality, and usability.
- A strong, innovative corporate culture to attract and retain talented employees with the ability to solve the customers' problems and meet—and in many cases, exceed—their expectations.
- Close collaboration with universities and research institutions to capture ideas and new product areas that Sectra's customers may find useful.

Where Sectra operates



Geographic presence

Sectra has customers in more than 60 countries worldwide. Sales are conducted through the company's own offices in 19 countries across Europe, North America and Oceania as well as some 40 partners in various regions. Most of the Group's sales comprise its own direct sales. Sales of Sectra's security-approved crypto products for secure communications are limited to the European market due to export restrictions. However, these restrictions do not apply to cybersecurity solutions or services for critical infrastructure. For further information about Sectra's geographic presence and distribution channels, refer to the fact box in the individual section for each operating area.

New geographic markets

Sectra believes that it is better to be big in a few countries than to be small in many. The goal is to be the largest or second largest supplier in the countries where sales are conducted through the company's own subsidiaries. Accordingly, the Group's long-term strategy is to continue to grow and become the leader in the segments and regions where the company conducts its own sales, supplemented with controlled growth initiatives in a small number of carefully selected markets.

While establishing a presence in new countries and adding additional partners is necessary for the Group's long-term growth, it can be expected to take a few years for such initiatives to have any major

impact. Over the past two years, Sectra has started subsidiaries for direct sales in France (medical systems), Canada (medical systems) and Finland (secure communications). New distribution partners for medical systems have been added in the Philippines, Poland, Russia, Saudi Arabia and South Africa. Sectra has also opened a subsidiary for service and support for healthcare customers in Saudi Arabia. New distributors are gradually being added in the Medical Educational business unit, whose products are mainly sold through partners, and the unit's products are represented in more than 40 countries.

Innovation for future growth

Research and development (R&D)

Sectra maintains a high pace of innovation and continuously invests in the new and ongoing development of its product offering in existing niches and related product areas. Development takes place in close dialogue with customers. Research projects are conducted together with universities, hospitals and strategic partners around the world. Solutions for digital pathology, computer-aided 3D trauma surgery and applications for image analysis based on artificial intelligence (AI) are examples of the results of successful collaborations.

Examples of R&D projects and product launches in 2017/2018



Imaging IT
Solutions

- Vendor-neutral integration with Sectra's medical IT systems, enabling healthcare providers to implement machine learning/AI applications from Sectra and other suppliers.
- New functionality in Sectra's service for sharing medical images, making it easy to share digital pathology images between healthcare providers.
- Updates to Sectra PACS and VNA, including machine learning functionality and expanded functionality to control and visualize standardized care pathways.



Business
Innovation

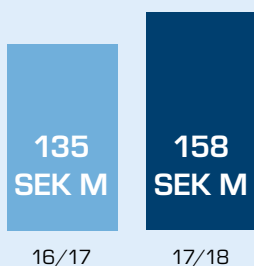
- Sectra Implant Movement Analysis, a new service designed to help orthopaedists determine whether or not a patient's pain is caused by a loose implant that needs to be replaced.
- Solution for efficient 3D planning of spinal surgery.
- Further development of Sectra's portal for medical education.
- The Analytic Imaging Diagnostics Arena (AIDA), a national research partnership in the field of AI for medical image analysis.



Secure
Communications

- Sectra is contributing security expertise to a research project aimed at developing decision support systems for a more predictable supply of drinking water.
- Further development of digital security for critical infrastructure.
- Research projects related to encryption and protection against new types of hacking attempts, including attacks using quantum computing.
- Updates to the Sectra Tiger ecosystem for secure communications, including further development of the VPN for mobile applications in demanding environments.

The Group's R&D costs



10–
15%

of consolidated sales are invested in R&D every year.

Patent portfolio



22

patent families in the Group

Examples of research partners

The Center for Medical Image Science and Visualization (CMIV) at Linköping University, Karolinska Institute in Stockholm and Lund University in Sweden; Radboud University Medical Center and Utrecht University in the Netherlands; and University Hospitals of Cleveland in the US.



The year in brief

Sectra's system for medical images receives top customer satisfaction ranking worldwide

Sectra delivers high-tech products of superior quality and has dedicated, talented employees. This earned the company the top customer satisfaction rating in the industry for the fifth year straight; refer to page 22.



Growing customer base

Imaging IT Solutions is continuing to grow by securing prestigious agreements with healthcare providers in the US, the Netherlands and other markets; refer to page 22. The most significant growth potential for the operating area is in the US market, where investments in customer satisfaction have resulted in a growing customer base, while the market share is still relatively small.



New management and new products in Business Innovation

Sectra's product offerings in Orthopaedics and Medical Education are undergoing a generational shift and increasingly transforming to delivery models that generate recurring revenue. Both business units are facing growing market interest in their offerings, and the new management teams are focusing on the development and launch of new services; refer to page 27.

Digital pathology —a long-term investment in future growth

Work to extend the product portfolio into new segments continued. One such segment is pathology, an area where digital management of microscopic images could improve the efficiency and quality of cancer care. New customers in Europe and Australia have chosen Sectra's solution. The Group is now preparing to apply for approval to sell its products for primary diagnostics in the US.



Increased focus on machine learning/AI

AI is an underlying theme in many of the Group's ongoing product development projects and in the research department. To provide the healthcare sector with faster access to innovation, Imaging IT Solutions launched the ability for vendor-neutral integration of AI applications.

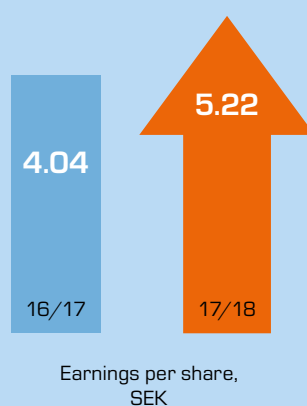


35% growth for Secure Communications

The Group's focus on cybersecurity for critical infrastructure has been well received by companies in the energy sector in the Nordic market, and the number of customers is gradually increasing. At present, however, the favorable growth of the operating area is mainly attributable to products and development assignments in secure communications; refer to page 34.

Positive trend generates return for shareholders

All of the financial goals have been met (refer to page 7) and the Board has proposed to the Annual General Meeting that SEK 4.50 per share be paid to shareholders through a share redemption program.



Quality is profitable

For additional key figures, refer to the five-year summary on page 38.

1 266.5
Net sales
SEK million

239.1
Operating profit
SEK million

5.84
Cash flow per share
SEK

1 492.5
Order bookings
SEK million

Satisfied customers and benefiting society form the basis of our long-term success

The overall aim of Sectra's business operations is to solve major social problems that must be addressed in the foreseeable future. Helping customers to improve the efficiency and quality of patient care and increase cybersecurity in critical social functions is Sectra's most significant contribution to a more sustainable society.

The 2017/2018 fiscal year was characterized by successes that strengthened Sectra's position in our niche markets. We have achieved all of our financial goals and are growing through collaboration with new and existing customers and partners. Our customers have entrusted us to execute projects with innovative solutions that could ultimately lead to new advances in critical social functions.

Our customer satisfaction surveys continue to show positive results. Within our largest product segment, Radiology PACS, Sectra secured a top ranking in the surveys conducted by the market research company KLAS, with the most satisfied customers both in the US and globally. The US market remains an exciting area for growth, although it is the most intensely competitive market.

Another gratifying development is that the profitability problems we have been facing in Secure Communications in recent years are being rectified. The operating area is growing rapidly and is profitable, although there is still some way to go before we reach the desired earnings level. Our new critical infrastructure security product area is displaying particularly strong growth, although the impact on our overall performance to date has been minor.

A culture we can be proud of

It is rewarding to lead and work for a company with satisfied customers and employees who do an outstanding job every day. We are not always perfect, we sometimes make mistakes. But one thing that sets us apart from the crowd is our company culture. This is most obvious when unexpected

things happen. Take, for example, the WannaCry cyberattack that spread like wildfire from computer to computer in the UK healthcare sector in May 2017. When those of us in the management team were informed on the Friday afternoon that large parts of the healthcare system in England had ground to a halt due to the attack, our staff were already in the midst of investigating and rectifying the problems and informing customers. Our employees do not wait for orders from their managers or customers, but rather act immediately to help customers when necessary. This is how we want it to work. I am incredibly proud of this and the way the culture is ingrained in all of our operating areas. This creates satisfied customers and is a strong contributor to profitability, which ultimately benefits our customers, employees and shareholders. But the real winners are outside our organization: the patients who benefit from our medical IT systems and the citizens living in the democratic, open societies protected by our security solutions.

Unique combination

I am often asked why we have medical IT and cybersecurity in the same Group. The answer is historical chance and business choices in the company's early development phase. Recently, synergies between these two areas have increased, however, not least as the healthcare system has become a target for cyber criminals. The combination makes us unique, although the operations are conducted as separate business areas, with their own resources for research, development, sales and support. My task here is to ensure that the Board of

Directors has freedom for the future, either to retain the combination or to list the operations on their own merits. We are still not in such a position, but with the rapid growth of Secure Communications we have made some progress.

Developments in our niche markets

Medical IT and diagnostics

The major demographic problems faced by the West, and increasingly in Asia, represent a societal challenge where we can make a difference. Healthcare costs are soaring, even as a share of GDP, and this trend cannot continue indefinitely. Today, a crucial share of healthcare costs is attributable to caring for the elderly. The main diseases that are driving these costs are cancer and skeletal diseases as well as neuro-degenerative and cardiovascular diseases. It is therefore here that society should focus its resources to remedy the trend of rising costs. This is why we have chosen to specialize in these areas. In Imaging IT Solutions, we must provide all diagnostic imaging and be particularly skilled in cancer diagnostics. In the Orthopaedics business unit, we are focusing on skeletal diseases. We are also working together with partners who provide solutions in the field of cardiovascular and neurological diseases.

Progress in the field of cancer

We have observed that cancer is transitioning from an acute, fatal disease into an often-chronic disease. This means that as the incidence of cancer increases, the need

"Sectra's success is attributable to the fact that we always put the customer first. We solve customer problems within our areas of expertise and help them become more efficient by having a deep understanding of their daily processes and needs."



"The medical field is rapidly evolving. Old knowledge is being replaced with new expertise at a rate that is unprecedented in human history."

for diagnostics will increase even faster, since individuals living with the disease must be monitored, often for the rest of their lives. In cancer diagnostics, Sectra has a market-leading position within IT for mammography and radiology. This is also the case for the rapidly expanding field of digital pathology, where Sweden now commands a world-leading position and where Sectra holds a dominant market share. The challenge for us is to obtain FDA approval for digital pathology as soon as possible, to allow us to also sell our products for primary diagnostics in the US.

New model for medical education

The medical field is rapidly evolving. Old knowledge is being replaced with new expertise at a rate that is unprecedented in human history. In such a world, completely new demands are being made on medical education and continuing professional development for doctors and other healthcare personnel. Sectra is at the forefront of this field, with visualization solutions for anatomy education. To meet customer needs, we are expanding our offering to include training for other specialties, such as pathology and histology. Major synergies also exist between our medical education operations and other fields.

Cybersecurity

Within Secure Communications, we are positioned in a market that is rapidly expanding. There is an immense need to increase cybersecurity in society and there exists significant potential for our cybersecurity services for critical infrastructure. Cyberattacks constitute the third largest threat against society according to a global risk report from the World Economic Forum. Cyberattacks not only affect industrial companies, but also society's critical functions, such as energy companies, hospitals and banks. The number of cybersecurity attacks has almost doubled over the past five years¹, and society was severely hit by multiple

global attacks last year. Within cybersecurity, Sectra not only has its existing business focusing on secure communication for the most demanding customers, but has now also begun offering cybersecurity for critical infrastructure. The cybersecurity segment reported highly favorable growth during the year.

As I mentioned earlier, we have also witnessed this development when it comes to cybersecurity in healthcare. Three quarters of healthcare organizations in the US were targeted by ransomware or malware attacks in 2017.² If critical healthcare systems stop working, then patient lives are threatened. That makes the healthcare system more vulnerable and increases the likelihood that they would pay a ransom to blackmailers. Naturally, this only increases the threats further.

Financial performance 2017/2018

A year ago, our order bookings looked somewhat worrying, but after the most recent quarter we are ending the fiscal year with a healthy order book. This will provide a solid foundation for continued growth. Sectra has stable operations, with favorable profitability and strong cash flow. We also have a number of highly exciting projects in the pipeline that could eventually become major endeavors, although, as always, there are no guarantees with future projects.

During the year, we achieved our financial goals; refer to page 7. Stability and profitability are our first and second priorities. These are viewed more as thresholds that we must cross. When the targets have been achieved, our focus shifts to the growth target of EBIT/share, which we consider the most important long-term target for our shareholders.

"It is rewarding to lead and work for a company with satisfied customers and employees who do an outstanding job every day."

Outlook

Sectra's success is attributable to the fact that we always put the customer first. We solve customer problems within our areas of expertise and help them become more efficient by having a deep understanding of their daily processes and needs. We are well positioned to continue delivering a strong performance and our goal for the future is clear.

When I think of what Sectra will look like five years from now, I see that we still have the industry's most satisfied customers and that our employees are also satisfied. We have grown and advanced our international position through close, long-standing customer relationships. We have continued to achieve our financial goals. Within Imaging IT Solutions, we have captured a market-leading position in a greater number of countries, with a particular focus on growth in the US. When it comes to cancer care, Sectra's solutions for digital radiology and pathology have improved diagnostics and helped to provide more people with high-quality care. Within Secure Communications, we have created opportunities for increased growth by broadening our product portfolio and expanding our customer base, and the new critical infrastructure security product area has displayed particularly strong international growth. We have continued to initiate innovative projects with good profitability potential and strong underlying market growth, and divested less successful initiatives where necessary. Then we can look back on yet another five years with satisfied customers, satisfied employees and satisfied shareholders.

Linköping, June 2018

Torbjörn Kronander
President and CEO Sectra AB



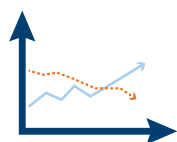
Get to know Torbjörn

- Doctor's son who traded in what seemed to be a preordained career in medicine (essentially all of his relatives were physicians or dentists) to study engineering physics, with a focus on medical technology, at Linköping University.
- Master of Science in Engineering and Doctor of technology from Linköping University, and MBA from the Stockholm School of Economics.
- Honorary Doctor of Medicine from Linköping University.
- Officer and former minesweeper commander in the Swedish Naval Reserve.
- Sectra's largest owner in terms of votes, and founder of Sectra's medical operations.
- Partner, six children and two step-children.
- Pilot who can fly almost anything that flies.
- Listed in the Swedish MedTech Magazine as one of the most influential figures in the field of medical technology in Sweden.
- Enjoys a good debate. Particularly passionate about issues concerning incentives and opportunities for companies to remain and develop in Sweden.

Aging population shines spotlight on diseases affecting the elderly

In order to take care of more patients, particularly more elderly patients, healthcare must become more efficient. The treatment of patients with cancer and skeletal diseases entails enormous challenges. These areas are dependent on medical diagnostic imaging—a niche market in which healthcare providers across the globe use Sectra's expertise and solutions to increase productivity, improve the quality of care and coordinate their healthcare resources.

Social trends



Fewer people to care for more

Improved living conditions are allowing people to live longer lives. At the same time, the number of children born in the world has steadily decreased.³ As a result of this shift in the relationship between the number of young and elderly people, there will be fewer people to provide and care for the growing population of older people in the future.



Aging population

More than one in five people in Europe and North America are currently over the age of 60, a number that continues to rise.³ Elderly people primarily suffer from diseases such as cancer, cardiovascular diseases, neurological diseases and diseases of the musculoskeletal system. Increased efficiency in diagnosing and monitoring the progression of these diseases are therefore a high priority.



Medical advances

Improved diagnostics and treatment methods allow more patients to survive their diagnosis. This means that more patients require regular examinations, which is contributing to an increased need for diagnostic imaging.



Digitization

A higher degree of digitization in healthcare enables greater efficiency, increased availability and improved quality of care. At the same time, such advances mean that systems and information become more vulnerable to human error, unauthorized data access and cyberattacks.

Industry and technology trends



Artificial intelligence

Artificial intelligence, particularly machine learning, is a new form of technology. In the healthcare sector, it can be used, for example, to simplify and automate repetitive and time-consuming diagnostic tasks.



Customized care

Patient treatment and medication is becoming increasingly personalized, based on genetics, previous medical history and the care results of other patients with the same disease. Planning and follow-up will largely be image-based.



Patient involvement

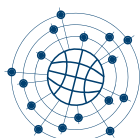
Digital solutions and new methods can give patients a greater influence over their own health and care. Individual patients can be provided with new tools that enable them to play an active role in managing their own health or assist in the care of a close relative.

Customer challenges and needs



Resource collaboration

To accomplish more with the same or fewer resources, cooperation between various departments and players in the healthcare sector is increasing. In order to boost cost efficiency and competitiveness, growing numbers of mergers and acquisitions are being carried out. In the US, for example, only half of today's non-government health systems are expected to remain in 2024.⁴



Consolidation of IT systems

Growing numbers of healthcare providers are consolidating their IT systems in order to simplify maintenance and operation and cut costs. Reducing the number of IT systems also facilitates cooperation between various medical disciplines.



Ensuring patient integrity

Improved access to relevant patient information—without compromising patient integrity—is a prerequisite for improving the efficiency of care processes, avoiding incorrect treatment and reducing care times. Legal requirements concerning confidentiality and security must also be met.



Educating more people more efficiently

In most countries in the world, there is a growing shortage of qualified healthcare personnel, particularly specialists. More people need to be trained. Creating more modern and efficient basic and further education programs for physicians, nurses and veterinarians is a top priority for many hospitals and universities.

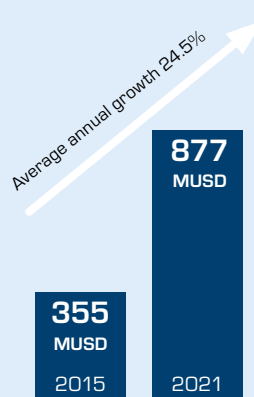
Market size and growth rate

Responding to customers' challenges requires IT solutions with a high level of availability and security that can facilitate diagnosis, planning and patient monitoring. This allows customers to increase their productivity, reduce their lead times and cut costs along the entire care chain.

The market for medical imaging IT

The global market for medical imaging IT amounted to USD 3.0 billion in 2015 and is expected to grow to USD 3.2 billion by 2021, corresponding to an average annual growth rate of 1.4%. Certain product segments are growing, while others are showing more limited development. The latter applies, for example, to IT systems for radiology (PACS/RIS) that are smaller and limited to local units, particularly in North America and Europe. As a result of increased collaboration and consolidation, a growing number of healthcare providers are instead choosing to implement consolidated systems for image management across entire enterprises and/or regions, known as enterprise imaging.

Growth is significantly higher in new segments, such as clinical decision support based on artificial intelligence, advanced tools for analysis and diagnosis, and medical technology products that help physicians to adapt treatment and medication to the



Enterprise Imaging, global market⁵
Includes radiology and cardiology

individual patient (companion diagnostics). This also applies to digital pathology, where the market is growing rapidly. Sweden, which is at the forefront of the transition to digital technology, is home to 33 pathology labs. The corresponding figure for the US is over 5,000.

The market for orthopaedics

Hundreds of millions of people suffer from osteoarthritis, a disease that often leads to hip, knee and shoulder joint replacement surgery. According to the UN World Health Organization, the disease is one of the main global healthcare challenges,

alongside cancer and stroke. The number of patients affected by the disease has doubled over only a few generations.⁶ In total, nearly three million joint replacement surgeries are carried out annually worldwide⁷, and this number is expected to rise sharply due to the aging population. In addition, more than eight million surgeries due to fractures caused by accidents, falls and activity-related injuries are performed globally every year.⁸ This creates significant market potential for IT systems and services that can streamline logistics and facilitate the planning and follow-up of orthopaedic procedures.

The market for medical education

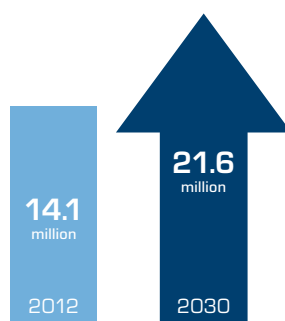
Growing and aging populations, combined with more treatment options, are resulting in an increased need to train additional doctors and nurses. This is fueling demand for modern training systems and educational tools and materials in a wide range of subjects to streamline and improve medical education. The global market encompasses more than 2,500 educational institutions^{9,10} and hospitals offering basic and specialist training for doctors, nurses and veterinarians.

How Sectra contributes to better cancer care

The number of cancer cases is on the rise, which is creating a growing demand for quicker and more efficient cancer care. Thanks to improved diagnostics and treatment methods, more patients are surviving their cancer diagnosis. This is placing greater pressure on diagnostic care, since patients who have concluded their treatment must undergo regular examinations to check that their cancer has not returned. These factors combined are resulting in an increase in diagnostic imaging.

Sectra's solutions can shorten the time from well-founded suspicion to diagnosis and treatment decision for several of the most common forms of cancer and improve the quality of care. Among men, prostate cancer is the most common form of cancer in Sweden¹¹ and second most common in the world¹². This section looks at prostate cancer care to provide an example of how Sectra's products contribute to more efficient cancer care.

» Visit our website to learn more about how Sectra contributes to improved breast cancer care: www.sectra.com/annastory



The number of new cancer cases per year in the world is expected to increase by more than 50% until 2030.¹³

More than one million men around the world are diagnosed with prostate cancer every year.¹³



Diagnosis and care of prostate cancer —an example of how Sectra's offering helps make a difference

More efficient work environment and tools for radiologists

Radiology plays a key role in diagnosing prostate cancer. Sectra works to offer a consolidated workstation, where radiologists can efficiently review images, take the measurements needed and enter the results in a response to the referring physician along with other comments—all without needing to open other programs or transfer information between programs manually. This reduces the time it takes for the radiologists to make a diagnosis and communicate their results.

More efficient work environment and tools for pathologists

When the radiologist's results indicate the presence of cancer in the prostate, a biopsy is taken to allow the pathologist to definitively determine the type and stage

of cancer. This information is critical to ensuring the right treatment is administered. Sectra can provide pathologists with a fully digital review environment and thereby replace microscope reviews. Using digital tools means that the images are easily accessible at the primary hospital as well as for any experts who may be consulted at other hospitals—or even in other countries. Digital tools also provide the reviewing pathologist with support for a faster, more personalized analysis.

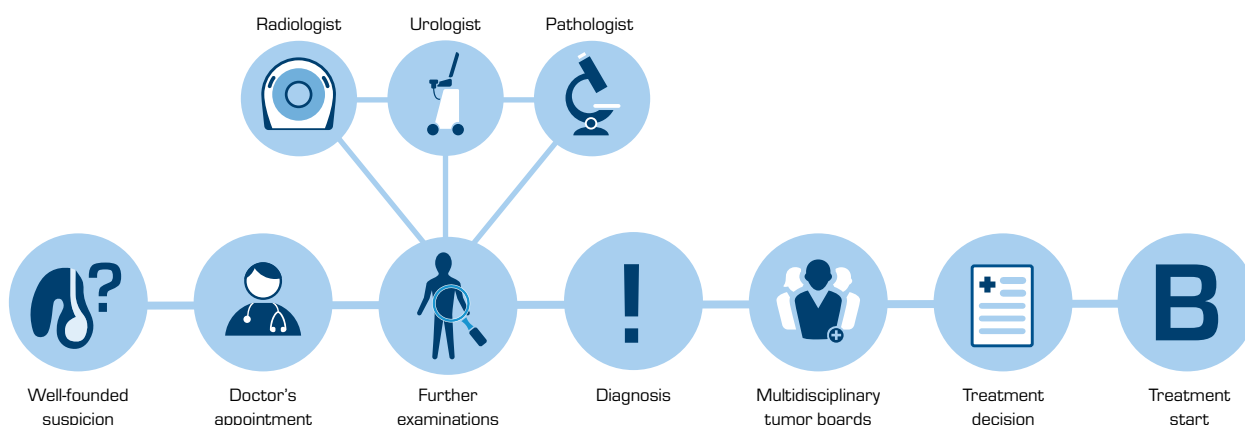
Faster and easier communication of images and results

Sectra offers radiologists, pathologists, urologists and other experts in the care chain a shared solution for managing all images and results. This means that each expert's referrals, images, tests and results are immediately available to everyone

authorized to access them. This gives all involved a more holistic patient overview, which increases the quality of care and accelerates the process of sending information between the various experts.

Integrated diagnostics

A shared imaging IT solution also enables integrated diagnostics. In the case of prostate cancer, for example, this means that the radiologist and pathologist can see each other's conclusions and receive support in the IT system in order to quickly and easily see when they disagree. Detecting and resolving such conflicting conclusions before the experts come together for their multidisciplinary tumor boards to discuss the treatment plans of individual patients saves time and money for the healthcare sector.



Typical care pathway for patients with prostate cancer

Many men diagnosed with prostate cancer show no cancer symptoms. They are often diagnosed following a blood test showing an elevated PSA level, for example, during a routine check-up. If the patient's PSA level and prostate examination give rise to a well-founded suspicion of cancer, the patient is referred for further examination. In a growing number of countries, this is done according to a standardized care pathway in order to reduce the waiting time for the patient.

Imaging IT Solutions

Facts

Number of employees: 479

Product offering

Medical IT systems and services that help customers care for more patients, while retaining or improving the level of quality. The operating area's offering includes:

- IT systems for managing, archiving, presenting and communicating of all types of medical images and patient information.
- Flexible delivery models that allow customers to choose, for example, between purchasing systems as traditional system installations, cloud services or services where Sectra is responsible for the operation of the system.
- IT systems for operational follow-up and radiation dose monitoring.
- Maintenance in the form of support, system monitoring and upgrades.
- Consulting services related to integration, system design, data migration and business development.
- Training for users and administrators.

Customers

Public and private healthcare providers that offer medical imaging services. Customers normally include major hospitals, hospital chains and private clinic chains that are growing and being consolidated. These customers appreciate Sectra's ability to deliver extremely reliable and scalable solutions. They also have a need for communication and collaboration between hospitals, which Sectra can meet.

Sales channels and geographic presence

Own sales organization and/or partners in some 30 countries throughout Africa, Europe, the Middle East, North America, Oceania and South-East Asia as well as in Japan. The operating area's largest markets are the Netherlands, Scandinavia, the UK and the US.

Major competitors

Agfa, Carestream, Change Healthcare, Fujifilm, General Electrics, Philips and local players in various countries as well as major IT companies specializing in archiving, such as IBM and Hyland Software.

Where we are headed

The operating area's long-term goal is to be a leading provider of complete solutions for the management and communication of all types of medical images for diagnostic purposes, with a particular focus on cancer diagnostics. The operations mainly focus on large diagnostic imaging units, such as radiology, mammography, pathology and cardiology, as well as other departments where medical images are used. Improving the efficiency of diagnostics and monitoring in cancer care is a common thread that runs through Sectra's offering.

Where we are now

Sectra is one of the world's leading providers of IT systems for managing medical images and patient information. More than 1,800 healthcare providers worldwide currently use Sectra's systems and services.

Market position

The company commands a market-leading position in the Netherlands, Norway, Portugal and Sweden, and a prominent position in the UK. Sectra is also the market leader in other countries in the niche of breast image management. In some countries, Sectra commands such a large market share that its growth in certain product segments is limited. However, this is not the case in the US, where the company holds a relatively small market share. A focus on high customer satisfaction has resulted in several important healthcare providers choosing Sectra's solutions, and the US customer base is growing. In recent



What sets Sectra apart in the eyes of customers?

Sectra has a high level of customer loyalty and has received top rankings in several independent customer satisfaction surveys—both in individual product segments (“best of breed”) and for its consolidated management of medical images (“best of suite”). See what sets Sectra apart from other suppliers in the same industry in the eyes of its US customers:

» www.sectra.com/customersaboutspectra

years, the operating area has also opened offices in two new countries: France and Canada. These establishments are important from a long-term growth perspective.

The operating area has held a strong position in IT systems for managing radiology images for many years, and for five consecutive years it has won the industry's most prestigious award for its outstanding customer satisfaction in this product segment. Its customers include some of the largest healthcare providers in the world.

To enable healthcare providers to provide better, faster and more patient-centered care, Sectra offers systems and services for the management and archiving of all types of medical images, including non-radiology images. With components built on the same technical platform, customers can easily adapt and expand a departmental solution to create a multimedia archive (VNA) that supports all image management. As more existing customers have taken the opportu-

nity to expand their systems to include other areas beyond radiology, Sectra has strengthened its position as an enterprise imaging IT provider.

Cloud-based services on the rise

Demand for IT solutions as cloud services continues to increase. For customers, this delivery model entails cost advantages and enables them to devote greater focus to their core business: delivering quick and efficient care. Sectra offers cloud services not only for archiving solutions, but also IT systems for reviewing and communicating medical images. The service offering is on the cutting edge, and numerous customers—in Sweden and the UK, for example—are already operating with cloud services from Sectra. While cloud services will ultimately generate major cost and operational benefits for Sectra, they initially entail cost increases since they require investments in hardware and development.

Focus on cancer diagnostics

Medical image management in cancer diagnostics is a key part of the operating area's strategy for the future. Most users are currently active in the fields of radiology and mammography. The use of medical images in other areas, such as pathology, is growing, partly as a result of more customers implementing systems for consolidated image management. Sectra's IT solutions facilitate integrated diagnostics by allowing images and information from various diagnostic specialties to be archived and viewed in a single system. This enables collaboration between, for example, radiologists and pathologists, who play a key role in efficient cancer care. With a growing number of customers having already digitized their pathology departments, Sectra has built a strong brand despite the fact that the market has yet to gain momentum.

What were you most proud of during 2017/2018?

In mid-May 2017, organizations in over a hundred countries were infected by a synchronized ransomware attack known as WannaCry. The UK was hit particularly hard by the attack, including the IT systems of several healthcare organizations, which caused major problems for doctors and patients. In the days following the attack, we truly showed what we're made of and what sets Sectra apart from many other companies. I'm incredibly proud that our close cooperation with our customers, combined with our proactive and clear crisis plan, allowed us to efficiently handle the difficult challenge of ensuring that all Sectra systems were up and running again in record time. As a medical IT company with our roots in cybersecurity, we have a major advantage in situations like this, which many of our customers have confirmed. But I'm even more proud of our fantastic employees who showed that the "Sectra spirit" is alive and well—they're passionate about making a difference and do everything they can to help our customers provide the best care for their patients. With our expertise and passion, we have a major positive impact on our customers and society.

Marie Ekström Trägårdh

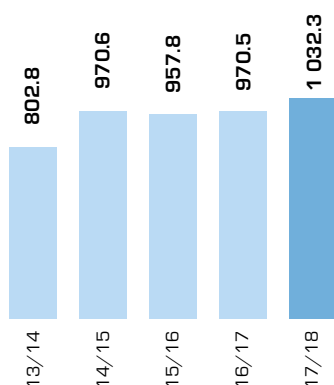
President of Imaging IT Solutions
and Executive Vice President of Sectra AB



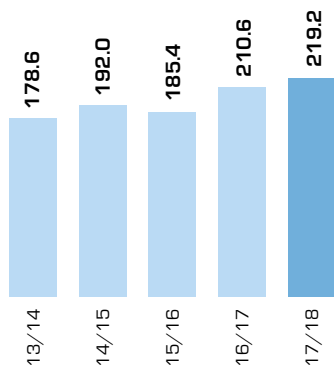
Financial performance

For comments on the company's financial performance, refer to the [Administration Report](#) on page 46.

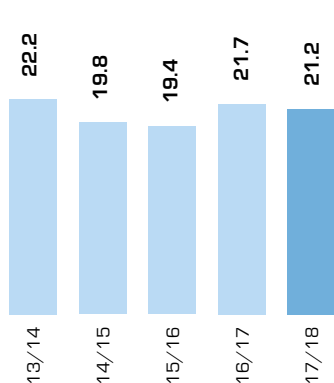
SALES, SEK MILLION



OPERATION EARNINGS, SEK MILLION



OPERATION MARGIN, %



The year in brief

The focus was on developing existing customer relationships and strengthening the product portfolio through the addition of solutions that further optimize customer operations. The operating area also intensified its marketing efforts, particularly in the US. A direct sales office was opened in Canada, and a collaboration was initiated with new distribution partners in the Philippines and Saudi Arabia. A regional service company was also established in Saudi Arabia.

Recognition for the industry's most satisfied customers contributes to growth in the US

One of Sectra's medical IT solutions, Sectra PACS, topped the most important customer satisfaction survey in the medical technology industry—"Best in KLAS"—for the fifth consecutive year. This result was a strong contributing factor to Sectra's success in the US market, where the recognition has helped to open new doors. Agreements have been signed with several prominent healthcare providers in the US, including the Temple University Health System hospital group and UC San Diego Health University Hospital.

» www.sectra.com/klas

Stronger position in the Netherlands

In addition to the US, the operating area also strengthened its position in the Netherlands, where several new agreements have been entered into and customers have deployed Sectra's solutions—for instance, the national telepathology solution, a project that was initiated in 2016/2017. One new, unique project is the collaboration with the Dutch breast screening organization FSB, which has selected a nationwide imaging IT solution for breast screening from Sectra, including communication and archiving. Sectra's solution, which will be delivered as a service, will be one of the largest used by a breast cancer screening program anywhere in the world.

Hospital consolidation boosting demand

The trend of hospital and clinic chains growing through mergers and acquisitions is fueling demand for the types of solutions provided by Sectra, with a focus on reliability, scalability and vendor neutrality. Zuyderland in the Netherlands, AZ Delta in Belgium and Imapôle Lyon-Villeurbanne in France are examples of new customers that replaced their existing PACS with Sectra's solution at all of their hospitals in conjunction with a consolidation.

Success in digital pathology and integrated diagnostics

Several customers are choosing to make the move to digital pathology—as well as integrated diagnostics—together with Sectra, such as Västernorrland County Council and Dalarna County Council in Sweden. Another type of new customer is the Royal College of Pathologists of Australasia, which will use Sectra's digital pathology solution in its program for quality assurance and training of pathology laboratories in Australia and 60 other countries worldwide.

Vendor-neutral platform for machine learning applications launched

Ahead of the global RSNA radiology trade fair in November, Sectra launched the ability to integrate machine learning tools with its enterprise imaging platform. This gives customers the freedom to implement any machine learning applications they require—either from Sectra or from other suppliers—and enables quicker access to new innovations in the healthcare sector.

“The improvement in patient care is really amazing and it is having a direct impact on quality of care.”

Richard Shirey, senior vice president
and CIO at Hartford HealthCare



A US healthcare network attests to some of the advantages of consolidated image management for patients and staff

Hartford HealthCare is a comprehensive healthcare network located in Connecticut in the US, comprising five hospitals and a variety of smaller care providers. Over the last several years, the health system has grown significantly through strategic affiliations. To support this continued growth and enable patient images and information to be easily shared across the enterprise, the healthcare network has implemented a number of IT projects. It replaced its separate systems for managing radiology images (PACS) with a shared PACS from Sectra. It also implemented a central multimedia archive, Sectra VNA, where all medical images can be archived and shared

with all personnel, regardless of where they are located or which IT system they use. This includes the network's electronic medical record (EMR) system, allowing users to view patient referrals, results and images all in the same system. All in all, these changes will enable the network's continued growth and provide their staff with a complete patient overview. According to the customer, this is already contributing to more efficient, patient-centric care.

» Read the full customer case at
www.sectra.com/hartford

The way forward

Opportunities

- Grow in the area of medical diagnostic imaging.
- Strengthen the product offering in cancer diagnostics. Primarily within pathology and radiology, but also other types of image-intensive operations in which cancer diagnosis, integration and work-flow play an important role.
- Offer new, more efficient decision support for physicians and healthcare personnel based on technology such as artificial intelligence and machine learning.
- Generate additional sales to the existing customer base, as Sectra has done for many years in its domestic market in Scandinavia.

- Strengthen the company's position in the product segment for archiving solutions (VNA) for all types of medical images.
- Offer solutions as cloud services, since these solutions offer major cost and operational benefits for both customers and suppliers.

Risks

- Not being able to maintain the pace of innovation or leadership in today's rapid technological development.
- New types of competitors, such as major IT companies specializing in archiving, attempting to expand into image management.
- The price trend.

- Political decisions that impact healthcare reimbursement systems or levels.

For information on operating risks, refer to Note 30 [Risks, risk management and sensitivity analysis](#) on page 76.

Focus on offering stable, efficient and future-proof solutions for managing and communicating all types of medical images

Activities:

Can yield a significant positive effect on earnings:

Develop partnerships with existing customers through which Sectra's existing products and services can contribute to further efficiency enhancements.

Short term

Grow within radiology and other areas of medical image management by adding new customers in regions where Sectra already has an established customer base. This includes an increased focus on the US, where Sectra has a very high level of customer satisfaction, but a relatively small market share.

Short term

Sales of the solution for digital pathology and activities to obtain approval of the solution for primary diagnostics from the US Food and Drug Administration (FDA).

Medium term

Greater internal efficiency. Partly by establishing a service-oriented organization that can support the sale of cloud solutions and partly through increased centralization and globalization to ensure optimal utilization of Sectra's specialist expertise.

Medium term

Maintain high customer satisfaction by continuously measuring and monitoring customer opinions about Sectra's support and products.

Medium to long term

Continued product development and strengthening of the product portfolio. Special focus on medical image management in cancer diagnostics, partly through the integration of radiology, mammography and digital pathology.

Long term

Short term = 1–2 years Medium term = 3–5 years Long term = more than 5 years

Sectra Customer Financing

The company's strong financial position is used to finance major managed-services agreements with healthcare customers, a segment that has grown rapidly. Being able to offer customers this type of opportunity provides a competitive edge in certain procurement scenarios and generates an attractive return in today's low-interest environment.

Why Sectra offers customer financing

Delivering medical IT systems as a service generates cost and operational benefits for both customers and suppliers. Accordingly, customers are increasingly purchasing IT systems and software as a service instead of making capital-intensive investments in complete IT systems. Resource requirements and costs during the installation phase are offset by the higher rate of recurring revenue. The contracts have terms of up to ten years, which contributes to a stable development for Sectra over a number of years.

Being able to offer financing for major customer contracts gives Sectra a competitive edge over new players in the market, which rarely have the long-term strength to offer this type of service. Offering customer financing also promotes long customer relationships and the Group's overall strategies. It is also an important indication of value that shows customers we are a long-term, stable partner.

Sales growth and currency exposure

Sectra Customer Financing has grown rapidly. This growth is linked to Imaging IT Solutions' successful sales of multiyear managed-services agreements for medical IT systems in recent years. The majority of sales come from multiyear customer contracts in the UK. Accordingly, the segment has a significant currency exposure to the GBP, which has had a negative impact on its results since Brexit in 2016. This also means that the movement of the GBP in relation to the SEK has a major impact on the operating area's forecast revenue.

How managed-services agreements impact the Group's financial performance

In the case of Group-financed managed-services agreements, revenue and earnings in the Group are eliminated during the installation phase and distributed evenly over the duration of the agreement. This differs from traditional customer contracts, where most of the revenue and earnings are settled in conjunction with installation and deployment at the customer's site. In both cases, service and support agreements are distributed across the entire duration.

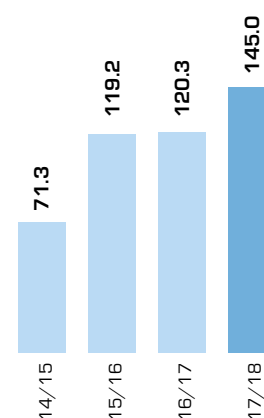
» Visit our website to view illustrations showing the differences between various types of customer contracts.

www.sectra.com/customerfinancing

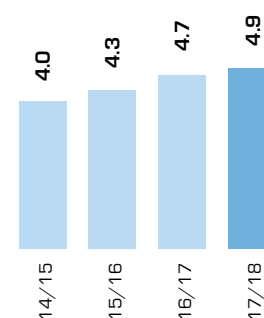
Financial performance

For comments on the company's financial performance, refer to the [Administration Report](#) on page 46.

SALES, SEK MILLION



OPERATION EARNINGS, SEK MILLION



Business Innovation

Facts

Number of employees: 36

Operations

Business Innovation includes the Orthopaedics and Medical Education business units as well as Sectra's research department. Business Innovation also manages and develops Sectra's patent portfolio.

Customers

- Private and public orthopaedic clinics.
- Educational institutions and hospitals offering basic and specialist medical or veterinary studies, either privately or publicly.

Sales channels

Own sales organization and distribution partners within Orthopaedics. Some 40 distribution partners within Medical Education. The business unit's solutions are also sold as part of Imaging IT Solutions' customer offerings.

The Group incubator

Business Innovation is the Group's incubator for future product areas. This is where Sectra evaluates and utilizes opportunities to commercialize new technologies and new segments in the Group's main and related areas. The unit also includes new products and services that are not a natural match with the existing operating areas—for example, if the products in question are intended for users in other customer segments. Sectra's long-term goals for its Business Innovation operations are:

- To contribute to better care for patients by solving difficult and important problems encountered by Sectra's customers.
- For research projects to validate clinical benefits or lead to new and innovative solutions that add value for customers in Sectra's niche areas, thereby offering significant international business potential.
- To build and manage a strong patent portfolio in Sectra's key areas.
- To develop business models for new products and services.

Sound scientific and medical evidence is essential in healthcare, and implementing new technologies and methods is often a long process and associated with high risk. As a result, some research and other early-phase projects will never grow to

any major degree. In the long term, the business units in Business Innovation are to be managed in one of the following ways:

- Form a new operating area once the unit has become profitable and accounts for approximately 10% of the Group's sales.
- Be integrated into an existing operating area. This occurred, for example, when digital pathology was transferred to Imaging IT Solutions in 2014, due to the major synergies identified.
- Be sold to an external party if this proves to be the best solution from a financial standpoint. This occurred, for example, with the business unit for low-dose mammography products, which was divested in 2011. Sectra also sold a number of patents in 2015.
- Be discontinued if the unit does not offer sufficient potential. This occurred, for example, with the osteoporosis operations in 2017/2018, after it was merged with the Orthopaedics business unit.

Business Innovation currently comprises only medical technology projects, but may be expanded to include projects in other areas in the future. In certain cases, the projects are already profitable business units with existing customers that need to grow further before becoming an independent operating area. The projects must be able to generate a profit within seven years.



Sofia Bertling
General Manager,
Medical Education
business unit



Gustaf Schwang
General Manager,
Orthopaedics
business unit



Claes Lundström
Research Director,
Medical Systems

The year in brief

New General Manager

for the Orthopaedics business unit

Gustaf Schwang took over as the new General Manager of the Orthopaedics business unit. Gustaf joined Sectra from the medical technology company Elekta and has extensive experience of sales and international business development. Read more about his background on page 44.

Prominent US hospital chooses

Sectra's orthopaedic 3D solution

Hospital for Special Surgery (HSS) ordered Sectra's orthopaedic 3D pre-operative planning solution. The agreement includes collaborative development of Sectra's solution. The Orthopaedics business unit also launched new products, including Sectra Implant Movement Analysis, a service that enables orthopaedists to understand post-operative chronic pain without performing surgery again.

New General Manager

for the Medical Education business unit

Sofia Bertling took over as the new General Manager of the Medical Education business unit. Sofia previously served as CEO of the medical technology company Hermes Medical Solutions and has extensive experience in leading strong growth companies in a global market. Read more about her background on page 44.

Online medical education

links hundreds of customers globally

Use of the Sectra Education Portal continues to grow and the solution is now in place at roughly 300 educational institutions and hospitals in some 40 countries, providing users with increased opportunities for international collaboration. The portal enables customers to archive and share educational materials and specialist expertise with users worldwide.



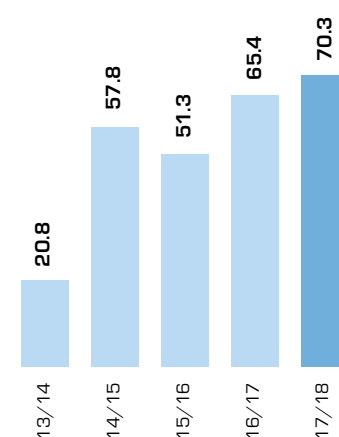
Sectra participated in Nobel NightCap

Sectra was the only medical technology company represented at the 2017 Nobel banquet after-party at the Karolinska Institute in Stockholm. As the guests from across the world arrived, they first had the opportunity to learn more about Sectra's visualization table.

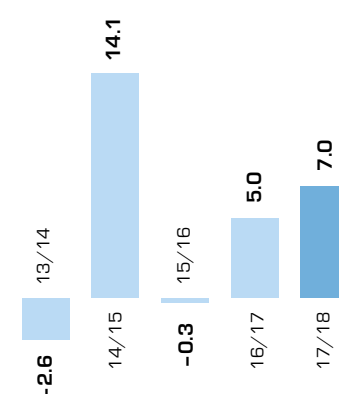
Financial performance

For comments on the company's financial performance, refer to the [Administration Report](#) on page 46.

SALES, SEK MILLION



OPERATION EARNINGS, SEK MILLION



Orthopaedics

Safer surgery using digital planning

The Orthopaedics business unit offers IT systems for image-based planning and follow-up of orthopaedic surgery—for example, hip, knee, spine and trauma surgery. Its solutions are sold as cloud services as well as traditional software installations.

Using 2D and 3D medical images, measurement tools and a library of more than 90,000 implant templates and click guides, orthopaedic surgeons can diagnose and plan orthopaedic procedures with greater accuracy. For hospitals, this type of planning enables a reduction in the amount of costly time spent in the operating theater and in the number of implants that need to be available during each surgical procedure. This, in turn, cut costs and increases capital efficiency. For the patient, more efficient planning and shorter operating times reduce the risk of post-operative infections and other complications.

The area includes several new and interesting products based on visualization and image analysis that can be used for pre-operative planning and post-operative follow-up of patients experiencing pain potentially caused by a loose implant. Repeat implant surgeries represent a growing problem that entails significant costs and patient risks. Sectra's solution has the potential to have a major impact on healthcare in this area.

The Orthopaedics business unit is currently the market leader in Scandinavia in this niche and commands a strong market position in several other countries, including the Netherlands and the UK. The business unit is also advancing its position in the US.

The way forward

- Contribute to improved orthopaedic pre-operative planning and reduce the amount of time spent in the operating theater through the development and sale

of software and cloud-based services for planning and follow-up based on 2D and 3D images. Focus on expanding the trauma, spine and implant surgery (hip, knee and shoulder) segments through direct sales and in cooperation with implant suppliers.

- Grow in the regions and countries where the business unit has its own sales organization: Benelux, North America, the Nordic region, Switzerland, the UK, Germany and Austria. Increased focus on the business unit's own sales organization in prioritized markets, including the US, and establish direct sales in additional markets.
- Launch the new service for follow-up of orthopaedic surgeries outside the Swedish domestic market.
- Establish analysis service to facilitate follow-up of new implants during clinical testing, primarily intended for implant suppliers.



Repeat implant surgeries —a growing problem.

The new Sectra Implant Movement Analysis, which was launched in the Swedish market in autumn 2017, is designed to help customers reduce the number of unnecessary repeat surgeries.

» Watch an introductory video at www.sectra.com/ima-film

Medical Education

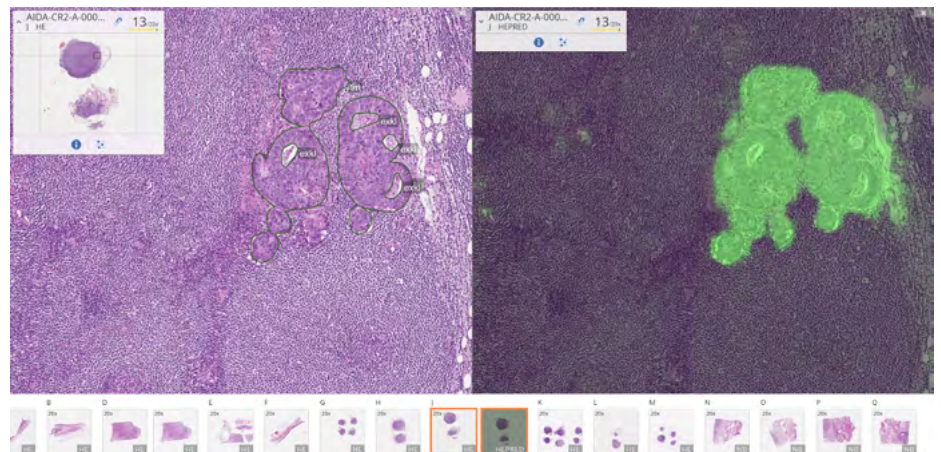
Interactive visualization technology improves medical education

By interacting with medical images from actual patient cases, students and resident physicians are provided with a better understanding of anatomy, bodily functions and variations, and better knowledge about various cases. Sectra offers a cloud-based education portal and software for a range of image-viewing systems, such as visualization tables¹⁴, interactive whiteboards and tablets. The solution can also be connected to 3D printers. For a subscription fee, portal users receive access to images from actual patient cases. The cases are shared by other customers, such as universities, training centers and hospitals using Sectra's solution for medical education. During the year, a large number of cases, mainly related to anatomy, histology and pre-operative planning, were added to the portal. The business unit is currently transitioning from supplying visualization devices for a one-time fee to the subscription model, with a greater focus on content.

Sectra's solution is used by healthcare personnel, healthcare programs and veterinarians in more than 40 countries in Africa, Europe, the Middle East, North America, South America and South-East Asia as well as in China. Sales mainly take place through distribution partners. Over the past year, roughly ten new distribution partnerships were initiated in various countries across the world.

The way forward

- Promote increased activity and cooperation between users of the education portal by expanding the number of patient cases in various areas of clinical expertise.
- Expand the customer offering by supplementing anatomy training with training in various specialist areas
- Grow in key markets, such as the US and China.



AI-based tools that truly benefit the healthcare sector

AI and machine learning are underlying themes in many of the projects carried out by the research department. One example is applications to help pathologists quickly classify and count various types of cells, an important parameter when choosing the patient's treatment. The image above, from a research project within AIDA, shows a tissue sample where metastases of colon cancer have been identified.

Research

Sectra's research department conducts and participates in projects to produce clinical evidence for existing technology as well as to create new products—all in an effort to boost the company's long-term business value. The department is home to seven researchers, two of whom divide their time between Sectra and universities.

Sectra is currently involved in approximately ten research projects, including projects in the fields of artificial intelligence and orthopaedic surgery. Projects are also being carried out in the field of digital pathology, which remains an important area for the research team. In recent years, these digital pathology projects have enabled Imaging IT Solutions' product offerings to be expanded and improved.

Ongoing research projects

AI is an underlying theme in much of the research department's work. Sectra's researchers are working on solutions that combine AI and visualization, focusing on

how physicians control and adjust computer results.

Among other projects, Sectra is participating in the Analytic Imaging Diagnostics Arena (AIDA), a project funded by Vinnova—Sweden's innovation agency—aimed at leveraging the full benefits of AI-based tools in the Swedish healthcare sector. The project serves as a national arena for research into AI for medical image analysis. Based in Linköping, AIDA brings together researchers, healthcare professionals and industry representatives. Sectra is one of the main participants in the project.

Sectra is also participating in a major project in the field of orthopaedic surgery. The aim of the project, run by a large Swedish consortium, is to develop high-precision methods for planning orthopaedic surgeries and post-operative follow-up.

Increased vulnerability among critical social functions resulting in stricter information security requirements

The ability to safely and efficiently handle sensitive information is central to the stability and security of society, particularly when it comes to important social functions and critical infrastructure. Sectra has extensive experience of protecting society's most critical communications, and is a strong brand in the area of encryption and secure mobile communications. IT developments in society, political instability in the world, and the growth of cybercrime are creating a greater need for Sectra's expertise and product offerings.

Social trends



Digitization

A higher degree of digitization is contributing to efficiency enhancements in society and simplifying people's everyday lives. However, security—ranging from communication systems and industrial control and process systems to regulations and legislation—is not always able to keep pace with this rapid development rate. This makes systems and information more vulnerable to human error, information leaks, unauthorized data access and virus attacks.



Cyber threats on the rise

The world is facing a growing number of cyberattacks and security incidents that impact various social functions.¹ The purpose can be to cause operational sabotage, blackmail, or to access sensitive information from government authorities and companies. Such attacks and incidents can have major financial consequences and cause serious problems in crisis and war situations, for instance.



Hybrid warfare

The internet and connected systems have become tools for hybrid threats and influence operations designed, for example, to influence and mislead the population of a country and paralyze political decision-making. Such attacks can impact the security, democracy and economy of an entire nation.

Industry and technology trends



Increased collaboration

Many deliberate cyberattacks take place at a global level. This means that international and national collaboration and communication between government authorities play a crucial role when it comes to combating cybercrime and terrorism, and protecting a country and its social functions from IT attacks.



Stricter demands on secure information management

New EU regulations and legislation regarding information management and national strategies for cybersecurity targeted at both companies and government authorities.



Paradigm shift in the crypto industry

In the future, new types of advanced supercomputers, known as quantum computers, may pose a threat to current encryption methods. The security solutions being developed today must therefore offer protection against threats from quantum computers.



AI and the Internet of Things (IoT)

The rapid development of AI and IoT technology has the potential to add increased customer value to solutions in such areas as cybersecurity, energy efficiency and seamless financial transactions in the digital economy and society. At the same time, this development also creates greater vulnerability to cyberattacks.

Customer challenges and needs

Government authorities and defense organizations



Crypto products that protect sensitive information and support collaboration

Government authorities and defense organizations have a major need for increased IT security in order to protect society's most sensitive information and systems. A key part of this work involves collaboration across national borders and organizations. This is resulting in demand for crypto products that support secure information sharing between partners.



Access to approved security products

The equipment used for handling and communicating classified information must, according to customer regulations, be reviewed and approved by an independent security authority. Ensuring access to modern and efficient solutions therefore requires investments in new development and approval of encryption systems and products.

Critical infrastructure



Business development

Digitalization and automation of processes and work methods in order to facilitate efficiency enhancements and business development. This requires a new form of risk management, and balanced and proactive cyber-security.



High level of security in IT systems and operational technology (OT)

Preventing, detecting and managing cyberattacks and other IT incidents requires regular threat and vulnerability analyses as well as monitoring of critical process and control systems. Monitoring also creates better opportunities for rapid action to be taken in the event of a disruption.

Market size and growth rate

The market for secure mobile communications

Most of Sectra's revenue from the security market currently comes from security-approved communication solutions and customer-specific development projects. Due to export restrictions in the crypto industry, these types of sales are directed exclusively at customers in the European market. Customers are restrictive with information about crypto equipment and planned investments. As a result, no relevant external market research is available. Sectra estimates that the number of potential users of the company's products for secure telephony at the Secret security level is approximately 0.3 per thousand of the population, or 100,000 individuals, in Europe. The corresponding figure for the slightly less demanding Restricted security level is estimated to be ten times higher.

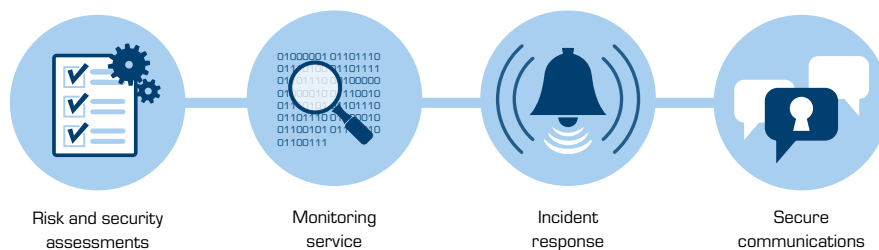
The market for IT/OT security solutions for the energy sector

IT/OT security solutions in the area of critical infrastructure are not subject to the same approval processes and export restrictions as crypto products. Sales of Sectra's services in this area are thus not limited to Europe. However, the operating area is initially focusing on the Nordic market for IT security in the energy sector, where annual sales are estimated at nearly SEK 2 billion (EUR 200 million).

How Sectra contributes to increased cybersecurity

Modern society is dependent on the safe and reliable operation of its critical infrastructure, such as energy companies and companies in the process industry. Growing digitalization is resulting in increasingly complex IT systems and operational technology (OT) connected to internal and external networks. While this development is contributing to improved efficiency, it is also resulting in increased vulnerability. This is a global trend, and the growing number of cyber threats and attacks is raising risk awareness and fueling investments in IT and OT security.

Within the energy sector, which supplies society with electricity, heat and water, IT systems for monitoring and controlling industrial processes are used in a wide range of applications. Interruptions to companies' operating environments can result in significant disruptions, resulting in major financial consequences. The text below looks at the challenges faced by an energy company to illustrate how Sectra's products help customers to increase their operational security, thereby contributing to a less vulnerable society.



Critical infrastructure security —an example of how Sectra's offering helps make a difference

Increased security awareness through risk and security analysis

Sectra's security experts help customers identify, prioritize and manage the risks that impact their operating environments. Sectra's analysis services provide businesses with an overview of their strengths and weaknesses from a security perspective. Their operations are reviewed and mapped out, with a focus on their ability to deliver their critical services without disruptions. Physical, logical, process and organizational factors are all taken into consideration. The goal is to gain a solid understanding of how various factors interact. Based on this analysis, security managers and senior management can make well-founded decisions concerning security investments.

Raise the level of security using monitoring systems

Based on the results of the risk and security assessments, the operations can prioritize their security measures. This may involve implementing new technical solutions, processes or organizational changes, or

addressing cultural issues. Other measures to improve cybersecurity may include monitoring the behavior of various types of critical operational and process systems. Sectra offers a monitoring service that detects when network traffic on the monitored systems deviates from the normal traffic. Deviations may be due to cyber-attacks, technical errors or handling errors —by detecting these immediately, they can be rectified before they have serious consequences.

React quickly to abnormal activity

If abnormal activity is detected in a monitored system, Sectra's emergency response personnel are notified along with the emergency response personnel at the monitored operation. Together with Sectra, the customer forms an incident response team that takes emergency measures, such as disconnecting part of a system or switching to a backup system. Sectra assists the customer in their evaluation of the incident and can contribute expertise, experience and analysis methods. A monitoring history

of events and network traffic is highly useful when it comes to addressing the incident and in subsequent evaluation and improvement processes.

Secure communications in the event of a serious incident or crisis

Customers are provided with the Sectra Tiger/R smartphone solution to allow them to encrypt their conversations with Sectra, for example, in the event of an incident. This enables the company's representatives and Sectra to discuss the incident without a risk of eavesdropping. If particularly sensitive information were to leak, this could result in worse damage or give an "attacker" information that could be used immediately or later.

In a crisis, officials at the municipal and county council level are also often involved in the emergency response efforts. In the Nordic region, these officials generally use Tetra networks, where Sectra can also provide encryption services that reinforce communications security.

Secure Communications

Where we are headed

The operating area's long-term goal is to be a leading provider of solutions for critical IT/OT security. Sectra mainly focuses on government agencies, defense departments and society's critical operations. Ensuring that these players can execute their tasks in a secure manner increases the potential for an open, safe and stable society.

Where we are now

For government agencies and defense departments, the ability to transfer information can be a matter of national security or life and death. The demands on stability, accessibility and usability are thus extremely high and the communication equipment used for handling classified information must, according to customer regulations, be reviewed and approved by an independent security authority.

Sectra has more than 30 years of experience in developing secure communication systems. The operating area's offering includes approved communication solutions for the Top Secret, Secret, Confidential and Restricted security levels. The company's solutions are used by customers in most European countries, and by the EU and NATO. This is the result of close and long-lasting partnerships with customers as well as national security authorities in many countries.

Secure mobile communications

The offering for secure mobile communications includes a complete system concept with solutions for various security levels. The system facilitates cooperation between organizations and units with specific security requirements. The solutions are reviewed by independent security authorities to obtain the approvals required for classified information. Products and infrastructure for secure mobile communications are sold as traditional product deliveries and as services including products, operation, security administration, support and training.

The product area is focusing on expanding into new customer segments for government authorities, critical infrastructure and

enterprises. Part of this work involves an international partnership with the Korean company Samsung to further develop the Sectra Tiger/R secure mobile telephony solution. This partnership has resulted in a unique smartphone solution based on Sectra's encryption technology and the Samsung Knox security platform.

Customer-specific development assignments

Project-based development of crypto products for defense departments and government authorities was previously the core of the operating area's business and remains an important source of revenue. Development often takes place in close cooperation with national security authorities, mainly in the Netherlands and Sweden. Customer-specific assignments include everything from establishing requirements and conducting preliminary studies, to series production and maintenance commitments. Examples of ongoing development assignments include a crypto for the Tetra networks used by various blue-light emergency services, and a network crypto for the highest security level of Top Secret. In some cases, the results from customer-specific assignments have been modified for sale to a broader market. Sectra's Tiger products for secure mobile communications are one such example.

Service offering for critical infrastructure

Since the 2015/2016 fiscal year, the operating area's growth strategy has included activities to expand into new geographic markets and broaden its offering to the customer segment of cybersecurity for critical infrastructure. The offering includes risk and security analyses as well as monitoring services for critical IT systems and operational technology. The services have been developed based on Sectra's extensive experience of performing the threat and security analyses required for crypto products. The offering has been well received in the Nordic market, and the number of customers is gradually increasing. The operations are still in the establishment phase, but show considerable long-term potential.

Facts

Number of employees: 76

Product offering

- Products for secure voice and text communication and secure data transmission. Products that are approved by national security authorities and international organizations, such as the EU and NATO.
- Risk, security and threat analyses in society's critical operations.
- Monitoring services for control systems in society's critical operations.
- Customer-specific development assignments and services.
- Maintenance in the form of support and upgrades.
- Training for users and administrators.

Customers

- Authorities and defense departments that handle classified or sensitive information. Many customers are subject to regulations stipulating that their products must be approved by an independent security authority for handling classified information.
- Operations in society's critical functions and infrastructure, such as energy supply.

Sales channels

and geographic presence

Mainly direct sales, but also distribution partners in some countries. The operating area has offices in the Netherlands and Sweden, which are its largest markets, as well as in Finland. Due to export restrictions in the crypto industry, sales of security-approved communication systems are directed exclusively at customers in the European market. These restrictions do not apply to solutions and services for critical infrastructure.

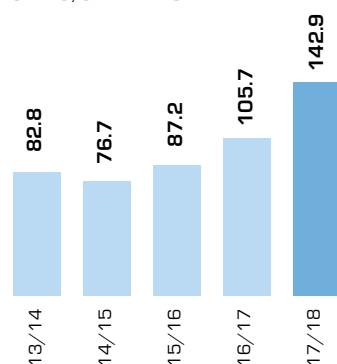
Major competitors

Within secure mobile communications and crypto development, companies such as Advenica, Cryptify, Rohde & Schwarz, Secunet, Selex Communications, Thales and Tutus. Within IT/OT security for critical infrastructure, mainly companies offering general data security services, such as Saab Combitech and other major consulting companies.

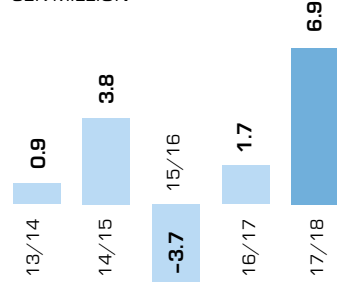
Financial performance

For comments on the company's financial performance, refer to the [Administration Report](#) on page 46.

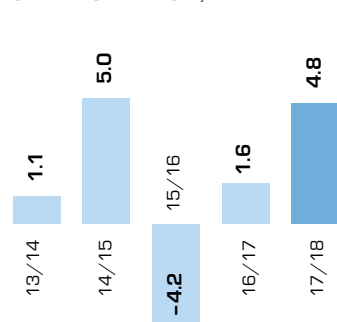
SALES, SEK MILLION



OPERATION EARNINGS, SEK MILLION



OPERATION MARGIN, %



The year in brief

The focus during the year was on activities to help ensure and boost growth, broaden the operating area's offering and grow within the new customer segment of critical infrastructure. A key step toward continued expansion was to obtain security approval for newly developed products.

Strong growth

The operating area's sales increased 35.2% compared with the preceding year. This increase was mainly attributable to solutions and development assignments in the secure communications product area. Operating profit was once again charged with growth initiatives to broaden Sectra's offering to the critical infrastructure product segment, to further strengthen the offering in the secure communications segment, and to expand into additional geographic markets.

Energy companies choose Sectra's services to increase cybersecurity

Several companies in the energy sector ordered Sectra's analysis and monitoring services. One such order pertained to a strategically important customer that chose to use Sectra's monitoring service for its critical process systems. The agreement extends for five years and covers system monitoring at several locations in Sweden.

Expanded partnership with Dutch Ministry of the Interior and Norwegian Defense Forces

The Dutch Ministry of the Interior renewed and expanded its contract for secure communications with Sectra. The contract extends over four years and comprises Sectra's Tiger solutions for secure communications. The solutions are being delivered as a service, in which Sectra assumes overall responsibility for the system. The service is used by various Dutch ministries and government officials. The Norwegian Defense Forces are another example of a customer that started using Sectra's solution for secure mobile telephony, Sectra Tiger/S, in 2017. Users include officials in the Norwegian Defense Forces and civil authorities.

Approval of Sectra's smartphone solution

The EU approved Sectra's smartphone solution, Sectra Tiger/R, for secure communications at the Restricted level. The enhanced platform security—which, combined with Sectra's encryption technology, enabled the approval—is a result of Sectra's strategic partnership with Samsung, where the goal is to provide government authorities, critical infrastructure and enterprises with efficient solutions that protect customers' most sensitive information. The solution has already been approved by the Dutch security authority and NATO.

The way forward

Opportunities

- Grow in the area of secure mobile communications through international expansion, collaboration and further development of the product offering.
- Secure new customer-specific assignments with the potential to generate product sales.
- Use Sectra's expertise and strong brand in the areas of cybersecurity and crypto technology to grow in the area of IT and OT security for critical infrastructure.

Risks

- Unpredictable changes in security requirements or delays in approval processes by security authorities, which extends the time before a product can be delivered to customers.
- Dependence on large, individual customers. The operating area's two largest customers account for more than half of its sales.

For information on operating risks, refer to Note 30 [Risks, risk management and sensitivity analysis](#) on page 76.

Focus on offering customers stable, accessible and easy-to-use solutions for critical IT and OT security**Activities:****Can yield a positive effect on earnings:**

Increased sales of security-approved communication solutions. Focus on the Netherlands, the Nordic region, the Baltic countries and the rest of Europe.

Short to medium term

Develop partnership with Samsung to enter new customer segments for the Sectra Tiger/R smartphone solution for government authorities, critical infrastructure and enterprises.

Medium to long term

Grow in the area of critical infrastructure by offering risk and security analyses and system monitoring services for critical operational and control systems. Primarily focusing on the energy sector and particularly vulnerable areas of the process industry in the Nordic region and other areas of Northern Europe.

Medium to long term

Short term = 1–2 years Medium term = 3–5 years Long term = more than 5 years

What were you most proud of during 2017/2018?

What we do helps to protect sensitive information, often pertaining to national security in Sweden or other countries, and society's critical functions, such as energy and water supply. This can involve everything from daily communications between government authorities and various crisis situations, to international peace missions around the world. So I'm incredibly proud that Sectra has been entrusted with such an important task and of how we help to maintain secure communication channels for critical information in Sweden and abroad. In addition to being part of the new defense initiative in Sweden¹⁵, Sectra also helps players in critical infrastructure to strengthen their contingency planning for cyber threats. Security is an important prerequisite for strong business development, and the know-how and extensive experience of our employees plays a key role in our collaborations with energy companies and other critical operations.

Simo Pykälistö

President of Secure Communications and
Executive Vice President of Sectra AB



The road to world-leading products

Sectra carried out its first consulting assignment in the late 1970s. A few years later, the company recruited additional joint owners with grand visions for Sectra's future. This marked the start of the company's expansion and development into a well-established brand in the area of information security and medical IT. Given the fact that customer confidence is a critical success factor, Sectra has always prioritized stable, long-term growth over rapid, high-risk expansion.

Data security became Sectra's first niche area in 1978, when a team of researchers from the Institute of Technology at Linköping University were presented with the task of creating a security solution for banks. In order to take on the assignment, Professor Ingemar Ingemarsson formed the company Sectra (SECure TRAnsmission) together with his postgraduate students Viiveke Fåk, Rolf Blom and Robert Forchheimer. Linköping University remains a valuable source of knowledge for Sectra and many of the company's most prominent employees have been recruited from the institute.

From consultancy to product development

A few years later, Jan-Olof Brüer became a postgraduate student in information theory under the supervision of Professor Ingemarsson. When one of Sectra's founders left the company, Jan-Olof stepped in as a joint owner, bringing with him new ideas on how to turn Sectra into a "real" company and ultimately taking over as President after Viiveke Fåk. The company transitioned into the development and sale of products and system solutions in data security and image encoding.

"We had a good laugh at what we thought was simply Jan-Olof's flight of fancy. Today,

I would say that his vision has been surpassed," Ingemar explains.

While Sectra's aim has always been to operate in niches with long-term growth potential, not all of its operations throughout the years proved to be successful and some were discontinued or divested. Digital equipment for press photographers, which was launched at the Olympic Games in Los Angeles in 1984, smart heating regulation systems for apartment buildings and private homes, and communication systems for monitoring air traffic are a few examples.



Sectra's founders Viiveke Fåk, Robert Forchheimer and Ingemar Ingemarsson are major shareholders in the company.

8 OC torsdag 18 december 1986

Östgötaföretag fann "vaccin" mot datavirus

Linköpingsföretaget Sectra har som sannolikt första företag i världen kommit med "vaccin" mot k datavirus.

I ett kortfattat pressmeddelande heter det "att programvarupaketet T-cell deaktiverar inlägg i filsystem gjorda med dataviruset i Unix och Vax-VSM-system". Det är båd av de större datasystemen i dag.

Datavirus förutspås bli ett av de största hoten mot det allmänna datanätet och har Linköpingsföretaget bidragit till att vinsten så omfattar det en världsmarknad.

Professor Viveke Fåk, en i gruppen av experterna i Sectra, var själv med när dataviruset

Freddie Cohen vid ett datamöte i Toronto 1984 presenterade sin uppgift.

Dittills hade "datavirus" varit något det ryktats om, men som ingen egentligen trott på.

— Det var då vi förstod att arbetet måste börja på åtgärder som varskar en datoranvändare att "virus" kan finnas i systemet, säger Viveke Fåk.

Tiden mögen

— Vi har nu funnit tiden mögen för att lansera ett programvarupaket för operativsystemen Unix och Vax-VMS, säger Jan-Olof Brüer, teknologisk doktor och VD i Sectra.

Sectra har kallat sitt system T-cell efter den del av kroppens immunförsvar som häst motvarer programpaketets funktion.

Professor Ingemar Ingemarsson som kom hem från University of California i San Diego tagen till presentationen av T-cell.

— T-cell kan agera i olika nivåer beroende på beställarens önskemål, säger professor Ingemarsson.

— Det kan inom några minuter baka om allt eller ändrats. Det kan också arbeta så att systemet stängs av om det är av stor vikt att det sker så snart "datavirus" kommer in.

"Vaccination"

Han liknar T-cell vid en vaccination. Det är ett programvarupaket specialiserat mot just datavirus.

— Vi kommer att marknadsföra programvaran tillsammans med en konsult som ansvarar för utbildningen, säger professor Viveke Fåk.

På onsdagen kunde glada och belåtna styrelsemedlemmar i Sectra presentera sin stora nyhet, vaccin mot datavirus. Det firades med julmiddag med personalen. På plats fanns fr o Torbjörn Kronander, Jan-Olof Brüer, Viveke Fåk och Ingemar Ingemarsson.

— Sectra är ett av de mest seriosa datavirusföretagen i Sverige och har alltid varit långt framme när det gäller kampen mot datavirus, säger universitetsektorn Torbjörn Hallberg.

Hallberg vid institutionen för systemteknik på Linköpings universitet.

Gruppen runt professor Ingemarsson är mycket skicklig och en av de bästa i landet.

Foto: OLLE STRÖM

HÅKAN WÄSTEN

Early to enter the fight against cybercrime

The year is 1986, and Sectra is already at the forefront of the fight against cybercrime. Optimistic journalists are reporting that Sectra has discovered a vaccine for computer viruses in the form of a new product able to detect access violations in file systems. Torbjörn Kronander, Jan-Olof Brüer, Viveke Fåk and Ingemar Ingemarsson share their views in the article.

National security

After an initial focus on bank customers, Sectra's operations took a new direction.

"Already in 1987, we received a defense order for a new crypto module. This marked the beginning of our focus on security products for customers in defense departments and government authorities," explains Jan-Olof Brüer, who is currently a Board member and one of Sectra's principal owners.

Sectra has been a market leader in crypto equipment for the Swedish Defense Forces since the 1990s, and the company's security products are currently used by government authorities and defense departments in most EU member states.

Medical technology

Guided by a keen interest in medical technology and a vision of digital radiology images, Sectra's current President and CEO, Torbjörn Kronander, came to the Institute of Technology at Linköping University as a postgraduate student in the 1980s, where he also had Professor Ingemarsson as his advisor. Torbjörn was soon recruited to Sectra and, after defending his thesis,

initiated an expansion into digital image management systems for radiology departments in 1989. The company's largest area is now medical technology, a niche in which Sectra commands a world-leading position.

International expansion

Sectra decided early on to focus on niche areas with global potential and its first subsidiary outside Sweden was formed in Norway in 1995. The company's international journey also included plans to become a listed company, and a listing was carried out in 1999. The aim was to confirm that the company had developed into a strong player before turning its focus to the international arena. The listing also enabled strategic acquisitions and financing of the company's continued expansion. Following the formation of companies in France and Finland in 2015 and in Canada in 2017, Sectra now has direct sales in 19 countries.

Past the one billion mark

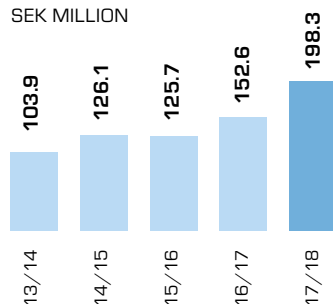
The Group's sales surpassed SEK 1 billion for the first time in 2015/2016. Thanks to its long-term private and institutional owners, Sectra has been able to develop at

a controlled pace and remain a Swedish company. President Torbjörn Kronander on the company's historical development:

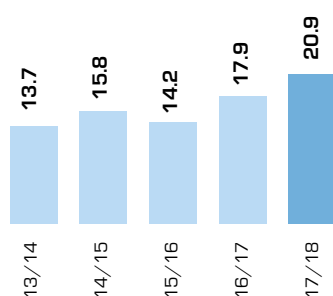
"Sectra has never experienced explosive growth. We have deliberately chosen to prioritize stable, long-term development over rapid, high-risk expansion. We don't need to be fast. We keep working away and have grown 5–15% per year. Over the years, this really adds up."

Increased stability and profitability based on a long-term, innovative and efficient approach

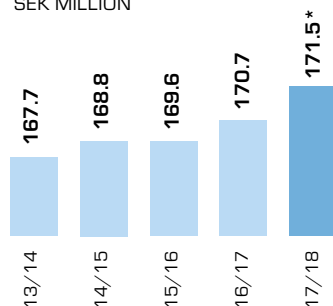
NET PROFIT FOR THE YEAR,
SEK MILLION



RETURN ON TOTAL CAPITAL, %



DISTRIBUTION TO SHAREHOLDERS,
SEK MILLION



* Pertains to the Board's proposal to the 2018 AGM

2017/2018

Positive earnings trend and healthy order book

The trend in order bookings improved and the fiscal year ended with a healthy order book and positive trends with respect to net sales and operating profit. All financial goals were exceeded. Geographically, Sectra displayed sales growth in essentially all markets, with the largest increases reported in the Netherlands, Sweden and the US. Secure Communications grew rapidly and once again reported profitability. All shares in the associated company Commit; Oy were divested, which had a nonrecurring positive effect on net financial items.

2016/2017

Stable performance by the Group despite unexpected currency effects

Sales growth in a number of markets. The outcome in the UK was adversely impacted by currency effects in GBP following the Brexit vote. The future focus on new geographic markets, such as France, and new product areas, such as digital pathology and critical infrastructure, had a negative effect on the earnings trend, but offer major growth potential. All financial goals were exceeded, with positive trends with respect to net sales, operating profit and cash flow.

2015/2016

More healthcare customers in the operational phase yielded increased sales, earnings and cash flow

Sales growth, primarily in Norway, the UK and the US. Order bookings were well above net sales. Two companies were acquired and the market for Sectra's secure communication systems was expanded through the launch of IT security services for the energy sector. Increased cash flow and all financial goals were achieved.

2014/2015

Increased stability based on long-term customer contracts

Many large, long-term customer contracts were signed and record-breaking order bookings were achieved. Strong growth in Norway, the UK and the US. Cash flow impacted by the large number of customer projects in the installation phase. Launch of IT system for digital pathology and acquisition of partner company in Denmark. All financial goals were achieved.

2013/2014

Positive profit trend

Due to the structural changes, internal efficiency enhancements, business and product development implemented in recent years, the Group achieved its operating margin target of 15%. Strong growth in the Netherlands and the UK, and increased investments in product development.

» Interested in the company's ten-year history? Visit www.sectra.com/ten_year_summary

Strategic acquisitions and divestments

Sectra has grown both organically and through acquisitions. The company's first acquisition was carried out in 1995. Over the years, Sectra also divested various smaller operations. Most recently in 2011, Sectra divested the operation for development and sales of the low-dose mammography product MicroDose Mammography, an innovation that halved the radiation doses delivered during mammography examinations.

Sectra's five most recent acquisitions

Year	Company	Country	Operating area
2015	RxEye AB	Sweden	Imaging IT Solutions
2015	EXP Analytics Oy	Finland	Secure Communications
2015	it-mark ApS	Denmark	Imaging IT Solutions
2012	Product rights for radiation dose monitoring system	Sweden	Imaging IT Solutions
2012	Burnbank Ltd	UK	Imaging IT Solutions

Amounts in SEK thousand unless otherwise stated.
For a definition of key figures, see Note 35 on page 77.

	2017/2018	2016/2017	2015/2016	2014/2015	2013/2014
Sales, earnings and order bookings					
Net sales	1 266 496	1 140 922	1 073 560	961 392	853 796
Annual growth, %	11.0	6.3	11.7	12.6	4.5
Depreciation	-64 999	-58 262	-51 492	-42 324	-45 590
Impairment	0	-12 313	0	0	-18 972
Operating profit (EBIT)	239 104	200 128	165 517	150 294	128 072
Growth in operating profit per share over five years, %	171.0	88.3	124.1	28.5	7.8
Profit after financial items (EBT)	249 271	199 724	154 768	164 416	141 464
Net profit for the year	198 264	152 570	125 697	126 077	103 858
Order bookings	1 492 529	1 177 658	1 321 968	1 471 497	925 716
Profitability					
Gross margin, %	24.0	22.7	20.2	20.0	22.6
Operating margin, %	18.9	17.5	15.4	15.6	15.0
Profit margin, %	19.7	17.5	14.4	17.1	16.6
Return on total capital, %	20.9	17.9	14.2	15.8	13.7
Return on working capital, %	38.7	32.5	24.2	25.1	21.1
Return on equity, %	34.2	28.1	21.7	20.6	16.3
Value added, SEK million	823.2	742.6	687.4	626.1	548.1
Funding and working capital					
Working capital, SEK million	662.6	632.1	620.6	667.7	655.2
of which, goodwill	55.3	52.5	64.0	46.8	40.2
of which, other intangible and tangible fixed assets	223.1	232.7	236.0	178.8	133.2
Liquidity ratio, multiple	1.6	1.8	1.9	2.2	2.7
Solvency, %	49.1	47.3	49.5	56.1	60.7
Debt ratio	0.09	0.14	0.14	0.09	0.07
Investments, SEK million	42.0	59.6	108.7	63.9	54.6
Cash flow					
Cash flow from operating activities	253 344	204 258	163 838	165 639	159 836
Operating cash flow	222 692	235 185	185 853	85 039	123 632
Cash flow from investing activities	-41 974	-59 553	-108 668	-63 931	-54 633
Cash flow from financing activities	-172 604	-146 084	-146 626	-154 288	-158 059
Cash flow for the year	8 114	29 548	-69 441	-133 180	-89 060
Employees					
No. of employees, average	645	616	587	546	523
No. of employees at fiscal year-end	674	638	625	565	536
Sales per employee, SEK million	1.9	1.9	1.8	1.8	1.6
Value added per employee, SEK million	1.2	1.2	1.2	1.1	1.0
Data per share					
Dividend per share/redemption ³ , SEK	4.50	4.50	4.50	4.50	4.50
Dividend yield, %	2.3	2.8	4.1	3.8	5.8
Earnings per share, SEK	5.22	4.04	3.35	3.38	2.80
Earnings per share after dilution ² , SEK	5.15	3.97	3.29	3.31	2.73
Cash flow per share, SEK	5.84	6.21	4.96	2.28	3.33
Cash flow per share after dilution ² , SEK	5.78	6.11	4.85	2.23	3.24
Equity per share, SEK	15.90	14.29	14.55	16.44	16.49
Equity per share after full dilution ² , SEK	15.73	14.06	14.23	16.01	16.05
No. of shares at fiscal year-end ¹	38 119 669	37 890 085	37 503 335	37 271 017	37 094 978
Average number of shares	38 012 454	37 772 864	37 483 975	37 256 347	37 094 978
Share price at fiscal year-end, SEK	194.2	162.5	110.75	119.5	77.75
P/E ratio, multiple	37.2	40.2	33.0	35.3	27.8

¹ Adjusted for stock splits and bonus issues.

² Dilution is based on issued convertible debenture loans. Refer to Note 2 page 66.

³ 2017/2018 refers to the redemption program proposed by the Board of Directors.

Share value growth

On the basis of a strong financial position and solid cash flow, the Board of Directors has proposed that the 2018 AGM resolves to transfer SEK 4.50 per share to the shareholders. This proposal corresponds to a direct return of 2.3% based on the year-end share price. Combined with the price trend, this represents total value growth of 22.3% for the Sectra share during the fiscal year.

Dividend policy

Sectra's dividend policy is that the dividend for each year is to be adapted to the company's capital requirements for both operation and growth, and to the shareholders' demand for a direct return. The objective is to provide shareholders with a balanced and favorable direct return over time and to adjust the dividend so that the company's equity/assets ratio is never less than 30%.

Share redemption program and dividend

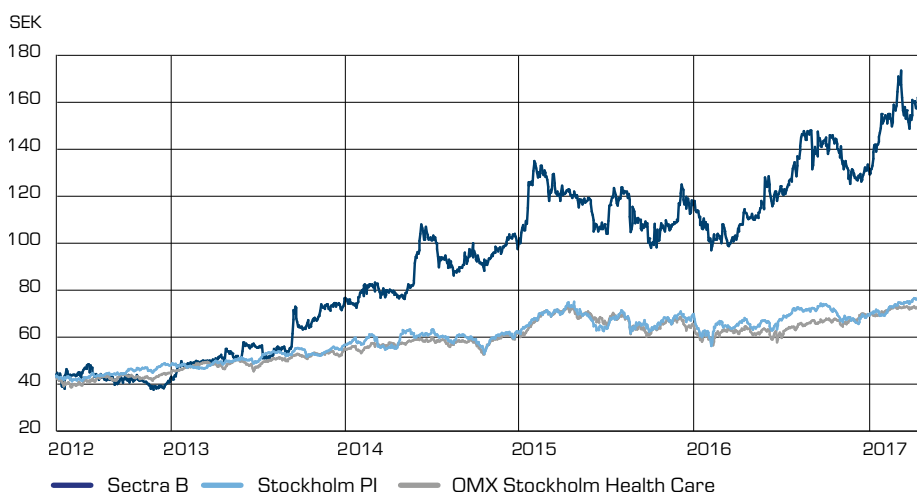
The 2017 AGM resolved to transfer SEK 4.50 per share, a total of SEK 170.7 million, to the shareholders through a share redemption program. Redemption was implemented through a 2:1 share split, combined with a mandatory redemption process and a stock dividend to restore the share capital. No ordinary dividend was paid.

The Board of Directors has proposed that the 2018 AGM resolves to transfer SEK 4.50 per share, totaling SEK 171.5 million, to the shareholders through the same type of redemption process. No ordinary dividend is proposed. More information and a schedule will be available for investors on Sectra's website not later than August 16, three weeks prior to the AGM on September 6, 2018.

On April 30, 2018, the equity/assets ratio was 49.1%, and should the AGM resolve on a share redemption program in accordance with the proposal, the comparable equity/assets ratio will amount to 40.9%. This is well above Sectra's goal.

Share price trend May 2013–April 2018

» To see the current share price, visit www.sectra.com/shareprice

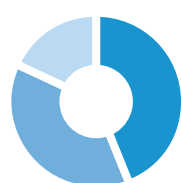


Share data	April 30, 2018	April 30, 2017
Market capitalization total no. of shares, SEK million	7 403	6 157
No. of shareholders	6 166	5 916
No. of shares	38 119 669	37 890 085
Closing price, SEK	194.20	162.50
52-week high, SEK	198.00	178.50
52-week low, SEK	129.25	107.95
52-week price trend, %	19.5	46.7
Stockholm Stock Exchange Total Index OMXSPI, 52-week trend, %	-0.9	17.3
Annual turnover rate	0.10	0.10
Annual average volume per day	14 223	14 431
Marketplace	Nasdaq Stockholm	
Ticker	SECT B	
ISIN code	SE0010133819	
Listing	March 3, 1999	
Segment	Mid Cap	
Sector	Health Care	

Share capital development and number of shares

Date	Transaction	Change in share capital	Total share capital, SEK	Total no. of shares
May 1, 2017	Opening balance		37 890 085	37 890 085
June 20, 2017	New share issue —redemption of convertibles	44 916	37 935 001	37 935 001
October 3, 2017	Share redemption program —2:1 split	0	37 935 001	75 870 002
October 17, 2017	Share redemption program —share redemption	-18 967 500.50	18 967 500.50	37 935 001
October 17, 2017	Share redemption program —stock dividend	18 967 500.50	37 935 001	37 935 001
November 17, 2017	New share issue —redemption of convertibles	51 017	37 986 018	37 986 018
December 29, 2017	New share issue —redemption of convertibles	133 651	38 119 669	38 119 669
April 30, 2018	Closing balance		38 119 669	38 119 669

The total number of shares outstanding on the balance-sheet date was 2,620,692 Class A shares and 35,498,977 Class B shares. One Class A share confers ten votes, while one Class B share confers one vote. All shares carry equal rights to the company's assets and profits. For more information about the share capital's development since the listing in 1999, visit www.sectra.com/sharecapital



Ownership structure

Holding of total capital

- Swedish private owners 44%,
- Swedish institutional investors/legal entities 38%
- Foreign owners 18%

Largest owners

The number of shares comprises direct shareholdings and holdings through related parties at April 30, 2018. For current holdings, see www.sectra.com/shareholders

Shareholder	Class A shares	Class B shares	Capital	Votes
Torbjörn Kronander	465 620	2 604 967	8.1%	11.8%
Jan-Olof Brüer	465 622	2 593 937	8.0%	11.8%
Shannon AB*	623 686	349 623	2.6%	10.7%
Nordea Investment Funds**	0	5 619 586	14.7%	9.1%
Frithjof Qvigstad	262 866	1 902 519	5.7%	7.3%
Viiveke Fåk***	221 700	1 088 150	3.4%	5.4%
Robert Forchheimer***	202 203	1 178 104	3.6%	5.2%
IF Skadeförsäkring AB	0	3 197 298	8.4%	5.2%
SEB Investment Management	0	2 560 060	6.7%	4.2%
Ingemar Ingemarsson***	221 347	50 999	0.7%	3.7%
Fjärde AP-fonden	0	2 046 345	5.4%	3.3%
Thomas Ericson	136 329	298 197	1.1%	2.7%
Swedbank Robur Fonder	0	1 407 686	3.7%	2.3%
DnB Carlson Fonder	0	796 931	2.1%	1.3%
Norges Bank	0	528 000	1.4%	0.9%
15 largest owners	2 599 373	26 222 402	75.6%	84.7%
Other owners	21 319	9 276 575	24.4%	15.3%
Total	2 620 692	35 498 977	100%	100%

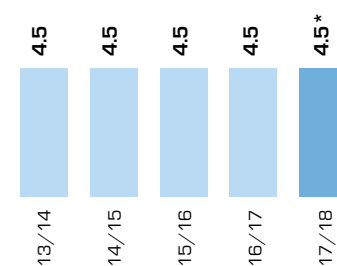
* Shannon AB is owned jointly by Torbjörn Kronander and Jan-Olof Brüer.

** Includes Nordea SICAV

*** Sectra's founders.

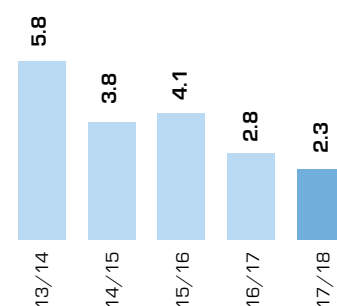
Source: Euroclear Sweden

DIVIDEND/REDEMPTION PER SHARE, SEK

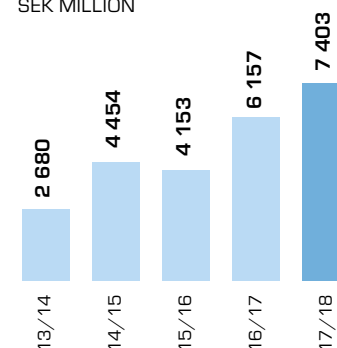


* Pertains to the Board's proposal to the 2018 AGM

DIRECT RETURN, %



MARKET CAPITALIZATION, SEK MILLION



Analysts

The following analysts have monitored the company and regularly published analyses in 2017/2018:

Carnegie
Kristofer Liljeberg,
tel. +46 (0) 8-676 87 63

Nordea Markets,
Hans Mähler,
tel. +46 (0) 10-157 02 55
Carl Mellerby,
tel. +46 (0) 10-157 29 59

Pareto Securities
Christian Lee, +46 (0) 8-402 52 67

Remium
Björn Rydell, tel. +46 (0) 8-454 32 06

Board of Directors

The number of shares comprises direct shareholdings, holdings through related parties and legal entities on the balance-sheet date of April 30, 2018. Torbjörn Kronander and Jan-Olof Brüer's holdings include 50% of a holding through a legal entity owned jointly.

Carl-Erik Ridderstråle

Chairman of the Board
Remuneration Committee Chairman



Christer Nilsson

Board member, member of the
Remuneration Committee and
Audit Committee



Anders Persson

Board member
Member of the Audit Committee



Born/Elected	Born 1942/Elected 2001/Chairman since 2007	Born 1952/Elected 2008	Born 1953/Elected 2004
Sectra holdings	198 636 Class B shares and convertibles corresponding to 41 758 Class B shares	12 162 Class B shares and convertibles corresponding to 3 577 Class B shares	34 654 Class B shares and convertibles corresponding to 7 970 Class B shares
Board fees 2017/2018	SEK 450 000	SEK 265 000	SEK 265 000
Board member's independence	Independent in relation to the company, management and the company's major shareholders	Independent in relation to the company, management and the company's major shareholders	Independent in relation to the company, management and the company's major shareholders
Education	Licentiate of Science (Technology)	Master of Science in Engineering	Doctor of Medicine, Professor, Senior Physician
Professional experience/previous assignments	Previously President of BT Industries and Vice Chairman of the Board of Seco Tools AB	President of Vestadil AB, previously Director and Advisor at 3i plc, senior positions at Datex-Ohmeda and Gambro	Director of the Center for Medical Image Science and Visualization (CMIV) and Senior Physician in radiology
Other posts	Chairman of the Board of Trätrappor Norsjö AB and Kåge Gjutmek AB, Board member of Valedo AB	Chairman of the Board of Tawi Invest AB and Board member of Industrifonden and others	Board member of the Center for Medical Image Science and Visualization (CMIV) and others

Torbjörn Kronander

Board member
President and CEO Sectra AB



Jan-Olof Brüer

Board member
Audit Committee Chairman



Born/Elected	Born 1957/Elected 1988/Employed 1985	Born 1951/Elected 2013
Sectra holdings	777 463 Class A shares, 2 779 778 Class B shares and convertibles corresponding to 43 531 Class B shares	777 465 Class A shares, 2 768 748 Class B shares and convertibles corresponding to 46 609 Class B shares
Board fees 2017/2018	SEK 0	SEK 305 000
Board member's independence	One of the company's largest shareholders with 17.1% of the votes and 9.3% of capital	One of the company's largest shareholders with 17.1% of the votes and 9.3% of capital
Education	PhD (Technology), Master of Business Administration, officer in the Naval Reserve	PhD (Technology), Master of Business Administration, officer in the reserve armored troops
Professional experience/previous assignments	Previously President of Sectra's medical operation and Executive Vice President of Sectra AB, full-time at Sectra since 1991, ship captain	Previously President and CEO of Sectra AB
Other posts	Board member of the Center for Medical Image Science and Visualization (CMIV), Cellavision AB, Shannon AB and others, member of the Royal Swedish Academy of Engineering Sciences	Board member of Sectra Communications AB, Shannon AB and Lilla Hallmare Gärd och Förvaltning

Ulrika Hagdahl
Board member



Tomas Puusepp
Board member



Jakob Svärdröm
Board member



Born/Elected	Born 1962/Elected 2017	Born 1955/Elected 2017	Born 1964/Elected 2011
Sectra holdings	0	0	5 358 Class B shares
Board fees 2017/2018	SEK 225 000	SEK 225 000	SEK 225 000
Board member's independence	Independent in relation to the company, management and the company's major shareholders	Independent in relation to the company, management and the company's major shareholders	Independent in relation to the company, management and the company's major shareholders
Education	Master of Science in Engineering	Bachelor of Science in Engineering	Master of Business Administration
Professional experience/previous assignments	Founder of Orc Software AB, Head of Innovation at Orc Software AB 1987–1990, President and CEO of Orc Software AB 1990–2000	Previously President and CEO of Elekta AB and several senior positions at the Research Institute of Physics at Stockholm University, Scanditronix and Ericsson	Independent Technology Investment Advisor through Aurena AB, previously Managing Partner of KTH Chalmers Capital, Executive Vice President and Board member of Streamserve Inc and Business Area Manager at Intentia AB
Other posts	Board member of HiQ International AB, Beijer Electronics AB, Starbreeze AB, Invisio Communications AB and Haldex AB	Chairman of the Board of Global Medical Investments GMI AB and Board member of Elekta AB, the Swedish-American Chamber of Commerce and Permobil AB	Chairman of the Board of House of Ports Group AB and Trustweaver AB, and Deputy Chairman of 4C Strategies AB

Deborah Capello
Board member
Employee representative



Bengt Hellman
Board member
Employee representative



Fredrik Söderquist
Deputy Board member
Employee representative



Anna Vrilmark
Deputy Board member
Employee representative



Born/Elected	Born 1970/Elected 2014/ Employed 2004	Born 1980/Elected 2015/ Employed 2014	Born 1989/Elected 2017/ Employed 2015	Born 1984/Elected 2015/ Employed 2014
Sectra holdings	300 Class B shares	0	0	0
Education	Master of Science in Engineering, Master of Science in Business Administration and Economics	Master of Science in Information Technology	Master of Science in Engineering	Master of Science in Engineering
Position	Deployment Owner, Imaging IT Solutions operating area	Software Developer, Imaging IT Solutions operating area	Software Engineer, Imaging IT Solutions operating area	Operations Project Manager, Imaging IT Solutions operating area

» For current holdings, see www.sectra.com/board_of_directors

» For information about matters addressed by the Board in 2017/2018, refer to the Board's Corporate Governance Report www.sectra.com/corporate_governance

Group Management and Auditor

The number of shares comprises direct shareholdings, holdings through related parties and legal entities on the balance-sheet date of April 30, 2018. Torbjörn Kronander's holdings include 50% of a holding through a legal entity owned jointly with Board member Jan-Olof Brüer.

Torbjörn Kronander

President and CEO of Sectra AB and Board member



Simo Pykälistö

President of Secure Communications operating area and Executive Vice President of Sectra AB



Marie Ekström Trägårdh

President of Imaging IT Solutions operating area and Executive Vice President of Sectra AB



Born/Employed	Born 1957/Employed 1985/Board member since 1988	Born 1972/Employed 2003	Born 1961/Employed 1996
Sectra holdings	777 463 Class A shares, 2 779 778 Class B shares and convertibles corresponding to 43 531 Class B shares	33 000 Class B shares and convertibles corresponding to 5 308 Class B shares	43 094 Class B shares and convertibles corresponding to 10 485 Class B shares
Education	PhD (Technology), Master of Business Administration, officer in the Naval Reserve	Master of Science in Business and Economics	Bachelor of Science in Systems Science and IT
Previous professional experience/assignments	President of Sectra's medical operation and Executive Vice President of Sectra AB, full-time at Sectra since 1991, ship captain	CFO of Sectra AB, CFO of Pronyx AB, Finance Director at CDT Nordic, Group Controller at M2 Engineering AB, Finance Manager at Kesko Svenska AB, Economist at OKO Bank	President of Sectra Skandinavien AB, Executive Vice President of Sectra's Imaging IT Solutions operating area and senior positions at Sectra, Consultant at Frontec AB, Developer/Project Manager at Fujitsu ICL
Other posts	Board member of the Center for Medical Image Science and Visualization (CMIV), Cellavision AB, Shannon AB and others, member of the Royal Swedish Academy of Engineering Sciences	Board member of Sunda Hus AB and Insurance Underwriting Agency OÜ	Board member of Pledpharma AB and member of the Royal Swedish Academy of Engineering Sciences

Mats Franzén

Chief Financial Officer



Sofia Bertling

General Manager, Medical Education business unit



Gustaf Schwang

General Manager, Orthopaedics business unit



Born/Employed	Born 1969/Employed 2016	Born 1970/Employed 2018	Born 1976/Employed 2017
Sectra holdings	12 000 Class B shares	1 350 Class B shares	900 Class B shares
Education	Master of Science in Business Administration and Economics	PhD (Technology)	Master of Science in Engineering
Previous professional experience/assignments	CFO of HTC Group AB, CEO of HTC Cleaning Technology AB Group, CFO of Toyota Industries Europe AB, Senior Group Accountant at BT Industries AB, Authorized Public Accountant and Head of PwC's Linköping office	President and CEO of Hermes Medical Solutions AB, Inc, Ltd and senior positions at Hermes, Research Engineer at Swerea KIMAB	Director Special Accounts at Elekta AB and senior positions at Elekta, Board member of Swecare Foundation, General Manager at Seaway Group, R&D Director at Nautor's Swan and others
Other posts	Board member of Terrasancta AB	Chairman of the Board and CEO of ReachIT Consulting	

Per Andersnäs
Vice President
Operational Excellence & IT



Lisa Everhill
Market Communication
and Investor Relations Manager



Claes Lundström
Research Director Medical Systems



Born/Employed	Born 1962/Employed 1997	Born 1979/Employed 2006	Born 1973/Employed 1997
Sectra holdings	400 Class B shares	1 721 Class B shares and convertibles corresponding to 308 Class B shares	7 138 Class B shares and convertibles corresponding to 3 241 Class B shares
Education	Master of Science in Computer Technology	Master of Science in Business Administration	PhD (Technology)
Previous professional experience/assignments	Product Development Director Imaging IT Solutions operating area and others, senior positions in Sectra's medical operation	Other senior positions in Sectra's medical operation	Product Development Project Manager and others, senior positions in Sectra's medical operation
Other posts			Associate Professor at the Center for Medical Image Science and Visualization (CMIV)

Staffan Bergström
Senior Executive Vice President
Imaging IT Solutions operating area



Born/Employed	Born 1962/Employed 1988
Sectra holdings	129 823 Class B shares and convertibles corresponding to 21 854 Class B shares
Education	Licentiate of Science (Technology), Master of Business Administration
Previous professional experience/assignments	Other senior posts in Sectra's medical operations
Other posts	Board member Mirantum AB

Revisor

Mia Rutenius
Chief Coordinating Auditor
Grant Thornton Sweden AB



Born/Appointed	Born 1974/Appointed 2016
Sectra holdings	0
Education	Authorized Public Accountant
Other posts	Chief Coordinating Auditor for Uniflex AB, Dedicare AB, BioArctic AB, iStone AB and others, Head of Audit at Grant Thornton Sweden AB

Administration report

The Board of Directors and the President of Sectra AB (publ), Corporate Registration Number 556064-8304, hereby submit the Annual Report and the consolidated financial statements for the period from May 1, 2017 to April 30, 2018. The following sustainability report, income statements, balance sheets, statements of changes in equity, cash-flow statements, accounting policies and notes comprise an integrated part of the Annual Report.

Statement

The information in this Annual Report is such that Sectra is obliged to make public in accordance with the Securities Market Act. Sectra announced the publication of the year-end report for the 2017/2018 fiscal year on May 29, 2018 at 8:00 a.m. through a press release, and the report was published on Sectra's website. The publication of the complete Annual Report will be announced in a press release, and the report will be published on the website on June 28, 2018.

Corporate governance

Sectra applies the Swedish Corporate Governance Code ("the Code"). Sectra has prepared a Corporate Governance Report in accordance with the rules and application instructions in Swedish legislation and in the Code. The report has been prepared as a separate document from the Annual Report and the auditor's statement is enclosed therein.

» These documents, together with other information about corporate governance at Sectra, are available on the Group's website www.sectra.com/corporate_governance.

The Group's operations and structure

Sectra conducts research, development and sales of high-tech products and services in the niche markets of medical imaging IT and secure communications. Sectra AB is the Parent Company of the Group, which comprises the operating areas Imaging IT Solutions, Secure Communications, Business Innovation, Sectra Customer Financing and Other Operations. The latter refers to Sectra's joint functions for administration, Group finances, IT, regulatory affairs, recruitment, marketing communication and investor relations activities.

The Group has its head office in Sweden and a number of subsidiaries around the world. Refer to page 8 and **Note 12** on page 71 for further information. Sectra's operating areas are organized as separate companies based on the customer segments and geographic markets targeted.

Significant events

During the fiscal year

- Through a share redemption program, a total of SEK 170.7 million was distributed to the shareholders, corresponding to SEK 4.50 per share.

After the balance-sheet date

- The Board and the President propose that the AGM resolves to distribute SEK 4.50 per share, a total of SEK 171.5 million, to the shareholders through a 2:1 share split in combination with a mandatory redemption process. No ordinary dividend is proposed.

Outlook

Sectra plays a key role in meeting the needs in the areas of medical imaging IT and cybersecurity, two changing, growing markets with additional scope for expansion. The company is well positioned in these areas, with stable solutions, a long-term future focus and high customer satisfaction. The Group's financial position is enabling investments in existing and new markets, product development and future-oriented projects. Due to its long-term customer relationships, dedicated and highly competent employees, high-quality and innovative products, and strong financial position, Sectra has the necessary prerequisites to continue delivering solutions in accordance with the company's vision—to contribute to a healthier and safer society.

Financial overview, Group

	2017/2018	2016/2017	Change %
Order bookings, SEK million	1 492.5	1 177.7	26.7
Net sales, SEK million	1 266.5	1 140.9	11.0
Operating profit ¹ , SEK million	239.1	200.1	19.5
Net financial items, SEK million	10.2	-0.4	n/a
Profit before tax ¹ , SEK million	249.3	199.7	24.8
Profit after tax ¹ , SEK million	198.3	152.6	29.9
Operating margin ¹ , %	18.9	17.5	n/a
Profit margin, %	19.7	17.5	n/a
Earnings per share, SEK	5.22	4.04	29.2
Cash flow per share, SEK	5.84	6.21	-5.9

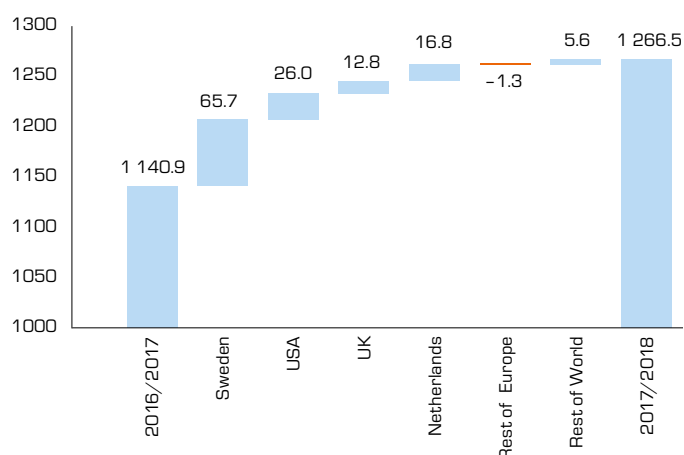
¹ The comparative year has been restated as a consequence of a correction of an error in accordance with IAS 8. Refer to Note 5.

Order bookings, sales and earnings

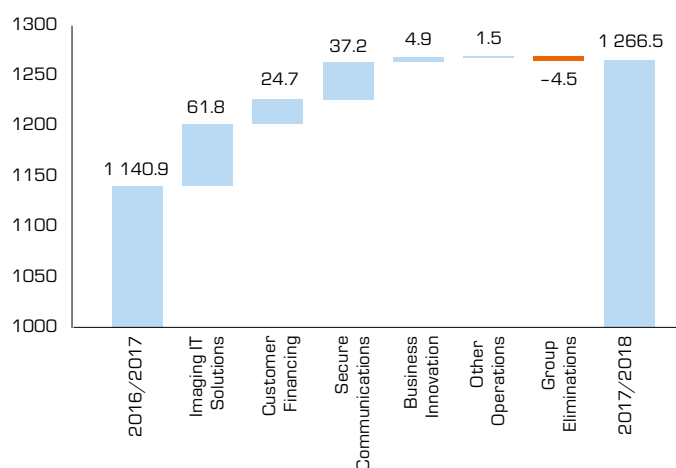
The trend in order bookings improved during the fiscal year as a result of Sectra entering into several comprehensive, long-term agreements. Several of the new orders tie up considerable capital during the installation phase, which will place a greater burden on cash flow. The Group's order bookings totaled SEK 1,492.5 million, up 26.7% from the comparative year. All business segments reported increased order bookings. Geographically, the increase in order bookings was mainly attributable to Sectra's operations in the Netherlands, the UK and Sweden.

Net sales rose 11.0% to SEK 1,266.5 million. Adjusted for currency fluctuations, the increase was 12.5%. All business segments reported sales growth. Geographically, Sectra displayed sales growth in essentially all markets, with the largest increases reported in the Netherlands, Sweden and the US. The rest of Europe was on par with the comparative year. Sales-related Group eliminations amounted to a negative SEK 171.1 million (neg: 166.5), and comprised ongoing internal sales and Group-financed managed-services agreements with customers.

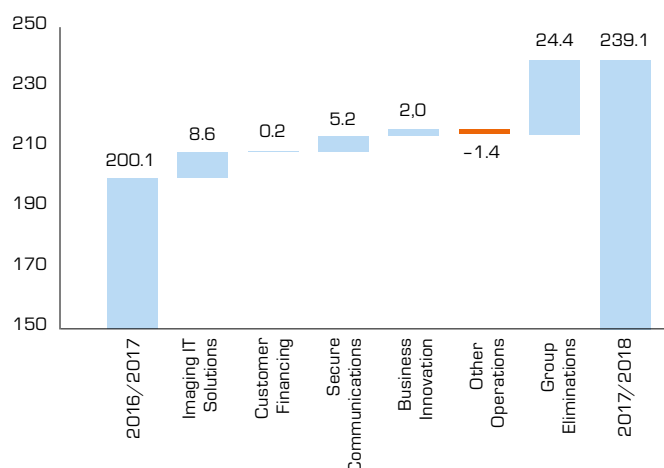
Sales trend per geographic market SEK million



Sales trend per operating area SEK million



Profit trend per operating area SEK million



All business operating areas improved their operating profit. The Group's operating profit rose 19.5% to SEK 239.1 million. Adjusted for currency fluctuations, operating profit increased 22.0%.

The operating margin rose 1.4 percentage points to 18.9%, which exceeded Sectra's financial goal of 15%. The net change in eliminations related to operating profit was partly attributable to Group-financed managed-services agreements.

The Group's net financial items increased SEK 10.6 million to SEK 10.2 million. Currency fluctuations had an impact of SEK 1.6 million (neg: 0.4) on the Group's financial items. Changes in the USD and GBP accounted for the largest currency effects. Sectra does not hedge its operations, and currency fluctuations therefore have an immediate impact on financial figures rather than over time. Profit after net financial items increased 24.8% to SEK 249.3 million, to a profit margin of 19.7%. Excluding nonrecurring items, profit after net financial items rose 20.3% (see below). Earnings per share totaled SEK 5.22 (4.04).

The figures above include earnings effects of the following non-recurring items (amounts in SEK million):

2017/2018

Contract adjustment in the UK, refer to Imaging IT Solutions page 48	-0.7
Sale of 100% of shares in associated company Commit; Oy	9.8
Net effect on profit after net financial items 2017/2018	9.1

2016/2017

Reversal of contingent consideration	12.4
Impairment of goodwill and other intangible assets	-12.3
Net effect on profit after net financial items 2016/2017	0.1

Cash flow and financial position

After adjustment for exchange-rate differences, the Group's cash and cash equivalents at the end of the reporting period amounted to SEK 282.3 million (273.2). The Group's debt/equity ratio was 0.09 (0.14). Interest-bearing liabilities amounted to SEK 56.6 million (77.6) and pertained to convertible loans held by employees and Board members. Three convertible loans totaling SEK 21.0 million were converted to shares during the fiscal year (refer to "Share-based incentive programs" under [Note 2](#) on page 66). During the comparative year, Sectra issued SEK 25 million in convertible loans to employees/Board members, which did not happen in 2017/2018.

The Group's cash flow from operations after changes in working capital amounted to SEK 222.7 million (235.2). This change was primarily linked to an increase in capital tied up in customer projects in the installation phase. Cash flow per share totaled SEK 5.84 (6.21) for the fiscal year. Cash flow from investing activities was a negative SEK 42.0 million (neg: 59.6) for the fiscal year. These investments mainly pertained to assets in long-term Group-financed customer projects and development projects. The Group's total cash flow was SEK 8.1 million (29.5). This result includes the share redemption program for shareholders. Excluding the share redemption program, total cash flow amounted to SEK 178.9 million (199.1).

Investments and depreciation/amortization

Group investments during the fiscal year amounted to SEK 42.0 million (59.6). Investments primarily pertained to customer projects in the Group's financing activities and capitalized development costs. Depreciation/amortization for the fiscal year rose to SEK 65.0 million (58.3). The comparative year also included impairment of goodwill and other intangible assets amounting to SEK 12.3 million, which was attributable to the acquisition of RxEye in 2015.

Hardware-related investments in Group-financed customer projects during the fiscal year totaled SEK 24.7 million (18.9), of which SEK 8.7 million (neg: 1.3) was attributable to the impact of currency fluctuations on the size of the investment amounts. At the end of the fiscal year, the net carrying amount for Group-financed customer projects totaled SEK 128.7 million (120.1).

Capitalization of development costs for the fiscal year amounted to SEK 28.2 million (29.4). Amortization of capitalized development projects during the fiscal year amounted to SEK 21.7 million (16.8). At the end of the period, capitalized development costs totaled SEK 104.6 million (98.1).

Every year, Sectra invests 10-15% of its consolidated sales in research and development (R&D) projects. Read more on page 9. R&D costs for the fiscal year amounted to SEK 158.1 million (134.7).

Seasonal variations

Sectra's seasonal variations entail that most of the company's invoicing and earnings are traditionally generated at the end of the fiscal year. However, these seasonal variations have diminished in recent years since a major portion of sales is derived from pay-per-use or pay-by-month agreements with long durations. In many cases, the equalization effect resulting from long-term managed-services agreements that are financed internally within the Group does not impact the individual operating areas; instead it is essentially managed through the Parent Company's financing activities. The variation in order volumes in individual quarters can be substantial when customers sign extensive, multiyear agreements with the company, for example, for medical IT projects or encryption systems.

Financial overview, operating areas and Parent Company

Imaging IT Solutions

Sectra's largest operating area, Imaging IT Solutions, offers care providers IT systems and services for medical diagnostic imaging that help to develop the healthcare sector so that more patients can receive care within the limits of available resources, while also maintaining or improving the quality of care. For more information, refer to page 22.

An expanded customer base and continued confidence from existing customers contributed to a stable trend in terms Imaging IT Solutions' sales and profitability. During 2017/2018, sales for Imaging IT Solutions rose to SEK 1,032.3 million (970.5), up 6.4%. Operating profit rose 4.1% to SEK 219.2 million (210.6), corresponding to an operating margin of 21.2% (21.7). Sales and earnings for the fiscal year were charged with a negative contract adjustment of SEK 8.0 million in the UK. The earnings effect of the adjustment at the Group level amounted to SEK 0.7 million and was attributable to the reversal of a Group-wide reserve.

The operating area is implementing long-term growth initiatives in new product areas, such as digital pathology, and an expansion into additional geographic markets through the establishment of its own operations and through new distributors. These activities were charged to operating profit but have the potential to contribute to a positive performance moving forward.

Sectra Customer Financing

Sectra Customer Financing is Sectra's unit for the financing of major managed-services agreements with healthcare customers and asset management. The majority of sales come from multiyear customer contracts with healthcare providers in the UK. Accordingly, the segment has a significant currency exposure to the GBP, which has had a negative impact on its results since Brexit in 2016. This also means that the movement of the GBP in relation to the SEK also has a major impact on the operating area's forecast revenue. Read more on page 25.

During 2017/2018, sales for Customer Financings increased to SEK 145.0 million (120.3), up 20.5%. Adjusted for currency fluctuations, sales growth amounted to 22.7% during the fiscal year. Operating profit rose 4.3% to SEK 4.9 million (4.7), corresponding to an operating margin of 3.4% (3.9).

Business Innovation

The operating area includes the Medical Education and Orthopaedics business units as well as a research department. The Osteoporosis business unit was incorporated into the Orthopaedics business unit during the preceding fiscal year and was then discontinued. Sectra's patent portfolio is also managed and developed within Business Innovation. The performance of Business Innovation's two business units varies significantly between quarters and periods. Sectra's offerings in both business Orthopaedics and Medical Education are currently undergoing a generational shift, which is impacting the financial results. New managers were appointed for both business units during the fiscal year, who are now working to accelerate the development and launch of the new products. Read more on page 26.

In 2017/2018, sales rose 7.5% to SEK 70.3 million (65.4). Operating profit increased to SEK 7.0 million (5.0).

Secure Communications

The Secure Communications operating area offers products and services for secure voice and data communications as well as cybersecurity for critical infrastructure. IT developments in society, political instability in the world, and the growth of cybercrime are creating a greater need for Sectra's expertise and product offerings. Read more on page 33.

In 2017/2018, sales rose 35.2% to SEK 142.9 million (105.7). Operating profit increased to SEK 6.9 million (1.7). The operating area's increase in sales was mainly attributable to products and development assignments in the secure communications product area. Operating profit was charged with ongoing growth initiatives to broaden the operating area's offering to the critical infrastructure product segment, to further strengthen the offering in the secure communications segment, and to expand into additional geographic markets.

Other Operations

Other Operations pertain to Sectra's joint functions for administration, recruitment, Group finances, IT, regulatory affairs, marketing communications and investor relations activities. Sales from Other Operations are entirely intra-Group in nature and amounted to SEK 47.0 million (45.5). An operating loss of SEK 17.5 million (loss: 16.1) was reported for the period. Expenses were impacted by investments in internal IT security, measures linked to compliance with the new General Data Protection Regulation (GDPR), and recruitment.

Parent Company's sales and profit

The Parent Company, Sectra AB, includes the operating segments Business Innovation and Sectra Customer Financing as well as the head office's functions for Group finances, IT, regulatory affairs, marketing communications, and investor relations activities. For more information, please refer to the following income statements, balance sheets, accounting policies and notes.

The share

On the balance-sheet date, Sectra's share capital totaled SEK 38,119,669, distributed between 38,119,669 shares. Of these shares, 2,620,692 were Class A shares and 35,498,977 were Class B shares. These figures include the redemption of convertibles (2012/2017, 2013/2017 and 2014/2017 programs) during the fiscal year totaling SEK 21 million, corresponding to 229,584 Class B shares. One Class A share confers ten votes, while one Class B share confers one vote. All shares carry equal rights to the company's assets and profits.

As of the publication date of this report, on full exercise of outstanding convertibles, the number of Class B shares will increase by 395,881, corresponding to 1.0% of the share capital and 0.6% of the voting rights in the company. These figures include a recalculation of the issued convertibles, which took place due to the share redemption program conducted during the fiscal year. For more information, please refer to [Note 2](#) on page 66.

The Articles of Association contain a right of first refusal clause for the transfer of Class A shares. No other agreements between shareholders entailing restrictions on the right to transfer shares are known to the company. Nor is the company party to any agreements that would take effect should control of the company change through public purchase offers.

Major shareholders

On the balance-sheet date, Sectra had 6,166 (5,916) shareholders. Of these, the following shareholders had direct and indirect holdings comprising more than 10% of the number of votes for the total number of shares in the company on the balance-sheet date:

- Torbjörn Kronander, who directly and indirectly through the company Shannon AB represents 17.1% of the voting rights.
- Jan-Olof Brüer, who directly and indirectly through related companies and the company Shannon AB represents 17.1% of the voting rights.

Authorization

The 2017 AGM authorized the Board of Directors, during the period until the next AGM, to decide on a new share issue of not more than 3,700,000 shares. The purpose of the authorization was to facilitate the use of new share issues for financing market investments and acquisitions of companies or operations, to cover the costs arising as a result of the company's incentive programs and to constantly adapt the company's capital structure. The AGM also resolved to authorize the company to repurchase not more than 10% of the company's own shares up until the next AGM. On the balance-sheet date, the Board had not utilized either of these authorizations.

Board's statement concerning the proposed repurchase of the company's own shares

The Board of Directors' statement is reported under [Note 32](#).

Guidelines for remuneration to senior executives

In accordance with the guidelines prepared by the Board, the 2017 Annual General Meeting adopted the following policies for remuneration and other terms of employment for company management (the President and other members of Group Management). All current agreements follow these principles. The Board proposes to the 2018 Annual General Meeting that the guidelines remain unchanged. The guidelines state that:

Remuneration to company management is based on normal market terms, while also ensuring the shareholders' best interests. Remuneration primarily comprises fixed salary, variable salary, pension benefits and other benefits, such as a company car. Pension benefits are defined-contribution.

Fixed salary is established by accounting for the executive's experience, responsibilities and performance and is based on normal market conditions. Variable remuneration is proportionate to the executive's responsibilities and authority. It has a maximum limit and is based on the fulfillment of targets that promote the company's long-term creation of value. Where applicable, variable salary is based on predetermined quantitative criteria. The company's costs for the variable salary portion for the President and other members of company management amount to not more than 50% of the fixed salary costs.

The notice period for terminating employment by an employee is a maximum of 12 months. If employment is terminated by the company, the total notice period and the time during which severance pay is received is a maximum of 24 months. Ordinary retirement age is 65. Pension terms and conditions are market-based and based on defined-contribution pension solutions. The pension premium is not more than 30% of the fixed and variable salary.

Board members with special expertise that perform services for the company beyond the scope of the Board assignment may receive a fee for such services payable at market rates. Decisions on such fees are taken by the Board of Directors, without the participation of the Board member in question.

Issues concerning remuneration to company management are handled by the President. Remuneration to the President is resolved by the Board of Directors.

Corporate responsibility and sustainability

Sectra endeavors to improve society by helping to make it healthier and safer. Acting responsibly with respect to customers, employees, regulations and the environment is a natural consequence of Sectra's vision and mission statements.

Below is a description of Sectra's work related to the environment, social conditions/personnel, respect for human rights and anti-corruption, and additional issues that are particularly important to the company's long-term development. These descriptions constitute Sectra's sustainability report, together with pages 2-7. On these pages, Sectra presents the Group's vision and how the company's mission statements and product offerings help customers make people's lives healthier, safer, and more secure.

High quality and customer satisfaction

Customer satisfaction

For a medium-sized company such as Sectra, which competes with some of the largest companies in the world, it is important to have a clear profile and focus. Customer confidence is highly important in the industries where the company operates, and Sectra has chosen to focus on customer satisfaction. The probability that a company will be chosen as supplier is higher if it has high customer satisfaction¹⁶ and it also creates job satisfaction and helps to improve the well-being of its personnel.

In all markets, the company regularly conducts its own customer satisfaction surveys based on a Net Promoter Score (NPS). Refer to the fact box. These surveys provide important information for achieving high customer satisfaction and continuing to develop as a company. Sectra's goal is to achieve an NPS of at least 20% for all sub-areas and products measured. In 2017/2018, the goal was achieved by a healthy margin for 16 of the 17 sub-areas.

Customer feedback on Sectra reflects high quality deliveries. External surveys, such as "Best in KLAS" presented on page 22, shows an equally positive result as in the company's own surveys.

Facts about NPS

The Net Promoter Score (NPS) is calculated based on the answer to the question "Would you recommend Sectra, our products and services to a friend or colleague?". Customers answer the question on a scale from 0 to 10. Respondents who give a 9 or 10 are referred to as ambassadors, and those who give between 0 and 6 are referred to as critics. A 7 or 8 is seen as neutral.

The NPS is calculated by subtracting the percentage of critics from the percentage of ambassadors. The NPS interval is between -100 (only critics) and 100 (only ambassadors). A positive NPS value (higher than 0) is considered good.

Quality and product safety

Quality control and product safety are highly important, since Sectra's products and services can mean the difference between life and death for individuals and large groups of people. Moreover, some Sectra products handle sensitive and confidential information that may be crucial for national security. In accordance with medical technology and other regulations, Sectra follows quality control procedures designed to continuously improve the safety and effectiveness of its products before, during and after they are delivered to customers. IT security is another field deeply rooted in processes, procedures, products and services. Sectra also has procedures and processes in place to follow up security and quality in its products and services after delivery. For example, incidents involving Sectra's products and services are systematically investigated in order to identify the underlying causes. Based on these investigations, corrective and/or preventive measures are taken for the products in question and, in certain cases, reports are submitted to the relevant authorities.

Quality Policy Medical IT

Our mission is to increase effectiveness of healthcare, while maintaining or increasing quality in patient care. The high-level quality objectives for all our quality management activities are:



- We always put human safety first, and as a part of that we must always follow regulations.
- We work in close partnership with our customers to gain a superior understanding of their requirements and expectations.
- We always try to put an extra "wow" into our solutions.
- We are to continuously improve our solutions striving to increase the effectiveness of our customers.
- We all impact quality and are personally responsible for the quality of our solutions.
- We are to maintain or improve the effectiveness of our quality management system, The Sectra Way.

Quality Policy Secure Communications

Our mission is to strengthen the stability of society and increase efficiency in critical functions by enabling the secure and effective exchange of sensitive information. The high-level quality objectives for all our quality management activities are:



- We put information security for our customers first. Our customers entrust us the protection of their most sensitive data and we need to manage this trust with care.
- We strive to help increasing the efficiency of our customers and are to continuously improve our solutions and services towards this aim.
- We maintain a balanced approach to security where availability and usability are key factors.
- We work in close partnership with our customers to gain a superior understanding of their requirements, expectations and operating environment.
- We all impact quality and are personally responsible for the quality of the solutions and services we provide.
- We are to maintain or improve the effectiveness of our quality management system, BMS.

Sectra's operating areas are certified according to relevant standards in their respective areas, including ISO 9001:2015, ISO 27001:2013, ISO 13485:2016 and ISO 13485:2016/CMDCAS. This means that internal and external consultants review the company every year to assess its compliance with these standards and its internal processes and notify Sectra of any need for corrective actions. The company also works with its own certification programs and internal training courses for employees and distributors.

The company's products are subject to industry-specific regulations and requirements. Sectra's crypto products are evaluated and approved by security authorities since they are used to protect highly sensitive information. Sectra's medical IT systems comply with European regulations for CE marking, the Medical Device Directive 93/42/EEC, while products sold in North America have been approved by the US Food and Drug Administration (FDA).

Social conditions and employees

Ensuring employee satisfaction and development

The key to Sectra's success lies in its competent, responsible employees and their dedication to solving customer problems. A great deal of energy is devoted to employing the right people and creating a corporate culture where all employees are always there for the customer. Ongoing skills training and frequent customer visits help to improve quality and give the company a greater understanding of customers' day-to-day operations.

In order to retain and develop competent and dedicated employees, employees and managers work together to identify development needs and draw up development plans in conjunction with regular performance appraisals. This is conducted using an established process for personnel management, which is part of the company's management system. Sectra also monitors employee satisfaction through annual employee surveys. One of the Group-wide goals monitored by Sectra in the surveys is whether its employees have a good "gut feeling" when coming to work. The goal is to achieve a result of more than 3.5 on a scale of 5. In 2017/2018, the goal was achieved by a healthy margin and the outcome was 4.0 (3.9).

The company encourages its employees to grow and develop as individuals. At Sectra, you can start as a recent graduate and gradually progress to adopt a role as an expert or a senior position. For instance, there is an annual program where coworkers can be nominated by colleagues and then appointed as seniors or fellows, with additional benefits and responsibility. Sectra also encourages internal mobility between departments and between the Group's companies around the world. This spreads the company's combined expertise and promotes collaboration within the Group.

All new employees take part in "rookie" training, where personnel from around the world meet to learn about fundamental values, processes and management systems, products, IT security and other important areas. Internal and external courses, training programs, various certification programs and supervision help to ensure that employees have the correct skills for their role and their duties.

Recruitment

Over the past year, Sectra has worked to optimize and clarify its internal processes for recruitment, personnel, training and other measures designed to improve skills and achieve certification. This included updated guidelines for better system support through the introduction of a new HR system and a new central function for recruitment support.

Work environment

The basis for the company's work environment initiatives is that all employees should feel involved in activities related to the work environment through an interplay where experience and opinions

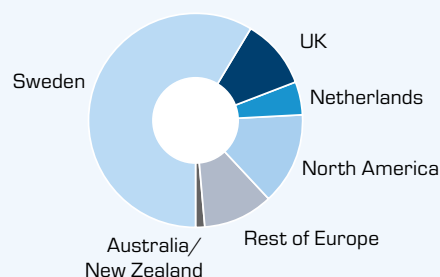
about the environment are taken into account in everyday working procedures. This is described in Sectra's work environment policy. Example of work environment goals:

- No employee shall be exposed to any risk of injury or sickness due to their work.
- All Sectra employees shall experience a good quality of life in their work with respect to physical, psychological and social conditions.
- The company shall take rapid and conscientious action to ensure its employees can return to work after long-term illness, work-related injury or other problems.

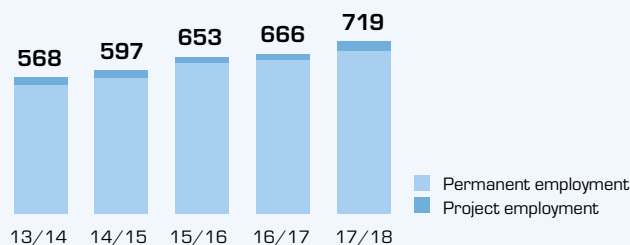
The Group takes a proactive approach to occupational health and safety issues, for example, by offering health screenings, wellness programs and training opportunities.

Sectra's personnel have extensive expertise and a solid educational background. 84% of its employees have a university degree and many have completed postgraduate studies.

Distribution of employees by country



Number of employees on the balance sheet day



Equal opportunities, diversity and respect for human rights

Sectra's workplace shall be distinguished by equal opportunities and equal treatment, with everyone assuming responsibility for the treatment of their fellow human beings. In line with the company's policy in the area, Sectra works continuously to promote equal opportunities in order to achieve gender balance and diversity. The policy states that the company's position on human rights is that no form of discrimination will be tolerated regardless of ethnic or national origin, skin color, gender, sexual orientation, religion, political opinions, nationality or social origin. Sectra has zero tolerance towards all forms of discrimination, bullying and harassment. Sectra considers the risk of human rights violations as small in both its own operations and for its subcontractors.

Sectra's organization has global operations, where language skills and the ability to operate in different cultures are important success factors. For example, the Group's employees come from some 30 different countries and bring experience from a range of cultures and settings.

The availability of women engineers is low in Sectra's technology-intensive niche areas, but the company is still seeking to achieve a better gender balance. Of the Group's employees, 79% (78) are men and 21% (22) are women. As of the balance-sheet date, 30% (33) of Group Management were women. For more information, refer to **Note 2**. The way employees experience equal opportunities and equal treatment at the company is followed up in the annual employee survey.

Risk management

Given the fact that customer confidence is a critical success factor, Sectra prioritizes stable, long-term growth over rapid, high-risk expansion. Because Sectra is active in several industries and a large number of markets, the Group's overall exposure to political and market risks, for example, is limited. To prevent risks, the company has established a number of policy documents that explain Sectra's values and how its managers and employees are expected to conduct themselves. These documents include policies governing risk management, information security, the Code of Conduct, equality, the environment, work environment and financial matters. Business and financial risks are analyzed continuously and measures to reduce the Group's risk exposure are taken as needed. The risks with the highest risk index in the annual review performed by the Board and Executive Management are described on the next page. Read more about the company's risk assessment for the coming year in **Note 30** Risks and risk management.

Policies and processes

Sectra has established the following policies and processes in the company's management system for controlling its sustainability work:

- Code of Conduct
- Policy and process for managing information security risks
- Policy and process for managing medical technology risks
- Environmental policy and environmental plan
- Work environment policy
- Policy for gender equality and diversity
- Policy for gender equality on the Board of Directors
- Policy for salaries and bonus payments
- Policy and process for whistleblowing

Business ethics and anti-corruption measures

Working together with Sectra is to be viewed as a stamp of quality for customers as well as employees and partners. Sectra considers its corporate culture, in combination with its Code of Conduct, to be crucial factors in ensuring that the company's business is fair, honest and complies with applicable laws. The company's corporate culture, Code of Conduct and quality and control processes help to guide the decisions and actions of its managers, partners and employees during the course of their daily work.

Sectra pays tax in each country where it operates in accordance with prevailing law and OECD:4 Transfer Pricing Guidelines, which helps to boost development in the local community in each country.

Code of Conduct

Sectra conducts global business, with its principal exposure to countries in Europe and the US. The company's model for working with customers, distributors and strategic partners is based on responsibility, transparency and knowledge sharing. Sectra has worked with several of its customers for more than 20 years. These close, long-term partnerships play a very important role in Sectra's success. Accordingly, it is vital that the company's efforts to increase its market shares and win the loyalty of new customers do not jeopardize its business ethics and responsibility.

Sectra's Board has established a Code of Conduct that addresses various areas, such as product safety, work environment, confidential information, anti-corruption, conflicts of interest, use of social media and competition. It also describes the values and basic principles that Sectra expects its Board members, managers, employees, consultants and partners to follow. When it comes to external parties and sub-suppliers, this is regulated through the terms of agreement or (in the case of large companies over which Sectra has only a minor influence) in the choice of sub-supplier. The Code of Conduct is included in all distribution agreements and Sectra is entitled to terminate its business relationships at short notice if the code is not followed. Should this happen, Sectra is also entitled to transfer its ongoing service agreements to a new partner or take over the agreements itself, making it clear to the counterparty in question that Sectra treats such breaches with the utmost seriousness.

Combating corruption

The company does not tolerate corruption and works proactively to ensure that neither the company nor its partners are involved in any form of corrupt activities. As part of this work, Sectra's external auditors carry out a number of specific recurring audit procedures in subsidiaries worldwide.

As part of its Code of Conduct and anti-corruption policy, Sectra has introduced a whistleblower system where employees and other individuals can report inappropriate behavior or other deviations. All employees must feel confident that they can report irregularities and serious incidents that impact the company without fear of adverse consequences. All reports made in accordance with this whistleblower policy will be given serious consideration and they will be handled professionally and in confidence.

Environment

Sectra's environmental work is characterized by consistent environmental consideration and continuous improvement processes in respect of climate impact and resource use. This applies to both the internal and external environment. Sectra's environmental policy is available on the Group's website, www.sectra.com/sustainability.

External environment

The Group's activities are largely comparable with working in a traditional office environment. Sectra primarily sells proprietary software and services and, to a lesser extent, physical products, including those from external suppliers. Proprietary physical products are produced by sub-suppliers in Europe. With respect to the resale of hardware, the Group's external suppliers are large, global companies with processes and policies in place for key sustainability issues. Sectra's management system includes an environmental plan. The plan describes the environmental impact and environmental goals of the Group's business activities and the measures taken to achieve these goals.

From an environmental perspective, the digital radiology systems that Sectra develops, for example, are highly advantageous. By enabling remote viewing, these systems help to reduce the number of patient trips and meetings as well as the transportation of medical images.

The company's operations are not subject to notification or permit requirements under the Swedish Environmental Code.

Internal environment

The company endeavors to ensure that its workplaces and premises are environmentally friendly and can save energy and resources by using technical equipment that is modern, green and energy efficient. Environmentally friendly alternatives are used where possible and when economically justified to minimize climate impact from travel and transportation. Telephone and videoconferencing are widely used.

RISKS WITH HIGH RISK INDEX	MEASURES TO LIMIT RISK	RISKS WITH HIGH RISK INDEX	MEASURES TO LIMIT RISK
(Risk index = assessed probability multiplied by assessed financial impact)		(Risk index = assessed probability multiplied by assessed financial impact)	
Leaks of confidential information and cybersecurity threats		Outstanding accounts receivable	
Employees of the company are exposed to, or have access to, confidential information. As a result of IT advances and a growing number of cybersecurity breaches in society, there is now a greater risk that important confidential information belonging to Sectra and its customers could be exposed. Leaks of confidential information could impact customer confidence in the company, have a serious effect on the company's sales and result in fines or compensation claims.	Confidentiality agreements are signed with all employees. Employees in the Secure Communications operating area undergo security checks and are provided with mandatory training for handling confidential defense information. Sensitive information is handled in small groups and, in special cases, a logbook is kept with the names of the people who have access to the information. Executive Management and employees in particularly exposed positions use Sectra's solutions for secure mobile telephony. In 2017/2018, additional resources were set aside to improve the Group's IT security. Internal training courses and security tests are performed regularly.	The Group's customers primarily include government authorities, public healthcare providers and other reputable customers with high credit ratings, although payment practices vary between countries. Sectra is exposed to greater credit risks in countries where many of its customers are privately owned, such as the US. An increase in the number of partners outside Europe is contributing to a higher risk of potential credit problems.	Sectra has procedures in place to ensure thorough credit ratings of its customers and partners. To minimize credit risks in fixed-price projects, Sectra makes extensive use of advance partial payments and bank guarantees.
Intellectual property right disputes		Product liability and property risks	
Sectra invests considerable resources in product development. During the preceding fiscal year, Sectra began selling a system for digital pathology—a new field with patents from various players, which increases the risk of patent disputes.	To ensure a return on its R&D investments, the company analyzes the requirements for various products in terms of intellectual property rights in order to identify and protect these products through patents. Sectra's patent portfolio currently includes 22 patent families.	Through its operations, Sectra assumes product liability, which means that personal injury or damage to property caused by the company's systems at the premises of a customer or third party could lead to compensation claims. Increased sales of cloud services are leading to greater risk exposure and a need for new types of insurance, such as cyber insurance. The terms and conditions for the cover offered by these types of insurance is, however, not clear.	Insurance needs are evaluated on an annual basis. Insurance policies have been taken out for the property and liability risks to which the Group is exposed. The probability of risk pursuant to product responsibility is low, as Sectra has historically never had any claims. However, the overall risk is increasing due to a rise in cyber threats in society. Any claims that may arise due to cyber threats may have a substantial financial impact on the operations.
Risks related to business ethics		Patient security	
The focus on business ethics has increased, both within the company and in the global business environment. This is particularly true when it comes to corruption and bribery, which have received greater attention in the media due to a number of international scandals. According to Executive Management's assessment, the company's risks in this area are increasing as a result of the growing number of international distribution partners, which are more difficult to monitor using internal procedures.	Sectra has a Code of Conduct that contains a strict anti-bribery policy, which is intended to limit the risk of individual instances of bribery. For more information, refer to the heading Business ethics and combating corruption. The Code of Conduct is included in all distribution agreements and Sectra is entitled to terminate its business relationships at short notice if the code is not followed. Other measures include ongoing assessments of subsidiaries and partners and specific audit procedures for selected subsidiaries each year.	The medical IT systems developed and sold by Sectra may impact patient security. Along with an increase in the number of cybersecurity incidents around the world, new and stricter requirements from local authorities and the EU have contributed to higher risk. An incident relating to patient security or the loss of patient information may result in the loss of customers, reduced sales and fines or compensation claims.	The company's products are developed, manufactured, marketed, sold and maintained in accordance with quality-control procedures and processes. For more information, refer to the heading Quality and product safety. After its products are delivered to customers, Sectra follows quality-control procedures designed to improve the safety and clinical effectiveness of its products. Incidents involving Sectra's products are investigated systematically in order to identify the underlying causes. Based on these investigations, corrective or preventive measures are taken for the products in question and, in certain cases, reports are submitted to the relevant authorities. Sectra's products are assessed in compliance with organizations such as the US Food and Drug Administration (FDA), which reduces the company's risk with respect to patient security. Regular internal and external audits are conducted.
Currency exchange risks			
The Group's exposure to currency exchange risks mainly arises through transactions in foreign currencies in the form of customer and supplier payments and, to a lesser extent, in connection with the translation of foreign subsidiaries' income statements and balance sheets. The Group's largest exposures are in USD, EUR and GBP.	Sectra continuously monitors risks and cash flows in foreign currencies. Subsidiary financing is carried out in the local currency. The Group does not currently hedge its transaction exposure since the costs involved in effectively managing hedging contracts are deemed to be higher than any potential gain. Currency effects had a positive negative impact on the Group's operating profit in 2017/2018.		

Sectra and the UN Sustainable Development Goals

The UN Sustainable Development Goals (SDGs) aim to eradicate poverty and hunger, protect human rights for everyone, achieve gender equality and ensure the long-term protection of our planet and natural resources. By taking responsibility for how the company's activities and goals impact the environment, Sectra is contributing to the UN SDGs and the realization of Agenda 2030.

UN Goal 3—Good Health and Well-Being: The focus in Sectra's medical operations is on good health and well-being for patients and for society as a whole. Cancer diseases, osteoarthritis and orthopaedic surgery represent some of the most costly and resource-intensive areas in the healthcare sector. Sectra's solutions facilitate and optimize diagnostics, planning and follow-up of patients in these areas.

UN Goal 5—Gender Equality: Sectra works actively to ensure the company's workplaces are characterized by equal opportunities and equal treatment, with everyone assuming responsibility for the treatment of their fellow human beings. In line with the company's policy in the area, Sectra works continuously to promote equal opportunities in order to achieve gender balance and diversity.

UN Goal 8—Decent Work and Economic Growth: A safe and secure workplace that supports employee rights and conditions is important for Sectra, both within its own operations and within the supply chain. Economic growth is one of the company's prioritized financial goals, where we work to enhance cost efficiency in the long term and focus on software products with high margins.

UN Goal 9—Industry, Innovation, and Infrastructure: Within the critical infrastructure product segment, Sectra helps society to secure, for example, water and electricity supply and to protect these against different types of threats. Within the field of medical technology, Sectra helps health-care providers to offer more efficient care in medical imaging by providing infrastructure, products and services for image sharing within and between different healthcare providers.

UN Goal 16—Peace, Justice and Strong Institutions: Within the secure communication product segment, Sectra helps politicians, authorities and the armed forces to ensure a functioning government. Using codes of conduct, Sectra also actively works to combat corruption and bribery and to comply with all laws and regulations in the areas where the company operates.



About the Sustainability Report

This is Sectra's first Sustainability Report. It encompasses the Parent Company Sectra AB (Corp. Reg. No. 556064-8304) and all units included in Sectra's consolidated financial statements for the 2017/2018 fiscal year. Refer to **Note 12** on page 71. The Sustainability Report has been prepared in accordance with the provisions of the Swedish Annual Accounts Act, Chapters 6-7. Sectra's principles for corporate governance are described in the Corporate Governance Report, see www.sectra.com/corporate_governance, which also presents the Board of Directors' diversity policy. By signing the Annual Report and consolidated financial statements, the Board of Directors and the CEO have also approved the Sustainability Report. The auditor's statement on the Sustainability Report is included in the auditor's report presented on page 78.

Approval of reports

Pursuant to a Board decision on June 26, 2018, the consolidated financial statements have been approved for publication and will be presented to the Annual General Meeting for adoption on September 6, 2018.

The following funds are at the disposal of the Annual General Meeting (SEK):

Share premium reserve	75 718 924
Loss brought forward	-49 139 274
Net profit for the year	183 305 066
	209 884 716

Proposed appropriation of profits

The Board and President propose that the profits be appropriated so that SEK 209,884,716 is carried forward. The Board and President propose that the Annual General Meeting resolves that SEK 4.50 per

share is transferred to shareholders through a 2:1 share split combined with a mandatory redemption process and a stock dividend to restore the share capital. This entails a transfer of SEK 171,538,511 to the company's shareholders. No ordinary dividend is proposed.

Board of Directors' affirmation

We believe that the consolidated financial statements and Annual Report were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and generally accepted accounting principles and present a true and fair view of the Group's and the Parent Company's financial position and earnings.

The Administration Report for the Group and the Parent Company presents a fair review of the Group's and the Parent Company's operations, financial position and earnings and describes the material risks and uncertainties facing the Parent Company and the companies included in the Group.

Linköping, June 26, 2018

Torbjörn Kronander
President and CEO
Board member

Carl-Erik Ridderstråle
Chairman of the Board

Anders Persson
Board member

Jan-Olof Brüer
Board member

Christer Nilsson
Board member

Ulrika Hagdahl
Board member

Jakob Svärdröm
Board member

Tomas Puusepp
Board member

Bengt Hellman
Board member
Employee representative

Deborah Capello
Board member
Employee representative

Our auditor's report was submitted
on June 27, 2018
Grant Thornton Sweden AB

Mia Rutenius
Authorized Public Accountant

Consolidated income statements

SEK thousand	Note	2017/2018	2016/2017
Operating income			
Net sales	1	1 266 496	1 140 922
Capitalized work for own use		28 228	29 369
Reversal of contingent consideration		0	12 355
Other operating income		3 706	2 398
Total income		1 298 430	1 185 044
Operating expenses			
Goods for resale ¹	5	-187 783	-166 626
Personnel costs	2	-584 103	-542 464
Other external costs	3, 4	-222 441	-205 251
Impairment of intangible assets	10	0	-12 313
Depreciation of tangible assets	11	-38 371	-36 123
Amortization of intangible assets	10	-26 628	-22 139
Total operating expenses		-1 059 326	-984 916
Operating profit		239 104	200 128
Financial items			
Interest income and similar profit/loss items	6	11 647	1 621
Interest expenses and similar profit/loss items	7	-1 480	-2 025
Total financial items		10 167	-404
Profit after financial items		249 271	199 724
Taxes ¹	9	-51 007	-47 154
Net profit for the year		198 264	152 570
Attributable to:			
Parent Company owners		198 264	152 570
Non-controlling interest		0	0
Earnings per share, SEK			
Before dilution		5.22	4.04
After dilution ¹		5.15	3.97
Number of shares on balance-sheet date			
Before dilution		38 119 669	37 890 085
After dilution	2	38 515 550	38 499 139
Average number of shares, before dilution		38 012 454	37 772 864
Average number of shares, after dilution	2	38 506 104	38 420 443

Consolidated statement of comprehensive income

SEK thousand	Note	2017/2018	2016/2017
Net profit for the year		198 264	152 570
Items that may be reclassified to profit and loss			
Change in translation differences from translating foreign subsidiaries		16 048	3 256
Other comprehensive income for the year		16 048	3 256
Total comprehensive income for the year		214 312	155 826
Attributable to:			
Parent Company owners		214 312	155 826
Non-controlling interest		0	0

¹ The comparative year has been restated as a consequence of a correction of an error in accordance with IAS 8. Refer to Note 5.

Consolidated balance sheets

SEK thousand	Note	April 30, 2018	April 30, 2017
ASSETS			
Fixed assets			
Intangible assets	10	188 087	182 053
Tangible assets	11	90 251	103 205
Financial assets	15, 29	37	1 799
Deferred tax assets	9	26 061	30 283
Total fixed assets		304 436	317 340
Current assets			
Inventories	16	30 019	24 707
Accounts receivable	17, 30	253 460	225 436
Current tax assets		6 424	8 120
Other receivables		51 848	13 252
Prepaid expenses and accrued income ¹	18	305 880	283 589
Cash and cash equivalents	19	282 341	273 216
Total current assets		929 972	828 320
Total assets		1 234 408	1 145 660
EQUITY AND LIABILITIES			
Equity			
Share capital		38 120	37 890
Other contributed capital		302 336	281 583
Reserves		75 530	36 302
Retained earnings, including net profit for the year ¹		190 012	185 637
Total equity		605 998	541 412
Long-term liabilities			
Provisions	21	14 137	14 396
Deferred tax liabilities ¹	9, 21	5 889	22 843
Other long-term liabilities	22	28 528	56 611
Total long-term liabilities		48 554	93 850
Current liabilities			
Accounts payable		46 264	43 011
Current tax liabilities		50 273	33 150
Current provisions	21	6 941	15 923
Other current liabilities	23	105 002	64 790
Accrued expenses and deferred income	24	371 376	353 525
Total current liabilities		579 856	510 399
Total equity and liabilities		1 234 408	1 145 660

For information on pledged assets and contingent liabilities, see Note 25.

¹ The comparative year has been restated as a consequence of a correction of an error in accordance with IAS 8. Refer to Note 5.

Consolidated cash-flow statements

SEK thousand	Note	2017/2018	2016/2017
OPERATING ACTIVITIES			
Operating profit ¹		239 104	200 128
Adjustment for non-cash items ¹	26	53 630	38 753
Interest and dividend received		10 089	1 621
Interest paid		-1 480	-1 580
Income tax paid		-47 999	-34 664
Cash flow from operations before changes in working capital		253 344	204 258
Changes in working capital			
Change in inventories		-4 979	-10 923
Change in receivables ¹		-52 064	-11 961
Change in current liabilities		26 391	53 811
Cash flow from current operations		222 692	235 185
INVESTING ACTIVITIES			
Acquisitions of intangible assets	10	-30 246	-30 996
Acquisitions of tangible assets	11	-23 341	-28 557
Sale of financial assets	6	11 613	0
Cash flow from investing activities		-41 974	-59 553
FINANCING ACTIVITIES			
Raising of convertibles	22	0	25 028
Payment of contingent consideration		-1 897	-1 524
Redemption of shares		-170 707	-169 588
Cash flow from financing activities		-172 604	-146 084
Cash flow for the year		8 114	29 548
Cash and cash equivalents, opening balance		273 216	239 768
Exchange-rate difference in cash and cash equivalents		1 011	3 900
Cash and cash equivalents, closing balance	19	282 341	273 216
Unutilized credit facilities	19	15 000	15 000

¹ The comparative year has been restated as a consequence of a correction of an error in accordance with IAS 8. Refer to Note 5.

Consolidated statement of changes in equity

SEK thousand	Share capital	Other contributed capital	Reserves		Retained earnings, including net profit for the year	Total equity
			Translation reserve	Other reserves		
Equity as of May 1, 2016	37 503	259 512	3 017	664	244 907	545 603
Correction of error ¹					-12 887	-12 887
Net profit for the year					152 570	152 570
Other comprehensive income/loss			3 256			3 256
Allocation to fund for development costs				29 365	-29 365	0
Conversion of shares	388	22 071				22 459
Redemption of shares					-169 588	-169 588
Equity as of April 30, 2017	37 890	281 583	6 273	30 029	185 637	541 412
Net profit for the year					198 264	198 264
Other comprehensive income/loss			16 048			16 048
Allocation to fund for development costs				23 180	-23 180	0
Conversion of shares	230	20 753				20 983
Redemption of shares					-170 707	-170 707
Equity as of April 30, 2018	38 120	302 336	22 321	53 209	190 014	605 998

Other contributed capital comprises premiums paid in conjunction with share issues. The translation reserve includes exchange-rate differences arising in the translation of foreign subsidiaries' financial statements. Other reserves include the statutory reserve and fund for development costs.

There are no non-controlling interests in the Sectra Group.

¹ The comparative year has been restated as a consequence of a correction of an error in accordance with IAS 8. Refer to Note 5.

Parent Company income statements

SEK thousand	Note	2017/2018	2016/2017
Operating income			
Net sales	1	121 278	108 828
Capitalized work for own use		6 517	4 405
Other operating income		2 831	1 836
Total income		130 626	115 069
Operating expenses			
Goods for resale		-17 392	-16 234
Personnel costs	2	-53 287	-49 251
Other external costs	3, 4	-56 373	-53 111
Amortization of intangible assets	10	-2 386	-1 332
Depreciation of tangible assets	11	-5 265	-3 365
Total operating expenses		-134 703	-123 293
Operating loss		-4 077	-8 224
Profit from financial items			
Interest income and similar profit/loss items	6	14 007	11 469
Interest expenses and similar profit/loss items	7	-1 320	-1 456
Profit after financial items		8 610	1 789
Appropriations	8	226 629	204 339
Profit before tax		235 239	206 128
Tax on net profit for the year	9	-51 934	-43 926
Net profit for the year		183 305	162 202

Parent Company balance sheets

SEK thousand	Note	April 30, 2018	April 30, 2017
ASSETS			
Fixed assets			
Intangible assets	10	14 896	10 765
Tangible assets	11	19 150	15 477
Participations in Group companies	12	35 597	35 597
Participations in associated companies	13	564	0
Receivables from Group companies	14	222 239	250 020
Deferred tax assets	9	98	47
Total fixed assets		292 544	311 905
Current assets			
Receivables from Group companies		406 861	393 999
Accounts receivable	17	28 387	16 292
Other receivables		1 972	6 608
Prepaid expenses and accrued income	18	9 435	6 900
Cash and bank balances	19	212 709	221 099
Total current assets		659 364	644 898
Total assets		951 908	956 803
EQUITY AND LIABILITIES			
Equity			
<i>Restricted equity</i>			
Share capital		38 120	37 890
Statutory reserve		226 456	226 456
Fund for development costs		10 214	4 402
Total restricted equity		274 790	268 748
<i>Unrestricted equity</i>			
Share premium reserve		75 719	54 966
Retained earnings		-49 140	-34 821
Net profit for the year		183 305	162 202
Total unrestricted equity		209 884	182 347
Total equity		484 674	451 095
Untaxed reserves	20	0	87 629
Long-term liabilities			
Other long-term liabilities	22	28 528	56 611
Total long-term liabilities		28 528	56 611
Current liabilities			
Accounts payable		6 873	4 931
Liabilities to Group companies		336 986	287 823
Current tax liabilities		33 210	19 181
Provisions	21	3 588	2 190
Other current liabilities	23	30 038	23 352
Accrued expenses and deferred income	24	28 011	23 991
Total current liabilities		438 706	361 468
Total equity and liabilities		951 908	956 803

Parent Company cash-flow statements

SEK thousand	Note	2017/2018	2016/2017
OPERATING ACTIVITIES			
Operating loss		-4 077	-8 224
Adjustment for non-cash items	26	17 371	10 809
Interest received	6	7 392	7 832
Interest paid	7	-1 319	-1 456
Income tax paid		-32 802	-26 195
Cash flow from operations before changes in working capital		-13 435	-17 234
Changes in working capital			
Change in receivables		-38 282	43 786
Change in current liabilities		53 001	18 881
Cash flow from current operations		1 284	45 433
INVESTING ACTIVITIES			
Acquisitions of intangible assets	10	-6 517	-4 405
Acquisitions of tangible assets	11	-8 939	-9 214
Acquisitions of subsidiaries	12	0	-65
Acquisitions of associated companies	13	-564	0
Repayment of loans from subsidiaries	14	38 053	7 729
Cash flow from investing activities		22 033	-5 955
FINANCING ACTIVITIES			
Raising of convertibles	22	0	25 028
Group contributions received/paid	8	139 000	123 617
Redemption of shares		-170 707	-169 588
Cash flow from financing activities		-31 707	-20 943
Cash flow for the year		-8 390	18 535
Cash and cash equivalents, opening balance		221 099	202 177
Exchange-rate difference in cash and cash equivalents		0	387
Cash and cash equivalents, closing balance	19	212 709	221 099
Unutilized credit facilities	19	15 000	15 000

Statement of changes in Parent Company's equity

SEK thousand	Share capital ¹	Statutory reserve	Fund for development costs	Fund for fair value	Share premium reserve	Retained earnings, including net profit for the year	Total equity
Equity as of May 1, 2016	37 503	226 456	0	0	32 895	139 169	436 022
Net profit for the year						162 202	162 202
Total change in capital excluding transactions with the company's owners	0	0	0	0	0	162 202	162 202
Allocation to fund for development costs			4 402			-4 402	0
Conversion of shares	387				22 071		22 458
Redemption of shares						-169 588	-169 588
Equity as of April 30, 2017	37 890	226 456	4 402	0	54 966	127 381	451 095
Net profit for the year						183 305	183 305
Total change in capital excluding transactions with the company's owners	0	0	0	0	0	183 305	183 305
Allocation to fund for development costs			5 813			-5 813	0
Conversion of shares	230				20 753		20 983
Redemption of shares						-170 707	-170 707
Equity as of April 30, 2018	38 120	226 456	10 215	0	75 719	134 165	484 674

¹ On the balance-sheet date, Sectra's share capital totaled SEK 38,119,669 distributed among 38,119,669 shares. Of these shares, 2,620,692 are Class A shares and 35,498,977 are Class B shares

Accounting policies

General accounting policies

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as adopted by the EU. Changes made to existing and new standards during the year have not been applied retrospectively within the Group. In addition, the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 1 Supplemental Accounting Rules for Groups were applied.

All amounts are in SEK thousands, unless otherwise stated.

New and amended accounting policies that become applicable from 2018/2019 or later

IFRS 9 Financial Instruments replaces IAS 39 *Financial Instruments: Recognition and Measurement*, and application of the standard is mandatory for fiscal years starting January 1, 2018 or later. IFRS 9 contains new requirements for classification and measurement of financial instruments, derecognition, impairment and general hedge accounting. The new standard introduces a new model for impairment of accounts receivable, which entails that impairment is recognized for expected credit losses rather than credit losses that have already occurred. The new standard has been applied retroactively. IFRS 9 is not expected to have any material impact on Sectra's financial statements since its historical loss patterns, on which the IFRS 9 model is based, are deemed to have a low forecast value with respect to expected credit losses. Individual circumstances, which are also considered under IFRS 9, are expected to have a much more significant impact on the assessment of expected credit losses and are already taken into account. Sectra does not apply hedge accounting. Accordingly, no impact on equity is expected to arise.

IFRS 15 Revenue from Contracts with Customers replaces IAS 11 *Construction Contracts* and IAS 18 *Revenue*, and application of the standard is mandatory for fiscal years starting January 1, 2018 or later. IFRS 15 introduces a control-based revenue recognition model and provides more detailed guidance in many areas that were not previously described in the applicable IFRS, such as how to recognize contracts containing several performance obligations, variable consideration, the customer's right of return and repurchase rights of suppliers. An analysis of the expected impact of the transition to IFRS 15 was carried out during the year, the conclusions of which are presented below by operating segment. The selected transition method to IFRS 15 entails that the accumulated effect of the transition will be recognized against equity as of the transition date of May 1, 2018.

Imaging IT Solutions' customer contracts include various combinations of deliveries of licenses, installation services, support and maintenance services and upgrades, hardware, and hardware support and maintenance. Significant integration and adaptation of licenses and installation services normally takes place, which is considered a distinct performance obligation and is to be recognized in revenue during the installation phase. Under IFRS 15, support and maintenance services and upgrades are considered to be distinctly separate from installations and are recognized in revenue over the contract period as a separate performance obligation. The introduction of IFRS 15 will entail differences in terms of when revenue is recognized. The difference is attributable in all material respects to the fact that under the current standards, the significant risks and benefits are considered to have been transferred for the first year of license upgrades as of the installation date, while under IFRS 15, they are considered to be separate performance obligations that are to be recognized as of the installation date and one year forward.

The indicative assessed impact on equity on May 1, 2018 amounts to a decrease in the Group's equity of SEK 15–20 million.

Secure Communications' customer contracts include various combinations of preliminary studies, component deliveries, installation services, support and maintenance services and upgrades, and product deliveries. Preliminary studies are considered a separate performance obligation and are recognized as revenue when the preliminary study is completed. Installation services and components are delivered as a combined solution and are therefore deemed to jointly comprise a performance obligation that is recognized as revenue during the installation phase. Support and maintenance services are considered a distinct performance obligation according to the contracts and are recognized as revenue over the contract period. No material effects from the implementation of IFRS 15 have been identified.

Business Innovation's customer contracts include various combinations of licenses, hardware, upgrades and expanded warranty offerings. Licenses and hardware are considered to comprise a distinct performance obligation. Revenue is recognized at the point in time when delivery is made to the customer. Upgrades are considered a distinct performance obligation and are recognized as revenue over the contract period. Expanded warranties are considered to comprise a separate performance obligation, with revenue recognized over the expanded warranty period. No material effects from the implementation of IFRS 15 have been identified.

Sectra Customer Financing's customer contracts primarily include operations for financing major managed-services agreements with healthcare customers and are considered to comprise a coherent distinct performance obligation. Revenue is recognized over the contract period. No material effects on opening equity had been identified as of May 1, 2018. However, as of the 2018/2019 fiscal year, revenue currently considered to be and recognized as operating revenue will be considered a separate performance obligation and will therefore be recognized as financial revenue, with an expected shift effect between earnings levels of SEK 6–8 million. Profit after net financial items will remain unchanged.

IFRS 16 Leasing replaces IAS 17 *Leases* and application of the standard is mandatory for fiscal years starting January 1, 2019 or later. IFRS 16 entails that all contracts with a term of more than 12 months of a certain monetary materiality are to be recognized as assets and liabilities in the balance sheet, with depreciation, amortization and interest expenses recognized in profit or loss. Accordingly, contracts that are currently recognized as operating leases will be capitalized in the balance sheet. During the spring, the Group initiated an assessment of the impact of the standard on the financial statements. The Group's total assets are expected to increase and the equity/assets ratio to decrease, since operating leases will be recognized as fixed assets and financial liabilities, respectively. The disclosures provided in [Note 4](#) of the Annual Report with respect to operating lease expenses give an indication of the scope of the leases that existed on April 30, 2018.

The accounting policies and calculation methods are otherwise unchanged compared with those applied in the 2016/2017 Annual Report.

Parent Company

The Parent Company applies the Swedish Annual Accounts Act and RFR 2 Accounting for Legal Entities. This means that the EU-approved IFRS rules and statements are applied as far as possible within the framework of the Annual Accounts Act and Swedish taxation practices. The rules for measurement and clarification

follow IFRS and are the same as those applied within the Group, except that the arrangement follows the Annual Accounts Act and may thus deviate from IFRS in certain cases. Untaxed reserves and appropriations are also recognized in the Parent Company in accordance with Swedish law. Participations in subsidiaries are recognized in accordance with the cost method.

In accordance with RFR 2, exchange-rate differences arising on monetary items comprising part of a net investment in a foreign operation are to be recognized in profit and loss and not in other comprehensive income.

The rule of the Swedish Annual Accounts Act on the capitalization of development costs came into effect in 2016. The rule entails that when development costs are capitalized, the corresponding amount must be transferred from unrestricted equity to restricted equity under the "Fund for development costs," and is to be recognized separately in the balance sheet.

Basis for preparation of the reports

Assets, provisions and liabilities are measured at cost or nominal value unless otherwise stated in the notes that follow. The preparation of financial statements in accordance with IFRS requires that the Group uses accounting assumptions and estimates for the future. The most important estimates and judgments are presented in

Note 30.

Consolidated financial statements

The consolidated financial statements have been prepared using the acquisition method, and cover those companies in which the Parent Company, directly or through subsidiaries, exerts a controlling influence. A controlling influence means that the Parent Company directly or through subsidiaries has an influence over the company, is entitled to variable returns and is also able to exercise its influence over the company to affect these returns.

The Group's internal receivables and liabilities, revenues and expenses, and unrealized gains or losses arising from transactions between Group companies, have been eliminated in their entirety during preparation of the consolidated financial statements.

Acquisitions

When acquisitions are made, the acquired companies are absorbed into the Group as of their acquisition date. The cost of the subsidiary's shares is determined by means of an acquisition analysis conducted at the time of the acquisition. The compensation transferred by the Group to obtain a controlling influence over subsidiaries is calculated as the total fair value of the net assets on the date of acquisition, which comprises the fair value of an asset or liability that has arisen from an agreement on contingent consideration. The acquired net assets also comprise intangible assets in the acquired company that have not previously been recognized.

The difference between the acquisition cost for the subsidiary's shares and the estimated fair value of the acquired net assets at the time of the acquisition is recognized as Group goodwill. Acquisition costs are recognized as they arise.

Translation of foreign subsidiaries

Functional currency

The consolidated financial statements are presented in SEK, which is the Parent Company's functional and reporting currency. Items in the financial statements for companies in the Group are valued in the currency that is used where the company has its main operations, that is, in its functional currency.

Transactions and balance-sheet items

Transactions in functional currencies are recognized initially in the functional currency at the currency rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate prevailing on the balance-sheet date (year-end rate). Exchange-rate differences arising in payment of transactions in foreign currencies and in translation of monetary assets and liabilities at the year-end rate are recognized in profit and loss.

Financial statements of foreign operations

The assets and liabilities of foreign Group companies are translated at the year-end rate. The income statements are translated at the average rate during the reporting period. Any exchange-rate differences that arise are applied directly to Group equity.

Translation differences that arise in the translation of current receivables and liabilities in foreign currency for which payment is planned within the foreseeable future are recognized in profit and loss. Translation differences that arise in the translation of long-term receivables in foreign currency and that constitute net investments in subsidiaries are recognized against equity.

Segment reporting

The division by operating segment is based on the areas of operation monitored by the Board of Directors and Executive Management in the internal reporting, and on whether an individual segment's sales exceed 10% of the Group's total sales. The Group's operations are divided into the following segments: Imaging IT Solutions, Secure Communications, Business Innovation, Sectra Customer Financing and Other Operations. Other Operations pertain to Sectra's joint functions for administration, Group finances, marketing communication, IT, regulatory affairs and investor relations activities.

Revenue recognition

Revenue recognition for the Group

The Group's revenues mainly derive from fixed-price projects, sales of products and licenses, ongoing service agreements and consulting work. Project-based income is recognized based on the project's degree of completion at the balance-sheet date. The degree of completion is calculated as the ratio between the expenses paid at the balance-sheet date and the estimated total expenses. In cases where a loss is expected to occur on an uncompleted project, the entire anticipated loss is charged against net profit for the year. Revenues from sales of products and licenses are recognized as income at the time of delivery unless significant risks or obligations remain after delivery. Product sales that are delivered in project form are recognized as income in accordance with the degree of completion based on the accrued hours. Ongoing consulting services are recognized as income as the work is executed.

Revenue recognition for segments

The Imaging IT Solutions segment recognizes revenues when the projects are completed. The projects sold to the Sectra Customer Financing segment are recognized in accordance with the same principle as that used for direct sales to end customers. Revenues for projects financed and owned by Sectra Customer Financing are initially eliminated at Group level and revenues are recognized for these projects in the Group at an even rate over the contract period. When Sectra's customers choose to utilize the financing solution via Sectra Customer Financing, an interest component is included in the agreement. These revenues, along with other revenues in the agreement, comprise the segment's operating profit and are thus recognized in operating profit.

Pensions and post-retirement benefits to employees

The Sectra Group has defined-contribution pensions only, which means that the Group makes payments to various pension institutions on an ongoing basis. These payments are expensed continuously and constitute the Group's pension costs for the year, which are recognized under "personnel costs". Sectra has no other pension obligations and is not responsible for any value changes in the paid-in premiums. This means that Sectra does not bear the risk when pensions are paid, and no pension obligations are recognized as liabilities in the balance sheet. For other remuneration of employees, see [Note 2](#).

Intangible assets

Intangible assets are recognized at cost less amortization and impairment losses for all intangible assets excluding goodwill. Goodwill is recognized at cost less impairment losses. Individual assets are measured regularly to identify potential impairment requirements. If the carrying amount exceeds the recoverable amount, the differences are charged against profit for the period on an ongoing basis as they arise. For an asset that does not generate cash flows, the recoverable amount is calculated for the cash-generating unit to which the asset belongs. The recoverable amount is the higher of the asset's net selling price and value in use. Value in use is calculated as the present value of future cash flows for specific assets. The amortization period for intangible assets exceeds five years if the asset is expected to generate financial benefits, based on individual assessment, over a period exceeding five years. Impairment is reversed if the asset's recoverable amount exceeds its carrying amount. Impairment losses on goodwill are never reversed.

Capitalized development costs

Sectra develops proprietary software and equipment in the fields of medical imaging and secure communications. All research costs are expensed directly, and customer-related development costs are included in project costs, which are expensed at the time of revenue recognition. Internal development costs for standard products are capitalized and recognized as intangible assets to the extent that they are expected to generate financial benefits in the future. Additional requirements for capitalization are that project costs can be reliably estimated, that it is technically possible to complete the project, and that the Group has the necessary resources to complete development. Capitalized project costs include all expenses directly attributable to materials, services and remuneration of employees. Capitalized development costs are subject to straight-line amortization over the period of use per individual asset, although the maximum amortization period is five years. Amortization of capitalized development costs starts when the asset is completed and sold to the customer.

Goodwill

Goodwill represents future economic benefits arising from a business acquisition that are not specifically identified and recognized separately. Refer to "Acquisitions" for information about how goodwill is determined the first time it is recognized. Goodwill is recognized at cost less accumulated impairment losses. Refer to [Note 10](#) for a description of impairment testing.

Patents and licenses

Acquired patent rights are recognized at cost and subject to straight-line amortization over the assets' ten-year estimated period of use. Acquired license rights are recognized at cost and subject to straight-line amortization over the assets' five-year estimated period of use.

Trademarks and customer relationships

Trademarks and customer relationships pertain to acquisition-related assets. These rights are initially measured at fair value and subject to straight-line amortization over the assets' ten-year estimated period of use. Acquired customer contracts are long-term, valid for up to ten years. The probability of renewal of contracts after expiry is very high, even for shorter contract periods, which is why the period of use has been deemed to be ten years. Acquired trademarks have been built up over a long period of time in the acquired companies and are closely linked to customer values, which justifies a period of use of ten years.

Tangible assets

Depreciation according to plan is based on the original cost and estimated financial lifetime. The Group has estimated the following useful lives:

Buildings	40 years
Office furniture	10 years
Equipment and office machines	5 years
Equipment at customer premises	3–10 years, depending on the period of use in each agreement.

Leasing

Through operational and financial leasing agreements, the company utilizes equipment, premises, computers, cars and items for onward leasing. All of the Group's leasing agreements are deemed to be operational, since the material risks and benefits are deemed to remain with the lessor.

Costs of operational leases are charged against net profit for the year. These costs are recognized as ongoing operating expenses in profit and loss, and are spread over the entire term of the lease.

Borrowing costs

Borrowing costs are expensed when they are not directly attributable to the acquisition, construction or production of a qualifying asset and are part of the cost of that asset. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale. The Sectra Group had no qualifying assets on the balance-sheet date.

Inventories

Inventories are recognized at the lower of cost according to the first-in, first-out (FIFO) method or net selling price. Estimated obsolescence has thus been taken into account. Costs for internally manufactured semi-finished and finished goods consist of direct production costs plus a reasonable surcharge for indirect production costs.

Receivables

Receivables are recognized at the amount expected to be collected, based upon individual assessment.

Taxes

The Group's total tax comprises current tax and deferred tax. Deferred tax pertains to tax on temporary differences and loss carry-forwards. Within the Group, deferred tax is calculated on untaxed reserves, loss carryforwards and internal profits. Current tax is calculated as the taxable surplus, including any adjustments for tax paid in previous years. Deferred tax assets pertaining to loss carry-forwards are recognized only if it is likely that future profits will arise that will entail lower tax in the future.

Financial instruments

Financial instruments include both assets and liabilities. Securities holdings and other receivables, accounts receivable and cash and cash equivalents are recognized as assets. Financial liabilities include convertibles, accounts payable and other financial liabilities.

Financial assets

Financial assets are recognized in the balance sheet when the company becomes party to the agreement, and are derecognized when the agreement expires or the company loses control over the assets. Market-listed shares are measured at market value, and value changes are recognized in profit and loss. Cash and cash equivalents and short-term investments of surplus liquidity are measured on a continuous basis at amortized cost and value changes are recognized in profit and loss. Loan receivables and accounts receivable are recognized at amortized cost. A provision for doubtful receivables is posted when there is proof that the Group will not receive payment in accordance with the original terms of the receivable.

Financial liabilities

Financial liabilities are recognized in the balance sheet when the invoice is received or when the company in another manner becomes party to the contractual obligations. A financial liability is derecognized from the balance sheet when the obligation specified is discharged and all liability expires. Financial liabilities are initially recognized at nominal value after deducting transaction costs. Liabilities are continuously measured at amortized cost after adjustments for any surplus/deficit, with interest accrued over the term of the loan. Interest expenses are recognized directly in profit and loss. Convertible loans are recognized as combined financial instruments divided into a liability and an equity portion in so far as the interest paid on the convertible is not adjusted to market terms. If so, the liability portion is recognized at fair value, discounting future cash flows at the market interest rate. The equity portion is calculated as the difference between the nominal value and the fair value of the loan. The interest paid on convertible loans on the balance-sheet date is considered market-based, which is why the convertible loan is recognized in its entirety as a liability.

Provisions

A provision is recognized in the balance sheet when the Group has an existing legal or informal obligation due to a past event and an outflow of economic resources may be required to regulate the obligation and a reliable estimation of the amount can be made.

Fair value

The method for calculating the fair value of financial assets and liabilities is based on three measurement levels.

At measurement level one, fair value is calculated based on quoted market prices and instruments traded in an active market. At measurement level two, quoted market prices are not available, but variables for the calculation of fair value are obtained from market quotations. At measurement level three, fair value is calculated based on data that is not available in the market. The Group's financial assets and liabilities mainly belong to measurement levels two and three; refer to [Note 29](#).

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Note 1 Operating segments and function classification

Information regarding the company's operating segments and geographic areas was used to evaluate sales and earnings in the Group and to allocate the Group's resources among various segments. The identified operating segments are: Imaging IT Solutions, Secure Communications, Business Innovation, Sectra Customer Financing and Other Operations. Regarding the geographic distribution, the basis for distribution is the customer's billing address.

Imaging IT Solutions develops and sells medical IT systems and services that help customers care for more patients, while retaining or improving the level of quality. The business area's offering encompasses IT systems for managing, archiving and presenting all types of medical images and patient information as well as IT systems for operational follow-up and radiation dose monitoring. The segment also offers maintenance in the form of support, system monitoring, consulting services related to integration, system design, data migration and business development. The largest product area in the segment is IT solutions for managing and archiving radiology images and patient information.

Secure Communications develops and sells products and services for secure voice and data communications and the protection of society's most sensitive IT infrastructure. The segment is divided into three product divisions: Tiger, which offers products for secure voice and data communi-

cations; project-based development, which develops customized encryption systems and products; and critical infrastructure, which offers security and threat analyses and system monitoring services for control systems in society's critical operations. Development and production take place in Sweden. Sales are primarily conducted in EU countries from the business area's offices in Sweden, the Netherlands and Finland.

Sectra's business units in Business Innovation develop and sell products and services that contribute to more efficient and better osteoporosis care, IT systems for planning and monitoring orthopaedic surgery, products for medical education and research projects. Sectra's patent portfolio is also managed and developed in this segment.

Sectra Customer Financing is Sectra's unit for financing major managed-services agreements with healthcare customers and asset management. The scope of the operations expanded significantly in the past year to more customers entering the operational phase. As projects move due to the operational phase, they contribute to a stable long-term trend, at Group level, where external revenues and earnings are recognized over the duration of the managed-services agreement, which is normally five to ten years.

Other Operations pertain to Sectra's joint functions for administration, Group finances, marketing communication, IT, regulatory affairs and investor relations activities.

Operating segments

	Imaging IT Solutions		Secure Communications		Business Innovation		Sectra Customer Financing	
	17/18	16/17	17/18	16/17	17/18	16/17	17/18	16/17
Net sales	1 032 341	970 544	142 866	105 719	70 322	65 370	145 049	120 333
Depreciation/ amortization	26 681	24 285	4 940	4 362	2 257	1 332	29 703	27 433
Impairment	0	12 313	0	0	0	0	0	0
Operating profit/loss	219 185	210 628	6 904	1 668	6 957	4 999	4 862	4 663
Assets	1 162 127	1 140 209	137 374	114 874	54 328	35 153	231 580	236 784
Liabilities	964 403	1 002 230	125 611	103 592	26 984	21 848	203 670	214 896
Investments	24 070	20 879	6 860	11 693	4 965	4 406	14 934	20 936

	Other Operations		Eliminations ¹		Total Group ²	
	17/18	16/17	17/18	16/17	17/18	16/17
Net sales	47 000	45 500	-171 082	-166 544	1 266 496	1 140 922
Depreciation/ amortization	1 418	850	0	0	64 999	58 262
Impairment	0	0	0	0	0	12 313
Operating profit/loss	-17 511	-16 144	18 707	-5 686	239 104	200 128
Assets	880 128	908 062	-1 231 129	-1 289 422	1 234 408	1 145 660
Liabilities	439 877	417 795	-1 132 135	-1 156 113	628 410	604 248
Investments	2 758	1 639	0	0	53 587	59 553

¹ Refer to page 65

² Refer to page 65

Geographic areas

	Sweden		UK		Netherlands		Rest of Europe	
	17/18	16/17	17/18	16/17	17/18	16/17	17/18	16/17
Net sales	346 153	280 554	197 640	184 755	103 382	86 573	267 654	268 869
Assets	556 900	535 296	243 620	221 985	68 803	74 570	174 416	144 565
Investments	39 869	41 022	7 829	13 964	1 871	922	3 483	3 441

	US		Rest of world		Total Group ²	
	17/18	16/17	17/18	16/17	17/18	16/17
Net sales	284 561	258 638	67 106	61 533	1 266 496	1 140 922
Assets	169 924	160 215	20 745	9 029	1 234 408	1 145 660
Investments	291	0	244	204	53 587	59 553

cont. Note 1 Operating segments and function classification**Income statement classified by function³**

SEK thousand	17/18	16/17
Net sales	1 266 496	1 140 922
Cost of goods sold	-477 072	-449 420
Gross profit	789 424	691 502
Selling expenses	-273 988	-260 005
Administration expenses	-122 512	-98 093
Research and development costs	-158 106	-134 690
Other operating income	3 706	2 398
Other operating expenses	580	-984
Operating profit	239 104	200 128
Financial items	10 167	-404
Profit after financial items	249 271	199 724
Taxes	-51 007	-47 215
Net profit for the year	198 264	152 570

¹ 58.1% (62.4) of the Parent Company's total sales are attributable to other companies within the Group to which the company belongs. Purchases from Group companies amounted to 17.3% (17.7).

² Sectra has no customers that individually contribute more than 10% of total net sales. Of the Group's total assets of SEK 278.3 million, SEK 131.7 million is attributable to Sweden, SEK 107.2 million to the UK and SEK 39.4 million to other countries.

³ Classification by function entails that the Group's departments have been categorized into groups based on their purpose and no types of costs are recognized separately. "Cost of goods sold" includes externally purchased products and costs for support and maintenance that are directly attributable to net sales for the period. The function "Research and development costs" includes direct costs for new development, capitalized work for own use and amortization of capitalized development projects. "Other operating income" includes such items as grants from Vinnova and exchange-rate gains. "Other operating expenses" includes other nonrecurring items and items that cannot be classified in any other function.

Note 2 Employees and personnel costs**Average number of employees and percentage of women**

	17/18		16/17	
	Total	of whom, women	Total	of whom, women
Parent Company				
Sweden	64	23	64	26
Group				
Australia	6	1	6	2
Denmark	12	2	14	2
Finland	4	2	3	1
France	3	3	3	3
Canada	2	1	4	0
Netherlands	35	10	34	10
Norway	20	8	19	9
New Zealand	2	0	2	0
Portugal	15	4	13	4
Spain	3	0	2	0
UK	76	22	77	24
Sweden	352	89	339	93
Germany	19	3	18	3
US	96	29	82	25
Group total	645	174	616	176

The proportion of female Board members, including employee representatives on the Boards of Directors of all Group companies, amounted to 10% (14), and on the Parent Company's Board of Directors to 20% (22). The proportion of women in the Group's management groups, including company presidents, amounted to 27% (27), and in Group management to 30% (33).

Salaries and other remuneration

	Group		Parent Company	
	17/18	16/17	17/18	16/17
Board and President	29 108	25 956	4 921	4 325
Other employees	395 805	382 683	30 997	29 317
Total	424 913	408 639	35 918	33 642

Social security expenses

	Group		Parent Company	
	17/18	16/17	17/18	16/17
Board and President				
Social security contributions	5 497	4 716	1 596	1 430
Pension costs	2 764	2 534	598	615
Total Board and President	8 261	7 250	2 194	2 045
Other employees				
Social security contributions	82 943	88 886	9 968	9 944
Pension costs	22 194	21 308	2 490	2 186
Total other employees	105 137	110 194	12 458	12 130

cont. Note 2 Employees and personnel costs**Remuneration of the Board, President and other senior executives 2017/2018**

	Board fee	Basic salary	Variable remuneration	Other remuneration	Pension premiums	Total
Carl-Erik Ridderstråle, Chairman of the Board	450	0	0	0	0	450
Jan-Olof Brüer	305	0	0	0	0	305
Anders Persson	265	0	0	0	0	265
Christer Nilsson	265	0	0	0	0	265
Jakob Svärdström	225	0	0	0	0	225
Tomas Puusepp	225	0	0	0	0	225
Ulrika Hagdahl	225	0	0	0	0	225
Total remuneration of the Board	1 960	0	0	0	0	1 960
President/CEO Torbjörn Kronander	0	2 387	574	0	598	3 559
Other senior executives (nine individuals)	0	9 896	1 783	0	1 838	13 517
Total remuneration of the President and other senior executives	0	12 283	2 357	0	2 436	17 076
Total	1 960	12 283	2 357	0	2 436	19 036

Preparation and decision-making process

The Board fee was decided at the Annual General Meeting in accordance with the proposal of the Nomination Committee. Guidelines for remuneration of the President and other senior executives are determined at the Annual General Meeting. Remuneration to the President/CEO was considered by the Remuneration Committee and decided by the Board of Directors. The President/CEO considered and decided on the remuneration of other senior executives.

Remuneration of the Board

Fees are paid to the Board Chairman and other external members in accordance with the decision of the Annual General Meeting. Internal Board members are not paid a fee. SEK 225,000 was paid in fees to external Board members in 2017/2018 and SEK 450,000 to the Board Chairman. For Audit Committee work, SEK 40,000 was paid to external Board members and SEK 80,000 to the Chairman of the Audit Committee. No separate fee is paid for Remuneration Committee work. Other remuneration pertains to consultant services for assignments in which a Board member has specialist expertise. In cases where Board members invoice their fees, social security contributions are included in the invoice.

Remuneration of the President and other senior executives

Remuneration of the President/CEO and other senior executives is based on market terms and comprises basic salary, variable salary, other benefits

and pension. The fixed salary is determined taking into account competence, areas of responsibility and performance. The variable salary is performance-based and maximized to a percentage of the fixed annual salary, which is a maximum of 50%. "Other senior executives" refers to the nine individuals who, together with the President/CEO, comprised Group Management during the fiscal year.

Terms of notice and severance pay

The company must give the President/CEO 18 months' notice of termination. The President/CEO must give the company six months' notice of resignation. The notice periods for other senior executives range from three to 12 months on the part of the company, and from three to six months on the part of the executives. There are no special agreements regarding severance pay.

Pension

The retirement age for the President and other senior executives is 65 years. Pension benefits for the President and other senior executives are paid within the framework of the pension plan that applies to all employees, and which comprises defined-contribution and vested pension.

Convertibles programs

Convertibles programs enable employees and external Board members to acquire shares in the company.

Issued incentive programs

Convertible programs	2014/2018	2015/2018	2015/2019	2016/2019	2016/2020
Number of underlying Class B shares	29 190	199 696	26 454	121 836	18 705
Conversion rate, SEK	119.90	123.10	132.30	176.70	187.10
Exercise period	Dec 10–14, 2018	Dec 10–14, 2018	Dec 9–13, 2019	Dec 9–13, 2019	Dec 10–16, 2020
Time to expiration	Dec 1, 2014– Dec 31, 2018	Dec 1, 2015– Dec 31, 2018	Dec 1, 2015– Dec 31, 2019	Dec 1, 2016– Dec 31, 2019	Dec 1, 2016– Dec 31, 2020
Interest rate during time to expiration	Stibor +2.25%	Stibor +2.25%	Stibor +2.25%	Stibor +2.25%	Stibor +2.25%
Dilution upon full conversion, capital	0.1%	0.5%	0.1%	0.3%	0.0%

Number of convertibles	May 1, 2017	Concluded programs	New programs	Increase due to restated price	April 30, 2018
Convertibles	609 054	–229 584	0	16 411	395 881
Total	609 054	–229 584	0	16 411	395 881

Recalculation occurred as a result of the share redemption program.

Note 3 Fees to auditors

	Group		Parent Company	
	17/18	16/17	17/18	16/17
Grant Thornton				
Audit fees	1 980	1 941	936	843
Audit activities in addition to audit assignment	509	595	383	572
Tax advisory services	128	188	60	43
Other services	227	77	121	32
Audit fees to other auditors				
Audit fees	13	69	0	0
Other services	0	84	0	0
Total	2 857	2 954	1 500	1 490

Audit assignments involve an examination of the annual report and consolidated financial statements, accounting records and the administration of the Board of Directors and the President and other tasks performed by the company's auditor including audit consultancy. The fee for audit assignments includes the statutory audit performed in each country. Audit activities in addition to the audit assignment pertains to quality-assurance services.

Note 4 Costs for operational leases

	Group		Parent Company	
	17/18	16/17	17/18	16/17
Leasing costs paid for the year	24 297	23 718	9 142	9 924
Nominal value of agreed future leasing fees:				
Due for payment within 1 year	24 238	23 438	9 324	9 972
Due for payment after 1 year but within 5 years	70 789	65 631	33 556	35 425
Due for payment after more than 5 years	2 865	17 003	0	9 030
Total	97 892	106 072	42 880	54 427

Note 5 Correction of elimination of intra-Group profit in accordance with IAS 8

In certain cases, when Imaging IT Solutions completes installations of major managed-services agreements, an internal sale takes place to Customer Finance, upon which intra-Group profit arises. Intra-Group profit is eliminated in the consolidated financial statements and then gradually reversed for consolidated revenue recognition over the duration of the managed-services agreements. In connection with the IFRS 15 project, it was determined that the reversal of the elimination of intra-Group profit, in certain cases, was based on incorrect values. Where appropriate, managed-services agreements have been subject to gradual changes in terms of their business content and internal profit assumptions during the agreement period, which resulted in a premature reversal of internal profit in these cases.

Since it has been deemed to be practically unfeasible to determine period-specific effects for previous years and quarters, retroactive figures have only been calculated as an accumulated effect in the opening balance of the comparative year. The determination that it would be practically unfeasible to recognize longer-term retroactive figures is attributable to the fact that the managed-services agreements in question have been subject to changes in terms of their business content and intra-Group assumptions for a number of years, combined with an insufficiently detailed model for the elimination of intra-Group profit with correct final dates for each change, which has now been corrected prospectively after the error was detected.

cont. Note 5 Correction of elimination of intra-Group profit in accordance with IAS 8

	Previous	Change	After correction
Consolidated income statement	16/17		16/17
Operating profit (EBIT)1	200 405	-277	200 128
Operating margin, %	17.6	-0.1	17.5
Profit before tax (EBT)	200 001	-277	199 724
Profit margin, %	17.5	0.0	17.5
Profit after tax	152 786	-216	152 570
Total comprehensive income for the period	156 042	-216	155 826

Consolidated balance sheet

Total fixed assets	317 340		317 340
Other current assets	571 904	-16 800	555 104
Cash and cash equivalents	273 216		273 216
Total current assets	845 120	-16 800	828 320
Total assets	1 162 460	-16 800	1 145 660
Equity (including net profit)	554 515	-13 104	541 412
Provisions	30 319		30 319
Deferred tax liability	26 539	-3 696	22 842
Long-term liabilities	56 611		56 611
Current liabilities	494 476		494 476
Total liabilities and equity	1 162 460	-16 800	1 145 660

Consolidated cash-flow statement

Cash flow before changes in working capital	221 058	-16 800	204 258
Cash flow after changes in working capital	235 185		235 185

Key figures

Profit margin, %	17.6	-0.1	17.5
Value added, SEK million	742.9	-0.3	742.6
Return on equity, %	27.8	0.3	28.1
Return on capital employed, %	32.2	0.3	32.5
Return on total capital, %	17.8	0.1	17.9
Equity/assets ratio, %	47.7	-0.4	47.3
Equity per share, SEK	14.63	-0.34	14.29
Equity per share on full dilution, SEK	14.40	-0.34	14.06
Earnings per share after dilution, SEK	3.98	-0.01	3.97

Note 6 Interest income and similar profit/loss items

	Group		Parent Company	
	17/18	16/17	17/18	16/17
Other interest income	241	539	89	445
Interest income from Group companies	0	0	7 305	7 387
Dividends	0	1 082	0	0
Capital gain on shares in other companies	9 848	0	0	0
Exchange difference, net	1 558	0	6 613	3 637
Total	11 647	1 621	14 007	11 469

Note 7 Interest expenses and similar profit/loss items

	Group		Parent Company	
	17/18	16/17	17/18	16/17
Interest expenses	1 480	1 580	1 271	1 419
Interest expenses from Group companies	0	0	49	37
Exchange difference, net	0	445	0	0
Total	1 480	2 025	1 320	1 456

Note 8 Appropriations

	Parent Company	
	17/18	16/17
Group contributions	139 000	123 617
Change in tax allocation reserve	84 269	82 434
Change in excess depreciation/amortization	3 360	-1 712
Total	226 629	204 339

Group contributions paid and received in the Parent Company are recognized as appropriations in profit and loss in accordance with the alternative rule for Group contributions in RFR 2 / IAS 27.

Note 9 Tax on net profit for the year

	Group		Parent Company	
	17/18	16/17	17/18	16/17
Tax expenses				
Current tax	-66 135	-61 536	-51 986	-43 926
Deferred tax	15 128	14 382	52	0
Total tax expenses ¹	-51 007	-47 154	-51 934	-43 926

Relationship between Group tax and recognized tax per applicable tax rate

Profit before tax ¹	249 271	199 724	235 238	206 128
Tax per applicable tax rate for the Parent Company (22%) ¹	-54 840	-43 939	-51 752	-45 348
Adjustment of tax for previous years	1 590	1 846	0	724
Tax effect of non-deductible expenses	-1 748	-1 526	-233	-210
Tax effect of non-taxable income	5 248	915	0	904
Change in temporary differences	2 754	-637	51	4
Tax effect of changed tax rates in foreign subsidiaries	-4 011	-3 813	0	0
Tax on net profit for the year	-51 007	-47 154	-51 934	-43 926

Deferred tax liabilities

Deferred tax liabilities on untaxed reserves	0	20 476	0	0
Deferred tax liabilities on current assets	400	0	0	0
Deferred tax liabilities on surplus values	5 489	6 063	0	0
Tax effect of correction of error in accordance with IAS 8 ¹	0	-3 696	0	0
Total deferred tax liabilities	5 889	22 843	0	0

Deferred tax assets

Deferred tax assets on current assets	24 502	25 950	98	47
Deferred tax assets on provisions	1 559	4 333	0	0
Total deferred tax assets	26 061	30 283	98	47

¹ The comparative year has been restated as a consequence of a correction of an error in accordance with IAS 8. Refer to Note 5.

Note 10 Intangible assets

	Group						Parent Company
	Capitalized development ¹	Goodwill ²	Patents and licenses ³	Customer relations ⁴	Trademarks ⁵	Total	Capitalized development ¹
Opening cost	179 721	74 556	2 500	57 448	7 986	322 211	8 410
Translation differences	-1 627	-778	0	411	-109	-2 103	0
Investments for the year	30 996	0	0	0	0	30 996	4 405
Accumulated cost at April 30, 2017 ⁶	209 090	73 778	2 500	57 859	7 877	351 104	12 815
Opening amortization and impairment	-94 205	-10 577	-1 375	-22 436	-6 179	-134 772	-718
Translation differences	0	0	0	62	112	174	0
Impairment for the year	0	-10 667	0	-1 647	0	-12 313	0
Amortization for the year	-16 820	0	-300	-4 636	-383	-22 139	-1 332
Accumulated amortization and impairment at April 30, 2017	-111 025	-21 244	-1 675	-28 657	-6 450	-169 050	-2 049
Closing residual value according to plan at April 30, 2017	98 065	52 534	825	29 202	1 427	182 053	10 765
Opening cost	209 090	73 778	2 500	57 859	7 877	351 104	12 815
Translation differences	-2 019	2 838	0	683	-39	1 463	0
Investments for the year	30 246	0	0	0	0	30 246	6 517
Accumulated cost at April 30, 2018 ⁶	237 317	76 616	2 500	58 542	7 838	382 813	19 332
Opening amortization and impairment	-111 025	-21 244	-1 675	-28 657	-6 450	-169 050	-2 050
Translation differences	0	-114	0	975	91	952	0
Amortization for the year	-21 666	0	-300	-4 321	-341	-26 628	-2 386
Accumulated amortization and impairment at April 30, 2018	-132 691	-21 358	-1 975	-32 003	-6 700	-194 726	-4 436
Closing residual value according to plan at April 30, 2018	104 626	55 258	525	26 539	1 138	188 087	14 895

¹ Capitalized development pertains to internally generated intangible assets comprising proprietary software and equipment for medical imaging and secure communications. The remaining amortization period on larger projects is one to five years. The largest remaining project concerns the development of IT systems in Imaging IT Solutions.

² Goodwill is attributable to the acquisition of Burnbank Systems Ltd, EXP analytics Oy and RxEye AB. Goodwill attributable to the acquisition of RxEye AB has been impaired in its entirety during the fiscal year 2016/2017. Of total goodwill, SEK 43,388 thousand was attributable to the Imaging IT Solutions segment and SEK 11,870 thousand was attributable to the Secure Communications segment.

³ Remaining values in patents and licenses pertain to licenses in the Secure Communications segment.

⁴ Customer relations are attributable to the Imaging IT Solutions segment and pertain to acquired assets from Sectra Sverige AB, Sectra imaXperts BV, Burnbank Systems Ltd, it-mark ApS and RxEye AB.

⁵ Brands pertain to acquired assets from Sectra Sverige AB and Burnbank Systems Ltd.

⁶ Of the accumulated cost 14.6% (24.0) pertains to ongoing development projects and 85.4% (76.0) to completed projects.

Impairment of intangible asset

An impairment test is performed on intangible assets if there is an indication that an asset may be impaired, and on ongoing development projects and goodwill at least once annually. Impairment testing is based on future value-in-use calculations. The value of the Group's intangible assets is based on the value in use of the cash-generating development projects and acquired companies. The value in use is based on the cash flows that the assets are expected to generate. The recoverable amount comprises value in use, meaning the present value of the future cash flows that the intangible assets are expected to generate. All assumptions described below have been approved by the Board.

Cash-flow assumptions

Goodwill

Future cash flows for goodwill are based on expected synergy effects in terms of the growth potential for sales in the UK market for Imaging IT Solutions with respect to Burnbank Systems Ltd. Goodwill attributable to the acquisition of EXP Analytics Oy is based on future cash flows in the form of growth potential in the Finnish and Estonian markets.

Other intangible assets

The future cash flows used when calculating each unit's value in use are based on a detailed review of each development project.

Discounting factor

Along with a joint discount rate of 7.1%, each cash-flow generating unit is charged an additional individual risk premium of 1.0 percentage point in the event that the technical conditions pertaining to the unit are considered, in all material respects, to be new and an additional individual risk premium of 1.0 percentage point in cases where the market conditions are considered, in all material respects, to be new (2.0). Overall, the assessment is that the components included in the risk premium are unchanged compared with the preceding year.

Goodwill

A pre-tax rate of between 7.1% and 8.1% (7.1–8.1) was used when calculating cash flows associated with goodwill.

cont. Note 10 Intangible assets*Other intangible assets*

The present value of forecast future cash flows for development projects has been calculated using a pre-tax rate of between 7.1% and 9.1% (7.1–9.1).

Forecast period and growth rate

The forecast period when calculating value in use is determined by the asset's useful life of five years. The growth rate is based on the market growth in Sectra's individual product areas. The forecast period in connection with the calculation of goodwill has been set at five years. The growth rate assessment is based on market trends and growth goals in the business areas. The variation in assumed growth during the forecast period and thereafter between the respective acquired companies and the various development projects is significant, which means that average values can vary considerably between years. In cases where intangible assets are assumed to have a perpetual economic life, perpetuity growth has been set at 0% (0) under the prevailing external economic conditions, and for other assets, individual assessments have been carried out to determine the percentage by which the cash flow from each asset is assumed to be decreased.

Goodwill

Assumed average growth for the acquired companies is 15% (20) annually. The average assumed perpetuity growth is 0% (0).

Other intangible assets

Assumed average growth over the forecast period is negative 4% (8) annually for all development projects. Assumed annual perpetuity growth for all development projects is negative 20% (neg: 11).

Other assumptions regarding required returns

Risk-free interest:	Ten-year treasury bill on the balance-sheet date 0.7% (0.6)
Market risk premium:	6.4% (6.5)
Company-specific risk premium:	0.0–2.0% (0.0–2.0)
Beta value:	The beta value is calculated at 1.0 (1.0)
Interest expenses:	Sectra's assessed cost for borrowing
Tax rate:	Tax rate in Sweden

Since all assets were acquired using shareholders' equity, the return requirement is between 7.1% and 9.1% after tax, which corresponds to between 9.1% and 11.6% before tax.

Impairment tests and sensitivity analyses for the year*Goodwill*

Impairment tests for the year show that impairment is not currently required in any of the acquired companies. Should there be any future changes in individual variables, the value in use may fall below the carrying amount which could lead to impairment. A sensitivity analysis in which the discount rate increases by 2 percentage points and annual perpetuity growth decreases by 2 percentage points results in the value that exceeds the carrying amount being reduced by an average of 35%. If growth during the forecast period also decreases by 2 percentage points, the value that exceeds the carrying amount is reduced by a total average of 49%.

Other intangible assets

Impairment tests for the year per development project and other intangible assets were performed with such a margin that Executive Management deems that any reasonable and possible changes in individual variables will not cause the value in use to fall below the carrying amount. A sensitivity analysis in which the discount rate increases by 2 percentage points and annual perpetuity growth decreases by 2 percentage points results in the value that exceeds the carrying amount being reduced by an average of 11%. If growth during the forecast period also decreases by 2 percentage points, the value that exceeds the carrying amount is reduced by a total average of 17%.

Parent Company

At April 30, 2018, the Parent Company held intangible assets related to capitalized development projects in Business Innovation amounting to SEK 14.9 million (10.8).

Note 11 Tangible assets

	Group		Parent Company	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
Opening cost	338 739	312 446	31 783	22 569
Translation differences	12 403	3 847	0	0
Investments for the year	23 341	28 557	8 939	9 214
Sales/disposals for the year	-4 651	-6 111	0	0
Closing accumulated cost	369 832	338 739	40 722	31 783
Opening depreciation	-235 534	-199 881	-16 307	-12 942
Translation differences	-9 398	-5 022	0	0
Depreciation for the year	-38 371	-36 123	-5 265	-3 365
Sales/disposals for the year	3 722	5 492	0	0
Closing accumulated depreciation	-279 581	-235 534	-21 572	-16 307
Residual value according to plan	90 251	103 205	19 150	15 477
Total carrying amount	90 251	103 205	19 150	15 477

Note 12 Participations in Group companies

	Corp. Reg. No.	Reg. office	No. of participations	Share of capital, %	April 30, 2018 Carrying amount	April 30, 2017 Carrying amount
Parent Company:						
Sectra Imaging IT Solutions AB	556250-8241	Linköping, SE	300 000	100%	2 883	2 883
Sectra Communications AB	556291-3300	Linköping, SE	3 000 000	100%	3 000	3 000
Sectra Secure Transmission AB	556247-1283	Linköping, SE	100 000	100%	95	95
Ebberöd Capital, Inc.	20-8912327	Shelton, US	1 000	100%	0	0
Ebberöd Capital Ltd	6707408	London Stansted, UK	1 000	100%	0	0
Sectra Sverige AB	556483-9479	Linköping, SE	40 350	100%	21 016	21 016
Sectra Norge AS	975 353 265	Oslo, NO	5 000	100%	283	283
Sectra Inc.	06-1473851	Shelton, US	500	100%	384	384
Sectra Medical Systems GmbH	HR B 8546	Cologne, DE	500	100%	219	219
Sectra Danmark A/S	10073251	Odense, DK	5 000	100%	639	639
Sectra Ltd	4571654	London Stansted, UK	1	100%	0	0
Sectra Pty Ltd	105 376 190	Sydney, AU	1	100%	1	1
Sectra New Zealand Ltd	1539744	Auckland, NZ	1	100%	0	0
Sectra Medical Systems SL	B84352749	Madrid, ES	500	100%	2 290	2 290
Art Ces Lda	PT513270396	Porto, PT	5 000	100%	48	48
Sectra imaXperts BV	39069257	Almere, NL	500	100%	4 664	4 664
Sectra France SAS	811070317	Paris, FR	1 000	100%	9	9
Sectra Canada Inc	BC1112137	Vancouver, CA	100	100%	65	65
Total					35 597	35 597
Sectra Imaging IT Solutions AB:						
Paxlink AB	556572-3292	Linköping, SE	1 000	100%	811	811
RxEye AB	556807-9924	Stockholm, SE	1 090 856	100%	13 261	13 261
Burnbank Systems Ltd ¹	05968184	Ipswich, UK	1 000	100%	61 836	61 836
Burnbank Dataconnect Ltd	02860002	Ipswich, UK	1 450	100%	0	0
Burnbank Healthsystems Ltd	06502661	Ipswich, UK	2	100%	0	0
Total					75 908	75 908
Sectra Communications AB:						
Sectra Secure Solutions AB	556570-9325	Linköping, SE	3 000 000	100%	6 981	6 981
Sectra Communications Ltd	4884887	London, UK	1	100%	0	0
Sectra Communications BV	27264295	The Hague, NL	1 800	100%	164	164
Sectra Communications Oy	2679724-9	Helsinki, FI	2 500	100%	23	23
Totalt					7 168	7 168

¹ Burnbank Systems Limited and Burnbank Dataconnect Limited are exempt from the requirement to have a statutory audit completed on their financial statements under section 479A of the Companies Act 2006 under UK law.

Note 13 Participations in associated companies

					Parent Company	
					April 30, 2018	April 30, 2017
Opening cost					0	0
Acquisitions for the year					564	0
Total					564	0

					April 30, 2018	April 30, 2017
	Corp. Reg. No.	Reg. office	No. of participations	Share of capital, %	Carrying amount	Carrying amount
Sectra Saudi Arabia Ltd	10213371171087	Riyadh, SA	500	50%	564	n/a
Total					564	n/a

The company is jointly owned by Sectra AB and Sectra Imaging IT Solutions AB, which own 50% each.

Note 14 Long-term receivables from Group companies

			Parent Company	
			April 30, 2018	April 30, 2017
Opening cost			250 020	250 014
New receivables			1 948	2 386
Amortized receivables			-38 053	-7 729
Exchange-rate difference			8 324	5 349
Total			222 239	250 020

Note 15 Investments held as fixed assets

		Group		Parent Company	
		April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
Other shares and participations		37	1 799	0	0
Total		37	1 799	0	0

Securities holdings with maturities of less than one year are classified as short-term. See Note 29 for information on the valuation of securities holdings. In the preceding year, the item included participations in Commit OY, Finland, in which the Group's holding amounted to 13% of the capital and votes. The participations were sold during the 2017/2018 fiscal year.

Note 16 Inventories

		Group		Parent Company	
		April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
Component stocks		26 215	18 375	0	0
Finished products		3 804	6 332	0	0
Total		30 019	24 707	0	0

An impairment loss amounting to SEK 819 thousand (2,295) was recognized in profit and loss for 2017/2018.

Equipment and components mainly used for development were reclassified as inventories or expensed in profit and loss, depending on the estimated lifetime of the stock items in question. Of the total inventory value, 0 is measured at fair value after selling expenses. Accordingly, the entire inventory is valued at historical cost since this value is lower than fair value less selling expenses.

Note 17 Accounts receivable**Accounts receivable per currency**

		Group		Parent Company	
		April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
SEK		49 205	38 620	4 404	729
USD		50 696	63 172	9 263	3 333
EUR		72 856	52 687	14 751	12 267
GBP		39 986	41 236	-6	-8
Other currencies		40 717	29 721	-25	-29
Total		253 460	225 436	28 387	16 292

Change for the year in the reserve for doubtful accounts receivable

		Group		Parent Company	
		April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
Opening balance		34 161	24 348	273	292
Realized losses		-4 133	-60	0	0
Reversal of unutilized amounts		-12 994	-2 876	-36	-19
Reserve for doubtful accounts receivable		13 278	12 208	670	0
Exchange-rate effect		487	541	0	0
Total		30 799	34 161	907	273

See Note 30 for an age analysis.

Note 18 Prepaid expenses and accrued income

		Group		Parent Company	
		April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
Prepaid rent		4 176	3 886	1 592	1 662
Accrued interest income		2	2	2	2
Prepaid support agreements		19 258	23 055	2 348	1 656
Other items		45 168	54 099	5 493	3 580
Recognized non-invoiced income ¹		237 276	202 547	0	0
Total		305 880	283 589	9 435	6 900

¹ Of which, SEK 89,522 thousand (95,632) is the long-term portion pertaining to customer projects financed through Sectra Customer Financing and attributable to periods longer than one year. This item pertains to costs for customization, etc. that are invoiced from Imaging IT Solutions and where revenues are distributed over the duration of the agreement. In a corresponding manner, the expense is distributed over the duration of the agreement.

Note 19 Cash and cash equivalents

	Group		Parent Company ¹	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
Bank balances	282 341	273 216	212 709	221 099
Total	282 341	273 216	212 709	221 099

¹ Balances in the Group's cash-pool accounts are recognized in their entirety as cash and cash equivalents in the Parent Company and are included in the Parent Company's cash-flow statement. The subsidiaries' portion of the cash-pool accounts are recognized as short-term receivables from or liabilities to the Parent Company.

Bank overdraft facilities

	Group		Parent Company	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
Credit limit granted	15 000	15 000	15 000	15 000
Unutilized portion	-15 000	-15 000	-15 000	-15 000
Utilized credit amount	0	0	0	0

Note 20 Untaxed reserves

	Parent Company	
	April 30, 2018	April 30, 2017
Tax allocation reserves:		
Allocated to taxes 14	0	20 425
Allocated to tax year 2016	0	25 255
Allocated to tax year 2017	0	38 589
Excess depreciation/amortization	0	3 360
Total	0	87 629

Of the total untaxed reserves, SEK 0 thousand (19,278) is recognized as deferred tax liabilities in the Group.

Note 21 Provisions

	Group				Parent Company
	Taxes	Guarantee commitments and other provisions	Contingent consideration	Total	Guarantee commitments
Carrying amount, May 1, 2016	45 906	18 897	30 243	95 046	1 688
Provisions made in the period	134	502	0	636	502
Translation difference	0	0	753	753	0
Impairment	0	0	-12 355	-12 355	0
Amount appropriated	-19 501	-6 197	-1 524	-27 222	0
Carrying amount, April 30, 2017	26 539	13 202	17 117	56 858	2 190
Of which, total long-term portion of provisions	19 278	0	14 396	33 674	0
Of which, total short-term portion of provisions	7 261	13 202	2 721	23 184	2 190

	Group				Parent Company
	Taxes	Guarantee commitments and other provisions	Contingent consideration	Total	Guarantee commitments
Carrying amount, May 1, 2017	26 539	13 202	17 117	56 858	2 190
Provisions made in the period	78	1 417	0	1 495	1 398
Translation difference	0	0	1 063	1 063	0
Amount appropriated	-20 729	-9 823	-1 897	-32 449	0
Carrying amount, April 30, 2018	5 888	4 796	16 283	26 967	3 588
Of which, total long-term portion of provisions	0	0	14 137	14 137	0
Of which, total short-term portion of provisions	5 888	4 796	2 146	12 830	3 588

The carrying amount at the end of the period is expected to be settled within six years for taxes, within one year for guarantee commitments and other provisions, and within three years for contingent consideration.

Note 22 Other long-term liabilities

	Group		Parent Company	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
Convertible debentures 14/18	0	3 500	0	3 500
Convertible debentures 15/18	0	24 582	0	24 582
Convertible debentures 15/19	3 500	3 500	3 500	3 500
Convertible debentures 16/19	21 529	21 529	21 529	21 529
Convertible debentures 16/20	3 500	3 500	3 500	3 500
Total	28 529	56 611	28 529	56 611

The assessment of whether the interest rate for convertibles is market-based is based on Sectra's current costs for borrowing. Refer to Note 29 for information concerning maturities and terms of interest, and Note 2 for more information about the convertible programs.

Note 23 Other current liabilities

	Group		Parent Company	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
Convertible debentures 12/17 converted during the fiscal year	0	2 471	0	2 471
Convertible debentures 13/17 converted during the fiscal year	0	3 500	0	3 500
Convertible debentures 14/17 converted during the fiscal year	0	15 012	0	15 012
Convertible debentures 14/18 reclassification from long-term liabilities	3 500	0	3 500	0
Convertible debentures 15/18 reclassification from long-term liabilities	24 582	0	24 582	0
Value-added tax	60 646	21 728	760	952
Employee withholding taxes	8 205	8 075	718	882
Other liabilities	8 069	14 004	478	535
Total	105 002	64 790	30 038	23 352

Conditions

For information about the terms for the convertible debentures, see Note 2 Salaries and other remuneration.

Note 24 Accrued expenses and deferred income

	Group		Parent Company	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
Accrued social security contributions	29 951	30 855	4 985	4 424
Accrued vacation pay	48 485	44 501	7 067	7 091
Prepaid support agreements	66 641	71 939	0	0
Accrued accounts payable	35 623	23 095	3 936	5 269
Invoiced non-recognized income	124 773	123 751	5 436	2 225
Other items	65 904	59 385	6 587	4 982
Total	371 377	353 526	28 011	23 991

Note 25 Pledged assets and contingent liabilities

	Group		Parent Company	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
Chattel mortgages	36 250	36 250	11 000	11 000
Total pledged assets	36 250	36 250	11 000	11 000
Guarantees on behalf of subsidiaries			154 074	190 948
Total contingent liabilities			154 074	190 948

Note 26 Cash flow**Adjustment for non-cash items**

	Group		Parent Company	
	17/18	16/17	17/18	16/17
Depreciation/amortization and impairment	64 999	70 576	7 651	4 696
Exchange-rate differences	2 544	-4 005	6 612	3 637
Reversal of provision/provision	-4 066	-27 818	3 108	2 476
Capital gain/loss on sale of shares	-9 847	0	0	0
Total	53 630	38 753	17 371	10 809

Note 27 Related parties

The Group's related parties comprise Group Management and the Board of Directors as well as other key persons in senior positions. The Group has no transactions with related parties, apart from what is stated in Note 2.

Note 28 Important estimates and judgments and uncertainty in estimates

At year-end, certain judgments are made in regard to the application of accounting policies that affect the carrying amounts recognized on the balance-sheet date. These estimates for reporting purposes may deviate from the actual outcome. The following estimates may involve a risk of changes in the carrying amounts.

Impairment requirements relating to intangible assets including goodwill are assessed on an ongoing basis, based on the calculated recoverable amount per cash-generating unit. The recoverable amount is based on the unit's value in use, which consists of calculated future cash flows during its useful life. The calculations are based on budgeted long-term targets and anticipated growth. Group synergy effects were taken into consideration when calculating cash flow associated with goodwill. The present value of the forecast future cash flows for all development projects has been calculated using an after-tax discount rate of between 7.1% and 9.1% (7.1–9.1). An after-tax discount rate of between 7.1% and 9.1% (7.1–9.1) has been used when calculating cash flows associated with goodwill. The growth rate assessment has been set in line with market trends and growth goals in the business areas. Assumptions regarding future cash flows may be uncertain.

The useful life of intangible assets excluding goodwill is based on the average life of the asset. Amortization of intangible assets is based on the assumed useful life per asset, which can have major significance for the Group's earnings and financial position.

Contingent consideration—there is a certain level of uncertainty in the assumptions regarding future sales and earnings attributable to contingent consideration liabilities.

Obligations in contracts arise upon the delivery of a system and during the duration of the contract. These obligations normally involve a guarantee period of 12 months and other obligations during the duration of the contract. Assessment of future guarantee costs is based on individual projects and prior experience. Deviations between the actual guarantee cost and the provisions occur for individual projects, but at Group level these deviations are limited.

Note 29 Measurement of financial assets and liabilities

Group, April 30, 2018	Accounts receivable and loan receivables	Financial assets available for sale	Other financial assets and liabilities	Total carrying amount	Fair value
Investments held as fixed assets	0	37	0	37	37
Accounts receivable	253 460	0	0	253 460	253 460
Other short-term receivables	0	0	0	0	0
Cash and bank balances	0	0	282 341	282 341	282 341
Total financial assets	253 460	37	282 341	535 838	535 838
Long-term liabilities	0	0	28 528	28 528	28 528
Provisions	0	0	21 078	21 078	21 078
Other current liabilities	0	0	28 083	28 083	28 083
Accounts payable	0	0	46 264	46 264	46 264
Total financial liabilities	0	0	123 953	123 953	123 953
Group, April 30, 2017	Accounts receivable and loan receivables	Financial assets available for sale	Other financial assets and liabilities	Total carrying amount	Fair value
Investments held as fixed assets	0	1 799	0	1 799	1 799
Accounts receivable	225 436	0	0	225 436	225 436
Other short-term receivables	0	0	0	0	0
Cash and bank balances	0	0	273 216	273 216	273 216
Total financial assets	225 436	1 799	273 216	500 451	500 451
Long-term liabilities	0	0	56 611	56 611	56 611
Provisions	0	0	30 318	30 318	30 318
Other current liabilities	0	0	20 983	20 983	20 983
Accounts payable	0	0	43 012	43 012	43 012
Total financial liabilities	0	0	150 924	150 924	150 924

The earnings effect of impairment losses and reversals of previous impairment on bad debt losses amounts to SEK 114 thousand (11,376). No gains or losses were recognized in any of the other categories.

For cash and cash equivalents and other receivables and liabilities with shorter lifetimes, the carrying amount is considered to correspond to the fair value. In the case of receivables or liabilities with a lifetime exceeding one year, the carrying amount has been discounted and corresponds to fair value.

Long-term financial liabilities pertain to convertible debentures and the time to expiration is one to four years. Other financial liabilities have a time to expiration of less than one year.

Calculation of fair value

The following methods were used to determine fair value:

— Securities holdings that are available for sale belong to Level 2,

meaning that the calculation of fair value is based on market quotations or the calculation of future cash flows for which variables are obtained from market quotations whenever possible. The holding that can be sold amounts to SEK 37 thousand (1,799).

— The contingent consideration recognized in provisions of SEK 16,283 thousands (17,117) belongs to Level 3, which means that the calculations of fair value are based on unobservable inputs. The calculations were based on the likelihood that set goals would be achieved. SEK 14,137 thousand (14,396) pertains to the long-term portion and SEK 2,146 thousand (2,721) to the short-term portion. The value of the contingent consideration attributable to the acquisition of it-mark ApS is based on the likelihood that the earnings objective set for April 30, 2020 will be achieved and is to be paid at a fixed amount per year. The fair value was assessed to be DKK 3.3

cont. Note 29 Measurement of financial assets and liabilities

million [4.2], based on reasonable expectation with respect to the company's earnings trend. The value of the contingent consideration attributable to EXP Analytics Oy is based on the sales and earnings trend for both the company and the entire Secure Communications segment until April 30, 2020. The payment range is between EUR 0.1 million and EUR 1.0 million, which is based on market conditions for the company. The fair value was assessed to be EUR 0.9 million [1.0], based on reasonable expectations with respect to the market trend. The value of the contingent consideration attributable to the acquisition of RxEye AB is based on the sales performance of the company's products and certain markets up to December 31, 2020.

Note 30 Risks, risk management and sensitivity analysis**Risks related to operations**

Sectra's risks related to operations are limited. As a general rule, customers' operations are financed directly or indirectly with public funds and solvency is excellent, although payment practices vary between different countries. Because Sectra is active in several industries and a large number of markets, the Group's overall exposure to political and market risks, for example, is limited. The largest individual risks related to operations are described below.

Customers and partners

Sectra's five largest partners and customers jointly account for 15.9% [15.7] of Group sales. No individual partner or customer accounts for more than 10% of Group sales. Although sales to each customer are often divided among a number of agreements, the proportion of long-term managed-services has increased and, therefore, the loss of a major customer could have a significant effect on the Group's long-term earnings and financial position. Due to the continuous expansion of operations, the proportion of the Group's business volume represented by each individual partner and customer is gradually declining.

Product liability and property risks

Through its operations, Sectra assumes product liability, which means that personal injury or damage to property caused by the company's systems at the premises of a customer or third party could lead to a claim being made against Sectra. Insurance policies have been taken out for the property and liability risks to which the Group is exposed.

Intellectual property rights

Sectra is among the leaders in the areas in which the Group operates and invests substantial resources in product development. To ensure a return on these investments, Sectra works continuously to analyze the requirements for different products in terms of intellectual property rights, and to identify and protect inventions through patents.

Other business risks

The prices for medical systems in the world market are largely governed by major international companies. Accordingly, the USD and EUR exchange rates have an effect on the price structure and competitiveness. Other business risks, such as market risks, suppliers, technical development, dependence on individual persons, cyber security threats and ethical risks are analyzed continuously. Measures are taken as needed to reduce the Group's risk exposure.

Financial risks

The Sectra Group is exposed to financial risks pertaining to currency, interest, financing and liquidity risks. Rules and authority for management of financial transactions and risks are described in the Group's finance policy, which is determined by the Board. Responsibility for management of financial transactions and risks is centralized to the Parent Company's finance department. The aim is to support the Group's business activities by identifying and limiting the Group's financial risks, providing cost-efficient financing of Group companies and managing cash and cash equivalents on market terms.

Currency exchange risks

The Group's exposure to currency exchange risks mainly arises through transactions in foreign currencies in the form of customer and supplier payments and, to a lesser extent, in connection with the translation of foreign subsidiaries' income statements and balance sheets. In accordance with the Group's finance policy, subsidiary financing is to be carried out in the local currency and currency exposure pertains mainly to USD, GBP and EUR. Operating profit for the year includes an exchange gain of SEK 1,734 thousand [gain: 1,191] and net financial items includes an exchange gain of SEK 1,558 [loss: 445].

The Group's policy at present is not to hedge transaction exposure, since the potential gains to be derived from building up procedures to efficiently

The range for the contingent consideration is between SEK 0.0 million and SEK 110.0 million. The assessment of the fair value of SEK 1.8 million [2.3] has been reduced as a result of changes in the local strategy within the product segment where Sectra offers services for cooperation and information sharing within the healthcare sector. The forecast synergy effects from the acquisitions have been reduced and the assumptions regarding the growth rate have been revised. The sales performance and earnings above have a direct impact on all of the contingent considerations, which is why the considerations may be changed.

Group's revenues and expenses in various currencies, SEK million

Currency	Revenues	Expenses	Net exposure
SEK	346.7	-459.9	-113.2
USD	288.6	-205.0	83.6
EUR	197.7	-136.9	60.8
GBP	261.9	-160.8	101.1
Other currencies	171.6	-93.0	78.6
Total	1 266.5	-1 055.6	210.9

manage hedge contracts are not considered significant. Sectra monitors payment flows in foreign currencies on an ongoing basis, and hedging of transaction exposure may be implemented if the gains expected to be derived from exchange rate hedge contracts are deemed to be significant.

Interest-rate risks

Interest-rate risks pertain to the impact of changes in market interest rates on the Group's earnings. The Group's interest-bearing assets are mainly short-term in nature, and pertain to securities that can be liquidated at short notice in the event of major changes in the general interest rate situation. On the balance-sheet date, the Group's interest-bearing assets exceeded its interest-bearing liabilities, as a result of which a decline in interest rates had an adverse impact on the Group and an increase had a positive effect.

Credit risks

The Group's credit risks can be divided into risks related to the customer's ability to pay as agreed and counterparty risks in conjunction with financial transactions.

Customer credit risk means that the customer fails to fulfill its undertaking for payment of customer invoices. The Group has set guidelines to ensure that customers have high credit ratings. Sectra's customers consist largely of government agencies and other highly reputable customers with high credit ratings, and whose credit risk is considered to be extremely low. To minimize customer credit risks in fixed-price projects, Sectra makes extensive use of advance partial payments.

Age analysis accounts receivable

SEK million	April 30, 2018	April 30, 2017
Accounts receivable not due for payment	176.9	155.6
Accounts receivable overdue 0–60 days	47.4	45.8
Accounts receivable overdue by more than 60 days	21.8	13.6
Accounts receivable overdue by more than 120 days	38.2	44.6
Reserve for customer losses	-30.8	-34.2
Total	253.5	225.4

Counterparty risks arise in financial transactions and cash management in conjunction with the Group having claims on banks and other securities issuers. The maximum credit exposure and credit rating for approved counterparties is described in the Group's finance policy. To minimize credit risks, Sectra only uses counterparties with high credit ratings and invests in high-quality instruments.

Liquidity risks

To minimize liquidity risks, excess liquidity is placed only in bank deposits, or in securities that can be liquidated at short notice, and which have a smoothly functioning secondary market. Unutilized bank overdraft facilities are used in the event of temporarily elevated liquidity needs. The Parent Company monitors the Group's liquidity continually by compiling liquidity forecasts as a basis for investments or short and long-term borrowing.

On the balance-sheet date, the Group's unutilized credit facilities amounted to SEK 15,000 thousand [15,000].

Convertible loans 2014/2018, SEK 3,500 thousand, are payable in December 2018. Convertible loans 2015/2018, SEK 24,582 thousand, and 2015/2019, SEK 3,500 thousand, are payable in December 2018 and 2019 respectively. Convertible loans 2016/2019, SEK 21,529 thousand, and 2016/2020, SEK 3,500 thousand, are payable in December 2019 and 2020 respectively. All convertible loans carry a variable interest rate, Stibor +2.25%. Other loans carry variable rates, which varied between 2% and 4% during the fiscal year. Financial leasing contracts and convertibles have terms of zero to four years. Refer to Notes 2 and 22 for further information about convertibles issued.

Sensitivity analysis

The Group's earnings depend mainly on product sales and the cost of personnel and materials. The analysis below is based on the figures from the 2017/2018 fiscal year and how the variables named would have affected profit after net financial items if no measures such as hedging or adaptation of resources had been taken. Each variable is treated individually, provided the others remain unchanged. The analysis is not claimed to be precise, but is merely indicative.

Variable	Change	Effect on profit after financial items
Net sales/gross profit	+/- 1%	+/- SEK 10.8 million (+/- 9.7)
Cost of materials	+/- 1%	+/- SEK 1.9 million (+/- 1.7)
Personnel costs	+/- 1%	+/- SEK 5.8 million (+/- 5.4)
Interest-rate levels	+/- 1%	+/- SEK 2.8 million (+/- 2.6)
Exchange-rate changes:		
USD exchange rate	+/- 1%	+/- SEK 2.3 million (+/- 2.4)
EUR exchange rate	+/- 1%	+/- SEK 2.1 million (+/- 2.0)
GBP exchange rate	+/- 1%	+/- SEK 3.3 million (+/- 3.2)

In the event that the SEK weakens by 1% against the USD, GBP or EUR, profit after net financial items would improve by SEK 7.7 million.

Note 31 Asset management

The Group's financial goals have been determined by the Board. The goal is to have a favorable and flexible capital structure so that it can be changed if the conditions for operations or for different borrowing alternatives change and maintain financial stability. The Group's equity/assets ratio goal is 30%. In the 2017/2018 fiscal year, the Group's equity/assets ratio was 49.1% (47.3).

The Group's capital is defined as total shareholders' equity less any positive unrealized value changes and amounted to SEK 605,998 thousand (541,412) at April 30, 2018. Sectra's operations have large seasonal variations during the fiscal year and, accordingly, it is the Board's ambition to retain a sound capital structure with a low debt/equity ratio.

Note 32 Board's statement concerning repurchase and transfer the company's treasury shares

The Board of Directors' reasons for the authorization to repurchase and transfer the company's Class B treasury shares are in accordance with the provisions of Chapter 17, Section 3, paragraph 2 and 3 of the Swedish Companies Act.

Nature, scope, and risks of the operations

The nature and scope of the operations are specified in the Articles of Association and the published Annual Reports. The operations conducted by the company do not entail any additional risks other than those that exist or may be deemed to exist in the industry or those risks that are generally associated with conducting business operations.

The financial position of the company and the Group

The financial position of the company and the Group as of April 30, 2018 are described in this Annual Report. The Annual Report also states the policies applied in the valuation of assets, provisions and liabilities. Unrestricted equity in the Parent Company and the Group's retained earnings amounted to SEK 209.9 million (182.3) and SEK 190.0 million (185.6), respectively, at the end of the 2017/2018 fiscal year.

The Annual Report states that the Group's equity/assets ratio is 49.1%. The proposed authorization to purchase and transfer the company's own Class B shares does not endanger the completion of any necessary investments.

The company's financial position does not give rise to any other conclusion than that the company can continue its business and that the company can be expected to fulfill its obligations on both a short and long-term basis.

In the opinion of the Board of Directors, the amount of equity as recognized in the most recent Annual Report is in reasonable proportion to the scope of the company's operations and the risks associated with conducting operations in consideration of the authorization now proposed to repurchase the company's own Class B shares.

Justification for dividend and repurchase

With reference to the above and to what has otherwise come to the knowledge of the Board of Directors, the Board is of the opinion that, after a comprehensive review of the financial position of the company and of the Group, the proposed authorization to repurchase and transfer the company's own Class B shares is justified according to the provisions of Chapter 17, Section 3, paragraph 2 and 3 of the Swedish Companies Act, that is, with reference to the requirements that the nature of the business, its scope and the risks placed on the size of the company's and Group's equity and the company's and the Group's consolidation requirements, liquidity and financing needs in general.

Note 33 Proposed appropriation of profits

The following funds in the Parent Company are at the disposal of the Annual General Meeting (SEK thousand)

Share premium reserve	75 719
Loss brought forward	-49 139
Net profit for the year	183 305
Total	209 885

The Board and President propose that the profits be appropriated so that SEK 209,885 thousand is carried forward. The Board and President propose that the Annual General Meeting resolve that SEK 4.50 per share be transferred to the shareholders through a 2:1 share split combined with a mandatory redemption process and a stock dividend to restore the share capital. This entails a transfer of SEK 171,539 thousand to the company's shareholders. No ordinary dividend is proposed.

Note 34 Events after the balance-sheet date

No events resulting in adjustments, or significant events not resulting in adjustments, took place between April 30 and the approval date for the publication of the financial statements.

Note 35 Definitions of key figures

As of July 3, 2016, the European Securities and Markets Authority (ESMA) Guidelines on Alternative Performance Measures are applied. An alternative performance measures is a financial measure that is not defined or stipulated in applicable rules for financial reporting (such as IFRS or the Swedish Annual Accounts Act). Accordingly, alternative performance measures are to be explained in the financial reports. In accordance with these guidelines, the Group's alternative performance measures are defined below. The Group applies alternative performance measures since the company believes they provide valuable supplementary information for management and investors given that they play a central role when it comes to understanding and evaluating the Group's operations.

Gross margin: Operating profit after depreciation as a percentage of net sales.

Direct return: Dividend as a percentage of the share price on the balance-sheet date.

Equity per share: Equity divided by the number of shares at the end of the period.

Value added: Operating profit plus labor costs.

Value added per employee: Operating profit plus labor costs divided by average number of employees.

Adjusted equity: Recognized equity plus 78.0% of untaxed reserves.

Cash flow per share: Cash flow from operations after changes in working capital in relation to the number of shares at the end of the period.

Liquidity: Current assets divided by current liabilities.

P/E ratio: Share price at the end of the period in relation to the 12-month period's earnings per share.

Return on equity: Profit after tax as a percentage of average adjusted equity.

Return on capital employed (ROCE): Profit before tax plus financial expenses as a percentage of average capital employed.

Return on total capital: Earnings after net financial items plus financial expenses as a percentage of average total assets.

Operating margin: Operating profit after depreciation as a percentage of net sales.

Debt/equity ratio: Interest-bearing liabilities divided by equity.

Equity/assets ratio: Equity as a percentage of total assets.

Capital employed: Total assets reduced by non-interest-bearing liabilities.

Earnings per share: Profit/loss after tax divided by the average number of shares.

Profit margin: Earnings after net financial items as a percentage of net sales.

Auditor's report

To the Annual General Meeting of the shareholders of Sectra AB (publ),
corporate identity number 556064-8304.

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Sectra AB (publ) for the financial year 2017-05-01—2018-04-30 apart from the sustainability report on pages 50-54. The annual accounts and consolidated accounts of the company are included on pages 46-77 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 30 April 2018, and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 30 April 2018, and their financial performance and cash flow for the year then ended in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinion does not include the sustainability report on pages 50-54. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014/EU) Article 11.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014/EU) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Existence, completeness and valuation of revenues and accounts receivables

Our opinion is that revenues from fixed price contracts as well as product- and license revenues are a key audit matter since the revenue streams are high and the assessments of when the conditions for revenue recognition according to IFRS are met are central for the financial reports. We have particular focus on the English projects managed through the finance activity handled by the group, since the accounting of these projects are complex. Account receivables amounted to SEK 253 million as per April 30, 2018 and the valuation are dependent on the management's assessment of the customers' future capacity to pay. Information regarding accounting principles concerning revenues are included on page 60 and information regarding revenues and account receivables are included in [Note 1](#) and [Note 30](#).

Our audit procedures included audit of routines and controls related to the accounting of projects, analytical procedures related to project accounting and audit of the accounting related to a sample of new customer contracts in order to verify that the accounting is consistent with IFRS. Our audit has also included procedures related to management's assessment of the customers' future capacity to pay outstanding receivables.

Valuation of intangible assets

Intangible assets amounted to SEK 188 million as per April 30, 2018, whereof SEK 55 million refers to goodwill and SEK 27 million refers to customer relationships. In accordance with IFRS goodwill should annually be tested for impairment. Our opinion is that valuation of goodwill is a key audit matter since the balance sheet item is of material amount and the valuation is complex and relies on assessments related to future growth, required return as well as future market- and economic conditions. Impairment test prepared for other intangible assets, including customer relationships, when indication for impairment are identified are also complex and dependent on future development. Information regarding accounting principles and impairment tests are included on page 60 and in [Note 10](#).

Our audit procedures included audit of:

- routines and controls related to accounting of intangible assets.
- management's assessment related to indication of impairment in other intangible assets such as customer relationships.
- impairment tests with support of a valuation expert. The audit procedures included audit of the model for impairment tests and audit of the assumptions especially related to forecasts of cash-flows, future growth and required return.
- sensitivity analyzes.
- the applied accounting principles related to goodwill and other intangible assets to ensure compliance with IFRS.
- disclosures in the annual report regarding the assumptions with largest impact on the impairment tests.

Existence and valuation regarding on-going development projects

Capitalized development expenditure amounted to SEK 105m as per April 30, 2018, and includes both on-going and completed development projects. In accordance with IFRS capitalized development

expenditure related to on-going projects should annually be tested for impairment. Our opinion is that capitalized development expenditure related to on-going projects is a key audit matter since the valuation is complex and relies on assessments related to future growth, required return as well as future market- and economic conditions. Information regarding accounting principles and impairment tests are included on page 60 and in [Note 10](#).

Our audit procedures included audit of routines and controls related to capitalization of expenditure for new projects, audit of new project to project plans and other supporting documentation, audit of impairment tests with support of a valuation expert and audit of sensitivity analyzes. The audit of impairment tests has included audit of the model used for the impairment tests as well as audit of the assumptions especially related to forecasts of cashflows, future growth and required return.

Valuation regarding shares in subsidiaries and receivables on subsidiaries

Shares in subsidiaries amounted to SEK 36 million and receivables on subsidiaries amounted to SEK 629 million in the Parent Company accounts as per April 30, 2018. The valuation of these assets is dependent on management's assessment regarding indication for impairment and, on impairment testing, managements estimates of the subsidiaries future development. Accordingly, this area is considered to be of particular significance to our audit. Information regarding shares in subsidiaries and receivables on subsidiaries are included in [Notes 12 and 14](#).

Our audit procedures included audit of supporting documentation regarding management's assessment of the subsidiaries future development, audit of sensitivity analyzes and audit of management's basis for assessment of indications of impairment in assets.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-45 and 50-54. The Board of Directors and the Managing director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information, and we do not express any form of assurance conclusion regarding this other information. In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure, we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of the annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, the Board of Directors and the Managing director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditors' responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Sectra AB (publ) for the financial year of 2017-05-01—2018-04-30 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for our opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditors' responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Auditor's opinion regarding the statutory sustainability report

It is the board of directors who is responsible for the statutory sustainability report on pages 50-54 and that it has been prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's examination of the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A statutory sustainability report has been prepared.

Grant Thornton Sweden AB, Sveavägen 20 SE-111 57 Stockholm, was appointed auditor of Sectra AB (publ) by the general meeting of the shareholders on September 13, 2017 and has been the company's auditor since 2002.

Stockholm, June 27, 2018

Grant Thornton Sweden AB

Mia Rutenius

Authorized Public Accountant

Glossary

Artificial intelligence (AI)

A collective term for the scientific field that studies the creation of machines and computer programs that display intelligent behavior. AI research encompasses numerous disciplines, including everything from studying philosophical issues to developing tangible technological solutions in such areas as medical diagnostics.

Cardiology

The field of medicine dealing with the functions and diseases of the heart.

Cloud

Cloud computing, meaning that computer power is distributed over the internet or company-specific intranets and not on individual computers.

Critical infrastructure

Basic infrastructure that is essential for the functioning of society, such as bridges and electricity and water supply.

Crypto

Equipment that uses mathematical manipulations (algorithms and keys) to encrypt information, so that it can be interpreted or read only by the intended recipient. In order to read encrypted information, the recipient must have the correct key and algorithm.

Histology

Study of the microscopic structure of tissues. Studying tissues and their appearance in using an optical or electron microscope is an important part of detecting the presence of various diseases.

Hybrid threat/hybrid warfare

Diagnostic collaboration between different medical specialties, for example, between pathologists and radiologists for diagnosing, treating and monitoring cancer patients. Integrated diagnostics is facilitated by digital technology, computer algorithms, clinical workflows and extended reporting to the patient's physician.

Mammography

A radiology-based breast examination used to detect breast cancer at an early stage in asymptomatic women.

Machine learning

A discipline within artificial intelligence (see to the left) where algorithms (computer programs) learn to solve tasks using analyzed data. One example involves allowing a program to train on a large sampling of known test images to learn to distinguish between healthy and diseased tissue, after which the program can also make accurate predictions regarding unfamiliar images.

Microscopic image

An image viewed or registered using a microscope. These images are so detailed that individual cells can be seen. In the healthcare sector, these images are used, for example, to examine tissue samples and diagnose diseases.

Multidisciplinary tumor boards (MDT)

Meetings where representatives of various medical specialties—physicians, radiologists, pathologists, surgeons and oncologists—gather to discuss all of the findings related to a specific cancer patient and jointly decide on the best treatment strategy.

Orthopaedics

A surgical specialty for disorders affecting the musculoskeletal system, meaning the skeleton, joints, tendons, other connective tissue and peripheral nerves.

Operational technology (OT)

Hardware and/or software that controls and monitors devices, such as valves and pumps, that are part of a physical process. The terms industrial control systems (ICS) and supervisory control and data acquisition (SCADA) systems are also commonly used to denote operational technology systems

Osteoarthritis

Also referred to as arthrosis. A disease resulting from the breakdown (degeneration) of joint cartilage, primarily affecting older and overweight individuals. Strain and movement causes pain. Most commonly affects the wrist, hip, knee and toe joints. Common cause of joint replacement surgery.

Picture archiving and communication system (PACS)

A system for managing medical images, such as digital radiology images.

Pathology

A specialized medical area that uses tissues and body fluids for diagnostic purposes.

Process industry

A type of automated manufacturing industry with several manufacturing processes, such as the paper industry, the petrochemical industry, and iron and steelworks.

Radiology

A health science discipline and medical specialty that uses technologies for imaging the human body, such as X-ray, magnetic resonance imaging (MRI) and ultrasound.

Radiology information system (RIS)

An IT system for managing radiology patient data, such as appointment bookings, patient information and dictations at radiology clinics.

Standardized care pathway

A predetermined clinical pathway that describes the basis for a well-founded suspicion of a specific type of cancer, what examinations are to be carried out to make a diagnosis and treatment decision, and how long it takes to complete the full pathway from well-founded suspicion to the start of treatment. The aim is to shorten the waiting times in cancer care and provide more equal, patient-centered care.

Trauma surgery

Surgical procedure on a patient with, for example, a bone fracture or life-threatening injury. Any type of external injury to the body is classified as a trauma in the medical sense

Visualization table

Large, interactive touch screen with an image-viewing program that enables interaction with 3D images of human and animal bodies.

Virtual private network (VPN)

A technology used to create a secure connection or "tunnel" between two points along an unsecured data network, such as the internet.

Vendor-neutral archive (VNA)

IT solution for managing and archiving files such as medical images, audio files and film sequences in a shared multimedia archive.

List of references

¹ The Global Risks Report 2018, <https://www.weforum.org/reports/the-global-risks-report-2018>

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⁵ Report Imaging IT, Archiving and Management World 2017, Signify Research, May 2017

⁶ Ian J. Wallace, Steven Worthington, David T. Felson, Robert D. Jurmain, Kimberly T. Wren, Heli Majanen, Robert J. Woods, Daniel E. Lieberman. Knee osteoarthritis has doubled in prevalence since the mid-20th century. Proceedings of the National Academy of Sciences, 2017. <http://www.pnas.org/content/114/35/9332>

⁷ The Orthopaedic Industry Annual Report for the year ending December 31, 2012.

⁸ The Orthopaedic Industry Annual Report 2013 by ORTHOWORLD, Inc.

⁹ Overview of the world's medical schools: an update. [2014] <https://doi.org/10.1111/medu.12499> 10

¹⁰ World Directory of Medical Schools, <https://www.wdoms.org>

¹¹ Svenska Cancerfonden, <https://www.cancerfonden.se/om-cancer/om-prostatacancer>

¹² World Cancer Research Fund International. Prostate cancer statistics. <https://www.wcrf.org/int/cancer-facts-figures/data-specific-cancers/prostate-cancer-statistics>

¹³ Ferlay J, Soerjomataram I, Ervik M, Dikshit R, Eser S, Mathers C, Rebelo M, Parkin DM, Forman D, Bray F. GLOBOCAN 2012 v1.0, Cancer Incidence and Mortality Worldwide: IARC CancerBase No. 11 Lyon, France: International Agency for Research on Cancer; 2013. Available from: <http://globocan.iarc.fr>

¹⁴ Sectra's visualization table was developed in cooperation with researchers at the Center for Medical Image Science and Visualization (CMIV), the Interactive Institute and Visualization Center C.

¹⁵ Read more about the Swedish defense initiative (in Swedish): <https://www.svd.se/planering-av-svenskt-totalforsvar-aterupptas-efter-20-ar>

¹⁶ Decision insights 2018, National trends & best practices report by KLAS Research

Invitation to the 2018 Annual General Meeting

Date September 6, 2018
Time 3:30 p.m.
Place Collegium, Teknikringen 7, Linköping, Sweden

Dividend/share redemption program

The Board and the CEO propose that the AGM resolve that SEK 4.50 per share be transferred to the shareholders through a share redemption program. No ordinary dividend is proposed.

Notice

Official notice will be distributed not earlier than six weeks and not later than four weeks prior to the AGM in the form of a press release and publication on the company's website. The notice will be announced in the *Swedish Official Gazette (Post- och Inrikes Tidningar)* and an announcement that notice has been given will be published in *Svenska Dagbladet*.

Attendance and notification

Shareholders wishing to attend the meeting must be recorded in the shareholder register maintained by Euroclear Sweden AB not later than August 31, 2018 and notify the company by email info.investor@sectra.com, telephone +46 (0)13-23 52 00 or mail to the following address: Sectra AB, Annual General Meeting, Teknikringen 20, SE-583 30 Linköping, Sweden. The notification should include the shareholder's name, personal or corporate registration number and daytime telephone number. Where applicable, the number of advisors should be specified. If shareholders intend to be represented by proxy, a power of attorney and other authorization documents must be included with the notification.

Trustee-registered shares

Shareholders whose shares are registered with a trustee must temporarily re-register their shares in their own name with Euroclear Sweden AB. Such registration is to be carried out via the administrator and completed not later than August 31, 2018.

Documents

Complete proposals for decisions and forms for notification and authorization will be available not later than August 16, 2018 (three weeks prior to the AGM) on www.sectra.com/agm and from Sectra's office in Linköping. Shareholders who wish to receive these documents by mail should contact the company by telephone +46 (0)13-23 52 00 or by email info.investor@sectra.com.

Distribution of the printed Annual Report

This Annual Report will be announced in a press release and published on the company's website. A message will be sent by mail to all shareholders registered with Euroclear Sweden AB on June 30, 2018 announcing that the report is available and to contact the company for a printed copy. To reduce the company's environmental impact, mail distribution will be limited to Europe; other stakeholders should refer to the digital version.

Interim Reports 2018/2019

September 4, 2018	Three-month Report
December 7, 2018	Six-month report
March 6, 2019	Nine-month report
May 28, 2019	Year-end report



Visit Sectra in conjunction with the AGM

After the AGM, shareholders are invited to visit Sectra's office in Linköping, where the company will serve light refreshments and demonstrate its products for a healthier and safer society.

Contact information, Sectra Group Headquarters

Sectra AB

Teknikringen 20
SE-583 30 Linköping, Sweden
Email: info@sectra.com
Tel: +46 (0)13-23 52 00
www.sectra.com

For further contact information for Sectra's global offices, visit
www.sectra.com/contact

Contact for shareholders and investors

A new website for investors was
launched in 2017. Visit the site here:
www.sectra.com/investor

Shareholder contact

Helena Pettersson
Chief Investor Relations Officer
Email: info.investor@sectra.com
Tel: +46 (0)13-23 52 04



Subscription

Financial reports, press releases and corporate governance
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Ten good reasons to invest in Sectra

- Growth potential in the healthcare, secure communications and critical infrastructure sectors.
- Established brand in niche areas, where customer confidence is a critical success factor.
- Stable, profitable company, with more than 50% of sales comprising recurring revenue from long-term customer contracts.
- Multinational reach and thousands of customers worldwide.
- High level of customer satisfaction and the aim to make customers even more satisfied.
- Products and services that contribute to improved quality of life and a safer society.
- Self-financed portfolio of exciting innovation projects with reported and controlled costs. While some of these projects may not succeed, a single success story would be sufficient to add significant value.
- Members of management are shareholders.
- Principal owner dedicated to the long-term development of the company.
- A very strong corporate culture based on the employees' expertise and attitudes and their drive to solve customer problems.

Are you already a Sectra shareholder?

We would like to know why you chose to buy shares in Sectra and what you think of your investment and confidence in the company. Please take the time to answer nine questions in Sectra's shareholder survey. Your feedback is important to Sectra!

» www.sectra.com/irsurvey



SECTRA

Knowledge and passion