

Annual report

06/07



**SECTRA**

## This is Sectra

Sectra successfully develops and sells high-tech systems and products in the expanding niche segments medical systems and secure communication systems. The company's products are used by customers in more than 40 countries and sales are conducted directly by Sectra as well as through global, regional and local partners.

Sectra has more than 450 employees and offices in 11 countries. The company is headquartered in Linköping, Sweden, and has its roots in research operations at Linköping University. The Sectra share is listed on the OMX Nordic Exchange in Stockholm.

### Medical systems



The Medical systems business area develops and sells IT-systems and products for, among other areas, radiology, mammography and orthopedic departments. Customers are public and private hospitals and healthcare providers with high demands on effectiveness. More than 40 million radiology examinations are performed yearly with Sectra's systems and this makes Sectra one of the world leading companies within systems for handling digital radiology images. In Scandinavia, Sectra has a market share of more than 50% of all film-free installations.

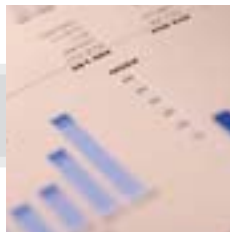
### Secure communication systems



The Secure communication systems business area develops and sells encryption products for secure voice and data communications. Customers are government authorities and defense departments with strict demands on communication security. In Sweden, Sectra is the market leader in encryption products for the defense departments. On the European market, Sectra is a growing niche player and the only company to have EU-approved encryption products for secure mobile communication.

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### Annual General Meeting

The Annual General Meeting in Sectra AB will be held Thursday, June 28, 16:00 CET at Collegium, Teknikringen 7 in Linköping, Sweden.

### Dividend

A dividend of SEK 0.50 per share is proposed for the 2006/2007 fiscal year. July 3, 2007 is proposed as the record date for the dividend. If the Annual General Meeting adopts the proposal, the dividend will be paid on July 6, 2007.

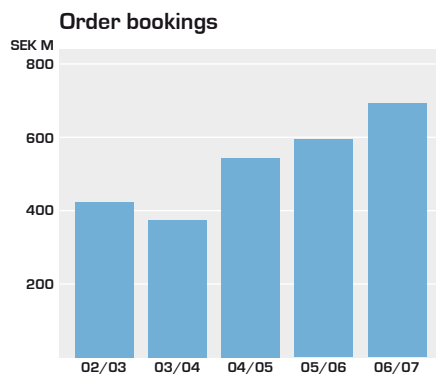
### Financial information 2007/2008

Interim report May–July 2007:	September 4, 2007
Six-month report May–Oct 2007:	December 4, 2007
Nine-month report May 2007–Jan 2008:	March 4, 2008
Preliminary year-end report:	May 20, 2008

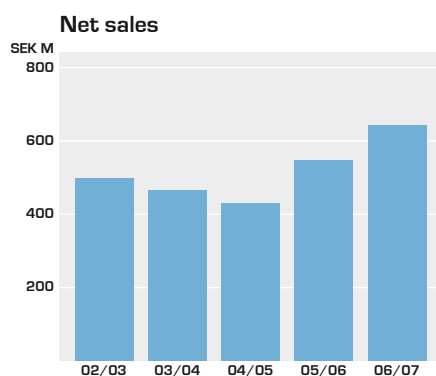
All financial reports are published on the company's website [www.sectra.se](http://www.sectra.se). Questions can also be submitted to the company by phone +46 13 23 52 00 or e-mail [info.investor@sectra.se](mailto:info.investor@sectra.se).

Interested parties can subscribe on the company's website to receive annual reports, interim reports and press releases by e-mail. Financial reports and other information can also be ordered by phone or at the e-mail address above.

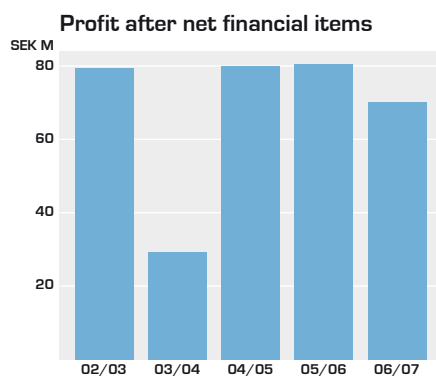
## Highest order bookings and sales in Sectra's history



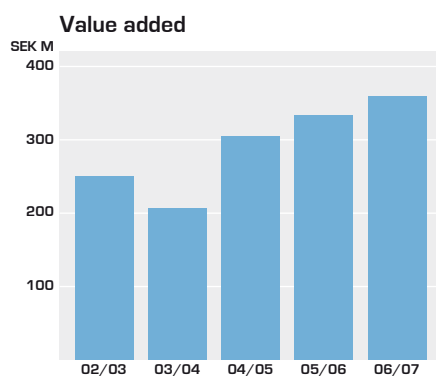
The Group's order bookings rose by 11.6%. The increase was due to Sectra's expanded direct sales of medical systems in strategically key markets. The single largest increase was reported for Sectra in North America, where order bookings rose by 41.6% compared with the preceding year.



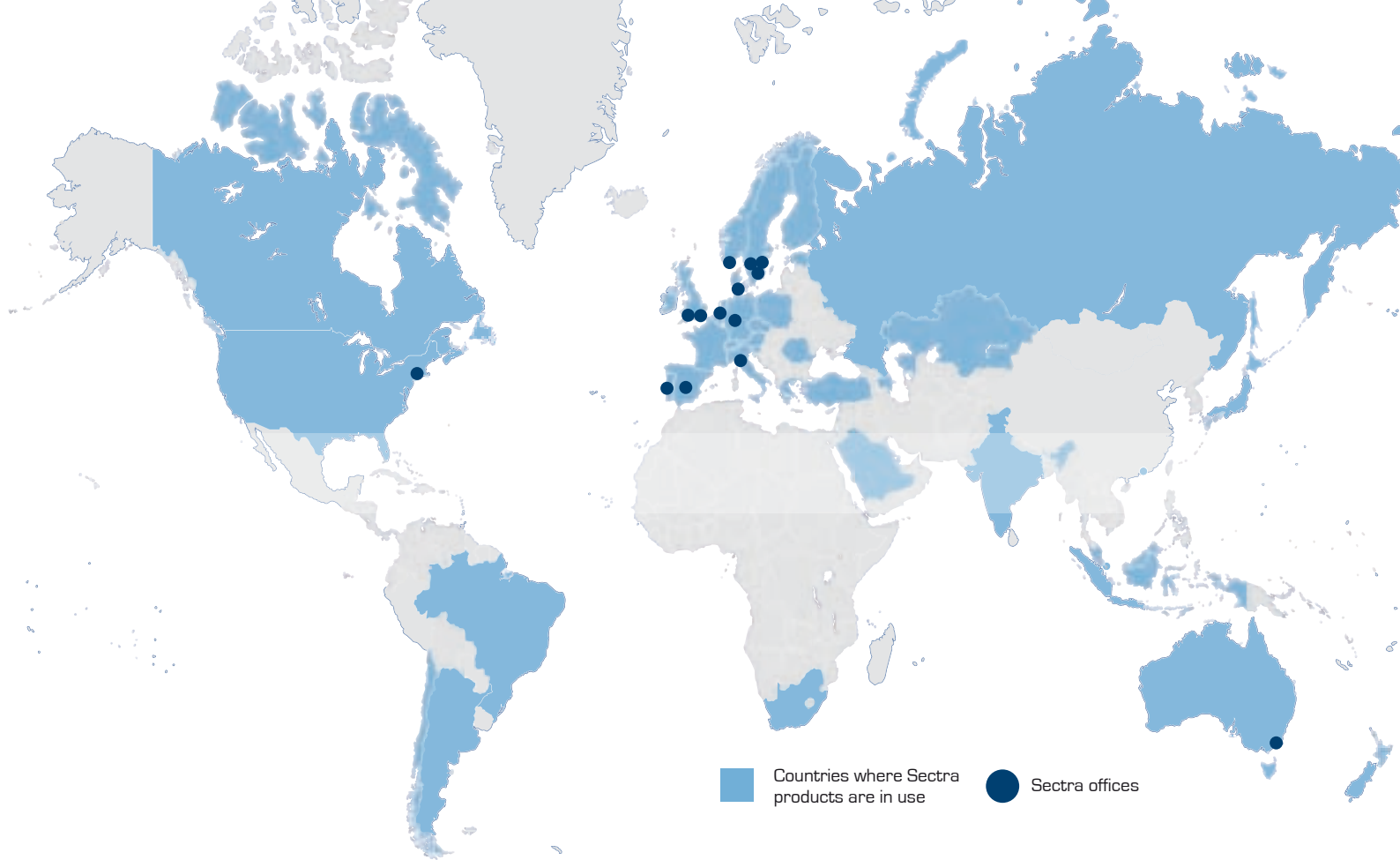
The Group's net sales rose 19.2%. The increase was attributable to Sectra's extensive investment in expanding its operations in Medical Systems. These investments resulted in the increase in direct sales and the volume of service contracts, compared with the year-earlier period. The strongest expansion occurred in the mature Scandinavian market and the expansive US market.



The Group's profit after net financial items amounted to SEK 70.2 million, which corresponds to a profit margin of 10.4%. Currency changes in EUR and USD influenced the Group's operating profit adversely by SEK 5.4 million. Revenues continued to be charged with Sectra's extensive investment in expanding its distribution network and service organization for Medical Systems, motivated by the ongoing phasing-out of its cooperation with Philips Medical Systems.



The Group's added value increased by 7.7%. High competency and efficiency among employees contributed to the increase in added value despite a sharp increase in the number of employees during the fiscal year.



## International expansion

During 2006/2007, Sectra strengthened its position internationally. Current and new customers worldwide have selected Sectra's products, which are now being used in more than 40 countries. The strongest expansion during the year occurred in the mature market in Scandinavia and in the expansive US market. Revenues from markets outside Sweden increased by 17.6% to SEK 431.3 million.

### Key figures <sup>1)</sup>

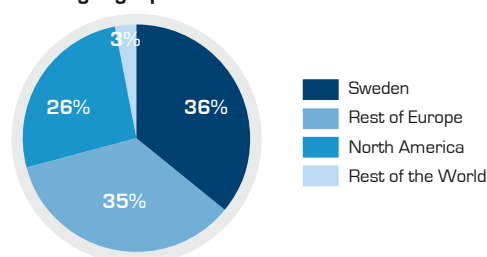
	06/07	05/06
Order bookings, SEK M	684.7	613.7
Net sales, SEK M	672.5	564.4
Profit after net financial items, SEK M	70.2	80.7
Value added, SEK M	361.5	335.8
Profit margin, %	10.4	14.3
Equity/assets ratio, %	60.8	58.9
Return on shareholders equity, %	9.4	13.2
Earnings per share, SEK <sup>2)</sup>	1.28	1.65
Dividend per share, SEK <sup>3)</sup>	0.5	0.5
Number of employees at year-end	455	383

1) Definitions of key figures are available in Note 28 on page 48.

2) Before dilution.

3) Proposed dividend for 2006/2007.

### Net sales geographic markets



### Medical Systems

- The market for medical IT continued to grow. Through Sectra's strengthening of its own sales and support organization, net sales for Medical Systems increased 22.5%, to SEK 610.9 million.
- Several mammography clinics elected to invest in the lowest dose mammography and Sectra entered five new countries with the mammography system, Sectra MicroDose Mammography.
- Sectra made a breakthrough in direct sales of its system for the handling of digital radiology images, PACS, in such countries as Australia, Belgium, the Netherlands and Portugal.

### Secure Communication Systems

- Measures to enhance the efficiency of the operation within Secure Communication Systems increased the business area's profitability from breakeven in 2005 to an operating margin of 9.1%.
- Sectra is the first company to receive EU approval for crypto products for mobile communications.
- Nordic Battlegroup, one of the EU's rapid deployment forces, elected to protect its communications with Sectra's products. The deployment force, which includes units from Sweden, Finland, Norway and Estonia, is one example of how cooperation across borders is increasing.

## Our investment has borne fruit – best order bookings and sales in Sectra's history

We have now completed a fiscal year in which we strengthened Sectra's position in important markets. We reported top levels for order bookings and net sales. This was attributable to increased direct sales and a growing volume of support contracts in the Medical Systems business area.

Within Medical Systems, our Sectra MicroDose Mammography solution continues to conquer the world. Within our Secure Communication Systems business area, we reported positive earnings after investments in the further development of our product offering.

### **Profit targets achieved**

This year, we achieved the best results to date in terms of order bookings and sales. Order bookings increased 11.6 % to SEK 684.7 million (613.7). Net sales rose 19.2% to SEK 672.5 million (564.4). Profit after net financial items for the Group amounted to SEK 70.2 million (80.7). Despite major costs for the phasing out of the cooperation with Philips Medical Systems, we reported a profit margin of 10.4% (14.3), which means that we also achieved our profit target this year.

Phasing out of the cooperation with Philips Medical Systems has been in progress since 2005. The main agreement that regulates the partnership will expire in the autumn of 2007. In the addendum to this, there are a number of project agreements, of which the most long-term agreement will expire in 2016. The phasing out will continue to be charged against our earnings during 2007/2008.

### **International expansion**

During the year, we have further strengthened our position internationally. Revenues from markets outside Sweden rose 17.6% to SEK 431.3 million (366.9) and represents 64.1% of the Group's total net sales. The expansion is a result of the comprehensive market investments we initiated within Medical Systems during 2005. We have increased direct sales in strategically key markets, for example, the US. We have expanded our service and support offering to include customers in all our markets.

### **Market growth for medical systems**

Medical systems are our largest operational segment and accounted for 90% of the Group's net sales. An increasing number of hospitals are choosing to enhance the efficiency of their radiology operations

by introducing digital systems, and during the year net sales for the business area increased by 22.5%. Today, we are one of the world's leading suppliers of systems for the handling of digital radiology images. A total of 40 million radiology examinations are performed annually using our systems. As the number of installed systems increase, so does revenue from additional sales and from maintenance and upgrading contracts.

We have a particularly strong position in our domestic market, Scandinavia, which is one of the most developed markets for digital radiology systems. Our strongest growth during the year occurred in Scandinavia and in the expansive US market. In the US, it is estimated that approximately 40-50% of the systems for handling radiology images are digital, which indicates that the potential for new sales remains high. In other countries, for example, Spain and France, the portion is estimated to be considerably lower. The transition to digital systems is occurring more rapidly, which means that the market for our medical systems continues to grow.

### **Mammography customers in 14 markets**

Within Medical Systems, we also provide products for mammography and orthopedic departments, niche markets that are expected to grow significantly in future years. The largest investment is in the mammography area, in which we can offer one of the world's best digital mammography systems, Sectra MicroDose Mammography, which has the market's unmatched lowest radiation dose and most efficient workflow.

The transition from film-based to digital mammography systems is ongoing globally. During the fiscal year, we sold systems in an additional five markets and Sectra MicroDose Mammography are installed in 14 countries today. During the year, we introduced a new model of Sectra MicroDose Mammography and our focus in the near future is on launching the new model in Europe. We will also be submitting an application for approval to the US Food and Drug Administration (FDA). An approval will also open the US market for Sectra MicroDose Mammography.

### **EU-approved crypto products**

During the past fiscal year, Sectra's Secure Communication Systems have reversed the negative earnings trend to SEK 6.2 million (loss: 0.7). With the development efforts and efficiency enhancements made to the organization during the past year, we are now streamlined to increase our market share in the European markets.

The recent years' investments in the development of the third generation of Tiger products, known as Tiger XS, are beginning to bear fruit. During the fiscal year, we supplied Tiger XS to the EU Swedish-led rapid reaction force, Nordic Battlegroup and to government authorities in the Netherlands.

Increased European cooperation across borders means that the demand for crypto products is changing from national to common solutions for the entire EU. Through the approval of the Tiger XS by the Council of the European Union during the year, we are the first with EU-approved voice crypto products for mobile communications. The products that are used for the transfer of security classified information within the EU must be approved and this is a market on which we will be focusing in future years.

### **Continued profitable growth**

Sectra's average growth rate during the recent seven-year period is 20.2%. We have not achieved our strategic goal of an average of 30% growth during a seven-year period, which is a consequence of the readjustment from having Philips as a major distributor to our investment in increased direct sales.

Today, we are one of the leading suppliers of medical IT systems and products for the protection of security classified information. This position is the result of our long-term and goal-oriented efforts to become number one within our niches. We have a market-leading position in Scandinavia and our presence in the international market is increasing through the establishment of new offices in selected markets and through partnerships. I assess that the niches in which we operate will experience volume increases in the next ten years and will also offer the possibility of favorable development in the future. With world-class employees, who are personally committed to focusing on the customer, I foresee that there are good possibilities for continued future growth.



Linköping, May 2007

Jan-Olof Brüer  
President and CEO



# Visions, goals and strategies

Sectra aims to be the world market-leader in selected niche markets. By developing and delivering systems and products with innovative technology, Sectra contributed to long-term added value for its customers.

Working from its strong position in Scandinavia, Sectra is on the way to expanding its operations internationally. Sectra's growth strategy is based on operations on expanding niche markets. All of Sectra's operations shall have the potential to become international leaders, and to contribute to strengthening Sectra's earnings and brand.

With a focus on profitable growth, innovative technology, close and long-term cooperation with customers and partners, Sectra works with highly skilled and committed employees to achieve the goal set by the company.

## Overall goals

- To establish a strong global brand that stands for high-quality innovative, reliable and cost-effective systems and products
- To apply a customer-guided development approach in all development projects of new technical solutions
- To be as responsive and available to customers, partners and employees as a small company
- To offer the same long-term mindset and sustainability as a major company

## Growth goal

- To achieve annual average growth of 30% over a seven-year period

## Financial goals

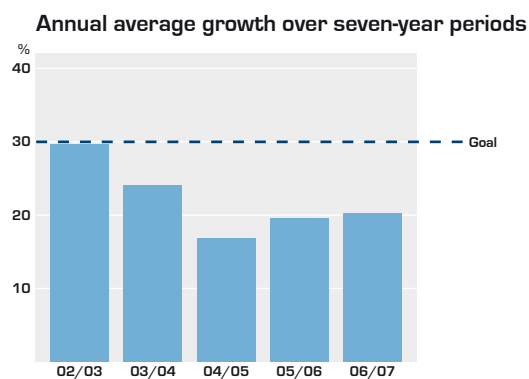
- To achieve a profit margin of at least 10%
- To maintain a stable financial position, with an equity ratio of at least 30%

## Overall strategies

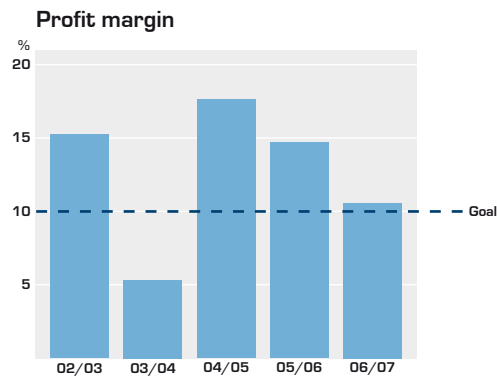
Sectra's overall strategies for achieving these goals may be summarized as follows:

- To work together with the most qualified customers to ensure that our systems and products meet the market's strictest requirements in terms of performance, quality and user-friendliness
- To offer our customers products and systems that create unique added value and contribute to increasing their productivity
- To recruit and cultivate highly qualified employees
- To focus on areas where Sectra has core competence, and to out-source anything that is not a core technology and/or an area of strategic expertise in order to make the company's deals highly flexible and scalable
- To finance new development projects together with customers or partners in order to ensure that all development work is guided by commercial value-added needs
- To work long-term with strategic and complementary partners to reach a broader geographic market and expand our product offering to customers

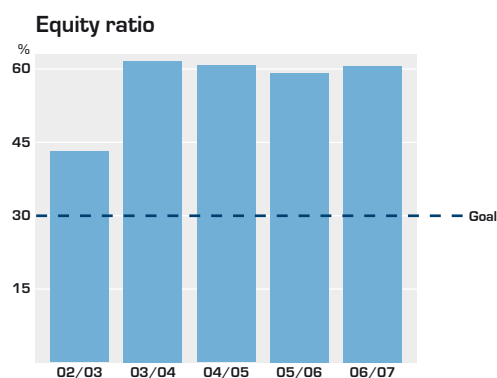




The average growth rate during the past seven years was 20.2%. Sectra has not achieved its strategic growth target, which is related to the transition from having Philips Medical Systems as its largest distribution partner to the focus on increased direct sales. Sectra is active in niche markets that will increase in volume in the next ten years and consequently provide Sectra the possibility to achieve growth that fulfills Sectra's long-term goal.



Sectra has always focused on profitability and the profit margin in the 2006/2007 fiscal year amounted to 10.4%. The profit goal of 10% was achieved despite major costs for the expansion of Sectra's international sales and support organization.



The equity ratio in 2006/2007 amounted to 60.8%. Sectra has a highly stable financial position. During the build-up phase of Sectra's mammography operations, the company has gathered the financial resources that ensure the implementation of the project. As a result, the equity ratio exceeds the company's strategic goal.

## Increase in institutional ownership

Sectra's Series B share has been listed on the OMX Nordic Exchange since 1999. A trading lot consists of 200 shares and the share is traded on the Nordic list in the Midcap segment and the Healthcare Equipment sector.

The total number of shareholders is 5,723. During the 2006/2007 fiscal year, Swedish institutions, organizations, insurance companies and other companies increased their holdings in Sectra and, on April 30, 2007, owned 35% of the share capital, compared with 25% on the corresponding date in 2006. The number of shares traded during calendar year 2006 was 18.7 million, compared with 27.4 million during calendar year 2005. This corresponds to a turnover rate of 0.55 times (0.80).

### Price trend

The last price paid at the end of the accounting period was SEK 76.00, which corresponds to a market capitalization of SEK 2,596 million (2,005). The share price rose 29% during the fiscal year, while the Stockholm Stock Exchange's Total Index rose by 22% during the same period. The highest quotation for the share during the fiscal year was SEK 82.50 on January 22, 2007, while the lowest was SEK 51.50 on May 17, 2006.

### Share capital

Sectra's share capital at April 30, 2006 totaled SEK 36,783,188, divided among 36,783,188 shares. Of these shares, 2,620,692 are Series A shares and 34,162,496 are Series B shares. All shares confer equal

rights to the company's assets and earnings. One Series A share confers ten votes, while one Series B share confers one vote.

Full conversion and exercise of issued incentive programs would increase the number of shares by 746,800, corresponding to 2.0% of the share capital and 1.2% of the votes. The number of shares after full dilution amounts to 37,529,988. For further information on issued incentive programs, see Note 2 on page 40.

### Dividend policy

The Sectra Board of Directors' basic premise is that the dividend should strike a balance between the desire for a direct return and the company's need for capital for growth and international expansion. In the long term, the Board intends to distribute an average of 15-20% of after-tax profit to shareholders.

### Analyses

The following analysts continuously monitor Sectra's performance and publish analyses:

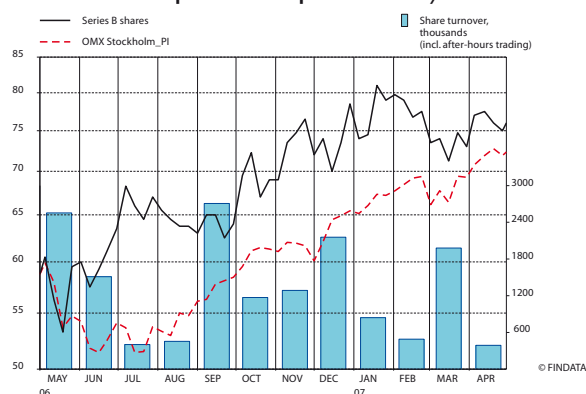
SEB Enskilda Securities, Andreas Joelsson, tel. +46 8-522 295 00

HQ Bank, Jesper Norberg, tel. +46 8-696 18 13

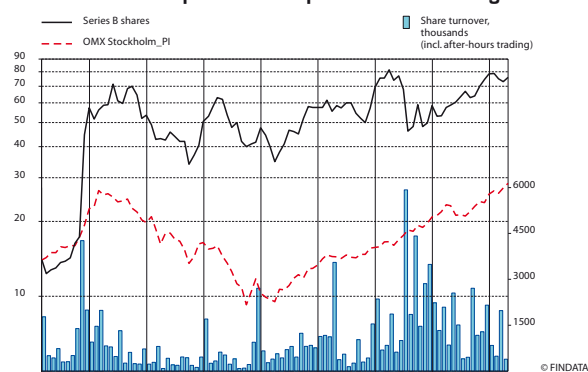
Handelsbanken Capital Markets, Hans Mähler, tel. +46 8-701 81 55

Redeye, Jan Glevén, tel. +46 8-545 013 35

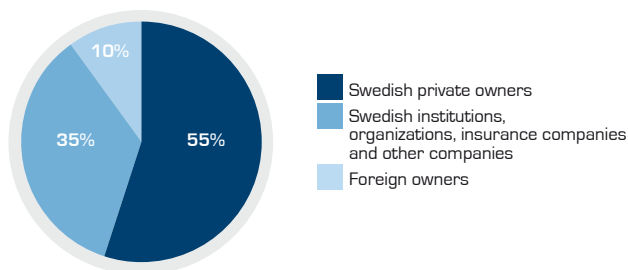
**Sectra share price development 2006/2007**



**Sectra share price development since listing**



## Ownership structure in relation to capital



## Progress of share capital

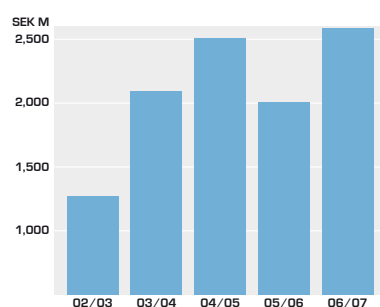
Date	Transaction	Increase in no. of shares	Total no. of shares	Increase in share capital	Total share capital
1998/1999	New issue at listing	500,000	10,500,000	1,250,000	26,250,000
1999/2000	New issue	420,315	10,920,315	1,050,787	27,300,787
2000/2001	Bonus issue	0	10,920,315	5,460,158	32,760,945
2000/2001	Split 3:1	21,840,630	32,760,945	0	32,760,945
2002/2003	Redemption of conv. debentures	315,566	33,076,511	315,566	33,076,511
2003/2004	Redemption of empl. options	75,000	33,151,511	75,000	33,151,511
2003/2004	New issue	2,700,000	35,851,511	2,700,000	35,851,511
2004/2005	New issue	540,540	36,392,051	540,540	36,392,051
2004/2005	Redemption of conv. debentures	11,200	36,403,251	11,200	36,403,251
2004/2005	New issue	47,387	36,450,638	47,387	36,450,638
2004/2005	Redemption of empl. options	54,667	36,505,305	54,667	36,505,305
2004/2005	Redemption of empl. options	23,333	36,528,638	23,333	36,528,638
2005/2006	Redemption of conv. debentures	169,550	36,698,188	169,550	36,698,188
2005/2006	Redemption of empl. options	28,333	36,726,521	28,333	36,726,521
2005/2006	Redemption of empl. options	20,000	36,746,521	20,000	36,746,521
2006/2007	Redemption of empl. options	36,667	36,783,188	36,667	36,783,188

## Sectra's largest shareholders at April 30, 2007

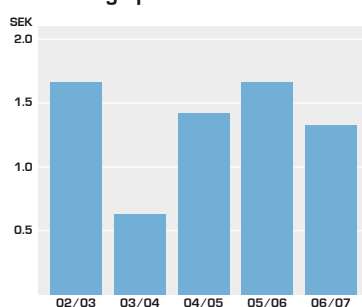
Shareholder	No. of A shares	No. of B shares	Share of votes	Share of capital
Jan-Olof Brüer	733,110	2,879,904	16.9	9.8
Torbjörn Kronander	733,108	2,879,901	16.9	9.8
Frithjof Qvigstad	262,866	2,020,569	7.7	6.2
If Skadeförsäkrings AB	0	4,252,500	7.0	11.6
Viiveke Fäk	221,700	1,138,150	5.6	3.7
Robert Forchheimer	202,203	1,178,104	5.3	3.8
Ingemar Ingemarsson	221,347	980,499	5.3	3.3
Thomas Ericson	196,329	1,056,044	5.0	3.4
Fjärde AP-fonden	0	2,436,300	4.0	6.6
Lannebo fonder	0	1,727,550	2.9	4.7
<b>Total for 10 largest shareholders</b>	<b>2,570,663</b>	<b>20,549,521</b>	<b>76.6</b>	<b>62.9</b>
Other shareholders with more than 100,000 shares (29)	35,298	5,659,085	10.0	15.4
Shareholders with 10,001 – 100,000 aktier (107)	9,516	3,654,072	6.2	10.0
Shareholders with 1,001 – 10,000 aktier (946)	5,215	2,720,084	4.6	7.4
Shareholders with up to 1,000 aktier (4,631)	0	1,579,734	2.6	4.3
<b>Total 5,723 shareholders</b>	<b>2,620,692</b>	<b>34,162,496</b>	<b>100%</b>	<b>100%</b>

Source: VPC

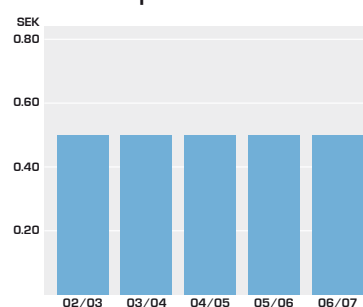
## Market value



## Earnings per share



## Dividend per share



For additional key figures, see Five-year overview on page 50.

## Cutting-edge solutions for expansive niche markets

Sectra develops and sells high-technology systems and products in expanding niche segments. Operations encompass medical systems and secure communications systems – niches in which Sectra has the potential to become the world leader.

Sectra's products are used by customers in more than 40 countries. Sales are conducted directly by the company as well as through some 15 global, regional and local partners.

### **Industry-specific certification ensures high quality**

Quality awareness is integral to Sectra's operations as a whole. All business operations are certified in accordance with ISO 9001:2000 and TickIT quality standards.

The company's products are covered by industry-specific regulations and requirements. Sectra's medical systems meet the European specifications for CE marking, Medical Devices Directive 93/42/EEC. The products that are sold in the US are approved by the US Food and Drug Administration (FDA). Sectra's encryption products are designed in accordance with the Common Criteria international security standard. The encryption products are also approved by the EU and several national security and accreditation bodies in Europe.

### **Future proof solutions and customer-oriented development**

Sectra's customers shall feel secure that they are investing in solutions adaptable to conditions in the future. Accordingly, Sectra continu-

ously allocates resources to research and development within areas related to the company's niche markets.

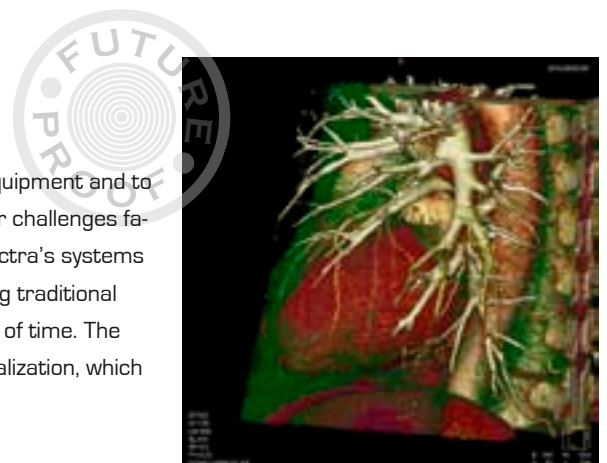
The company's development strategy is to allow the customers' needs, combined with Sectra's knowledge of future trends, to guide development and product renewal. To be able to exploit new technology, Sectra also cooperates with a number of universities and research centers, which results in systems and products with unique technical solutions. Sectra strives to enable end-users to participate in all product development. User groups, continuous training and personal contacts ensure that Sectra's systems fulfill market requirements.

### **Patents and brands**

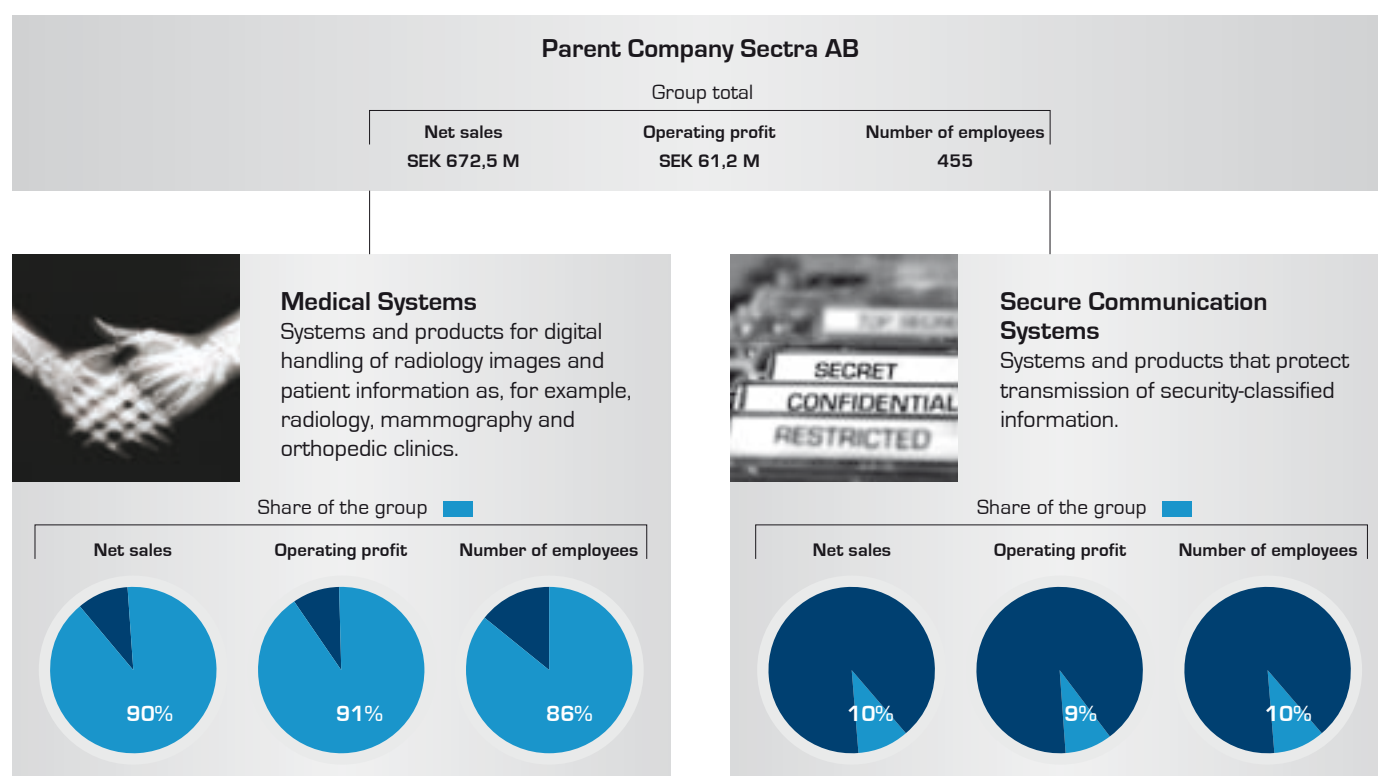
Building and safeguarding brand names and protecting the company's intangible assets are part of Sectra's business-development strategy. This protection encompasses patents, trademarks and registered Internet domain names. Sectra holds more than 20 patents and during 2006/2007 the company has submitted 9 new patent applications. Sectra's trademark portfolio includes some ten registered brand names.

## Sectra customers geared up for data explosion

Sectra customers are well prepared to take advantage of modern radiology equipment and to effectively handle the enormous volume of images produced – one of the major challenges facing the healthcare sector. Through revolutionary image-handling methods, Sectra's systems process large image volumes many times more rapidly than systems employing traditional methods. Physicians can thereby perform diagnoses with no unnecessary loss of time. The methods have been developed in cooperation with the Center for Medical Visualization, which is the research center at the university in Linköping.



## Sectra's organization



The Sectra Group has two business areas which are conducted within the wholly owned Swedish subsidiaries, Sectra Imtec AB (medical systems) and Sectra Communications AB (secure communication systems). These companies, in turn, have a number of subsidiaries with offices in a total of eleven countries; for additional information, refer to note 12 on page 43.

# Increased direct sales strengthens position internationally

## Business concept

Increase effectiveness of healthcare, while maintaining or increasing quality in patient care.



### Product Division RadIT

IT systems for processing and archiving of radiology images (PACS) and patient information (RIS).



### Product Division Mammography

Systems for digital mammography consisting of radiology equipment and IT systems for processing and archiving of mammography images.



### Product Division Orthopedic

IT systems adapted for orthopedic needs, such as PACS, and systems for planning operations.

## Service and support

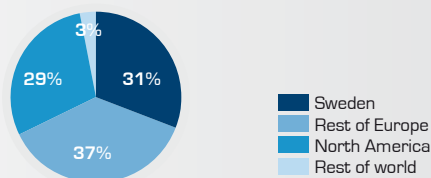
To enable customers to maximize their investment and have the opportunity to advance their activities, service, customer education and upgrades are important elements of Sectra's product offering. Customers are offered various services, for example, supplement service and upgrading agreements. Sectra provides round-the-clock service from its offices, or as required by the customer. Some 20 Sectra employees have pilot licenses, which enables easy accessibility to customers.

## Financial trend

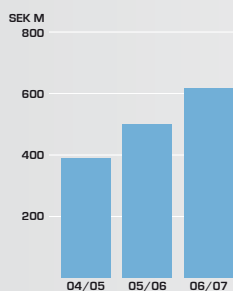
Key ratios	06/07	05/06	04/05
Net sales, SEK M	610.9	498.8	392.1
Operating profit, SEK M	63.8	83.9	90.4
Operating margin, %	10.4	16.8	23.0
No. of employees	392	312	293

For additional information refer to the Board of Directors' Report on page 26.

## Net sales geographical markets

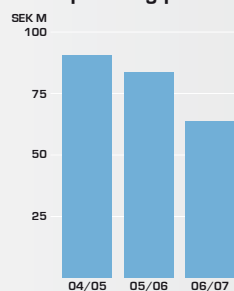


## Net sales



Net sales rose 22.5%. The increase is due to efforts to expand in strategically important markets, as a result of which direct sales and the volume of service contracts has increased compared with the comparable period.

## Operating profit



Operating profit amounted to SEK 63.8 M, corresponding to an operating margin of 10.4%. Results were affected by the company's extensive marketing efforts.

During the year, Sectra has sharply strengthened its sales and support organization. This has resulted in increased direct sales. With increased emphasis on marketing, and innovative products to assist customers in making their operations more efficient, Sectra is continuing its global expansion.

Sectra's operations within Medical Systems are conducted by the wholly owned subsidiary, Sectra Imtec AB. For 20 years, Sectra has developed flexible medical IT solutions that can be readily adapted to and integrated with other systems in hospital environments. With the focus on efficiency and high productivity, the company's products contribute to cost-savings within healthcare.

### **Trend of operations, 2006/2007**

Sectra's heavy emphasis on marketing, which began in the summer of 2005, continued during 2006/2007. This included Sectra's acquisition of the Netherlands company ImaXperts BV, and the further strengthening of its own sales and support organization. This emphasis has generated orders from a large number of new customers worldwide, which strengthens Sectra's position in the market for medical systems.

#### **Strong trend in the US market**

Sectra's major sales successes have been in the US, where order bookings increased by about 42% compared with the preceding year. US customers who selected Sectra products and services include major independent radiology clinics such as X-Ray Associates of New Mexico, and leading orthopedic clinics such as the Rothman Institute in Philadelphia.

One of Sectra's goals has been to be included, under its own brand, among the PACS suppliers evaluated by the US analysis company KLAS Enterprises. Evaluations are based on assessments performed by thousands of decision-makers and specialists in hospital care, and are used by care providers as the basis for procurement. Through the company's strong increase in installations in the US, Sectra has achieved this objective. This ranking is a major step toward inducing more US companies to evaluate Sectra's product line in connection with PACS procurement.

#### **More service and support customers**

During 2006/2007, Sectra has installed medical systems at more than 100 new customers worldwide. In pace with the increase in Sectra installations is the increase in revenues from service, support and upgrade contracts. All customers are offered real-time, around-the-clock monitoring of operations-critical IT systems, and interest in cost-effective support services is intense.

#### **Many customers focusing on women's health**

During the past year, Sectra enjoyed continued sales successes with its digital mammography system, Sectra MicroDose Mammography, which has the lowest radiation dose on the market. Sectra's greatest successes were in Sweden and Germany. Sectra also initiated operations in the mammography market in five new countries: Estonia, France, Italy, Norway and Spain. Accordingly, mammography clinics in 14 countries have elected to use Sectra systems. The fact that an increasing number of mammography clinics have chosen to concentrate on women's health using lowest-dose mammography reinforces Sectra's position in this rapidly growing market.

Sectra is the market-leader in digital mammography in Sweden. Among others, the Södersjukhuset hospital in Stockholm, the County Council of Östergötland County and the County Council in Örebro invested in Sectra MicroDose Mammography during the fiscal year. Sectra also signed a framework agreement covering digitizing Capio Diagnostics' mammography operations. In conjunction with the signing, Capio Diagnostics, a leading supplier of radiology services in Europe, ordered six systems to clinics in Stockholm. The order is Sectra's largest to date for mammography systems.

#### **Sales of digital mammography in the US**

During fiscal 2006, many US mammography clinics bought Sectra systems for processing and archiving of breast radiology images.



Among others, Sectra has delivered systems to the new clinic High Resolution Women's Imaging and to Solis Women's Health mammography clinics.

Sale of Sectra MicroDose Mammography in the US requires the approval from the Food and Drug Administration (FDA). It is planned that an application for approval will be submitted during the second quarter of the 2007 calendar year. When the FDA provides its approval, Sectra MicroDose Mammography can be sold to mammography clinics on the American market.

#### **Sectra expands its product line in the Netherlands**

During the year, Sectra entered the Netherlands market with an integrated solution for the handling of patient data (RIS) and digital radiology images (PACS). The university hospital in Leiden (LUMC) will be the first major hospital in the Netherlands to install Sectra's integrated RIS/PACS solution. Sectra PACS has for some time been in place at a number of hospitals in the Netherlands, and LUMC is an important reference for demonstrating the advantages of the integrated system.

#### **In the technological forefront**

Sectra is constantly developing its existing line of products and services. During the past year, unveilings included a new generation of Sectra MicroDose Mammography and an improved statistical and planning tool for optimizing workflow and resource utilization in radiology departments. In addition, a new PACS workstation was introduced that handles very large data volumes in connection with distributed examination, that is, when examinations are performed at one hospital and reviewed at another, a routine that is becoming increasingly common. As a result, this application area is growing very rapidly around the world.

#### **Focus on customer benefit**

Sectra strives constantly to maximize benefit for customers through offering a wide range of clinical software applications. This is achieved

both through development of own products and through cooperation with companies that provide applications within various clinical areas. The latest applications include:

- Software for image fusion, a technique for developing advanced images of, for example, tumors.
- Software for detecting breast cancer (CAD), a technique that with advanced automatic image analysis assists mammography physicians in identifying areas on mammography images indicating the presence of cancer.

#### **Phasing out of cooperation with Philips**

A phasing-out of cooperation with Philips Medical Systems has been under way since 2005 and it will also continue during the 2007/2008 fiscal year. The primary agreement regulating the cooperation expires in autumn 2007. An appendix to this covers a number of project agreements, of which the longest duration is until 2016.

Sectra is striving for customers who bought systems through Philips to continue to have access to service, support and upgrading. The company has had successes with taking over existing Philips customers who contacted Sectra and requested service for their PACS.

#### **Priority activities**

Sectra's allocation of resources in Medical Systems has the long-term goal of strengthening its market position and continuing to grow internationally. During 2007/2008, the business area will focus on the following activities:

- Continued expansion of the sales and service organization in the US and Europe.
- Increased focus on marketing to strengthen the Sectra brand and position in strategically important markets, the US, for example.
- Continued launch of new models of Sectra MicroDose Mammography in Europe and Australia/New Zealand and preparations for sales of the product in the US and Asia.
- Further development of Sectra's PACS products and adaptation of Sectra's integrated RIS/PACS solutions for introduction in new geographical markets.



## Lowest dose – all women deserve it

A major source of security for women being examined using Sectra MicroDose Mammography is that the system combines the unmatched lowest radiation dose on the market with high imaging quality. The key is Sectra's unique X-ray detector that counts each individual photon. Sectra MicroDose Mammography is currently the only commercially available mammography system that utilizes photon counting – a technique that an increasing number of industry observers point to as the radiology technology of the future.

# Sectra growing in both mature and expansive markets



Sectra's strongest expansion has occurred in the US and Scandinavia. Sectra is continuing to build out its operations to meet demand on the expansive US market. On the mature market in Scandinavia, Sectra is focusing on supplemental sales and new customer segments, such as mammography clinics.

*"To retain our market-leading position in Scandinavia, we are working together with our customers in teams, which is based on the fact that we have extensive knowledge about their operations. In such a manner, we support customers in the work with developing and enhancing the efficiency of operations," says Marie Ekström, President of Sectra's medical operations in Scandinavia.*

## Market overview

The market for Sectra's medical systems is comprised of care-providers that use X-ray images for example, radiology, mammography and orthopedic clinics. Sectra systems are sold globally, with a focus on Europe, North America and Australia.

Some 40 million radiology examinations are performed annually using Sectra systems, making it the world's largest supplier of systems for the handling of radiology images. In Sweden, Sectra is the market leader, with a market share in excess of 50%.

## Customers

Customers are comprised of public and private hospitals and care-providers, from major university hospitals to small and medium-size radiology clinics. Sectra focuses particularly on production-oriented radiology units in which cost efficiency and high production are central requirements.

Customers include Karolinska University Hospital in Stockholm, the University Hospital in Leiden, in the Netherlands and X-ray Associates in the US.

## Distribution channels

Sales within medical systems occur partly under our own direction and through some ten local and regional partners, such as in the Finnish, Italian and Turkey markets. Sectra's own sales organization accounts for the majority of sales.

## Trends

The forces driving the growth of Sectra's products are:

- The proportion of older people is growing throughout the industrialized world, which is leading to increasing costs for health and medical care. This is contributing to an increasing number of hospitals switching to digital systems to raise care efficiency.
- New digital radiology equipment produces an unprecedented volume of images that places new requirements on the systems that process and store data.

## Examples of competitors

The players in the market in which Sectra's medical systems competes consist, globally, of a few large companies, mainly film companies and suppliers of X-ray equipment. On the local scene, there are numerous medium-size software companies.

Company (Origin)	General Electric (US)	Siemens (Germany)	Agfa (Belgium)	Carestream Health (US)	Hologic (US)
Markets	Global	Global	Global	Global	Global
Digital X-ray	•	•	•	•	
Mammography	•	•	•		•

## The Market for Sectra's radiology IT-systems

According to the research company Frost & Sullivan, the PACS market is projected to grow 10% annually through 2010. Certain markets, for example, southern Europe and Japan, are expected to grow more rapidly whereas markets in which the penetration of digital systems is high are expected to have a lower growth rate. The latter applies to Scandinavia and the Netherlands, for example.

## The Market for Sectra's orthopedic products

Orthopedists are one of the radiology department's largest customers, but the use of digital radiology images and systems for planning of operations at orthopedic clinics around the world remains relatively low. Demands for reduced costs, increased productivity and improved patient care are the driving forces behind the transition to digital orthopedic systems in many countries. Use can be expected to grow in pace with the digitizing of radiology clinics.

The single largest market for Sectra orthopedic products is the US. Sectra's market there comprises some 4,000 private orthopedic clinics. Only about 20% of these clinics use digital systems, and the US market is projected to grow by approximately 10% to 15% annually.

## The Market for Sectra's mammography products

Mammography is the second most common medical radiology examination and the transition from film-based to digital mammography systems is fully under way around the world.

According to Frost & Sullivan, the European market for digital mammography in 2006 in Europe was valued at USD 79 million. The market is projected to grow by about 10-18% annually through 2013. Growth is driven by the transition from analog to digital systems and the establishment of mammography screening in additional European countries.

## Even more efficient healthcare – a must for the future

*Which trends are driving market growth for Sectra's Medical Systems?*

"The most important trend affects all our products. Demographic projections indicate that in a few short years, we will have a massive number of elderly people. This pertains to virtually the whole of the industrialized world, and will exert tremendous pressure on health-care providers. As a practical matter, this means that efficiency among care-providers must increase many times over to cope successfully with the very heavy increase in care needs.

*How does this affect Sectra?*

"We perceived this population trend as early as the end of the 1980s and initiated our concentration on medical IT. Our first customers were radiology departments and, subsequently, we also developed systems for orthopedic and mammography clinics. Our specialty is highly efficient image processing, which provides us a solid position to face the changes affecting society in the decades immediately ahead.

*What sets Sectra apart from the other market players?*

"We have excellent and skilled personnel that really provide support to the customers. This will become increasingly important as products mature. To ensure that the customer is able to maximize the benefit of its investment, a committed and skilled IT partner just as important, if not more important, than the product itself.

"We are a future-safe choice and a partner to our customers also when their environment and conditions change. We have many exciting items in the pipeline within PACS that will revolutionize processing of very large databases and thereby also solve tomorrow's problems for our customers. Our customers receive software updates continuously so that they cope with changed requirements in their existing systems. Most other suppliers attempt to sell an entirely new system in this situation.

*With the market for digital mammography rapidly growing, what are the competitive advantages that Sectra possesses in this area?*

"The Sectra system has by far the lowest radiation dose and we are at the absolute top in productivity and efficiency. This means greater security for the women being examined and high productivity for our customers.



*What is your strategy for maintaining your lead over competitors?*

"We must ensure that we are always at the top with regard to personnel skills, efficient solutions and future-proof systems. To remain at the forefront of technology development, we cooperate with a number of universities and research centers. In the future, it won't be simply a matter of displaying three-dimensional images, but in four or perhaps more dimensions as well. This means adding a time factor, which will change the work routines of radiology clinics. To make this possible, large volumes of data must be handled and processed extremely rapidly and in this development we hold a substantial lead internationally.

*How is work proceeding with broadening sales channels in the vast US market?*

"Above expectations. We have increased the number of employees significantly in our US sales and support organization, with the US accounting for about a quarter of total sales last year. Sales are also rising sharply in other countries.

*What will Sectra focus on during 2007/2008?*

A continued expansion of the sales organizations in the US and Europe, and further resource allocations on service and support as well as marketing. We have products that are comparable to or better than our competitors, but we must become more adept at telling our story. Accordingly, we will intensify our marketing efforts during the year."



# Crypto products for modern government and defense organizations

## Business concept

To be the leading supplier of secure communication systems to government and defense organizations within the EU.



## Product division Tiger

Systems and products that protect voice and data communication of classified information. The products have been approved by the EU and several national security and accreditation bodies in Europe.



## Product division Crypto

Development of customer-specific systems and products in secure communications and network encryption. The assignments include development of everything from encryption modules that are the core of encryption systems to complete communication systems.

## Service and support

To facilitate customer's use of encryption systems, Sectra provides assistance in system commissioning as well as customized training and support. Customers can also purchase service and upgrade contracts.

## Financial development

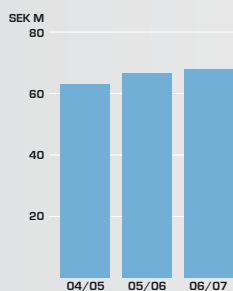
Key ratios	06/07	05/06	04/05
Net sales, SEK M	67.9	65.8	63.4
Operating profit, SEK M	6.2	-0.7	-10.4
Operating margin, %	9.1	neg.	neg.
No. of employees	46	56	58

For further information, please refer to the Board of Director's Report on page 26.

## Net sales per geographic market

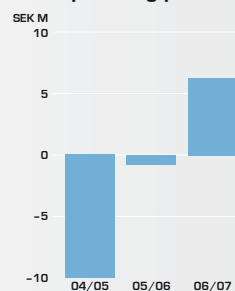


## Net sales



Net sales rose 3.2%. Most of the revenue is attributable to development assignments and customer-specific products.

## Operating profit



Operating profit increased to SEK 6.2 M, corresponding to an operating margin of 9.1%. Earnings for the year were charged with SEK 1.3 M in costs for the reductions in the UK. The improvement in operating profit is an effect of the measures taken to enhance the efficiency of operations.

With Tiger users in 13 of the 27 member states of the EU, Sectra is a leading niche player in the market for secure communication. With its EU-approved encryptor for mobile communications, Sectra is focusing on growing in the European market.

Sectra's operations in Secure Communication Systems are conducted in the wholly owned subsidiary Sectra Communications AB. Since the 1980s, the company has developed systems and products for Swedish defense and government customers. In recent years, Sectra has established cooperation with national security bodies in several European countries and EU organizations. With its core expertise in encryption and its focus on strong security solutions, Sectra contributes to protecting the transmission of classified information.

## **Developments in 2006/2007**

Sectra's focus on marketing and selling the latest generation of Tiger products – Tiger XS – is ongoing. During the year, Sectra strengthened its position in the European government market through orders from the Dutch authorities and the Swedish defense, as well as through receiving an EU approval.

### **First to market with EU-approved voice crypto**

During the fiscal year, Sectra became the first company to obtain the formal approval of the Council of the European Union for mobile voice encryption. This implies that Sectra's voice encryption product, Tiger XS, can be used to communicate information that is classified up to the highest security level, "SECRET UE." Products used for transmitting classified information in the EU must be security-approved. That is why the approval is significant for sales of Tiger XS to the EU as an organization as well as to EU member states.

### **Nordic Battlegroup new Tiger user**

During the year, Sectra was commissioned by the Swedish Defense Materiel Administration (FMV) to deliver crypto products to the EU's Swedish-led Nordic Battlegroup. This force, which encompasses units from Sweden, Finland, Norway and Estonia, is an example of the increase in cross-border cooperation. The FMV has purchased

equipment that protects radio communications between vehicles and troops in the field and Tiger products that secure telecommunication between military combat command staffs and communications centers.

### **Airborne assignments for the Swedish Defense**

Sectra has a strong position as a crypto supplier to the Swedish Defense, which during the fiscal year ordered several new development projects. As an example, the FMV commissioned Sectra to customize a crypto system for the JAS 39 Gripen aircraft system. The crypto system is now in the air, having paved the way for faster, and more cost-effective further development of the JAS 39 Gripen.

### **Focusing improves profitability**

Sectra's focusing on crypto products for European government bodies has resulted in changes. The business area has pared down its operations and, has concentrated its Tiger products business development resources in a dedicated product division. Moreover, the focus entailed cutbacks in the British company, while at the same time a new office was opened in the Netherlands. The improvements that Sectra implemented helped raise the business area's profitability, from zero in the preceding year, to an operating margin of 9.1%.

### **Prioritized activities 2007/2008**

The long-term purpose is to strengthen the company's market position in Europe. In 2007/2008, the business area will focus on the following activities:

- Sales and marketing of Tiger XS SECRET UE – the model that has been approved by the EU for transmission of classified information.
- Giving customers the opportunity to purchase service and support contracts for all of Sectra's crypto products.
- Business development of Sectra's Tiger product offering.



## Sectra protects your secrets

Today's communications technology enables us to easily reach anyone we want, wherever we want, whenever we want. However, simplicity also brings the risk that information can more easily fall into the wrong hands. Sectra's products protect the transmission of classified information from sender to receiver, regardless of whether it is communicated from a mobile phone, desktop phone, conference phone or a computer.

### Market overview

Sectra's market consists of customers that have rules for handling classified information and demand approved security products. Sectra's products are sold primarily in the European market.

The size of the market can be estimated from the assessment that 0.3 ppt of a country's population consists of high-ranking bureaucrats who need crypto products. For Sweden, this implies a potential of about 3,000 units, and for all of Europe, about 100,000.

### Customers

Sectra's customers are public-sector entities – from bureaucrats and politicians in the governments and ministries of the various countries, the EU itself as an organization, and national defense organizations.

Sectra's largest customers are government and defense bodies in Sweden, Norway and the Netherlands.

### Distribution channels

Sales are conducted by Sectra's own resources and through locally based partners. The company's own sales organization accounts for most of the sales.

### Crypto products for voice and data communication

The European market for secure voice and data communications is growing. This growth is driven by the increasing cross-border cooperation between government and defense bodies. Many national defense organizations also need to replace older crypto telephones from the 1980s and 1990s.

Sectra's Tiger products for secure voice communications are used in 13 of the 27 member states of the EU. This makes Sectra a strong niche player in the European market.

### Development assignments and customer-specific products

Sectra's largest market for development assignments and customer-specific products is Sweden. However, the company also delivers this type of product to countries that have become larger customers, such as the Netherlands and Norway.

Sectra has strong core expertise in encryption and is one of the leading suppliers of encryption products to the Swedish Defense. In Sweden, a government commission on information security has produced guidelines for raising the standard of information security in Swedish society. Based on these regulations, Sectra believes that Swedish customers will invest in the development of customer-specific crypto products on at least the same levels as in previous years.

### Trends

Growth in the markets for Sectra's products is driven by:

- More frequent cooperation between government bodies within the EU, resulting in demand for EU-approved equipment for exchange of classified information.
- Increased cooperation between defense administrations in Europe – for example, the EU's joint battle groups.
- Defense organizations invest in modern communications technology, replacing outdated crypto equipment in the process.

### Examples of competitors

Sectra competes with two types of players in the European market. This includes large international companies for which communication security is a minor component of their operations, and actual security companies that operate in geographically defined markets.

Company (Origin)	Rohde & Schwartz (Germany)	General Dynamics (US)	Business Security (Sweden)
Markets	Europe	Europe	Sweden
Crypto products for voice and data communication	•	•	
Development assignments and customer-specific products			•



Jan-Olof Brüer, Acting President, Sectra Communications,  
comments on the company's market and outlook

## Focusing on the European government market

*During the fiscal year, the business area generated a profit. What was behind the turnaround?*

“Efficiency-enhancement and focusing. We have become better at staying on schedule in development projects and have focused increasingly on creating an organization for product sales to the government market. New customers have new demands, and we are committed to meeting those demands.”

*What are the most important trends in the market for Sectra's Secure Communication Systems?*

“More cooperation in Europe, on both the government and the defense sides, are driving the growth of our markets. In the years to come, there will also be a great need to replace old encryption equipment with more modern and convenient solutions.”

*How will this impact on Sectra?*

“Our various development projects in the past few years have given us an extremely competitive product offering for modern government and defense organizations. This and our now more efficient and more product-focused organization put us in a good position to undertake further expansion.”

*What distinguishes Sectra from the competition?*

“Our primary competitive advantage is that we offer crypto products that are convenient to use in the office and wirelessly while on the go, which makes things easier for our customers. Ensuring that the systems are used is a key security aspect, and that means they must be easy to manage. One way for us to ensure this is to make sure we use the products ourselves daily. This makes us particularly alert to new opportunities for improvement, simultaneously ensuring that our own company communications are secure. With Tiger XS voice encryptor, we are unique in having an EU-approved crypto product that protects mobile communications.”

*What are the implications of the EU approval on future sales?*

“We have an extremely favorable position. The EU approval opens doors in the European government market, and in conjunction with the approval we received direct inquiries from several EU countries.”



*What are the greatest market risks?*

“Strong political connections between countries may act as a barrier to sales. There is also a risk that customers favor national industry before international players when procuring crypto products. At the same time, we have such a competitive product that we feel well equipped. Our product belongs to a new generation and is based on technology that will survive and be further developed. Since we work with live product development, in which the customer can elect to regularly upgrade to the most recent version, we also ensure that the customer does not risk ending up with an outdated product in the future.”

*What markets do you plan to focus on in the coming year?*

“Primarily, the government market in Europe. Examples of key markets are: Sweden, Germany, the EU organization and, particularly, the Netherlands. The need to replace current crypto systems, which are often based on technology that is 15–20 years old, is great. Defense administrations also require renewal over the next few years. This applies to all of Europe and, particularly, Sweden. Consequently, we see great opportunities ahead to acquire further business during the year.”

## Skill and commitment create Sectra's success

The employees' solid cutting-edge expertise, experience and sound grasp of customers' operations are the prerequisites for ensuring that Sectra achieves its goal of becoming a world leader in the company's niche areas.

At year-end, Sectra had 455 permanent employees – an increase of 72 persons compared with the preceding year, as well as some 30 employees attached to specific projects.

### Skills and education

The majority of Sectra's employees have an academic education, with most holding degrees in engineering. A large number of employees have pursued postgraduate research, and five professors and 20 PhDs in engineering are involved in the company's operations.

Sectra attaches great importance to the further development of employees. A review of skills development needs is conducted annually with each employee, who subsequently participates in individually tailored training on an ongoing basis.

### Recruitment and diversity

During the fiscal year, Sectra recruited more than 120 new employees with a high level of expertise in different areas, including persons with substantial experience and recent graduates. Recruitment was mainly to positions in sales, service and support. The personnel turnover during the fiscal year amounted to 11.0% (10.4). Average period of employment at Sectra in Sweden is 6.0 years (5.6)

Sectra's aim is to offer a stimulating work environment that encourages creativity, innovation and personal development. To support recruitment of highly skilled employees, Sectra offers university

and college students the opportunity to pursue parts of their study program at the company in the form of work experience and degree projects.

Employees from some 30 countries work at Sectra. They contribute through their experience of different cultures and environments to the multicultural environment that is a prerequisite for enabling Sectra to be successful internationally.

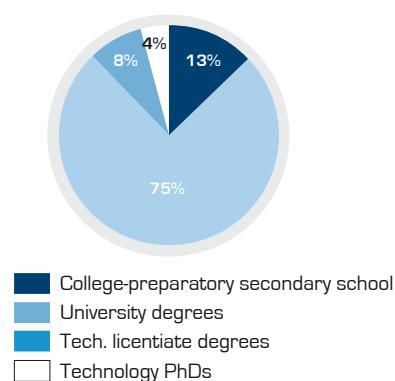
### Healthy employees

The well-being of employees is of paramount importance to Sectra. The company takes a preventive approach to work-environment and health issues by offering employees regular health checks, fitness programs and opportunities for subsidized fitness training. Sectra's health program also includes ergonomic counseling to reduce the risk of work-related injuries. This has resulted in a very low absence due to illness, during the fiscal year amounting to 1.0% (1.1).

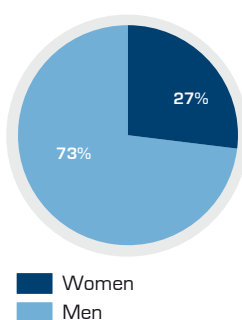
### Participation in the company's success

Over the years, to strengthen employees' commitment and motivation, Sectra has offered employees the chance to share in the company's success. In addition to conventional remuneration systems, Sectra works systematically to distribute ownership to employees through options and convertibles programs. Today, as a result of such programs, many employees are also company shareholders.

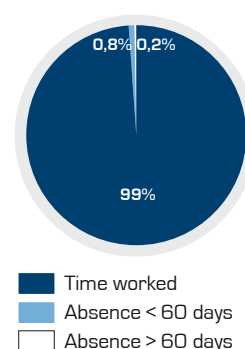
Employees' educational level



Employees per gender



Absence due to illness, Swedish companies

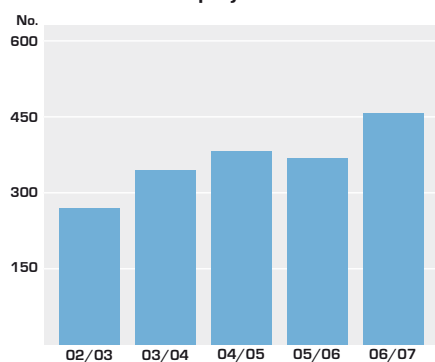




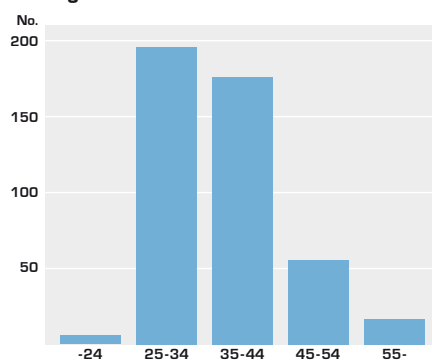
## Flying support

"We are some 20 colleagues holding a pilot's license. This gives us closeness to our customers, also when geographic distances are large. It is a great advantage when we install systems or quickly need to give service and support on site", says Christer Sjöberg, project manager at Sectra and one of the employees with a pilot's license.

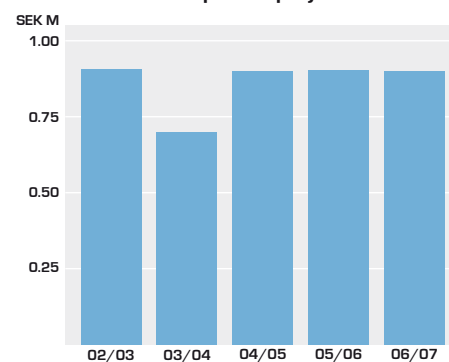
Number of employees



Age distribution



Value added per employee



# Board of Director's Report

The Board of Directors and President of Sectra AB (publ.), corporate registration number 556064-8304, herewith present the Annual Report and Consolidated Financial Statements for May 1, 2006 – April 30, 2007. The following income statements and balance sheets, change in shareholders' equity, cash-flow statements, accounting principles and notes constitute an integral part of the Annual Report.

## Operations and Group structure

Sectra develops and sells high-tech products in expanding niche markets. Operations comprise medical systems and secure communication systems.

The Group's structure is built up around the Parent Company Sectra AB, which comprises Group-wide functions and capital management, and the wholly-owned operational subsidiaries Sectra Communications AB (secure communication systems) and Sectra Imtec AB (medical systems). These companies have a number of subsidiaries with offices throughout the world, see Note 12 for further information.

## Acquisitions

During the fiscal year, Sectra acquired the Dutch company imaXperts BV by raising its shareholding from 20% to 100%. The company's operations focus on the sale, installation and servicing of medical image processing systems and digital mammography systems in the Netherlands, Belgium and Luxembourg. The acquisition is part of Sectra's wide-ranging investment program designed to develop the distribution network and service organization for medical systems. The acquisition has no immediate impact on Sectra's earnings and financial position. Refer to Note 25 on page 46 for additional information.

## Market

Demand for Sectra's products remains strong, and the Group's order bookings increased by 11.6% to SEK 684.7 million (613.7) in 2006/2007. The increase from the preceding year resulted from Sectra's widened direct sales of medical systems in strategically key markets. The single largest increase is attributable to Sectra in North America. Sales are conducted directly by the Company and through partners, of which Philips Medical Systems is the largest. However, starting 2005, the relationship with Philips is being phased out.

Traditionally, Sectra has experienced seasonal variations. A major share of invoicing and earnings occur primarily during the third and fourth quarters. This pattern also applied during the past fiscal year.

## Medical Systems

The market for Sectra's medical systems is growing in pace with the increasing number of hospitals opting to make their radiology operations more efficient by introducing digital systems for the processing and archiving of radiology images. In this sector, Sectra is also focusing on mammography and orthopedic products – niche markets that are expected to expand sharply in the near future. Sectra's major focus is in the area of mammography, where Sectra has developed a digital mammography system that delivers the lowest radiation dose in the market, as well as higher productivity. An increasing number of clinics are opting for women's health using lowest dose mammography, strengthening Sectra's position in the rapidly expanding mammography market. As part of efforts to meet market demand, Sectra is continuing its extensive investments aimed at developing sales organizations in the US and Europe, along with incremental investments in support and marketing.

Sectra's system accounts for some 40 million radiology examinations annually, making Sectra one of the world's leading suppliers of systems for X-ray processing. During fiscal 2006/2007, Sectra installed medical systems among more than 100 new customers worldwide. Revenues from service, support and upgrading agreements are also advancing in pace with the rising number of Sectra medical systems.

## Secure Communication Systems

Cross-border cooperation is increasing among European government agencies and defense forces, with the result that the requirements for secure communication systems are moving from the national to the pan-European level. This creates a joint market for EU-approved crypto products. With customers in some 50% of the EU's 27 countries, Sectra is the leading niche player in the European market for secure communications.

To meet customer demand for advanced security products, Sectra has invested in the development and marketing of the third generation of Tiger products – Tiger XS – in recent years. During the financial year, the EU Council approved Tiger XS for the exchange of classified information at the highest security level, SECRET UE. Thus, Sectra is the first to gain a EU-approved crypto product for mobile communications.

## Phase-out of the relationship with Philips

Sectra's results for the fiscal year would most likely have been even better if the relationship with the company's largest partner, Philips Medical Systems, had not disturbed progress. The phasing out of cooperation with Philips will continue during fiscal 2007/2008. The primary agreement governing cooperating will expire during autumn 2007. In addition,



tion, there are a number of project agreements, with the longest of these expiring in 2016.

Sectra is striving for customers who purchased systems via Philips to have long-term access to service, support and upgrading. Among other developments, Sectra has achieved major successes – notably in the US – where many existing Philips customers contacted Sectra and requested service.

## **Sales and earnings**

### *Group*

Consolidated net sales rose 19.2% to SEK 672.5 million (564.4). The increase is attributable to Sectra's wide-ranging investment aimed at expanding operations in Medical Systems, leading to increases in direct sales and service contract volumes from the preceding year. The sharpest growth was noted on the mature market in Scandinavia and the expanding market in the US. Revenues from markets outside Sweden rose 17.6% to SEK 431.3 million (366.9), representing 64.1% of the Group's total net sales.

Consolidated earnings after financial items rose to SEK 70.2 million (80.7), or an operating margin of 10.4% (14.3). Earnings continued to be charged with Sectra's extensive investments to expand the distribution network and service organization for medical systems, and the continuing phase-out of cooperation with Philips Medical Systems. Despite the substantial expenses arising from the phase-out, Sectra met its earnings margin target of 10%.

Sales in international markets are denominated mainly in USD and EUR, thus Sectra's sales and earnings are affected by changes in the exchange rates for these currencies. During the fiscal year, SEK strengthened against USD and EUR. These changes in exchange rates had a negative impact on operating earnings by SEK 5.4 million. Refer to Note 27 on page 47 for additional information.

### *Medical Systems*

Net sales for Medical Systems rose 22.5% to SEK 610.9 million (498.8). The increase resulted from the programs aimed at expansion in strategic markets, leading to increases in direct sales and service volume contracts from the preceding period. Most of the revenues pertain to sales of PACS to radiology departments, although the sales of mammography and orthopedic products have begun to gain momentum and showed a highly positive trend during the fiscal year.

Medical Systems posted an operating profit of SEK 63.8 million (83.9), corresponding to an operating margin of 10.4% (16.8). The earnings margin was affected by the company's wide-ranging market investments. Market programs resulted in increased direct sales. Meanwhile,

licensed sales via partners declined as a result of the phase-out of cooperation with Philips Medical Systems. Direct sales transactions normally involve complete system deliveries that include both hardware and software, while sales via partners consist solely of software licenses. As a result, transactions via partners involve considerably smaller volumes. They are also characterized by very short delivery times, high value-added and high contribution margins.

### *Secure Communication Systems*

Net sales for Secure Communication Systems rose 3.2% to SEK 67.9 million (65.8). The major portion of revenues relates to development projects and customer-specific products.

Operating profit in the segment advanced to SEK 6.2 million (loss: 0.7), corresponding to an operating margin of 9.1%. Profit for the year was charged with SEK 1.3 million in expenses for the downsizing of operations in the UK. The improvement in operating profit results from the programs introduced to boost operational efficiency. Among other developments, the business area streamlined operations and consolidated resources for the operational development of the Tiger products in its own product division.

### *Parent Company*

The Parent Company's net sales totaled SEK 20.9 million (67.6), with an operating loss of SEK 5.4 million (39.5). During fiscal 2006/2007, Sectra changed the principles underlying the charging of the Parent Company's expenses for asset management and brand user rights, patents and other intellectual property rights. No restatement of last year's results was undertaken. If last year's outcome has been reported in line with the new principles, the comparative figures for sales and operating profit would be affected negatively by SEK 45.2 million.

## **Cash and cash equivalents and financial position**

Sectra has a stable financial position. The Group's equity/assets ratio at April 30, 2007 was 60.8% (58.9), with a liquidity multiple of 2.5 (2.4). The Group's interest-bearing debts totaled SEK 48.0 million (59.6), of which SEK 46.1 million (43.7) was attributable to convertible debentures.

### **Investments**

Group investments for the fiscal year totaled SEK 58.6 million (35.1) of which SEK 42.6 million (25.6) million pertained to capitalized development costs, which totaled SEK 138.1 million (105.3) at April 30, 2007. Other investments pertain to acquisition of imaXpert BV and purchases of machinery and other equipment.

## Research and development

The Sectra Group continuously invests major resources in research and development in fields related to the Company's niche markets. Research and development are conducted both in-house and in cooperation with customers and partners. During 2006/2007, SEK 42.6 million (25.6) of Sectra's development costs for standard products was capitalized as intangible assets in the balance sheet. Customer-related development costs for the development of new products and functions are included in project costs and expensed in the income statement. Direct research expenditures are not tangible and, accordingly, no separate reporting of total expenditures is made.

## Environmental information

Sectra develops and sells mainly software and, to a lesser extent, physical products. The Group's operations are not subject to licensing or reporting requirements under the Swedish Environmental Code. Sectra's products and in-house production produce a negligible environmental impact.

The digital radiology systems that Sectra develops offer a major benefit from an environmental standpoint, since the introduction of digital technology contributes to reducing the use of film and chemicals, which have a significant environmental impact.

## Disputes

Sectra's dispute with CNS Systems AB, which dates from 2002, is still ongoing.

## The Sectra share

Sectra's share capital at April 30, 2007 totaled SEK 36,783,188, distributed among 36,783,188 shares. Of these shares, 2,620,692 are Series A shares, while 34,162,496 are Series B shares. Full conversion and exercise of issued incentive programs would increase the number of shares by a maximum of 746,800, corresponding to 2.0% of the share capital and 1.2% of the votes. After full dilution, the number of shares amounts to 37,529,988.

## Incentive program

During fiscal 2006/2007, Sectra conducted an issue of convertible debentures for employees and external Board members, totaling SEK 23.1 million. On full conversion, Sectra will gain 266,800 Series B shares, corresponding to 0.7% of the share capital and 0.4% of the votes. During the

fiscal year, all convertibles issued to employees and external Board members in fiscal 2003/2004 were redeemed. A total of SEK 20.6 million was repaid on the due date of the loan, namely, July 1, 2006.

Sectra's employees in the US subscribed for additional employee stock options during the fiscal year. If these options are fully exercised, employees will acquire 80,000 Series B shares in the Company, corresponding to 0.2% of the share capital and 0.1% of the votes. Employee stock options 2003/2006 in the US, corresponding to 36,667 Series B shares, were redeemed during the past fiscal year at a redemption price of SEK 47.

Similar employee options and convertible programs implemented previously are still in effect. See Note 2 for additional information.

## Share warrants

In conjunction with the acquisition of Sectra Mamea AB in April 2004, the Annual General Meeting approved the issuance of a maximum of 900,000 share warrants for future payment of the supplementary purchase price in the acquisition agreement concluded with the company's founder. The share warrants may be utilized through May 31, 2015. However, no share warrants had been issued as of April 30, 2007.

## Authorization

The Annual General Meeting (AGM) of 2006 authorized the Board to make decisions regarding new share issues corresponding to a maximum of 10% of the share capital during the period up to the next AGM. The purpose was to permit the new issue of shares to finance market investments and acquisition of companies or operations, as well as covering costs arising as a result of the company's incentive program and to adjust continually the company's capital structure. The Board had not utilized this possibility as of the closing date.

The 2006 AGM decided that the company is entitled to repurchase up to 10% of the company's shares for the period up to the next AGM. The Board had not utilized this possibility as of the closing date.

## Employees

Sectra had 455 (383) employees at fiscal year-end, of whom 27.0% (23.8) were women. The employee turnover rate was 11.0% (10.4).

The expertise and wellbeing of the employees is a requirement for Sectra to achieve success. The need for skills development is reviewed annually with each employee and additional training is adapted individually. The company works preventively with work environment and health

matters through providing medical check-ups, fitness programs and training opportunities, which has resulted in very low absences due to illness. Sectra works continuously with promoting equality to achieve a favorable gender distribution and diversity. Employees from 30 countries work at Sectra and contribute experience from varying cultures and environments. For further information, see Note 2.

### Risks, risk management and sensitivity analysis

Due to the nature of its operations, the Group is exposed to various types of operational and financial risks. Refer to Note 27 on page 46 for additional information.

### Outlook

Sectra has a strong technology platform. The products and system solutions that Sectra develops are aimed at markets with high growth potential. The company's strong position in the home market provides a solid platform for continuing international expansion.

Changes in cooperation with the largest partner, Philips Medical Systems, entail a realignment of Sectra's operations. This will continue to impact on earnings during 2007/2008. The Board's assessment that Sectra will carry on expanding with favorable profitability continues to apply.

### Significant events after the reporting date

As of the date of the signing of this annual report, no significant events had occurred since the reporting date.

### Approval of financial statements

Pursuant to a Board decision made on June 1, 2007, the consolidated financial statements have been approved for publication and will be presented to the Annual General Meeting for adoption on June 28, 2007.

### Board's statement concerning the proposed dividend and proposed authorization for repurchases

See Note 28 for the Board's statement.

### Proposed appropriation of profits

The Board of Directors and President propose that the unappropriated earnings be distributed as follows:

Dividend (36,842,088 shares at SEK 0.50 per share)	18,421,044.00
Earnings to be carried forward	123,905,087.35
<b>Total</b>	<b>142,326,131.35</b>

Linköping, June 1, 2007

Jan-Olof Brüer  
Group CEO and President

Thomas Ericson  
Chairman of the Board

Torbjörn Kronander  
Board Member

Gündor Rentsch  
Board Member

Carl-Erik Ridderstråle  
Board Member

Anders Persson  
Board Member

Karin Partain  
Employee Representative

Claes Lundström  
Employee Representative

Our Auditor's Report was submitted on June 1, 2007  
Lindebergs Grant Thornton AB

Ivar Verner  
Authorized Public Accountant



# The Group

## Consolidated income statements

Amounts in SEK thousands	Note	06/07	05/06
<b>Operating income</b>	1		
Net sales		672,511	564,382
Capitalized work for own use		42,581	25,572
<b>Total income, etc.</b>		<b>715,092</b>	<b>589,954</b>
<b>Operating expenses</b>			
Goods for resale		-160,413	-120,984
Personnel costs	2	-300,305	-260,017
Other external costs	3, 4	-173,010	-111,960
Depreciation of machinery and equipment	11	-5,868	-7,112
Amortization of intangible assets	10	-13,825	-13,645
Income from participation in associated co.		-490	-478
<b>Operating profit</b>		<b>61,181</b>	<b>75,758</b>
<b>Result from financial investments</b>			
Interest income and similar profit/loss items	6	12,695	7,692
Interest expenses and similar expense items	7	-3,674	-2,704
<b>Net financial items</b>		<b>9,021</b>	<b>4,988</b>
<b>Profit after financial items</b>		<b>70,202</b>	<b>80,746</b>
Tax on income for the year	9	-22,986	-20,396
<b>Net profit for the year</b>		<b>47,216</b>	<b>60,350</b>
Attributable to			
Parent Company's shareholders		47,216	60,350
Minority interest		-	-
<b>Earnings per share, SEK</b>			
Before dilution		1.28	1.65
After dilution		1.26	1.61
<b>Dividend per share, SEK <sup>1</sup></b>		<b>0.50</b>	<b>0.50</b>
<b>No. of shares at year-end</b>			
Before dilution		36,783,188	36,746,521
After dilution <sup>2</sup>	2	37,529,988	37,513,188
Average, before dilution		36,758,743	36,681,041
Average, after dilution <sup>2</sup>	2	37,400,488	37,379,430

<sup>1</sup> Dividend proposed by the Board of Directors for 2006/2007.

<sup>2</sup> Dilution is based on issued incentive programs.

## Group cash-flow statements

Amounts in SEK thousands	Note	06/07	05/06
<b>CURRENT OPERATIONS</b>			
Operating profit		61,181	75,758
Adjustment for items not included in cash flow	24	19,117	22,071
Interest received		12,620	5,938
Interest paid		-1,603	-2,294
Income tax paid		-8,649	-27,530
<b>Cash flow from current operations before changes in working capital</b>		<b>82,666</b>	<b>73,943</b>
<b>Changes in working capital</b>			
Change in inventories		-2,800	-10,489
Change in receivables		-12,653	10,275
Change in current liabilities		4,333	57,614
<b>Cash flow from current operations</b>		<b>71,546</b>	<b>131,343</b>
<b>INVESTMENT ACTIVITY</b>			
Acquisitions of fixed assets		-56,223	-32,356
Acquisitions of subsidiaries	25	-2,351	-2,841
Sales of equipment		7,579	105
<b>Cash flow from investment activity</b>		<b>-50,995</b>	<b>-35,092</b>
<b>FINANCING ACTIVITY</b>			
Sales of shares		1,723	13,117
Change in convertibles		2,510	630
Change in long-term receivables		-32,720	312
Change in long-term liabilities		382	240
Dividend to shareholders		-18,373	-18,264
<b>Cash flow from financing activity</b>		<b>-46,478</b>	<b>-3,965</b>
<b>Cash flow for the year</b>		<b>-25,927</b>	<b>92,286</b>
Cash and cash equivalents at start of year		414,297	320,176
Exchange rate diff. in cash and cash equivalents		-3,220	1,835
Cash and cash equivalents at year-end	16	385,150	414,297
Unutilized credit facilities		15,000	15,000

## Consolidated balance sheets

Amounts in SEK thousands	Note	30 Apr 2007	30 Apr 2006
<b>ASSETS</b>			
<b>Fixed assets</b>			
Intangible assets	10	159,343	127,806
Machinery and equipment	11	22,352	24,137
Participations in Group companies	13	-	2,362
Investments held as fixed assets	16	45,962	13,242
<b>Total fixed assets</b>		<b>227,657</b>	<b>167,547</b>
<b>Current assets</b>			
Inventories	14	47,551	44,751
Accounts receivable		136,450	127,548
Current tax assets		2,146	19,744
Other receivables		2,736	7,506
Prepaid expenses and accrued income	15	52,772	32,576
Short-term securities	16	-	11,600
Cash and cash equivalents	16	385,150	414,297
<b>Total current assets</b>		<b>626,805</b>	<b>658,022</b>
<b>TOTAL ASSETS</b>		<b>854,462</b>	<b>825,569</b>

Amounts in SEK thousands	Note	30 Apr 2007	30 Apr 2006
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital		36,783	36,747
Other contributed capital		292,388	190,701
Reserves		-195	4,190
Retained earnings, incl. profit for the year		190,430	154,857
<b>Total shareholders' equity</b>		<b>519,406</b>	<b>486,495</b>
<b>Long-term liabilities</b>			
Provisions	18	11,135	1,326
Deferred tax liability	18	25,906	23,611
Debts to financial institutions	19	261	13,889
Other liabilities	20	36,178	25,092
<b>Total long-term liabilities</b>		<b>73,480</b>	<b>63,918</b>
<b>Current liabilities</b>			
Advances from customers		-	2,041
Accounts payable		34,151	23,741
Current tax liability		3,686	12,211
Other current liabilities	20, 21	20,294	32,050
Accrued expenses and deferred income	22	203,445	205,113
<b>Total current liabilities</b>		<b>261,576</b>	<b>275,156</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>854,462</b>	<b>825,569</b>

Pledged assets and contingent liabilities, see Note 23 page 46.

## Changes in Group equity

Amounts in SEK thousands	Share capital	Other contributed capital	Translation reserve	Other reserves	Retained earnings	Total equity
<b>Equity as of May 1, 2005</b>	<b>36,529</b>	<b>277,802</b>	<b>-459</b>	<b>35,506</b>	<b>81,277</b>	<b>430,655</b>
New issues of shares	218	12,899				13,117
Transfer/Adjustment				-31,494	31,494	
Exchange rate differences			675			675
Present value difference				-38		-38
Dividend					-18,264	-18,264
Net earnings for the year					60,350	60,350
<b>Equity as of April 30, 2006</b>	<b>36,747</b>	<b>290,701</b>	<b>216</b>	<b>3,974</b>	<b>154,857</b>	<b>486,495</b>
New issues of shares	36	1,687			1,723	1,723
Transfer/Adjustment				-6,732	6,732	
Exchange rate differences			-634			-634
Present value difference				106		106
Dividend					-18,373	-18,373
Shareholdings reclassified to subsidiaries				667		667
Share-based remuneration				2,208		2,208
Net profit for the year					47,214	47,214
<b>Equity as of April 30, 2007</b>	<b>36,783</b>	<b>292,388</b>	<b>-418</b>	<b>223</b>	<b>190,430</b>	<b>519,406</b>

There are no minority interests within the Sectra group.

# Parent Company

## Income statements

Amounts in SEK thousands	Note	06/07	05/06
<b>Operating income</b>	1		
Net sales		20,924	67,570
<b>Operating expenses</b>			
Goods for resale		-41	-80
Personnel costs	2	-9,097	-10,483
Other external costs		-16,492	-16,595
Depreciation according to plan	11	-718	-907
<b>Operating profit</b>		<b>-5,424</b>	<b>39,505</b>
<b>Result from financial investments</b>			
Income from participations in Group comp.	5	153,451	98,624
Interest income and similar profit/loss items	6	10,731	4,760
Interest expenses and similar expense items	7	-1,947	-2,501
<b>Profit after financial items</b>		<b>156,811</b>	<b>140,388</b>
Appropriations	8	-9,802	-10,521
<b>Profit before tax</b>		<b>147,009</b>	<b>129,867</b>
Tax on income for the year	9	-41,707	-36,833
<b>Net profit for the year</b>		<b>105,302</b>	<b>93,034</b>

## Cash flow statements

Amounts in SEK thousands	Note	06/07	05/06
<b>CURRENT OPERATIONS</b>			
Operating profit		-5,424	39,505
Adjustment for items not included in cash flow	24	894	1,012
Interest received		23,543	6,995
Interest paid		-7,307	-3,920
Income tax paid		-3,508	-22,517
<b>Cash flow from current operations before changes in working capital</b>		<b>8,198</b>	<b>21,075</b>
<b>Changes in working capital</b>			
Change in receivables		-371,591	8,559
Change in current liabilities		225,405	12,850
<b>Cash flow from current operations</b>		<b>-137,988</b>	<b>42,484</b>
<b>INVESTMENT ACTIVITY</b>			
Acquisitions of fixed assets		-185	-135
Sales of equipment		-	-
<b>Cash flow from investment activity</b>		<b>-185</b>	<b>-135</b>
<b>FINANCING ACTIVITY</b>			
Sales of shares		1,723	13,117
Change in convertibles		2,510	630
Change in long-term receivables		45,418	442
Change in long-term liabilities		-32,000	33,168
Dividend to shareholders		-18,373	-18,264
Received Group contributions		52,000	10,900
<b>Cash flow from financing activity</b>		<b>51,278</b>	<b>39,993</b>
<b>Cash flow for the year</b>		<b>-86,895</b>	<b>82,342</b>
Cash and cash equivalents at start of year		343,663	261,321
Cash and cash equivalents at year-end		256,768	343,663
Unutilized credit facilities		15,000	15,000

## Balance sheets

Amounts in SEK thousands	Note	30 Apr 2007	30 Apr 2006
<b>ASSETS</b>			
<b>Fixed assets</b>			
Machinery and equipment	11	1,542	2,075
Participations in Group companies	12	13,978	23,978
Investments held as fixed assets		43,339	11,339
<b>Total fixed assets</b>		<b>58,859</b>	<b>37,392</b>
<b>Current assets</b>			
Accounts receivable		-	-
Accounts receivable from Group companies		522,221	183,527
Current tax assets		2,028	13,906
Other receivables		-	156
Prepaid expenses and accrued income	15	2,426	2,758
Short-term securities	16	-	11,600
Cash and cash equivalents	16	256,768	343,663
<b>Total current assets</b>		<b>783,443</b>	<b>555,610</b>
<b>TOTAL ASSETS</b>		<b>842,302</b>	<b>593,002</b>

### Pledged assets and contingent liabilities

	30 Apr 2007	30 Apr 2006
Pledged assets	11,000	11,000
Bank balances	-	10,000
<b>Total pledged assets</b>	<b>11,000</b>	<b>21,000</b>

Amounts in SEK thousands	Note	30 Apr 2007	30 Apr 2006
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
<i>Restricted equity</i>			
Share capital		36,783	36,747
Share premium reserve		-	-
Reserves		226,456	226,456
<b>Total restricted equity</b>		<b>263,239</b>	<b>263,203</b>
<i>Unrestricted equity</i>			
Retained earnings		37,024	28,249
Profit for the year		105,302	93,034
<b>Total unrestricted equity</b>		<b>142,326</b>	<b>121,283</b>
<b>Total shareholders' equity</b>		<b>405,565</b>	<b>384,486</b>
Untaxed reserves	17	92,638	82,836
<b>Long-term liabilities</b>			
Debts to financial institutions	19	-	9,384
Other long-term liabilities	20	34,550	23,089
<b>Total long-term liabilities</b>		<b>34,550</b>	<b>32,473</b>
<b>Current liabilities</b>			
Accounts payable		769	1,285
Liabilities to Group companies		288,866	61,748
Current tax liability		-	-
Other current liabilities	21	11,945	20,924
Accrued expenses and deferred income	22	7,969	9,250
<b>Total current liabilities</b>		<b>309,549</b>	<b>93,207</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>842,302</b>	<b>593,002</b>

## Changes in Parent Company equity

Amounts in SEK thousands	Share capital	Share premium reserve	Statutory reserve	Unrestricted equity	Total equity
<b>Equity as of May 1, 2005</b>	<b>36,529</b>	<b>215,488</b>	<b>150</b>	<b>105,672</b>	<b>357,839</b>
New issues of shares	218	12,899			13,117
Group contributions paid				-85,000	-85,000
Tax effect				23,800	23,800
Present value difference		-38			-38
Dividend				-18,266	-18,266
Transfer from share premium reserve to statutory reserve		-228,349	226,306	2,043	0
Net profit for the year				93,034	93,034
<b>Equity as of April 30, 2006</b>	<b>36,747</b>	<b>0</b>	<b>226,456</b>	<b>121,283</b>	<b>384,486</b>
New issues of shares	36			1,688	1,724
Group contributions paid				-94,000	-94,000
Tax effect				26,320	26,320
Present value difference				106	106
Dividend				-18,373	-18,373
Net earnings for the year				105,302	105,302
<b>Equity as of April 30, 2007</b>	<b>36,783</b>	<b>0</b>	<b>226,456</b>	<b>142,326</b>	<b>405,565</b>

# Accounting principles

## General accounting principles

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and statements issued by the International Financial Reporting Interpretations Committee (IFRIC) that have been approved by the European Commission for application within the EU. Changes made to the present and new standards during the year have not been applied retroactively within the Group. In addition, the Swedish Financial Accounting Standards Council's recommendation RR30 "Supplemental accounting rules for groups" has been applied. The Group's accounting principles are unchanged since the preceding year except for reporting of leasing.

Certain standards and interpretations become effective as of the fiscal year 2007/2008. These have not been applied in advance. IFRS 7 "Financial Instruments" and related changes in IAS 1 "Presentation of Financial Statements" will require additional disclosures. EU-approved IFRIC statements that will be applicable as of the fiscal year 2007/2008 are considered not to have any significant effect on the Group's financial statements.

The Parent Company applies the same accounting principles as the Group, as well as Swedish law and the Swedish Financial Accounting Standards Council's Recommendation 32, "Reporting for legal entities." This means that the EU-approved IFRS rules and pronouncements are applied as far as possible within the framework of the Annual Accounts Act and Swedish taxation practice. The rules for valuation and clarification follow IFRS and are the same as those applied in 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 reported in the Parent Company in accordance with Swedish law.

All amounts in tables are in SEK thousands, unless stated otherwise.

## Basis for preparation of the reports

Assets, provisions and liabilities are valued at the acquisition value or par value unless stated otherwise in the notes that follow. The preparation of financial reports in accordance with IFRS requires that the Group use accounting assumptions and estimates for the future. The most important estimates and judgments are presented in Note 26.

## 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 determining influence. A determining influence normally applies when more than 50% of the vote-carrying shares in a subsidiary have been acquired. When acquisitions are made, the acquired companies are absorbed into the Group as of their acquisition date. The acquisition value of the subsidiary's shares is determined by means of an acquisition analysis conducted at the time of the acquisition. The acquisition value for the Group comprises the purchase price and transaction costs directly attributable to the acquisition. 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 reported as Group goodwill. 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.

Minority interests are the portion of net assets and earnings that belong to other joint shareholders in a subsidiary. The minority share is taken up in Group earnings after tax and the share of net assets is reported in consolidated shareholders' equity.

Shareholdings in associated companies in which the Group holds no less than 20% and no more than 50% of the votes are reported using the equity method. The value of the associated company's shares is adjusted based on Sectra's share of net earnings after tax. In the consolidated income statement, the change in value is reported as "participations in the earnings of associated companies."

## Translation of foreign subsidiaries

### Functional currency

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

### *Transactions and balance-sheet items*

Transactions in functional currencies are reported 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 closing date (year-end rate). Currency differences arising in payment of transactions in foreign currencies and in translation of monetary assets and liabilities at the year-end rate are reported in the income statement.

### *Group companies*

The assets and liabilities of 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.

### **Segment reporting**

The primary segments comprise the Group's operational divisions, i.e. Medical Systems and Secure Communication Systems. "Other operations" mainly relates to the Parent Company's debiting for Group-wide services and asset management. Geographic regions are reported as secondary segments. Primary and secondary segments comprise services and products that are subject to risks different from those to which other operational divisions and geographic regions are subject.

During fiscal year 2006/2007, Sectra changed the principles for the Parent Company's debiting of costs for asset management and for the right of use of brands/proprietary names, patents and other intellectual property rights. This affects the distribution of costs by segment. Accordingly, in this Annual Report, the figures reported for each segment for 2005/2006 have been recalculated as if the new principles had also applied during the preceding fiscal year.

### **Revenues**

The Group's revenues mainly derive from fixed-price projects, sales of products and licenses, and consulting work. Project-based income is reported 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 applied against earnings for the year. Revenues from sales of products and licenses are taken up 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 taken up as income as the work is executed.

### **Pensions and remuneration 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 pension payments are expensed currently and constitute the Group's pension costs for the year, which are reported 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 taken up as liabilities in the balance sheet.

### **Intangible fixed assets**

Intangible fixed assets are reported at their acquisition value, less depreciation and impairment losses. Individual assessments of value in use are conducted on an ongoing basis in order to identify any impairment need. If the reported value (carrying amount) exceeds the recoverable value, the differences are charged against earnings for the period on an ongoing basis as they arise. In the case of an asset that does not generate cash flows, the recoverable value is estimated for the cash-generating unit to which the asset belongs. The recoverable value is the higher of the asset's net selling price and its value in use. Value in use is calculated as the present value of future cash flows relating to specific assets. The amortization period for intangible fixed assets exceeds five years if the asset is expected to generate financial benefits, based on individual assessment, and has a period of use in excess of five years.

### **Capitalized development costs**

Sectra develops proprietary software and equipment in the fields of medical equipment 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 reported as intangible fixed 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 development costs are subject to straight-line amortization over the period of use per individual asset, although the maximum amortization period is 10 years.

#### Patents

Patent rights are reported at their acquisition value and subject to straight-line amortization over the assets' 10-year estimated period of use.

#### Trademarks and customer relations

Trademarks and customer relations pertain to acquisition-related assets. These rights are reported at their acquisition value and are subject to straight-line amortization over the assets' 10-year estimated period of use.

#### Goodwill

Group-level goodwill arises when the acquisition value of a subsidiary's shares exceeds the fair value of the Group's participations in the subsidiary's net assets at the time of acquisition. Following the first reporting occasion, goodwill that has arisen is valued at the acquisition value after deduction for any impairments. Goodwill is not amortized. Instead, each cash-generating unit is individually assessed on an ongoing basis to identify impairment requirements. When the purchase price of a subsidiary at acquisition is less than the value of the net assets in the acquired company, the difference is reported in the income statement.

#### Tangible fixed assets

Depreciation according to plan is based on the original acquisition value and estimated financial lifetime. The following depreciation periods are applied:

Office furniture	10 years
Equipment and office machines	5 years
Personnel computers	3 years

#### Leasing

Through operational and financial leasing agreements, the company utilizes equipment, computers, cars and items for onward leasing, such as mammography equipment.

Financial lease agreements are reported in the balance sheet as fixed assets, and as current or long-term liabilities corresponding to the Group's obligation to pay leasing charges in the future. In the income statement, the expenses are divided between depreciation and interest over the term of the lease agreement.

As of 2006/2007, all leasing agreements valued at less than SEK 500 thousands are classified as operational. Since this adjustment has a negligible effect on Sectra's accounts, no changes have been made for comparative years.

Costs of operating leases are charged against net earnings for the year. These costs are reported as ongoing operating expenses in the income statement, and are spread over the entire term of the lease.

#### Borrowing costs

Borrowing costs are reported in the income statement during the period to which they pertain. Costs arising from the raising of a loan are distributed over the term of the loan if the costs are significant in relation to the amount borrowed.

#### Inventories

Inventories are reported at the lower of historical cost according to the FIFO method or fair market value. 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 reported at the amount expected to be collected, based upon individual assessment.



### Reporting of tax

The Group's total tax comprises current tax and deferred tax. Deferred tax pertains to tax on temporary differences and loss carryforwards. 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 carryforwards are reported only if it is likely that future profits will arise that will entail lower tax in the future.

### Financial instruments

The company classifies its financial assets and liabilities in the following categories: financial assets or liabilities at fair value in the income statement, investments held to maturity, accounts receivable and loan receivables and other financial liabilities.

#### *Financial assets*

Financial assets are recognized in the balance sheet when the Company becomes party to the agreement, and removed when the agreement expires or the Company loses control over the assets. Securities transactions are reported on the settlement date at their accrued historical cost. An impairment loss is reported in the event of a long-term decrease in the value of a security.

Financial assets valued at fair value in the income statement pertain to cash and cash equivalents and investments of surplus funds held for sale. Financial assets are classified in this category when they are acquired for the purpose of selling them in the short term. These assets are valued continuously at fair value, and changes in value are reported in the income statement.

Investments held to maturity pertain to investments in securities and other participations that all have fixed terms or fixed cash receipts or payments, and which the Company intends and is able to hold to maturity. These financial assets are valued at their amortized cost. Surpluses or deficits are distributed over the lifetime of the instrument and any impairments are reported in the income statement.

Accounts receivables and loan receivables pertain to assets that are not derivatives or quantifiable payments and are not listed on an active market. These receivables are reported at accrued acquisition value. Any impairments are reported in the income statement.

#### *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 removed from the balance sheet when the obligation specified is discharged and all liability expires. Loan debts are initially reported at par value after subtracting transaction costs. Adjustments are subsequently made for any over/undervaluation, with interest accrued over the term of the loan. Interest expenses are reported directly in the income statement.

Financial liabilities valued at fair value in the income statement pertain to liabilities held for sale and derivatives not classified for hedge accounting. The Group did not have any financial liabilities in this category during the financial year.

Other financial liabilities are valued at acquisition value and pertain to liabilities incurred for trading in and issuing convertible debentures. Convertible debentures are reported as combined financial instruments divided into a liability and an equity portion. The loan portion of convertible debenture loans is valued 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.

#### *Derivative instruments*

Derivative instruments in the form of futures contracts are used within the Group to reduce risks associated with changes in exchange rates. The change in the value to adjust the underlying asset or liability is offset by the change in the value of the futures contract. These flows are offsetting and are not posted to the balance sheet. Futures premiums accrue over the term of the contract. There are no currency forwards or derivative instruments within the Sectra Group on the balance sheet date.

# Notes

## Note 1 Segment reporting

### Primary segments – operations

	Medical Systems		Secure Communication Systems		Other operations <sup>1</sup>		Eliminations <sup>2</sup>		Total	
	06/07	05/06	06/07	05/06	06/07	05/06	06/07	05/06	06/07	05/06
Net sales <sup>3</sup>	610,884	498,788	67,932	65,839	21,031	20,608	-27,336	-20,853	672,511	564,382
Depreciation	18,637	18,317	338	377	718	907	-	1,156	19,693	20,757
Operating profit <sup>3</sup>	63,816	83,942	6,191	-737	-5,892	-5,695	-2,934	-1,752	61,181	75,758
Assets	832,929	456,815	42,206	39,955	901,219	603,640	-921,892	-274,841	854,462	825,569
Liabilities	779,775	410,200	38,842	25,563	422,223	152,322	-905,783	-249,011	335,057	339,074
Investments	52,243	34,456	318	519	6,013	117	-	-	58,574	35,092

### Secondary segments – geographic areas

	Sweden		Rest of Europe		North America		Rest of world		Total	
	06/07	05/06	06/07	05/06	06/07	05/06	06/07	05/06	06/07	05/06
Net sales	241,241	197,488	235,336	198,950	177,806	144,750	18,128	23,194	672,511	564,382
Assets	686,576	679,278	133,820	88,755	29,457	52,161	4,608	5,375	854,461	825,569
Investments	48,150	31,166	2,857	3,491	7,478	207	89	228	58,574	35,092

<sup>1</sup> Other operations pertain to 99% of the Parent Company's billing of Group-wide services and asset management.

<sup>2</sup> 100% of the Parent Company's total sales are referable to other companies within the group of companies to which the Company belongs. Purchases from Group companies total 0%.

<sup>3</sup> During fiscal year 2006/2007, Sectra changed the principles for the Parent Company's debiting of costs for asset management and for the right of use of brands/proprietary names, patents and other intellectual property rights. The figures reported for each segment for 2005/2006 have been recalculated as if the new principles had also applied during the preceding fiscal year. The net sales and operating earnings for 2005/2006 of other operations have been adjusted by a reduction of SEK 45,169 thousands as a result of the new principles.

## Note 2 Employees and personnel costs

### Average number of employees and percentage of women

	06/07		05/06	
	Total	of whom women	Total	of whom women
<b>Parent Company</b>				
Sweden	18	8	16	9
<b>Group</b>				
Australia	9	2	6	1
Denmark	5	1	10	2
Italy	3	1	2	1
Netherlands	5	1	-	-
New Zealand	1	-	-	-
Norway	9	2	9	2
Spain	5	3	1	-
UK	15	5	11	1
Sweden	284	71	288	70
Germany	17	6	11	3
USA	58	11	35	5
<b>Group total</b>	<b>411</b>	<b>103</b>	<b>373</b>	<b>85</b>

The proportion of women Board members including employee representative in the Boards of Directors of all Group companies amounted to 8% (8), and in the Parent Company's Board of Directors to 13% (13). The proportion of women in the Group's management groups, including company presidents, amounted to 7% (7), and in Group management to 20% (17).

### Salaries and other remuneration

	06/07		05/06	
	Board of Directors and President	Other employees	Board of Directors and President	Other employees
<b>Parent Company</b>				
Sweden	1,218	4,409	1,340	5,047
<b>Wholly owned subsidiaries</b>				
Australia	1,013	4,185	844	2,618
Denmark	-	3,461	576	5,803
Italy	1,341	762	843	468
Netherlands	477	1,910	-	-
New Zealand	-	387	-	121
Norway	901	6,142	871	5,352
Spain	826	2,030	94	24
UK	1,805	7,849	1,613	5,619
Sweden	3,840	116,843	4,282	113,778
Germany	826	7,530	787	5,256
USA	3,593	48,339	1,932	30,572
<b>Group total</b>	<b>14,622</b>	<b>199,438</b>	<b>11,842</b>	<b>169,611</b>

## Social costs

	Board and President	06/07			Board and President	05/06		
		Of which, pension costs	Other employees	Of which, pension costs		Of which, pension costs	Other employees	Of which, pension costs
<b>Parent Company</b>								
Sweden	696	243	1 872	379	741	243	2,185	433
<b>Wholly owned subsidiaries</b>								
Australia	91	-	445	353	75	75	248	248
Denmark	-	-	243	205	68	68	519	519
Italy	413	367	202	202	468	403	206	206
Netherlands	126	48	349	148	-	-	-	-
Norway	150	35	927	12	181	45	992	171
Spain	82	-	325	-	21	9	-	-
UK	243	50	1,204	315	301	96	779	191
Sweden	2,217	784	53,958	12,213	2,409	811	51,648	11,434
Germany	73	55	845	753	103	56	1,049	450
USA	257	65	9,288	447	216	-	4,111	-
<b>Group total</b>	<b>3,652</b>	<b>1,404</b>	<b>67,786</b>	<b>14,648</b>	<b>3,842</b>	<b>1,563</b>	<b>59,552</b>	<b>13,219</b>

## Absence due to illness

% of regular work hours

	Group		Parent Company	
	06/07	05/06	06/07	05/06
<b>Total</b>				
All employees	1.0	1.1	1.1	2.7
Of which, proportion of absences lasting 60 days or longer	19.3	19.8	55.8	6.9
<b>By group</b>				
Women	1.8	1.7	0.8	2.6
Men	0.7	0.8	1.4	2.8
Employees 29 years and younger	0.8	1.0	0.0	1.8
Employees 30-49 years	1.0	1.1	0.9	2.3
Employees 50 years and older	0.9	1.5	4.1	6.0

## Remuneration to the Board, President and other senior executives

Salaries and compensation

	Board remuneration	Base Salary	Adjustable compensation	Pension premiums	Total
Chairman of the Board	121	-	-	-	121
Board members	242	-	-	-	242
President	-	855	-	243	1,098
Senior executives	-	2,359	-	396	2,755
<b>Total</b>	<b>363</b>	<b>3,214</b>	<b>-</b>	<b>639</b>	<b>4,216</b>

## Preparation and decision-making process

Remuneration to the Board of Directors is decided by the Annual General Meeting. Remuneration to the President/CEO is decided by the Board Chairman. The President/Group CEO determines the compensation paid to other senior executives.

## Principles

The remuneration paid to the members of the Board in 2006/2007 consisted of two price base amounts to outside members and three price base amounts to the Chairman of the Board. Internal members received no Board remuneration. One price base amount for 2007 equals SEK 40,300.

The compensation for the President/Group CEO and other senior executives consists of a base salary, other benefits and pension. "Other senior executives" refers to the four individuals who, together with the President/Group CEO, comprised the Group management during the fiscal year.

## Terms of notice and severance pay

The Company must give the President/Group CEO 18 months' notice of termination. The CEO must give the Company six months' notice of resignation. The notice periods for other senior executives range from 12 to three months on the part of the Company, and from six to three 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 CEO 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 pensions.

## Share-based remuneration

During the fiscal year, share-based remuneration was expensed in an amount of SEK 1,927 thousands (1,890), of which SEK 674 thousands (490) pertained to senior executives, including the President/CEO. Convertibles and options are valued at market rates based on the Black & Scholes calculation method.

#### Issued incentive programs

Convertibles programs	2004/2005	2005/2006	2006/2007
Number of underlying Series B shares	154,800	165,200	266,800
Conversion price, SEK	74.70	71.10	86.70
Exercise period	10-14 September 2007	26-30 May 2008	26-29 May 2009
Maturity	30 September 2007	15 June 2008	15 June 2009
Interest rate during time to expiration	4%	4%	4%
Dilution upon full conversion, capital	0.4%	0.4%	0.7%

Employee stock options programs	2004/2005	2005/2006	2006/2007
Number of underlying Series B shares	40,000	40,000	80,000
Exercise price, SEK	74.70	71.10	86.70
Exercise period	10-14 September 2007	26-30 May 2008	26-29 May 2009
Number of options exercised at April 30, 2006	0	0	0
Dilution at full exercise, capital	0.1%	0.1%	0.2%

#### Note 3 Fees to auditors

	Group		Parent Company	
	06/07	05/06	06/07	05/06
Audits	764	786	125	112
Konsultation	796	479	146	172
<b>Consultation</b>	<b>1,560</b>	<b>1,265</b>	<b>271</b>	<b>284</b>

#### Note 4 Costs for operating leases and exchange-rate losses

Annual leasing fees paid for operating leases totaled SEK 3,768 thousands (2,412). Agreed future leasing fees for operating leases are payable as shown below:

	Group			
	07/08	08/09	09/10	10/11
Cars	1,259	626	179	0
Others	327	15	0	0
Subleased objects	2,371	2,157	0	0
<b>Total</b>	<b>3,957</b>	<b>2,798</b>	<b>179</b>	<b>0</b>

Total future leasing fees pertaining to non-terminable agreements for subleased objects amounted to SEK 4,527 thousands. Revenues in the financial year pertaining to leasing items leased further amount to SEK 2,428 thousands.

Exchange-rate losses included in operating profit amounted to SEK 5,195 thousands in the 2006/2007 fiscal year.

#### Note 5 Income from participations in Group companies

	Parent Company	
	06/07	05/06
Group contributions	146,000	95,900
Interest income	13,377	3,934
Interest expenses	-5,926	-1,210
<b>Total</b>	<b>153,451</b>	<b>98,624</b>

#### Note 6 Interest income and similar profit/loss items

	Group		Parent Company	
	06/07	05/06	06/07	05/06
Other interest income	12,506	7,565	9,976	4,633
Dividend	13	9	13	9
Earnings from sales of securities	176	118	176	118
Exchange difference	-	-	566	-
<b>Total</b>	<b>12,695</b>	<b>7,692</b>	<b>10,731</b>	<b>4,760</b>

#### Note 7 Interest expenses and similar expense items

	Group		Parent Company	
	06/07	05/06	06/07	05/06
Interest portion of annual costs for financial leases	-	55	-	-
Other interest expenses	2,064	2,085	1,947	1,992
Exchange difference	1,610	564	-	509
<b>Total</b>	<b>3,674</b>	<b>2,704</b>	<b>1,947</b>	<b>2,501</b>

## Note 8 Appropriations

	Parent Company	
	06/07	05/06
Change in accrual fund	-9,976	-11,116
Change in excess depreciation	174	595
<b>Total</b>	<b>-9,802</b>	<b>-10,521</b>

## Note 9 Tax on net profit for the year

	Group		Parent Company	
	06/07	05/06	06/07	05/06
Tax expenses				
Current tax expense	-21,012	-17,607	-15,387	-13,032
Deferred tax on temporary differences	-	-15,262	-26,320	-23,800
Deferred tax for untaxed reserves	-1,975	12,473	-	-
<b>Total tax expense</b>	<b>-22,987</b>	<b>-20,396</b>	<b>-41,707</b>	<b>-36,832</b>

### Relationship between Group tax and reported tax per applicable tax rate

Earnings before tax	70,200	80,746	147,008	129,867
Tax per applicable tax rate	-19,656	-22,609	-41,162	-36,362
Adjustment of tax for previous years	-	-	-	-
Tax effect of nondeductible expenses	-1,504	-805	-621	-470
Tax effect of nontaxable income	1,482	5,361	76	-
Change in temporary differences	-2,295	-1,981	-	-
Adjustment for tax in foreign subsidiaries	-1,014	-362	-	-
<b>Tax on net profit for the year</b>	<b>-22,987</b>	<b>-20,396</b>	<b>-41,707</b>	<b>-36,832</b>

### Temporary differences in Sectra Group

Deferred tax liability on untaxed reserves	25,906	23,611
Deferred tax liability on current assets	-	-
Deferred tax receivable on unused loss-carryforward	-	-
<b>Net deferred tax liability</b>	<b>25,906</b>	<b>23,611</b>

The applicable tax rate for the Group is the tax rate that applies to the Parent Company, that is, 28%.

The unutilized loss-carryforward amounted to SEK 0 at April 30, 2007.

## Note 10 Intangible assets

Group	Capitalized development <sup>1</sup>	Patents	Customer relations	Brand	Total
Historical cost at start of year	166,515	25,021	10,000	4,762	206,298
Translations differences	-	72	-	-	72
Investments for the year	25,572	-	-	-	25,572
Cumulative historical cost at April 30, 2006	192,087	25,093	10,000	4,762	231,942
Incoming depreciation	78,186	3,466	6,000	2,857	90,509
Translation differences	-	50	-	-	50
Amortization and write-down for the year	8,587	3,514	1,000	476	13,577
Cumulative amortization at April 30, 2006	86,773	7,030	7,000	3,333	104,136
<b>Closing residual value at April 30, 2006</b>	<b>105,314</b>	<b>18,063</b>	<b>3,000</b>	<b>1,429</b>	<b>127,806</b>
Historical cost at start of year	192,087	25,093	10,000	4,762	231,942
Translation differences	-	-52	-	-	-52
Disposal for the year	-	-1,924	-	-	-1,924
Investments for the year	42,581	-	2,651	-	45,232
Cumulative historical cost at April 30, 2007	234,668	23,117	12,651	4,762	275,198
Incoming depreciation	86,773	7,030	7,000	3,333	104,136
Translation differences	-	-50	-	-	-50
Disposal for the year	-	-2,056	-	-	-2,056
Amortization and write-down for the year	9,778	2,461	1,110	476	13,825
Cumulative amortization at April 30, 2007	96,551	7,385	8,110	3,809	115,855
<b>Closing residual value at April 30, 2007</b>	<b>138,117</b>	<b>15,732</b>	<b>4,541</b>	<b>953</b>	<b>159,343</b>

<sup>1</sup> Capitalized development pertains to internally generated intangible assets. Other intangible assets are acquired.

### Parent Company

The Parent Company held no intangible assets at April 30, 2007.

## Note 11 Machinery and equipment

	Group		Parent Company	
	30 Apr 2007	30 Apr 2006	30 Apr 2007	30 Apr 2006
Historical cost at start of year	44,330	39,810	12,044	12,134
Acquisition	1,990	-	-	-
Investments for the year	13,642	6,759	185	117
Sales/Disposals for the year	-12,454	-2,239	-584	-207
Cumulative historical cost at year-end	47,508	44,330	11,645	12,044
Depreciation at start of year	25,595	21,116	9,969	9,179
Acquisition	312	-	-	-
Depreciation for the year	5,868	5,956	718	907
Sales/disposals for the year	-6,619	-1,477	-584	-117
Cumulative depreciation at year-end	25,156	25,595	10,103	9,969
<b>Residual value according to plan</b>	<b>22,352</b>	<b>18,735</b>	<b>1,542</b>	<b>2,075</b>
Equipment held under financial lease agreements:				
Historical cost	-	7,304	-	-
Cumulative depreciation	-	-1,902	-	-
<b>Total book value</b>	<b>22,352</b>	<b>24,137</b>	<b>1,542</b>	<b>2,075</b>

Financial leasing agreements are agreements maturing within three years pertaining to vehicle leasing. SEK 1,211 thousands in expensed leasing fees was charged against earnings for the year.

As of 2006/2007, this equipment is classified as Operational leasing, since it represents an insignificant risk and has a value less than SEK 500 thousands.



## Note 12 Participations in Group companies

	Organization no.	Reg. office	No. of shares	Share of capital	Par value	30 Apr 2007 Carrying amount	30 Apr 2006 Carrying amount
<b>Parent Company</b>							
Sectra Imtec AB	556250-8241	Linköping, SE	300,000	100%	3,000	2,883	2,883
Sectra Communications AB <sup>1</sup>	556291-3300	Linköping, SE	3,000,000	100%	3,000	3,000	13,000
Sectra Wireless Technologies AB	556570-9325	Linköping, SE	3,000,000	100%	3,000	8,000	8,000
Sectra Secure Transmission AB	556247-1283	Linköping, SE	100,000	100%	100	95	95
Ebberöd Capital, Inc.		Shelton, US	20,000	100%	0	0	0
<b>Total book value</b>						<b>13,978</b>	<b>23,978</b>
<b>Sectra Imtec AB</b>							
Sectra Skandinavien AB	556483-9479	Linköping, SE	40,350	100%	100	21,016	21,016
Paxlink AB	556572-3292	Linköping, SE	700	100%	100	0	0
Sectra Norge AS	975 353 265	Oslo, NO	5,000	100%	NOK 500	283	283
Sectra NA, Inc.		Shelton, US	500	100%	USD 50	384	384
Sectra GmbH		Aachen, DE	500	100%	EUR 26	219	219
Sectra Italia S.r.l.	03185950965	Milano, IT	500	100%	EUR 50	453	453
Sectra A/S	26121361	Herlev, DK	5,000	100%	DKK 100	639	639
Sectra Ltd	4571654	London, UK	1	100%	£0,001	0	0
Sectra Pty Ltd	105 376 190	Sydney, AU	1	100%	AUD 0.1	0	0
Sectra New Zealand Ltd	1539744	Auckland, NZ	1	100%	NZD 0.1	0	0
Sectra Medical Systems SL	B84352749	Madrid, ES	500	100%	EUR 3	28	28
Sectra Mamea AB <sup>2</sup>	556570-7022	Stockholm, SE	105,260	100%	179	38,867	38,867
Sectra imaXperts BV <sup>2,3</sup>	39069257	Almere, NL	100	100%	EUR 22.5	3,936	0
<b>Total book value</b>						<b>65,825</b>	<b>61,889</b>
<b>Sectra Communications AB</b>							
Sectra Communications Ltd	4884887	Cheltenham, UK	1	100%	£0,001	0	0
Sectra Communications BV		The Hague, NL	1,800	100%	EUR 18	164	164
<b>Total book value</b>						<b>164</b>	<b>164</b>
<b>Sectra A/S</b>							
Sectra Pronosco A/S	26591856	Herlev, DK	5,000	100%	DKK 500	DKK 500	DKK 500
<b>Total book value</b>						<b>DKK 500</b>	<b>DKK 500</b>

<sup>1</sup> Change in carrying amount of shares in Sectra Communications AB refers to repaid shareholders contribution of SEK 10,000 thousands.

<sup>2</sup> Any additional purchase price pertaining to the acquisition of Sectra Mamea AB on April 30, 2004 and Sectra imaXperts BV (formerly imaXperts BV) on December 1, 2006 cannot be reliably calculated, and is therefore not taken up in the acquisition analysis and the value reported above.

<sup>3</sup> Carrying amount of shares in Sectra imaXperts BV pertain to total purchase price from which SEK 2,840 thousands refer to cash payment in December 2005 and SEK 1,096 thousands in December 2006.

## Note 13 Participations in associated companies

	Corp.reg. no.	Reg. office	No. of shares	Share of capital, %	Par value	30 Apr 2007 Carrying amount	30 Apr 2006 Carrying amount
imaXperts BV	39069257	Almere, NL	100	20%	EUR 4.5	0	2,363
<b>Total book value</b>						<b>0</b>	<b>2,363</b>

imaXperts BV has been reclassified to group companies, see Note 12. The carrying amount as of April 30, 2006 of participations in associated companies includes a participation in the associated company's earnings in an amount of SEK -478 thousands.

## Note 14 Inventories

	Group		Parent Company	
	30 Apr 2007	30 Apr 2006	30 Apr 2007	30 Apr 2006
Component stocks	22,876	19,453	-	-
Products in progress	13,400	12,824	-	-
Finished products	11,275	12,474	-	-
<b>Total book value</b>	<b>47,551</b>	<b>44,751</b>	<b>-</b>	<b>-</b>

A write-down in an amount of SEK 2,894 thousands was reported in the income statement for 2006/2007.

Equipment and components mainly used for development were reclassified as inventories or expensed in the income statement, depending on the estimated lifetime of the stock items in question.

## Note 15 Prepaid expenses and accrued income

	Group		Parent Company	
	30 Apr 2007	30 Apr 2006	30 Apr 2007	30 Apr 2006
Prepaid rent	2,088	2,195	1,128	1,098
Accrued interest income	868	911	737	802
Prepaid support agreements	1,914	3,901	325	109
Other items	12,755	8,510	236	749
Uninvoiced work in progress	35,147	17,059	-	-
<b>Total</b>	<b>52,772</b>	<b>32,576</b>	<b>2,426</b>	<b>2,758</b>

## Note 16 Financial assets and liabilities

Financial assets and liabilities		30 Apr 2007		30 Apr 2006	
Group		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets valued at fair value via income statement					
Liquid assets in SEK		179,683	179,683	204,866	204,866
Liquid assets in foreign currencies		102,635	102,635	63,338	63,338
Short-term investments		102,832	102,832	146,093	146,093
<b>Total</b>		<b>385,150</b>	<b>385,150</b>	<b>414,297</b>	<b>414,297</b>

Held-to-maturity investments					
Investments in securities		43,300	43,300	22,900	22,900
Other shares and participations		2,662	2,662	1,942	1,942
<b>Total</b>		<b>45,962</b>	<b>45,962</b>	<b>24,842</b>	<b>24,842</b>
Of which, short-term portion		-	-	11,600	-

Accounts receivables and loan receivables					
Accounts receivable		136,450	136,450	127,548	127,548
<b>Total</b>		<b>136,450</b>	<b>136,450</b>	<b>127,548</b>	<b>127,548</b>

Other financial liabilities					
Convertible debenture loans		47,628	47,628	43,715	43,715
Financial leasing agreements		-	-	4,576	4,576
Debts to financial institutions		261	261	9,313	9,313
Other interest-bearing debts		113	113	113	113
Accounts payable		34,151	34,151	23,741	23,741
<b>Total liabilities</b>		<b>82,153</b>	<b>82,153</b>	<b>81,458</b>	<b>81,458</b>

Revaluation of customer receivables via the income statement amounted to SEK 1,698 thousands for fiscal year 2006/2007. The maximum credit risk for accounts receivable and loan receivables corresponds to the reported fair value.

Convertible loans are running at a fixed interest rate of 4%. Other credits are running at variable interest rates, which ranged between 3-5% during the fiscal year. Financial leasing agreements and convertible subordinated loans have durations from 0-3 years. Debts to credit institutions run until further notice. See Note 2 for further information about issued convertibles.

Bank overdraft facilities		Group		Parent Company	
		30 Apr 2007	30 Apr 2006	30 Apr 2007	30 Apr 2006
Credit limit granted	15,000	15,000	15,000	15,000	15,000
Unutilized portion	-15,000	-15,000	-15,000	-15,000	-15,000
<b>Utilized credit amount</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Note 17 Untaxed reserves

	Parent Company	
	30 Apr 2007	30 Apr 2006
Tax allocation reserves:		
Allocated to taxes 02	-	8,328
Allocated to taxes 03	13,619	13,619
Allocated to taxes 04	16,200	16,200
Allocated to taxes 05	26,312	26,312
Allocated to taxes 06	1,649	1,649
Allocated to taxes 07	15,515	15,515
Allocated to taxes 08	18,304	-
Excess depreciation	1,039	1,213
<b>Total</b>	<b>92,638</b>	<b>82,836</b>

Of total untaxed reserves, SEK 25,939 thousands (23,194) is reported as deferred Group tax.

## Note 18 Appropriations

	Parent Company	
	30 Apr 2007	30 Apr 2006
Deferred tax liabilities/receivables referable to:		
Untaxed reserves	25,906	23,611
Current assets	-	-
Unused loss carryforwards	-	-
Other appropriations	11,135	1,326
<b>Total</b>	<b>37,041</b>	<b>24,937</b>

## Note 19 Other debts to financial institutions

	Group		Parent Company	
	30 Apr 2007	30 Apr 2006	30 Apr 2007	30 Apr 2006
Due 0-5 years from fiscal year-end	261	4 505	-	-
(of which, referable to financial leases)	-	(4 577)	-	-
Due more than 5 years from fiscal year-end	-	9 384	-	9 384
<b>Total</b>	<b>261</b>	<b>13 889</b>	<b>-</b>	<b>9 384</b>

## Note 20 Other long-term liabilities

	Group		Parent Company	
	30 Apr 2007	30 Apr 2006	30 Apr 2007	30 Apr 2006
Convertible debentures 03/06	-	20,608	-	20,608
Convertible debentures 04/07 <sup>1</sup>	11,540	11,482	11,540	11,482
Convertible debentures 05/08	11,682	11,624	11,682	11,624
Convertible debentures 06/09	22,892	-	22,892	-
Other liabilities	1,627	2,003	-	-
<b>Total</b>	<b>47,741</b>	<b>45,717</b>	<b>46,114</b>	<b>43,714</b>

<sup>1</sup> Because convertible debenture loan 04/07 will fall due for payment within one year, it has been posted to the balance sheet for 2006/2007 as a current liability.

### Conditions

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

### Present value difference

The present value difference is calculated as the difference between interest on convertible debentures and the market rate.

## Note 21 Other current liabilities

Of the current liabilities in the Group at April 30, 2007, SEK 0 thousands (789) is referable to financial leases.

## Note 22 Accrued expenses and deferred income

	Group		Parent Company	
	30 Apr 2007	30 Apr 2006	30 Apr 2007	30 Apr 2006
Accrued social security	19,202	17,988	1,000	942
Accrued vacation pay	24,425	22,985	1,164	1,042
Prepaid support agreements	66,112	59,380	-	-
Accrued accounts payable	2,696	4,518	483	504
Advances received	11,958	40,535	-	-
Accrued royalties	3,980	3,891	1,081	1,081
Other items	75,072	55 816	4 241	5,681
<b>Total</b>	<b>203,445</b>	<b>205,113</b>	<b>7,969</b>	<b>9,250</b>

The item accrued expenses and deferred income includes SEK 37,278 thousands (29,241) pertaining to anticipated expenses in conjunction with the termination of certain relationships with distributors. Since the outcome of the termination process currently in progress is uncertain, detailed information cannot be given, since this could have an adverse effect on the result. Provision has been made based on the information that has become known up until the issuance of the Annual Report.

## Note 23 Pledged assets and contingent liabilities

	Group		Parent Company	
	30 Apr 2007	30 Apr 2006	30 Apr 2007	30 Apr 2006
Chattel mortgages	36,250	36,250	11,000	11,000
Bank accounts	-	10,000	-	10,000
<b>Total pledged assets</b>	<b>36,250</b>	<b>46,250</b>	<b>11,000</b>	<b>21,000</b>

## Note 24 Cash flow

Adjustment for items not included in cash flow

	Group		Parent Company	
	06/07	05/06	06/07	05/06
Depreciation/amortization	19,693	19,602	717	907
Gain/loss of securities	181	118	181	118
Sale of fixed assets	-3,174	-17	-4	-13
Provisions for personnel costs	1,927	1,890	-	-
Share in earnings of associated companies	490	478	-	-
<b>Total</b>	<b>19,117</b>	<b>22,071</b>	<b>894</b>	<b>1,012</b>

## Note 25 Company acquisitions

Sectra acquired Dutch company imaXperts BV on December 1, 2006 by increasing its shareholding from 20 to 100 %. After the acquisition date, the acquired company contributed SEK 0.0 million to consolidated earnings after tax. If the acquisition had occurred on May 1, 2006, imaXperts' contribution to the Group would have amounted to SEK 21.9 million in net sales and SEK 1.5 million in losses after tax. The acquisition affected the Group's assets and liabilities as shown in the following acquisition analysis.

SEK thousands	Reported value in Sectra imaXperts BV	Adjustment, fair value	Value reported in Group
Tangible assets	610	-	610
Working capital	-309	-1,571	-1,880
Cash and cash equivalents	15	-	15
<b>Net assets and liabilities</b>	<b>316</b>	<b>-1,571</b>	<b>-1,255</b>
Purchase price during the year			-1,096
<b>Net cash flow within the Group</b>			<b>-2,351</b>

## Note 26 Important estimates and judgments

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

*Impairment requirements relating to intangible assets* 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. The calculations are based on budgeted long-term targets and anticipated growth. In the calculations, a discount rate of 12% is applied and growth is set at a level consistent with the market trend.

*Testing of the reported values for deferred tax assets* relates to loss carryforwards and the impairment loss on the capitalized development expenditure. The loss carryforwards have been reported at their full value since it is considered that they can be utilized in their entirety in the Swedish subsidiaries.

## Note 27 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. Due to the fact that Sectra is active in a large number of markets, the political and market risks, for example, for the Group as a whole are limited. The largest individual risks related to operations are described below.

### *Customers and partners*

Sectra's five largest partners and customers together account for 40.5% of Group sales. Although sales to each customer are divided among a number of agreements, the loss of a major customer could have a significant effect on the Group's earnings and 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 incurs 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 US companies. Accordingly, the USD exchange rate has an effect on the price structure for mammography systems, for example. Other business risks, such as market risks, suppliers, technical development and dependence on individual persons, 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. These financial risks are managed in accordance with the financial policy set by the Board of Directors. The purpose of the financial operations 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. The financial operations within the Sectra Group are carried out by the financial function of the Parent Company.

#### *Currency exchange risks*

Exchange rate exposure within the Sectra Group occurs primarily via transactions in foreign currencies and, to a lesser extent, in translating foreign subsidiaries' income statements and balance sheets. Exchange rate exposure pertains mainly to USD and EUR. 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 manage hedge contracts are not considered to be 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 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. Interest on debts to financial institutions is locked in for periods of less than 12 months. At the closing date, the Group's interest-bearing assets exceed interest-bearing liabilities, as a result of which a decline in interest rates has an adverse impact on the Group and an increase has a positive effect.

#### *Credit risks*

The Group's credit risks pertain mainly to accounts receivable, with respect to which the Group has set guidelines for making sure that customers have high creditworthiness. Sectra's customers consist largely of government agencies and other highly reputable customers with high creditworthiness, and whose credit risk is considered to be extremely low.

#### *Liquidity risks*

To ensure sufficiently strong liquidity, 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 to minimize the liquidity risk. Unutilized bank overdraft facilities are used in the event of temporarily elevated liquidity needs.

#### *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 fiscal year 2006/2007 and how the variables named would have affected profit/loss after net financial income/expense 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 earnings after financial items
Net sales	+/- 1%	+/- SEK 6.7 M
Cost of materials	+/- 1%	+/- SEK 1.6 M
Personnel costs	+/- 1%	+/- SEK 2.8 M
Interest rate level	+/- 1%	+/- SEK 3.6 M
Exchange rate changes:		
USD exchange rate	+/- 1%	+/- SEK 1.6 M
EUR exchange rate	+/- 1%	+/- SEK 0.2 M

## **Note 28 Board's statement concerning proposed dividend**

The Board of Directors' reasons for the proposed dividend and the authorisation to repurchase and transfer the Company's own Class B shares being in accordance with the provisions of Chapter 17, Section 3, paragraph 2 and 3 of the Companies Act are as follows.

#### **The Company's objects, scope, and risks**

The Company's objects and scope of business are set out in the Articles of Association and the annual reports provided. The business run by the Company does not entail any risks in excess of those that exist or may be deemed to exist in the industry or those risks which are generally associated with operating a business.

#### **The financial position of the Company and the Group**

The financial position of the Company and the Group as at 30 April 2007 is stated in the latest annual report. The annual report also states which accounting principles are applied in the valuation of assets, allocations and liabilities.

The proposal on dividend states that the Board of Directors proposes a dividend of SEK 0.50 per share, which corresponds to an amount less than of SEK 18.5 million. The proposed dividend constitutes 4.5 percent of the parent company's equity and 3.6 percent of the Group's equity. The non-restricted equity in the parent company and the Group's retained profits amounted to SEK 142.3 million and SEK 190.4 million respectively at the end of the 2006/2007 financial year. The Board of Directors proposes that the record day provision for the dividend is Tuesday 3 July 2007.

The annual report states that the equity-debt ratio is 60.8 percent. The proposed dividend and authorisation 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 fulfil its obligations on both a short and long-term basis.

In the opinion of the Board of Directors, the amount of shareholders' equity as reported in the latest 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 dividend now proposed and the authorisation 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 of Directors is of the opinion that after a comprehensive review of the financial position of the Company and of the Group it follows that the proposed dividend and authorisation 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 Companies Act, i.e. with reference to the requirements that the objects of the business, its scope and risks place on the size of the Company's and Group's equity and the Company's and the Group's consolidating requirements, liquidity and financing needs in general.

## **Note 29 Definition of key ratios**

### **Added value:**

Operating profit plus labor costs.

### **Added value per employee:**

Operating profit plus labor costs divided by average number of employees.

### **Adjusted equity:**

Reported equity plus 72% of untaxed reserves.

### **Capital employed :**

Total assets reduced by non-interest-bearing debts.

### **Cash flow per share:**

Cash flow from current operations divided by the number of shares at the end of the period.

### **Debt ratio**

Interest-bearing debts divided by equity.

### **Earnings per share**

Profit after tax divided by average number of shares.

### **Equity:**

Includes 72% of untaxed reserves

### **Equity per share:**

Equity divided by the number of shares at the end of the period.

### **Equity ratio:**

Equity as a percentage of total assets.

### **Gross margin:**

Operating profit before depreciation as a percentage of sales.

### **Liquidity ratio:**

Current assets divided by current liabilities.

### **Operating margin:**

Operating profit after depreciation as a percentage of sales.

### **P/E:**

Share price at the end of the year divided by earnings per share.

### **Profit margin:**

Profit after net financial items as a percentage of sales.

### **Return on equity:**

Income after net financial items reduced by actual tax as a percentage of average adjusted equity.

### **Return on total capital:**

Profit after net financial items plus financial expenses as a percentage of average total assets.

### **Return on capital employed:**

Profit after net financial items, plus financial expenses as a percentage of average capital employed.

### **Yield:**

Dividend as a percent of share price.



# Audit report

To the annual general meeting  
of the shareholders of Sectra AB (publ)  
Company registration number 556064-8304

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Sectra AB (publ) for the financial year May 1, 2006 – April 30, 2007. These accounts and the administration of the company and the application of the International Financial Reporting Standards IFRS endorsed by the EU and the Annual Accounts Act when preparing the annual accounts and the consolidated accounts are the responsibility of the board of directors and the managing director. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and the consolidated accounts, as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to

be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the International Financial Reporting Standards IFRS adopted by the EU and the Annual Accounts Act and give a true and fair view of the company's and the group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual general meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Linköping, June 1, 2007  
Lindebergs Grant Thornton AB  
Ivar Verner  
Authorised Public Accountant

# Five year summary

Comparative figures for fiscal year 2003/2004 and 2002/2003 is not presented in accordance with IFRS. Main difference compared to IFRS is valuation of goodwill and share-based remuneration.

Amounts in SEK thousands unless otherwise stated	06/07	05/06	04/05	03/04	02/03
<b>Consolidated Income Statements</b>					
Net sales	672,511	564,382	455,862	495,336	503,418
Capitalized work for own use	42,581	25,572	24,221	-	-
Operating expenses	-631,134	-492,961	-390,636	-398,753	-419,849
Depreciation	-22,287	-20,757	-18,033	-6,052	-6,849
Income from participations in Group companies	-490	-478	-	-	-
Items affecting comparability	-	-	-	-70,936	-
<b>Operating profit</b>	<b>61,181</b>	<b>75,758</b>	<b>71,414</b>	<b>19,595</b>	<b>76,720</b>
Net financial items	9,021	4,988	9,001	8,046	2,202
<b>Profit after financial items</b>	<b>70,202</b>	<b>80,746</b>	<b>80,415</b>	<b>27,641</b>	<b>78,922</b>
Income tax	-22,986	-20,396	-27,871	-10,199	-25,703
<b>Net earnings for the year</b>	<b>47,216</b>	<b>60,350</b>	<b>52,544</b>	<b>17,442</b>	<b>53,219</b>
Profit attributable to equity holders of the:					
Parent Company	47,216	60,350	52,857	20,989	53,315
Minority interest	-	-	-313	-3,547	-96
<b>Consolidated Balance Sheets</b>					
<b>Assets</b>					
Intangible assets	159,343	127,806	115,807	97,110	11,202
Tangible assets	68,314	39,741	37,254	16,681	97,692
Financial assets	385,150	414,297	320,176	332,342	170,479
Other current assets	241,655	243,725	226,488	190,896	193,155
<b>Total assets</b>	<b>854,462</b>	<b>825,569</b>	<b>699,725</b>	<b>637,029</b>	<b>472,528</b>
<b>Equity and liabilities</b>					
Equity	519,406	486,495	430,655	393,033	206,030
Provisions	37,041	24,937	27,057	891	15,389
Minority interest	-	-	-	-2,561	42
Long-term liabilities	36,438	38,981	45,915	71,615	57,626
Current liabilities	261,577	275,156	196,098	174,051	193,441
<b>Total equity and liabilities</b>	<b>854,462</b>	<b>825,569</b>	<b>699,725</b>	<b>637,029</b>	<b>472,528</b>

Key figures <sup>1)</sup>	06/07	05/06	04/05	03/04	02/03
<b>Financial</b>					
Working capital, SEK M	567.4	546.1	488.0	480.5	291.0
Liquidity ratio	2.5	2.4	2.9	3.1	2.0
Solvency, %	60.8	58.9	61.5	61.7	43.6
Debt ratio	0.11	0.13	0.13	0.22	0.41
Investments, SEK M	58.6	35.1	44.6	37.9	5.1
<b>Profitability</b>					
Gross margin, %	12.4	17.1	19.6	19.5	16.6
Operating margin, %	9.1	13.4	15.7	4.0	15.2
Profit margin, %	10.4	14.3	17.6	5.6	15.7
Return on total capital, %	8.6	10.9	12.6	6.1	20.6
Return on working capital, %	13.0	16.0	17.1	8.8	32.5
Return on equity, %	9.4	13.2	12.8	5.8	28.7
Value added, SEK M	361.5	335.8	301.9	206.9	239.6
<b>Employees</b>					
No. of employees, average	411	373	350	296	262
No. of employees at fiscal year-end	455	383	370	347	274
Sales per employee, SEK M	1.6	1.5	1.3	1.7	1.9
Value added per employee, SEK M	0.9	0.9	0.9	0.7	0.9
<b>Data per share</b>					
No. of shares at fiscal year-end <sup>2</sup>	36,783,188	36,746,521	36,528,638	35,851,511	33,076,511
Average number of shares	36,758,743	36,733,188	36,415,995	33,326,511	32,918,728
Equity per share, SEK	14.12	13.24	11.79	10.96	6.23
Equity per share after full dilution <sup>3</sup> , SEK	13.84	12.97	11.54	10.52	6.09
Cash flow per share, SEK	2.24	2.01	1.81	2.41	1.92
Cash flow per share after dilution <sup>3</sup> , SEK	2.19	1.97	1.77	2.31	1.88
Earnings per share, SEK	1.28	1.65	1.45	0.63	1.62
Earnings per share after dilution <sup>3</sup> , SEK	1.26	1.61	1.42	0.61	1.57
Dividend per share <sup>4</sup> , SEK	0.50	0.50	0.50	0.50	0.50
Dividend yield, %	0.7	0.9	0.7	0.9	1.3
P/E ratio, times	59.2	35.7	49.7	92.9	23.6
Share price at fiscal year-end, SEK	76.0	58.75	74.00	58.50	38.00

<sup>1)</sup> Definition of key figures, see note 29 page 48.

<sup>2)</sup> Adjusted for stock splits and bonus issues.

<sup>3)</sup> Dilution is based on the convertible debentures issued 2003/2004 (330,000), 2004/2005 (154,800), 2005/2006 (165,200), and personnel options issued 2003/2004 (36,667), 2004/2005 (40,000) and 2005/2006 (40,000).

<sup>4)</sup> Dividend proposed by the Board of Directors for 2006/2007.

# Corporate governance

Management and control of the Sectra Group is divided between the shareholders, the Board of Directors and the President in accordance with the Swedish Companies Act and the Articles of Association. The Board of Directors considers it its mission to grow the shareholders' invested capital and strive for a high and sustainable long-term return.

## Nomination Committee

The 2006 Annual General Meeting (AGM) resolved to appoint a Nomination Committee consisting of three members – one of the members to be the Chairman of the Board of Directors and two members to be representatives of the company's major shareholders. After consultations with the company's major shareholders, a Nomination Committee was appointed in accordance with the Meeting's decision. The Nomination Committee comprised the following members:

- Thomas Ericson, Board Chairman (convener)
- Jan-Olof Brüer, CEO of Sectra AB and representative of the company's largest shareholder (Chairman)
- Annika Andersson, representative of the Fourth AP Fund

The Nomination Committee has the task of preparing and submitting proposals to the AGM prior to election of the Meeting Chairman, Board Chairman and other members of the Board of Directors, and with regard to remuneration of the Board. The Nomination Committee is also responsible, when applicable, for proposing the names of auditors and the fees to be paid to auditors. The Nomination Committee's proposals to the 2007 AGM will be submitted in conjunction in adequate time prior to the meeting.

## Sectra's Board of Directors

Sectra's Board of Directors consists of five members elected by the AGM. As proposed by the Nomination Committee, the 2006 AGM reelected Board members Thomas Ericson, Torbjörn Kronander, Gündor Rentsch, Carl-Erik Ridderstråle and Anders Persson. Thomas Ericson was reelected as Chairman of the Board at a statutory Board meeting in conjunction with the AGM. In addition to the members elected by the Annual General Meeting, the Board of Directors includes two employee representatives with two deputies appointed by the employee organizations. For further information about Board members, see page 54.

## Activities of the Board of Directors

The Sectra AB Board of Directors annually establishes an agenda governing the activities of the Board and special instructions for the President specifying the division of labor between the Board and the President. There are no special audit or compensation committees within Sectra's Board of Directors which, in its entirety, has oversight over all issues affecting the Group's finances.

The Board of Directors makes decisions regarding the Group's overall strategy, major investments, acquisitions and divestments, and adopts the Group's budget, year-end accounts and framework for its financial reporting. The Board also sets the policies and guidelines governing the management and investment of the Group's financial assets. Sectra's financial performance and strategic business issues are reviewed and discussed regularly by the Board.

Since the 2006 AGM, the Board of Directors has held nine minutes meetings. Four of the meetings were coordinated with financial reporting. The Company's President and CFO regularly participate in Board meetings. Other executives take part in the Board meetings as needed. The Company's auditor participated in the meeting at which the year-end accounts were presented, and provided the Board with views and observations from the audit he had conducted.

## Chairman of the Board

The Chairman of the Board leads the activities of the Board and is responsible for ensuring that the other Board members regularly receive the information necessary to ensure that the quality of the Board's activities is maintained, and that they are conducted in compliance with the Swedish Companies Act.

## President

The Group CEO/President leads the Sectra Group within the framework established by the Board of Directors. He prepares the documentation for informational and decision-making purposes prior to

Board meetings, prepares reports and submits resolution proposals supported by motivating arguments. Each month, the President provides the Board members with the information needed to monitor the status, operations and development of the Company and the Group, and keeps the Chairman of the Board informed about operations on an ongoing basis.

### Group Management

The President leads the activities of Group Management and makes decisions based on consultation with its members. Group Management comprises a total of five members, for further information see page 55.

### Internal control and risk management

The Board of Directors has overall responsibility for the Group's internal control and risk management systems, whose purpose is to safeguard the shareholders' investments and the Group's assets, ensure that due and proper accounting documents are prepared, and to ensure that the financial information used within operations and for publication is reliable.

These systems are designed to ensure the efficiency of the operations and compliance with laws and regulations. Sectra uses various methods to continuously monitor and control the risks associated with its operations. Identification and assessment of the most serious risks associated with the Group's operations are conducted on an ongoing basis. See Note 27 on page 46 for information about the Group's risks.

### External audits

External auditors are appointed by the AGM for a term of four years. Lindebergs Grant Thornton AB, with chief supervising auditor Ivar Verner, has been assigned this duty up until the 2007 AGM.

### Swedish Code of Corporate Governance

Sectra is not covered by the Swedish Code of Corporate Governance (the Code), since the company does not have a market value in excess of SEK 3 billion. However, Sectra's Board of Directors employs a work method and approach to disseminating information concerning corporate governance issues that is in accordance with the Code in most respects. Sectra's Board of Directors intends to continue monitoring the progress of the Code and will decide when the Company needs to further develop its work in this area.

<b>Members elected by the AGM</b>	Present	Independent <sup>1</sup>
Thomas Ericson	9/9	No
Torbjörn Kronander	9/9	No
Anders Persson	8/9	Yes
Gündor Rentsch	9/9	Yes
Carl-Erik Ridderstråle	6/9	Yes
<b>Employee representatives</b>		
Claes Lundström	8/9	
Karin Partain	7/9	
<b>Deputies to the employee representatives</b>		
Mats Björnemo	2/9	
Patrik Preimer	1/9	

<sup>1</sup> "Independent" means independent in relation to the company and its management, as well as major shareholders.

# Board of Directors, Group Executive Board and Auditor



Gündor Rentsch



Carl-Erik Ridderstråle



Anders Persson



Karin Partain



Claes Lundström

## Board of Directors

**Thomas Ericson** Professor of Data Transmission at Linköping Institute of Technology. Born 1942. Chairman of the Board since 1984.

Sectra holdings: 196,329 A shares, 1,056,044 B shares and convertible debentures corresponding to 31,000 B shares.

**Torbjörn Kronander** PhD. Born 1957. Elected 1988. Employee since 1985, President Sectra Imtec AB and Vice President Sectra AB since 1997.

Other posts: Board member of Center for Medical Imaging and Visualization, Cellavision AB, et al. and member of the Royal Swedish Academy of Engineering Sciences.

Sectra holdings: 733,108 A shares, 2,879,901 B shares and convertible debentures corresponding to 93,000 B shares.

**Anders Persson** MD, PhD. Born 1953. Elected 2004. Director of the Center for Medical Imaging and Visualization and chief physician in radiology.

Other posts: Board member of Center for Medical Imaging and Visualization and National Supercomputer Centre in Sweden.

Sectra holdings: 2,470 B shares and convertible debentures corresponding to 6,000 B shares.

**Gündor Rentsch** M. Pol. Sc. Born 1941. Elected 1994.

Other posts: Chairman of the Board of ITB AB, Board member of Streamserve Inc. and Readsoft AB, et al.

Sectra holdings: 75,000 B shares and convertible debentures corresponding to 24,600 B shares.

**Carl-Erik Ridderstråle** Tech. lic. Born 1942. Elected 2001.

Other posts: Chairman of the Board of Hultdin System AB, BE Group AB and DIAB International AB. Board member of KMT AB and Seco Tools AB.

Sectra holdings: 16,500 B shares and convertible debentures corresponding to 51,400 B shares.

## Employee representatives

**Karin Partain** MSc. Born 1964. Employee representative since 2003. Project manager Sectra Communications AB.

Sectra holdings: 7,810 B shares and convertible debentures corresponding to 1,200 B shares.

**Claes Lundström** MSc. Born 1973. Employee representative since 2003. Product Marketing and Research Manager Sectra Imtec AB as well as industrial graduate student at the Center for Medical Imaging and Visualization.

Sectra holdings: 3,412 B shares and convertible debentures corresponding to 7,600 B shares.

**Mats Björnemo** MSc. Born 1976. Deputy employee representative since 2005. Market Area Manager Sectra Imtec AB.

Sectra holdings: 260 B shares and convertible debentures corresponding to 3,000 B shares.

**Patrik Preimer** MSc. and MBA. Born 1968. Deputy employee representative since 2003. Customer team manager Sectra Skandinavien AB.

Sectra holdings: 1,621 B shares.





Torbjörn Kronander



Simo Pykälistö



Helena Johansson



Erik Persson



Jan-Olof Brüer



Thomas Ericson

#### Group Executive Board

**Jan-Olof Brüer** PhD. Born 1951. President and Group CEO Sectra AB since 1985. Acting President Sectra Communications AB.

Other posts: Board member of Östgöta Correspondenten.

Sectra holdings: 733,110 A shares, 2,879,904 B shares and convertible debentures corresponding to 93,000 B shares.

**Torbjörn Kronander** President Sectra Intec AB and Vice President Sectra AB. See also “Board of Directors”.

**Simo Pykälistö** Born 1972. Chief Financial Officer Sectra AB, employee since 2003.

Sectra holdings: 400 B shares and convertible debentures corresponding to 36,000 B shares.

**Helena Johansson** Born 1970. Chief Investor and Press Relations Officer Sectra AB, employee since 1993.

Sectra holdings: 9,239 B shares.

**Erik Persson** Born 1971. IT Coordinator Sectra AB, employee since 2002.

Sectra holdings: 0.

#### Auditor

##### Lindebergs Grant Thornton AB

Chief coordinating auditor Ivar Verner, certified public accountant.

## From consulting to world-leading products

Sectra completed its first consulting project in the late 1970s. Today, the company's products are used by customers in more than 40 countries and the Sectra brand stands for world-leading products that make healthcare more efficient and protect valuable information.

Sectra's history dates back to 1978, when a group of researchers at the Linköping Institute of Technology were assigned the task of creating a security solution for banks. Professor Ingemar Ingemarsson started Sectra (SECure TRAnsmiSSion) together with his three doctoral students, Viiveke Fåk, Rolf Blom and Robert Forchheimer, to take on the assignment.

### Consulting work to product development

A few years later Jan-Olof Brüer earned his doctorate in information theory, with Professor Ingemarsson as his advisor. Dr. Brüer was recruited to Sectra and subsequently proposed new ideas about how to transform Sectra into a "proper" company.

*"The founders had a good laugh at what we then saw as his dreams. But now I see that those visions have been exceeded," says Professor Ingemarsson.*

Dr. Brüer was hired as Sectra's President. The company changed its emphasis under his leadership, making the transition to selling products and system solutions in the areas of data security, digital radio and image coding. This new strategic orientation marked the beginning of Sectra's expansion phase.

*"We founders were academics and researchers within the information technology field. The smartest decision we ever made was to bring in knowledgeable business-oriented people," says Professor Fåk.*

### Defense security

After spending its initial years working for bank customers, in the 1980s the company began focusing on the customers that have the

most stringent requirements of all in terms of security.

*"We succeeded in landing a defense order for a new crypto chip as early as 1987. That turned out to be the start of our focus on security products for defense and government agency customers," says Sectra's President and CEO Jan-Olof Brüer.*

Sectra has been the market leader in encryption equipment for the Swedish Defense since the mid-1990s, and today the company's products are used by civil authorities and defense forces in several European countries.

### Medical technology

Dr. Torbjörn Kronander came to the Linköping Institute of Technology to earn his doctorate in the mid-1980s, bringing with him a strong interest in medical technology and a vision of digital radiology. He was recruited to Sectra and Sectra's expansion towards digital image management systems for radiology departments began in 1988. Today Dr. Kronander is the President of Sectra's medical operations.

*"When Dr. Kronander started, we still had only ten people working at Sectra. Medical technology currently constitutes our biggest business area, and our radiology system is world-leading," continues Professor Ingemarsson.*

Swedish healthcare adopted the new digital technology early on, and Sectra developed the systems for Sweden's first entirely film-free radiology department, which was dedicated in Mjölby in 1993. Today, Sectra's system is used by more than 900 hospitals worldwide.

## Long-term growth and international expansion

The niches in which Sectra operates have been chosen from a long-term growth perspective. Sectra resolved early on to target niches with global potential. The first office outside Sweden was opened in Norway in 1995. Sectra has since then opened offices in nine more countries as part of the company's commitment to international growth.

## Mid-1980s

Many of those who were involved in building up Sectra are still involved in the company.

- 1 Robert Forchheimer, founder and shareholder.
- 2 Torbjörn Kronander, President Sectra Imtec AB and shareholder.
- 3 Ingemar Ingemarsson, founder and shareholder.
- 4 Viiveke Fåk, founder and shareholder.
- 5 Jan-Olof Brüer, Group CEO and shareholder.
- 6 Thomas Ericson, Chairman of the Board and shareholder.
- 7 Frithjof Qvigstad, shareholder.



### Initial public offering

Sectra had its IPO in 1999. The aim was to validate that the company had grown to become a strong player before continuing on its path toward internationalization. Becoming listed on the stock exchange paved the way for strategic acquisitions and financing of the continued international expansion. It also gained Sectra greater legitimacy in the eyes of its customers and cooperative partners.

### Strategic acquisitions

Sectra's operations have grown both organically and through strategic acquisitions. The first acquisition was in 1995, when Sectra purchased Imtec, a Swedish company which, like Sectra, developed digital image management systems for healthcare applications. The most recent acquisition was made in 2006, when Sectra acquired imaXperts BV, a Dutch company that distributes medical systems in the Netherlands, Belgium and Luxembourg.

*"Our strategy is to acquire companies with products that strengtben our offering to existing customers, or have similar operations in complementary markets," explains Dr. Jan-Olof Brüer.*

### Cutting-edge technology

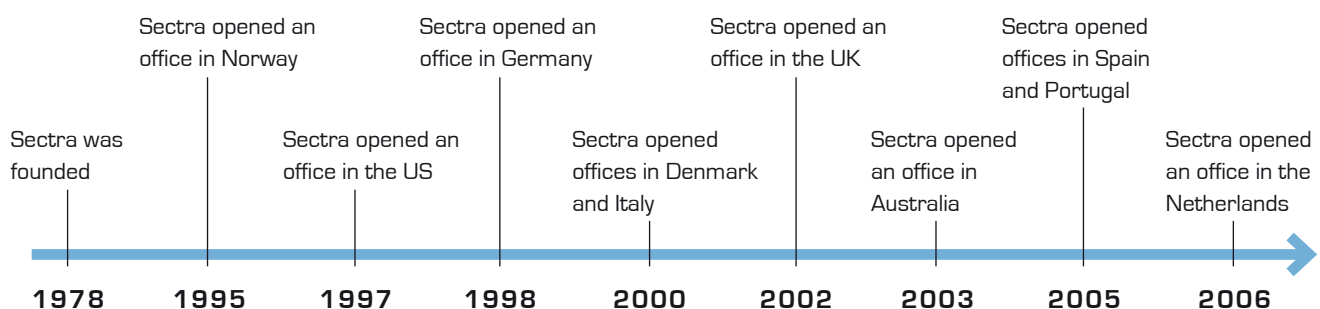
Since its inception, Sectra has maintained close ties with the world of research and has helped to push forward the boundaries in relevant fields of technology. One example of this is Sectra's digital mammo- graphy system, Sectra MicroDose Mammography, which was con-

ceived at a meeting between Sectra and Associate Professor Mats Danielsson and his research team at the Royal Swedish Institute of Technology in the late 1990s. Professor Danielsson and his team had developed a revolutionary X-ray detector that Sectra perceived could be used in digital mammography. A cooperative arrangement was es- tablished, and today Sectra can offer the mammography departments of the world a unique solution with the lowest radiation dose on the market.

The most recent example of Sectra's contributions to revolution- ary technical advances is a new image-processing method that ena- bles extremely large volumes of medical images to be displayed many times faster than with traditional methods. The new method is based on research conducted at the Center for Medical Image Science and Visualization at Linköping University, Sweden.

### Key to continued success

Sectra focuses on high-technology niche markets with long-term growth potential. Operations are conducted by very committed and skilled individuals, the most skilled to be found within Sectra's busi- ness areas. Close long-term cooperation with customers guarantees that the products comply with true end-user needs. A strong cost control results in products that represent good value and contribute to favorable profitability. These attributes are the key to Sectra's suc- cess and provide an excellent foundation for the company's future de- velopment.



# Glossary

## **CAD (Computer Aided Detection)**

System in which a computer is used to detect any abnormalities on the radiology image that, for example, could be a sign of cancer. CAD could be likened to spelling check in a word processing program.

## **Photon**

An elementary particle responsible for electromagnetic phenomena, such as light and X-rays.

## **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 so that the data can be reconverted into its original clear-text form.

## **Mammography screening**

Mammography is an examination procedure used to detect breast cancer at an early stage in asymptomatic women. Screening means that all women of certain ages are called for examinations regularly.

## **Orthopedics**

A surgical specialty for disorders affecting the skeleton and the locomotor system.

## **PACS (Picture Archiving and Communication System)**

A system for managing and archiving digital radiology images.

## **RIS (Radiology Information System)**

A system for managing radiology patient data, such as appointment bookings, patient information and dictation.

## **Secret UE**

Classification level for a high level of security within the EU. UE is the abbreviation for the European Union in French, Union Européenne.

# Where to find Sectra

## Parent company headquarter

### Sectra AB

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