

Annual report 1998-99



SECTRA

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The past year in brief

- Sales rose 13% to SEK 182.9 million.
- Consolidated earnings before tax increased 19% to SEK 21.3 million.
- Earnings per share totaled SEK 1.61.
- On the 3rd March 1999 the company was quoted on the Stockholm Stock Exchange O-list. In connection with the quotation a new issue was effected and brought the company SEK 12.6 million after deductions for external issue and quotation expenses.
- Sectra became the first Swedish company besides Ericsson to receive an international standard approval certificate for a GSM phone.
- For Riverside County Regional Medical Center in California, Sectra delivered and commissioned one of the largest film-free image-processing systems for civilian health care in the United States.
- Sectra made an initial delivery of a future system for aircraft communication. The system, which is partly based on Håkan Lans' patent, is expected to become a global standard.

Sectra in brief

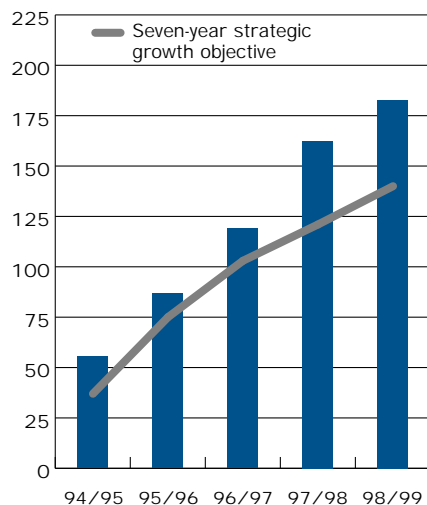
Sectra AB is an IT company that grew out of research at the Linköping Institute of Technology.

Since the mid-1980s, the Company has successfully conducted development and sales of advanced technology IT and telecommunications products. Today the business includes products in the expanding fields of medical imaging systems, secure communication systems and digital radio systems.

Sectra collaborates with customers in each of these markets to develop commercially strong, user-friendly products embodying high technical quality.

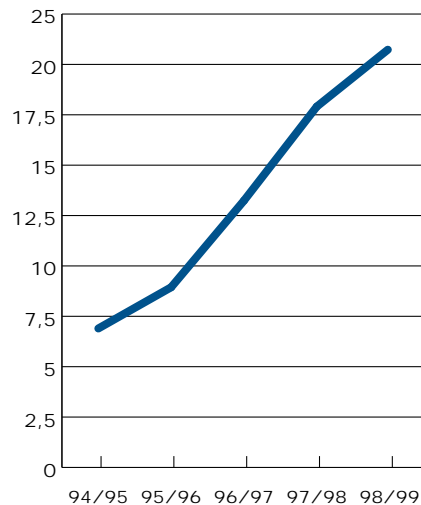
Net sales

SEK million



Profit after financial items

SEK million



STOCKHOLMS
FONDBORS

Aktiemer i
SECTRA AB
noteras på
Stockholms Fondbörs
O-lista från och med
den 3/3 1999

President's statement

During the past financial year, Sectra celebrated its 20th anniversary. The business has flourished in these 20 years. We have grown to more than 140 employees and established businesses in five countries. Our products and systems are now available via our own and our partners' sales organizations to customers throughout the Western world.

1998/1999 year in review

The 1998/99 financial year was another strong year for Sectra. We boosted our volume of business and earnings while investing aggressively in major development projects to create new products and systems. In all fields of operation, we pursued new development projects, which will gradually be completed during this financial year.

Our markets progressed and grew in line with our expectations, with one exception: Our business activities for the Swedish Armed Forces were adversely affected by the extensive reorganization currently under way. Although our products and system solutions offer the Swedish Armed Forces potentially huge savings, we are experiencing longer delays in defense procurement than previously indicated. In our secure communication systems business, we are now concentrating on expanding our market, initially into defense and public sector markets in northern Europe.

In 1998/1999, we again succeeded in achieving our strategic growth objective, an average growth rate of 30% over a seven-year period, even though growth slowed somewhat from previous years because of the delay in Armed Forces procurement mentioned above.

Our international business grew apace during the year. Our digital radio system

business has already found several international customers, which means that this business, like our sizable medical image-processing business, will more than satisfy our strategic globalization objectives.

We believe that our niche markets – medical imaging systems, secure communication systems and digital radio systems – will grow in volume during the next 10 years, that they are genuinely global markets and that our solid technological base provides the means to generate offers that represent value to customers. Sectra is ready to take on these growing markets with a number of technically sophisticated systems and products.

Sales and earnings

The company continued performing favorably. Earnings grew, from SEK 17.9 million to SEK 21.3 million, and sales reached SEK 182.9 million, up from SEK 162.0 million. We have expanded while preserving a solid financial position and are now among the 2% of Swedish companies that command Dun & Bradstreet's highest credit rating, AAA.

Sectra Imtec

Our medical image-processing business continued to win the confidence of many new customers in the domestic market. In addition, our collaborative efforts internationally are also progressing very favorably.

One of the largest projects carried out in the past year was at Riverside Hospital outside Los Angeles, California. Here, we took part in creating one of the largest film-free radiology departments in the United States. The project had an extremely tight schedule, and our staff made a

tremendous effort to ensure the system was ready for operation on the appointed date. The project was undertaken with our partner in the U.S. market, Philips Medical Systems.

Defence Communication Systems

During the past year, we commenced several forward-looking development projects, the largest aimed at producing a mobile telephone that is impossible to "wire-line". The phone, called Tiger, allows secure speech and data communication over a GSM, DECT or wired telephone network.

We have also developed and shipped a high-speed encryption unit that sets a new speed record –155 Mbps - and products that enable secure mail and network communication for organizations with highly demanding security standards.

Data Broadcasting Systems

Data Broadcasting Systems is our newest business segment. In 1998/1999, we successfully completed a five-year air surveillance system project, called LuLIS, for the Swedish military. The digital radio system technology gained from this project has already received a favorable response from radio operators in a handful of European countries that are ready to make similar investments in infrastructure.

During the year, we also began collaborating with SAAB on transponder technology. We have developed a new generation of radio transceiver for future aircraft positioning systems designed to enhance safety, for civilian air traffic in particular.

Ongoing internationalization

Our business advanced further towards the long-term strategic goal of becoming

a global multi-local enterprise. To date, cross-fertilization of solutions, resulting from close collaboration with demanding customers in various countries, has produced remarkably robust features in Sectra's products. Consequently, this year our products continued to reach further afield, to customers in previously untapped countries.

Research and development – the key to success

We continued and redoubled investment in research and development. The past year witnessed the largest volume of development projects to date. Most of these projects were in line with our principal strategy of developing systems and products in close collaboration with exciting, pathfinding customers who themselves command unique expertise. This allows our highly qualified staff to formulate solutions that effectively apply our leading-edge technological know-how. Initial customers are thereby given "first shot" at solutions incorporating the best of what technology makes possible today.

Collaboration with universities on several research projects continued this year, providing many of our products with technological solutions that are unique in an international context.

In quality and methods, we also made great efforts to streamline the installation of large systems.

1998/1999 high point

The high point of the year for Sectra came on March 3 1999, when the company reached a strategic goal set in 1990. Sectra's shares were listed on the Stockholm Stock Exchange's O-list. The listing provides the company with financial opportunities, attention and credibility and enables

Sectra to look forward to augmenting the company's organic growth through strategic acquisitions in the future. These acquisitions would require a good fit of corporate cultures as well as favorable prospects for producing a "win-win" situation that would benefit customers, employees and shareholders.

The future

Our primary markets are expanding apace. The use of digital image-processing systems in health care is spreading, and we see international markets reaching a stage of fruition. Clients from a growing number of countries are inquiring about systems we have installed in Sweden. Once the health industry's year 2000 problems are settled, we look forward to many hospitals finding the time ripe to improve their operations and save money by introducing picture archiving and communication systems (PACS).

The market for defense communication, which was weak in 1998/1999, holds massive potential for us as the Swedish Armed Forces move on and invest in efficiency-enhancing IT systems to save money. We have a singularly outstanding capacity to offer system solutions with well-integrated, high-quality security right from the start. In addition, our secure telephone system Tiger will be ready for the market in 1999/2000.

There is a growing need for wireless distribution of information. Our digital radio systems have a promising future, as we can offer extraordinarily cost-effective system solutions for widespread distribution of up-to-date information.

Hence, we look forward to continue cultivating our business based on strong relationships with our current customers, which ensures that modern information

technologies benefit current and future customers.

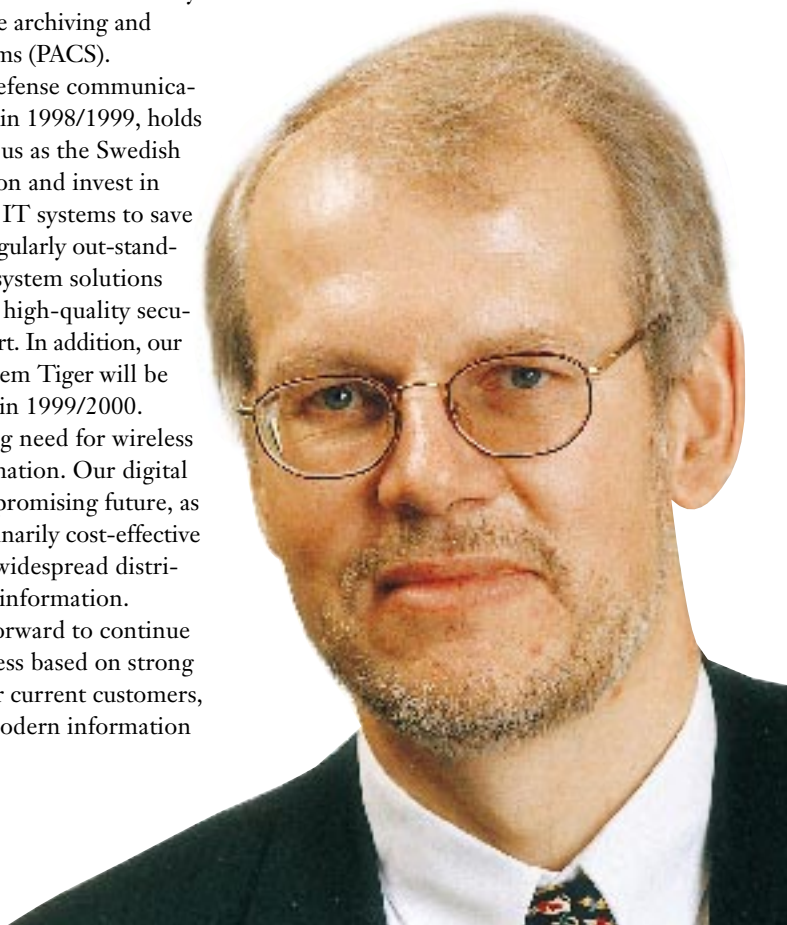
I would also like to take this opportunity to thank all my colleagues for their outstanding efforts and deep commitment, which made possible Sectra's excellent performance this year.

Linköping May 25, 1999



Jan-Olof Brüer

President and Chief Executive Officer





Sectra – an advanced information technology company

Business

Sectra is an advanced information technology company that has grown out of research at Linköping Institute of Technology. Today the business includes products within the fields of medical imaging systems, secure communication systems and digital radio systems. Sectra's ambition is to operate within the niches where the company has a great techno-

logical lead. Within these niches Sectra will offer customers individually developed high quality products. Sectra's three areas of business are organized into the companies Sectra Communications AB and Sectra Imtec AB, which has established subsidiary companies in Norway, Finland, Germany and the USA.

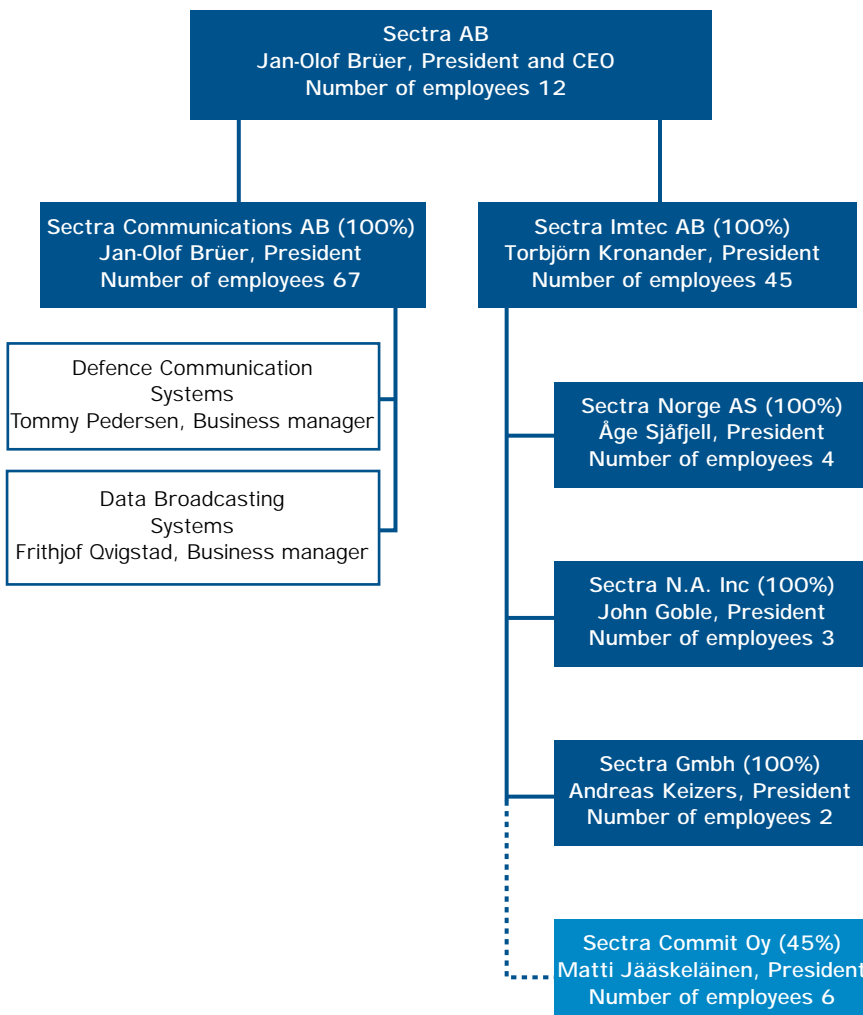
History

Professor Ingemar Ingemarsson and three of his doctoral students at Linköping Institute of Technology founded Sectra in 1978. The business was begun as a sideline to their academic research and concentrated on consultancy services within data security and image encoding.

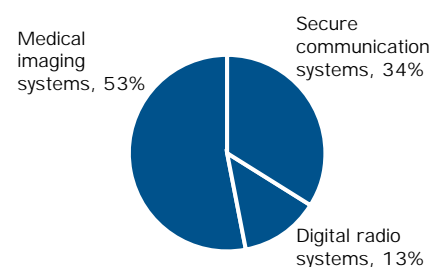
The mid 1980's brought a transition in the development. Sectra laid down the general outline for the future of the business and decided to change from consultancy activity to developing and selling products and system solutions. Since then Sectra has grown rapidly – for the most part organically.

In 1994, Sectra acquired Imtec, a smaller Uppsala-based company that was also providing medical imaging solutions. Imtec has now been completely integrated into Sectra's medical image-processing business.

Three of Sectra's founders are still associated with the company as advisers and owners, although their main occupation is as professors at Linköping University.

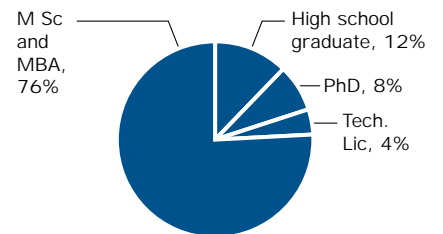


Net sales by business area
980501–990430





Level of employees' education



Business concept and strategy

The business concept behind Sectra is to use research skills to supply easy-to-use and marketable system solutions and products within the field of information technology. The aim is to offer customers higher quality and lower costs.

Sectra's objective is:

- Average annual growth of 30% over a seven-year period.
- To achieve a profit margin of 10%.
- To become an internationally competitive player within its niche markets.
- To offer its workers a stimulating working environment and opportunities for development within the company.
- For the shares to show good long-term development.

Sectra's strategy is:

- To build up a strong trademark.
- To find the most qualified customers in order to ensure that systems and

products fulfil the market's highest requirements for performance, quality and user-friendliness.

- To recruit and develop highly qualified staff.
- To strive for modular-constructed products.
- To relocate everything that is not core technology and/or strategic competence.

Employees

Sectra competes with products based on close links with the latest research results. So the knowledge of its employees is one of the most important success factors. The expert role that Sectra takes on in relation to its customers requires solid experience and specialist knowledge on the part of the employees. It is crucial for Sectra to be able to attract and keep qualified employees. Sectra is located in Mjärdevi Science Park, closely connected to Linköping Institute of Technology,

and has thus been successful in recruiting skilled engineers early in their careers.

Sectra's employees have unique skills. The majority of those employed are graduate engineers. Sectra also has a large number of employees who did research studies and developed in-depth specialist skills within the IT field. The four professors and more than ten technical doctors who participate in our activities further enhanced our workforce.

Today Sectra has 133 employees and the staff turnover during 1998/99 amounted to 8%. Over the years Sectra has systematically worked on distributing the company's shares amongst its employees and intends to continue with this distribution of ownership in the future via option schemes.



Sectra Imtec

The business concept behind Sectra Imtec is to increase the efficiency of health care with the help of advanced IT while maintaining or improving quality. This is more topical today than ever. More and more hospitals are adopting digital radiographic systems to replace traditional film-based systems.

Digital radiology has rapidly established itself as a cost-effective alternative to traditional film-based image processing. A good example of this is Visby General Hospital, where in connection with the construction work for their new hospital in 1994/95 they were early to adopt film-free radiology. Despite having introduced a number of new time-consuming diagnostic methods like computer tomography and magnetic resonance imaging and having implemented major staff cuts, Visby radiology department today has no waiting list.

In February this year Sectra received an order for modernization and expansion of the previous system. This constitutes recognition for both the technology itself and the fact that digital radiology has produced more efficient and rational image processing that works and has reduced the total costs.



The past year

During the year Sectra has consolidated its position as market leader in Sweden in the field of film-free radiology. From an international perspective Sweden is well out ahead with regard to the share of digital radiology departments. In the rest of the Western world the first departments are just now beginning to go digital, and if the development follows that in Sweden things will progress very rapidly from there. With a market share of almost 60% on its home market Sectra is in an excellent strategic position for future international growth.

Sectra have deliberately chosen not to enter the American market with their own direct selling. Instead the company is working together with Philips Medical Systems, the world's third largest supplier of radiology equipment, in order to reduce the costs of selling in the USA. Towards the end of the year a marked increase could be seen in the number of

inquiries, particularly from the USA. A sign that the expected growth of the market is now on the way.

Some projects from the past year

Örebro county

Örebro county decided right back in 1995 to get together with Sectra to digitize all radiology activity within the county. The "Pax Vobiscum" project amounted to approximately SEK 50 million in total and was concluded during the year with the commissioning of the totally digital radiology department at Lindesberg hospital. Today this is one of the world's largest PACS installations with film-free radiology operations for the entire county.

Mallinckrodt Institute of Radiology

Mallinckrodt Institute of Radiology, St Louis, USA, is one of the world's most noted radiological institutes. During the past year Sectra, together with its partner



Torbjörn
Kronander



Philips, has been entrusted with digitizing the thorax radiology department. Sectra is also working on an ongoing research project in conjunction with Mallinckrodt to produce optimal image quality in chest x-rays.

Riverside, California

Sectra and its partner Philips have supplied and commissioned one of the largest film-free image processing systems for civil health care in the USA. The system has been supplied to Riverside County Regional Medical Center, situated just east of Los Angeles. An interesting experience is that the system, which was developed in Sweden for county-based Swedish radiology, functions quite superbly on the private health care market in the USA, as the requirements can be more complicated the other way. This is largely due to the unique method for handling x-rays in Scandinavia. An important part of this is that here the images are looked at several times on quality grounds, including at least once by a team of doctors, so-called grand rounds, before giving a final report.

Deggendorf

In Germany in September Sectra, again in partnership with Philips, commissioned



a digital radiology department at the hospital in Deggendorf, just north of Munich. Deggendorf is a medium-sized German hospital that today functions excellently with film-free radiology from Sectra. The German radiology market consists of more than 2,500 radiology departments of varying sizes, and with the successful installation in Deggendorf as a reference, a clear increase in interest was noted in Germany towards the end of the year.

Astrid Lindgren's children's hospital

Another example is Astrid Lindgren's children's hospital at the Karolinska Hospital in Stockholm. Here they recently celebrated the first anniversary for their film-free radiology department. Astrid Lindgren's children's hospital represents a new generation of PACS in that we concentrated completely on high availability technology. The result is that today they have one of the world's most reliable PACS with reserve systems on several levels that automatically take over operation in case of computer failure.

Great user-friendliness – a requirement

As the technology becomes more established customers make ever greater demands for user-friendliness and performance. Sectra's installations can be found all over the world and the customers are often accident and emergency hospitals that depend on having a system that functions 24 hours a day, 365 days a year. There is no margin for error.

As a result of this, during the past year Sectra has focussed on the development of a strong technological platform and high reliability. The system at Astrid

Lindgren's children's hospital is just one example of this. Sectra has also concentrated resources on simplifying the installation work and making the servicing easier. A crucial factor if Sectra is to continue to grow internationally, and an important factor in improving the cost of deliveries.

This focus on stability, servicing and user-friendliness is also important because the deliveries are taking place to an ever increasing extent via partners and sales companies. With a stable system platform the focus in the immediate future will move to strengthening our position as a supplier of effective tools for the end user.

Today Sectra is one of the few companies in the world that can offer a strong modularized, but at the same time complete, system solution including both clients and servers as well as system integration and communication with other suppliers' systems. This, combined with a large number of successful references and the strong sales channel that our partners provide, puts us in a good position for the coming year. Sectra will continue to focus on international growth and will also continue the work on broadening our product lines in order to be able to supply more complete offers to customers within radiology and orthopedics.

1) PACS = Picture Archiving and Communication Systems, digital medical imaging system where traditional x-ray film is replaced by digital technology.

Sectra

Imtec

Quality medical care with PACS

Sectra assists Riverside County Regional Medical Center

A proud tradition

Riverside General Hospital entered this century with a proud tradition of providing quality medical care for its community located east of Los Angeles, California. Founded in 1870, Riverside was the center of a predominantly rural region that was to become the center of California's citrus industry. But the arrival of a new century threatened the hospital's ability to provide care of the highest quality.

The region was changing: the population was increasing rapidly with orange groves and farms being replaced

by homes and apartments. The hospital, parts of which were more than 100 years old, was not equipped for the demand for efficient and comprehensive medical care. Parking was limited, power and phone systems were out-dated, and facility maintenance costs were very high.

To meet this challenge, the county authorized construction of the new Riverside County Regional Medical Center. With a talented and dedicated staff and an award-winning design, the center is well equipped to provide medical care of the highest quality.



Sectra was an important member of the team that brought the facility into clinical service – on time, and on budget.

The radiology team

In designing the new Radiology department, facility planners wanted to utilize the advantages of a PACS. But the PACS had to work from the first day of operation: failure was not an option. Using Sectra database, server and workstation components, Philips Medical Systems installed a system designed to improve efficiency and enhance the delivery of high quality care.

Making any project of this size a success requires teamwork, and PACS projects are especially challenging. Construction delays, multiple vendors, new technologies and staff turnover are all obstacles to be overcome. But Sectra was involved with each step of the process – our goals are successful partners and delighted customers.

Sectra personnel spread over nine time zones made the extra effort to overcome the inevitable obstacles. Sectra engineers worked long hours at the site with hospital employees and the



Philips project management team to ensure that problems were documented and resolved without delay. Both hospital personnel and Philip's service staff were trained to take advantage of their new system and to keep it running smoothly. Sectra staff in Sweden spent many extra hours on the project, demonstrating that our commitment to our partners and our customers is truly global.

Continuing the tradition

Riverside County Regional Medical Center's mission is to provide efficient and comprehensive medical care to all those they serve, regardless of their ability to pay. Sectra is proud to have been part of the team that helped make that mission a reality. Sectra's exceptional performance and our commitment to the success of our partners and our customers will help fulfil that mission into the 21st Century and beyond.





Defence Communication Systems

The business unit Defence Communication Systems (DCS) specializes in high-security encryption equipment for the military, police and government agencies. DCS develops and sells secure mobile communication systems and high-speed encryption systems for data and telecommunications. The goal is to be one of the best companies in the world in the select field of high-security encryption systems.

The business concept is to apply advanced encryption techniques that enable demanding customers in the armed forces, the public sector and the private sector to use modern information technologies.

The 1998/1999 financial year has been a good one for DCS. Development projects stayed on schedule, and the company received several orders for quantity production based on previously completed development assignments. Activity during the year chiefly revolved around the company's largest project to date: Sectra Tiger, a GSM/DECT phone

with built-in speech and data encryption. The first Tiger telephones were delivered with pride and ceremony to customers in the Swedish Armed Forces, Swedish Defence Materiel Administration (FMV), the Swedish Agency for Civil Emergency Planning and the National Post and Telecom Agency.

The budget discussions concerning the military, which took place over an extended period, resulted in the announcement of substantial belt-tightening for the Swedish defense budget in coming years. As a result, the company intensified its efforts towards target groups outside the Swedish Armed Forces. Marketing directed at public sector and private sector organizations was stepped up at a national level. At the same time, an internationalization process began with the introduction of the Tiger concept to defense organizations and government authorities in northern Europe. These prospects showed keen interest in the product, which offers a wholly integrated solution in contrast to competitors' designs.

In general, interest in the market for communication and IT security appears to be mounting. IT structures in customer organizations are growing increasingly dynamic, as ways of working become ever more distributed. There is a sharper focus on the need to be able to protect sensitive information and keep it secret in such environments, and demand for flexible solutions is growing.

The long-term partnership between Sectra, FMV and the Swedish Armed Forces has enabled Sectra to demonstrate modern and unique product concepts that deliver robust performance. Combined with a growing need for integrated security solutions, this ability bodes well for the future.



Development projects and products *Tiger*

The Tiger GSM project is the largest development project in Sectra's history. It was with great satisfaction that Sectra delivered the world's first secure mobile communication system to organizations providing total defense for Sweden. The telephone, one of whose first users is the Swedish prime minister, is currently the



Tommy
Pedersen



only product in the market that offers secure end-to-end communication on a mobile platform.

Secure computer applications

LAN/WAN encryption (LWK) is a software concept that creates secure end-to-end communication within distributed information systems. LWK provides secure e-mail, WWW and FTP communication and uses standard interfaces and protocols. The system's standardized Secure Socket Interface (SSI) allows both new and existing applications to be provided with extremely tough protection without expensive customization. The main part of LWK was delivered to FMV at the end of the financial year, and the re-remaining components will be delivered in the summer and autumn of 1999. FMV has expressed deep satisfaction with the system and responded with several additional orders.

Encryption card

During the year, Sectra completed developing another encryption card, KK 631, and began producing and delivering units from the production line. The KK 631 comes as a PCI insertion card for standard PCs. The card works as an encryption device with LWK or other software and provides robust security for distributed applications.

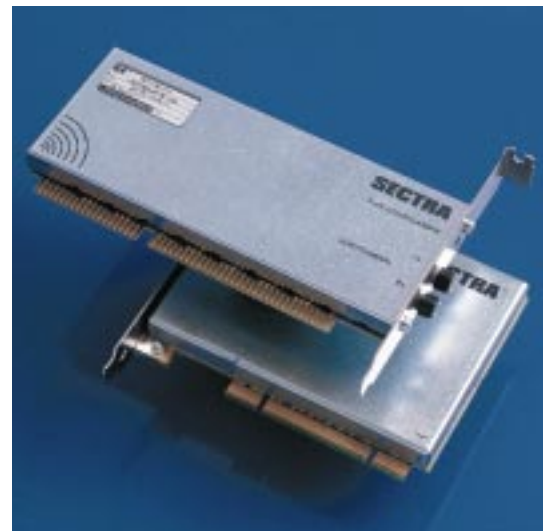
Line encryption

During the year, Sectra added another product to its line encryption family: the FKK 520, which encrypts and decrypts communication on wire lines at transfer rates up to 155 Mbps. This speed is considerably higher than that of any other product available in the market. The FKK 520, developed in 1998/1999, is predominantly an upgrade of the previous

model, the FKK 510. With the production of FKK 520, Sectra has taken a leap forward and can already provide line encryption for tomorrow's IT users.

The future

Sectra is concentrating on broadening the market. Starting from its solid position as developer of encryption products for customers in the Swedish Armed Forces, Sectra is now concentrating on entering international markets. The company primarily targets customers within the defense and public sectors in the northern European market who place a premium on security. The objective is to establish Tiger as the leading security product in a vigorously expanding GSM market.



Defence

Communication

Systems

Sectra Tiger

Secure, effective and user-friendly

Perspectives on corporate security

Faced with an ever increasing demand for information exchange, corporations and organizations are putting more effort than ever before into information security. Throughout the world, large investments have been made in Virtual Private Networks (VPN), Firewalls, Intrusion Detection and Virus Scanners to facilitate secure information transfer and storage. Employees are equipped with laptops and PCs with hard-disc encryption and crypto modems to allow sensitive files and documents to be transferred between offices, homes, hotel rooms and trains.

However, for some reason telephone conversations are in most cases unprotected. At best, corporate policies regulate what must not be communicated over the phone. Still, voice communication via telephone networks is a very important method of communication, and will in all likelihood remain so in the foreseeable future.

In a modern organization virtually everybody, regardless of rank or position, needs to access sensitive information. The introduction of telecommuting, innovative organization structures and growing international business communication all add to the complexity of defining how different parts of the organization are to be protected. For obvious reasons, fast information access will always be a key success factor in business. The faster the need for exchange, the more transparent, fool-proof and high-performing the security mechanisms must be for the user in order to gain full acceptance and give maximum efficiency.



End-to-end security

How can one ensure that all business-critical information conveyed remains secure within the organization?

Basically, there are two ways to approach this problem. You can either invest in a network of your own in order to define and control the communication options or you can create a security

solution using the existing communication infrastructure. The first alternative is very laborious and expensive, since it requires substantial investment, development and maintenance of a private network infrastructure.

The second alternative is more cost effective. Most conveniently, one would like the network to provide the required level of security. However, the network provider is by no means obligated to provide secure communication channels, and would have difficulties in doing so, since several different operators might be involved in a single call. Which operator would take responsibility for the security within another operator's network? Even in a single operator situation, can you trust the operator's personnel?

Qualified solutions for qualified customers

When the Swedish Armed Forces and Swedish authorities wanted a secure and effective communication system, they turned to Sectra. One of the main objectives was to create a secure means of communication within the existing public infrastructure. The collaboration between Sectra and the Swedish Defense Material Administration resulted in a unique system, Tiger, that provides end-to-end encryption within the existing public GSM and PSTN infrastructure. The system allows both voice and data calls to be carried out in a secure fashion, regardless of the route the connection may take, who the operator is and the technical experience of the person making the call.

Even though the Tiger system fulfills fundamental military security requirements, a lot of effort has been put into making it user-friendly. A security system



that is not user-friendly will not be used as intended within the organization, thus compromising the communication security of the entire organization. Aware of this problem, Sectra has made the Tiger system user-friendly to the point that Tiger GSM Secure Mobile Handsets operate just like any ordinary GSM telephone. Any person with common telephone skills can operate a Tiger phone.

Thus, Sectra has proved it is possible to develop a user-friendly mobile communication system that fulfills the demanding security requirements presented by the world's most qualified customers. Today, high ranked officers, politicians, policemen, diplomats and corporates are exchanging sensitive and secret information in an effective way – thanks to Sectra Tiger!



Data Broadcasting Systems

Data Broadcasting Systems (DBS) is Sectra's newest area of business, started in 1997. DBS develops infrastructure and applications for radio-based data transfer and sells them to network operators and service providers. Sectra is the world's leading supplier of systems and equipment for the digital data radio channel (DARC).

The business concept is to supply systems and products within the field of wireless information.

The year in review

During the past year, DBS successfully consolidated its position as the world leading supplier of infrastructure to network operators using DARC technology. In Germany, Deutsche Telekom extended its DARC network to several additional states. In Sweden, Teracom expanded its network with an additional DARC channel.



In August 1998, Sectra achieved yet another strategic victory with an order for a nationwide DARC channel for the Netherlands. The Dutch company Nozema introduced a new information service over its FM network and chose DARC technology as the information carrier.

In the field of dGPS (differential Global Positioning Service), Sectra developed and supplied an Adept system to the Austrian network operator ORF. Adept is a complete system for positioning that uses DARC. Its principal task is to gather correction data from GPS reference stations and then transmit the data to receivers, so they can fix their positions to within centimeters.

During the year, Sectra also developed a Subscriber Management System for ORF. The Subscriber Management System incorporates a strong encryption system that gives subscribers and service providers the means to operate their payments services securely and efficiently.

In 1998/1999, Sectra developed and supplied new LuLIS (air surveillance

system) receivers to FMV. LuLIS has been the largest single project for DBS in recent years. The LuLIS project was the impetus to DARC development at Sectra, which subsequently paved the way to the private market. During the winter of 1998/1999, in northern Sweden the LuLIS system was successfully used in the Fokus military exercise, the first time the new receivers had been used in full-scale maneuvers.

Early in the summer of 1998, Sectra began intensive development in a new field of technology based on one of Håkan Lans's patents. In cooperation with SAAB, Sectra produced VDL mode 4 transponders, which form the basis of a new aviation communication system. The transponders are intended to synchronize communication between aircraft by using GPS technology. With the new system, pilots can obtain a complete airborne surveillance image showing where their plane is in relation to other aircrafts. This will allow airspace to be utilized more effectively, resulting in huge savings.



Frithjof
Qvigstad



Products

Infrastructure

Sectra is developing components that expand DARC. These components, developed for information distribution, signal processing and monitoring, are integrated into the existing radio network. Sectra's complete system includes the following:

- Network server (NWS) distributes information from the service provider to the transmitter stations.
- Transmitter station equipment (TSE) gathers the information from the service providers, modulates it and transmits it over the FM transmitters.
- Customer management system with Conditional Access functionality (Sectra SMS) enables the service provider to restrict access to services so that only those customers who subscribe to a service have access to it.

Applications

In close cooperation with service providers who wish to distribute information via DARC, Sectra develops applications that compile the information to be distributed and make it accessible to the

receivers. The application component is now used with DARC technology, but in the future it can be adapted for GSM, DAB and other new technologies for wireless data transfer. Today, Sectra supplies complete solutions for:

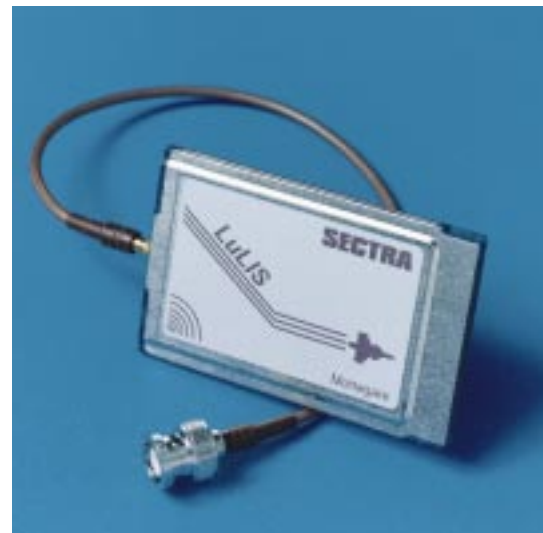
- GPS positioning with centimeter accuracy.
- Stock exchange information.
- Air surveillance information (LuLIS) that gives the military real-time information on their own and enemy planes shown on map images.

Receivers

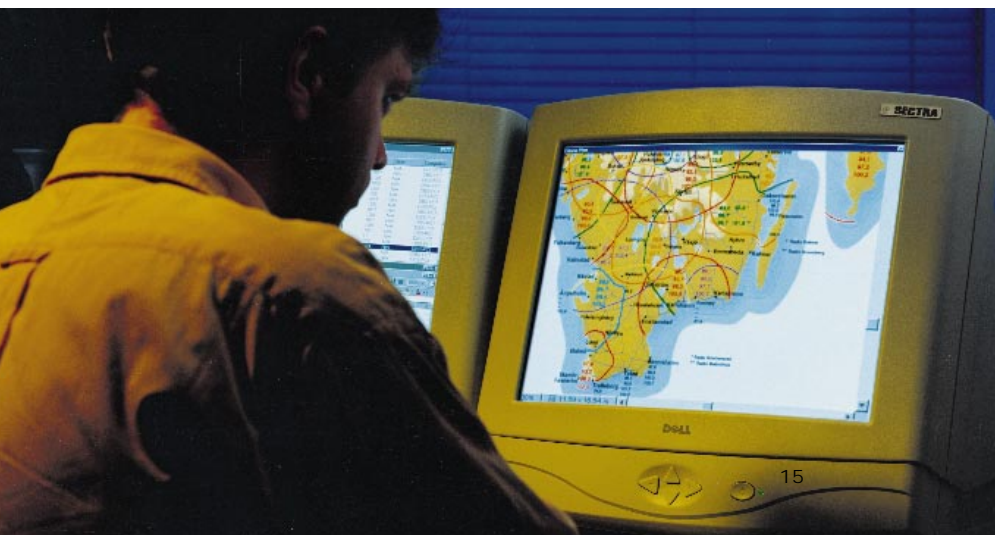
Sectra also develops receivers for radio data. These are portable, stand-alone units or PC cards that can be inserted in notebook computers.

Sectra is part of the future

As DARC networks are built around the world, the demand for receivers is beginning to increase. Several potential applications for DARC are, emerging, such as financial services, bus information, positioning systems, and warning systems. Sectra is at the frontline of this development and can offer customers



something unique in its industry: complete system solutions based on DARC. Sectra's product range will be expanded further during the year with new receiver models featuring new functions and interface options. This will strengthen the company's position as the market leader. The company will embark on new initiatives within the framework of its collaboration with SAAB, where the aim is to become a major player in the multi-million dollar transponder market.



Adept

A new tool for accurate positioning

Positioning is not just for navigational purposes

It has always been an important issue for people to know where they are and where they are going. The old method was to calculate one's position using the stars and the sun. Methods have improved, but the need to find out one's position accurately still exists. This need was crucial for the military; which is why the US Department of Defense is behind the project on developing the first accurate Global Positioning System (GPS), which is a worldwide radio-navigation system.

It soon became apparent that the GPS could also be of great use to the civilian market. For military reasons, the GPS accuracy for the civilian market is about 200 meters. But the precision needed to be greater in order to be useful for most services. For this purpose, dGPS (differential Global Positioning System) was developed and later refined into RTK (Real-Time Kinematic). RTK offers both instantaneous and centimeter-precise positioning. This combination offers many fields of application. Three examples of where dGPS and RTK can be very helpful are:

- For area measurement in land surveys.
- For precise farming.
- For definition of sites in building construction.

The need for accurate positioning exists within many activities and demand is growing. Therefore, in May 1999, Sectra presented Adept, which is a complete system offering the ability to obtain high precision correction data over the FM network.

The Adept system allows you to:

- Collect correction data from reference stations.
- Compress the data.
- Send the compressed data on the DARC channel over the FM network.
- Receive and decompress the correction data in the Adept receiver.
- Obtain a centimeter-accurate position by using the Adept and the GPS receivers.

The Adept system offers centimeter accuracy nationwide

The Adept system offers a new service with accurate positioning and nationwide coverage depending on the number of reference stations. The Adept system is made for DARC, which is a new technique for transmitting digital information via the ordinary FM network using a sub-carrier. Therefore you can receive information via DARC wherever there is FM signal reception. Since most countries have nationwide coverage, it is possible to use the Adept system everywhere. Furthermore, the positioning information from Adept is highly reliable. Thanks to the RTK technique, Adept can provide the user with centimeter accuracy. The high





data compression, as well as the high capacity of the DARC technology, makes it possible to use RTK. The minimal data transmission delay ensures that you get updated and precise positioning information at any time, even if you are moving. The whole system for transmission of positioning information through DARC is based on equipment from Sectra. The Sectra TSE 760 ensures the data transmission by radio; and the DARC Network Server, Sectra DSN-2000, handles the data distribution. With Sectra you can be confident because you know that all your products comply with the ETS 300 751. This standard has been stipulated by the DARC Forum, made up of various countries working on the standardization of DARC.

The Sectra SMS offers Conditional Access

When transmitting correction data, service providers want to ensure access for those who subscribe to the service. This

is why Adept can be equipped with a Subscriber Management System (SMS) with powerful addressing and encryption schemes that ensure information integrity. The Sectra SMS is not only equipped with features for service providers but also for their customers. Indeed, the Sectra SMS has a Web Client, a Telephone Client and a Mail client, which allow customers who have subscribed to activate the service. There is also a Billing Client to help in making out invoices. This Billing Client can be integrated into existing systems. All these are optional components for enhancing the user-friendliness and service level of the system.

ORF – successfully utilizes the Adept system

For ORF, the Austrian public network operator, that owns and manages the whole radio infrastructure in Austria, it is a matter of offering attractive, interesting and cost-effective services to their

customers. ORF is one of the first network operators that saw the huge advantages of investing in positioning systems while making it affordable for customers. This is why ORF turned to Sectra to develop the Adept system and the Sectra SMS.

Today the Austrian market offers a positioning service with centimeter accuracy based on powerful Adept and DARC systems managed by ORF.

Adept to grow in the positioning world

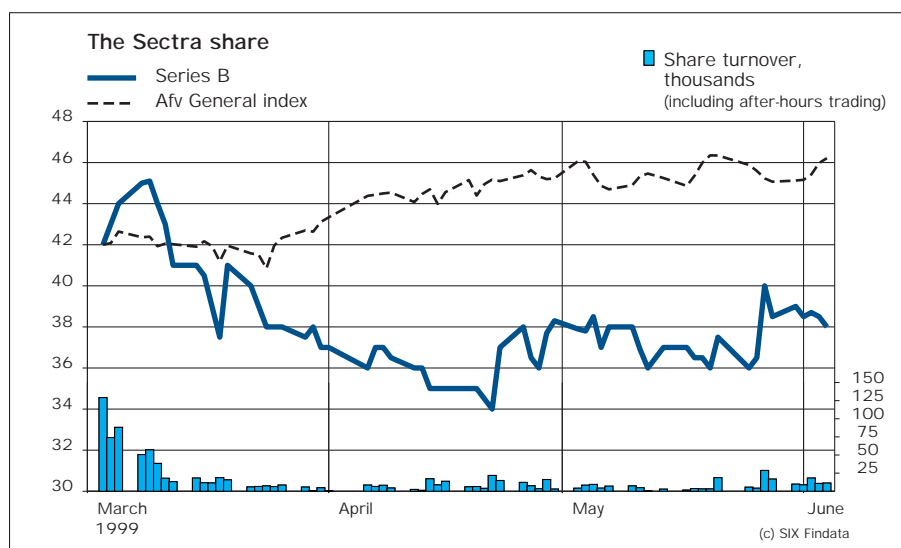
Tests in different branches with dGPS and RTK over DARC are being carried out in several countries. More and more people are beginning to see the huge potential of this technology. GPS receiver manufacturers, mapping authorities, and network operators are seeing growing demand for this kind of service. With the Adept system and DARC technology, Sectra holds a pole position in the growing market for accurate positioning.

The Sectra share

Share capital

Sectra's share capital amounts to 26,250,000 SEK distributed amongst 10,500,000 shares, each with a nominal value of 2.50 SEK. Of these, 873,564 shares are series A and 9,626,436 shares are series B. All shares have equal rights to the company's assets and profits. Series A shares are entitled to ten votes and series B shares are entitled to one vote at the Annual General Meeting. At the meeting every shareholder entitled to vote is allowed to vote for the full number of their owned and represented shares with no restriction on the number of votes.

During 1998/99 a new issue was realized in connection with quotation on the Stockholm Stock Exchange O-list on the 3rd March 1999, corresponding to 500,000 shares. This new issue furnished the company with SEK 12.6 million after deduction for issue and quotation costs of SEK 4.9 million.



Dividend policy

The starting point for the company's Board of Directors is that distribution must be well balanced between the desire for direct returns and the company's

need for capital for growth. In the long term the board intends for an average of 15–20% of the profit after tax to be distributed to the shareholders.

PROGRESS OF SHARE CAPITAL

Year	Transaction	Nominal amount	Increase in no. of shares	Total no. of shares	Increase in share capital	Total share capital
1991/92	Bonus issue	100.00	10,000	40,000	1,000,000	4,000,000
1993/94	Bonus issue	100.00	10,000	50,000	1,000,000	5,000,000
1994/95	Bonus issue	100.00	10,000	60,000	1,000,000	6,000,000
1995/96	Bonus issue	100.00	20,000	80,000	2,000,000	8,000,000
1996/97	Split 10:1	10.00	200,000	800,000	0	8,000,000
1996/97	Bonus issue	10.00	200,000	1,000,000	2,000,000	10,000,000
1997/98	Bonus issue	10.00	200,000	1,200,000	2,000,000	12,000,000
1997/98	New issue	10.00	880,143	2,080,143	8,801,430	20,801,430
1998/99	Bonus issue	10.00	419,857	2,500,000	4,198,570	25,000,000
1998/99	Split 4:1	2.50	7,500,000	10,000,000	0	25,000,000
1998/99	New issue	2.50	500,000	10,500,000	1,250,000	26,250,000

DATA PER SHARE

	98/99	97/98	96/97	95/96	94/95
No. of shares at end of period ¹⁾	10,500,000	10,000,000	5,768,834	5,768,834	5,768,834
Average no. of shares	10,250,000	7,884,417	5,768,834	5,768,834	5,768,834
Equity per share, SEK	7.36	5.05	4.65	3.18	2.20
Profit per share ²⁾ , SEK	1.61	1.63	1.62	1.11	0.85
Dividend per share, SEK	0.50	0.42	0.21	0.17	0.12

1) Adjusted for dividends and bonus issues. 2) Calculated from average no. of shares.

Five year summary

AMOUNTS IN SEK THOUSANDS	98/99	97/98	96/97	95/96	94/95
CONSOLIDATED INCOME STATEMENTS					
Net sales	182,923	162,521	118,955	86,820	55,553
Other operating income	960	-	-	-	-
Change in work in progress	-5,791	13,573	6,249	1,046	-4,338
Operating expenses	-154,333	-155,205	-110,018	-77,995	-42,958
Depreciation	-3,491	-3,696	-2,756	-2,533	-1,866
Operating profit	20,268	17,193	12,430	7,338	6,391
Net financial items	991	714	811	1,603	505
Profit after financial items	21,259	17,907	13,241	8,941	6,896
Income tax	-4,789	-5,039	-3,888	-2,543	-1,982
Net earnings for the year	16,470	12,868	9,353	6,398	4,914
CONSOLIDATED BALANCE SHEETS					
Assets					
Intangible assets	-	100	255	365	522
Other tangible assets	12,093	9,762	7,416	5,863	3,860
Cash and bank balances	32,916	13,151	16,665	9,918	7,237
Other current assets	87,996	55,096	43,446	23,478	14,902
Total assets	133,005	78,109	67,782	39,624	26,521
Equity and liabilities					
Equity	77,238	50,531	26,836	18,355	12,683
Provisions	4,623	2,973	2,058	1,401	810
Long-term, liabilities	4,059	2,701	5,470	3,540	3,362
Current liabilities	47,085	21,904	33,418	16,328	9,666
Total equity and liabilities	133,005	78,109	67,782	39,624	26,521
	98/99	97/98	96/97	95/96	94/95
Key financial figures					
Working capital, in SEK millions	85.9	56.2	34.4	23.3	16.9
Liquidity, ratio	2.9	3.5	1.9	2.4	2.8
Solvency, %	58.1	64.7	39.6	46.3	47.8
Debt ratio	0.05	0.05	0.2	0.19	0.27
Investments, in SEK millions	3.0	6.4	3.8	4.4	2.9
Profitability					
Gross margin, %	13.1	12.9	12.8	11.4	14.9
Operating margin, %	11.2	10.6	10.5	8.5	11.5
Profit margin, %	11.6	11.0	11.1	10.3	12.4
Earning capacity of total capital, %	20.8	24.9	25.2	28.1	31.3
Earning capacity of working capital, %	30.9	40.1	47.0	46.3	49.6
Earning capacity of equity, %	27.4	33.3	41.4	41.2	45.9
Key figures per employee					
No. of employees, average	123	111	86	65	48
No. of employees at end of period	133	123	93	70	54
Sales per employee, SEK millions	1.5	1.5	1.4	1.3	1.2
Added value per employee, SEK millions	0.7	0.6	0.5	0.5	0.5

Definitions of key figures, please see page 32.

Administration report

The business

Sectra AB is the Parent Company within a group comprising the active wholly-owned subsidiaries Sectra Communications AB and Sectra Imtec AB and the dormant wholly-owned subsidiary Sectra Secure Transmission AB. In addition, within Sectra Imtec AB are the active wholly-owned sub-subsidiaries Sectra Norge AS, Sectra GmbH and Sectra North America, Inc.

The business concept of Sectra is to supply user friendly system solutions and products in the field of information technology, thereby offering customers higher quality and lower costs.

Sales and earnings

The business' net sales increased by 13 % to SEK 182.9 million (162.5). The Parent Company's income for 1998/99 amounted to SEK 11.3 million (80.2). The consolidated income after financial items increased from SEK 17.9 million to SEK 21.3 million. The Parent Company's result after financial items amounted to SEK -7.2 million (8.9). The change in sales and income for the Parent Company is due to the previous year's structural reorganization when the business areas of secure communication systems and digital radio systems were transferred to the wholly-owned subsidiary Sectra Communications AB.

Sectra traditionally experiences a seasonal variation in its business which means that the majority of the invoicing and income collection for any financial year takes place in the Company's fourth financial quarter (Feb-Apr). This model has been in force for the last five financial years. Many of the Company's large customers operate so that the payment

outcome for projects will take place after the start of the new financial year (calendar turn of the year). This means that invoicing and income settlement usually takes place during the spring.

Liquidity and financial position

Sectra has a stable financial position. Solvency on the 30th April 1999 was 58.1 %. The Company has interest-bearing liabilities amounting to SEK 4.1 million. The majority of the assets consist of bank balances, customer liabilities, machinery and stock. Sectra's growth has been financed by private means.

Investments

The Company's investments during the year amounted to SEK 3.0 million. These investments principally involved computer equipment, development tools and office machines.

Future development

The Board of Directors predicts that Sectra will continue to expand during 1999/00 and that the company will continue to show good earning capacity.

Administration work during the year

Sectra's board consists of five members and two employee representatives. Other personnel within the Group participate in the board's meetings to give reports/presentations as required. The board at Sectra AB met 7 times during the 1998/99 financial year. The matters that were dealt with included interim reports, financing, budget, work plan for the board and instructions for the CEO as well as usual follow-up on business within the group.

Proposal for disposal of profit

The Board of Directors and the Chief Executive Officer propose that remaining profits be disposed of as follows:

Dividend (10,500,000 shares at SEK 0.50)	5,250,000
Earnings to be carried forward	20,940,512
Total	26,190,512

Of the Group's unrestricted equity of SEK 26,951 thousand it has been proposed that SEK 3 thousand be transferred to restricted reserves.

With regard to the consolidated and the Parent Company income and position refer to the subsequent balance sheet and profit and loss account together with financing analyses and accompanying notes.

Important events after the end of the financial year

Sectra's business within digital radio systems, which is managed within the framework of Sectra AB's wholly-owned subsidiary Sectra Communications AB, was transferred to a new wholly-owned subsidiary company, Sectra Wireless Technologies AB, after the end of the financial year.

Income statements

Amounts in SEK thousands	Note	Group		Parent Company	
		98/99	97/98	98/99	97/98
Net sales	1	182,923	162,521	10,367	80,196
Change in work in progress		-5,791	13,573	-	1,034
Other operating income		960	-	960	-
Total operating income		178,092	176,094	11,327	81,230
Goods for resale		-45,435	-57,428	-61	-18,148
Other external costs	3	-41,688	-42,571	-10,457	-26,346
Personnel costs	2	-67,210	-55,206	-5,963	-25,436
Depreciation of tangible and intangible assets		-3,491	-3,696	-2,732	-3,134
Total operating costs		-157,824	-158,901	-19,213	-73,064
Operating profit/loss		20,268	17,193	-7,886	8,166
Net income from stock	4	193	27	162	27
Interest income		1,263	957	717	834
Interest expense	5	-465	-270	-182	-84
Group interest expense	5	-	-	-40	-
Profit/loss after financial items		21,259	17,907	-7,229	8,943
Appropriations	6	-	-	24,422	4,956
Earnings before tax		21,259	17,907	17,193	13,899
Income tax, paid		-3,766	-4,124	-3,544	-3,852
Income tax, deferred		-1,023	-915	-	-
Net earnings for the year		16,470	12,868	13,649	10,047

Balance sheets

Amounts in SEK thousands	Note	Group		Parent Company	
		990430	980430	990430	980430
ASSETS					
Fixed assets					
Good will	7	-	100	-	100
Machinery and equipment	8	11,422	9,198	7,327	7,468
Participation in subsidiaries	9	-	-	5,978	5,978
Receivables from group companies	10	-	-	18,000	-
Participation in associated companies		442	442	-	-
Other securities held as fixed assets		122	122	122	122
Other long-term receivables		107	-	-	-
Total fixed assets		12,093	9,862	31,427	13,668
Current assets					
Inventories		5,351	4,096	203	303
Work in progress	11	15,895	21,686	-	-
Accounts receivables		63,340	23,436	233	9,168
Receivables from group companies		-	-	34,648	24,755
Receivables from associated companies		180	-	-	-
Tax claim		-	2,657	-	-
Other receivables		421	-	-	1,861
Prepaid expenses and accrued income	12	2,809	3,221	499	1,110
Cash and bank balances		32,916	13,151	19,384	10,361
Total current assets		120,912	68,247	54,967	47,558
TOTAL ASSETS		133,005	78,109	86,394	61,226

Amounts in SEK thousands	Note	990430	Group 980430	990430	Parent Company 980430
EQUITY AND LIABILITIES					
Equity	13				
<i>Restricted equity</i>					
Share capital		26,250	20,801	26,250	20,801
Restricted reserves		24,037	11,538	11,525	3,297
Total restricted equity		50,287	32,339	37,775	24,098
<i>Unrestricted equity</i>					
Unrestricted reserves		10,481	5,324	12,541	7,706
Net earnings for the year		16,470	12,868	13,649	10,047
Total unrestricted equity		26,951	18,192	26,190	17,753
Total equity		77,238	50,531	63,965	41,851
Untaxed reserves	14	-	-	15,710	10,619
Provisions					
Deferred tax		4,623	2,973	-	-
Total provisions		4,623	2,973	-	-
Long-term liabilities					
Current account credit	15	1,902	-	-	-
Liabilities to financial institutions	16	1,842	2,701	1,841	2,701
Other liabilities	18	315	-	-	-
Total long-term liabilities		4,059	2,701	1,841	2,701
Current liabilities					
Accounts payable		11,395	6,311	861	1,269
Liabilities to group companies		-	-	51	51
Tax liability		2,704	3,480	2,498	2,974
Other current liabilities	19	21,148	2,380	86	173
Accrued expenses and deferred income	20	11,838	9,733	1,382	1,588
Total current liabilities		47,085	21,904	4,878	6,055
TOTAL EQUITY AND LIABILITIES		133,005	78,109	86,394	61,226
Pledged assets and contingent liabilities					
Pledged assets	17	45,252	18,925	11,081	16,165
Contingent liabilities		3,000	14,111	-	14,111

Funds statements

Amounts in SEK thousands	Group		Parent Company	
	98/99	97/98	98/99	97/98
CURRENT OPERATIONS				
Operating income	20,268	17,193	-7,886	8,166
Adjustments for items not included in funds				
Depreciation	3,491	3,696	2,732	3,134
Exchange differences	-210	87	162	-
Earnings from stock	193	-	-	27
Interest received	1,263	984	717	834
Interest paid	-465	-270	-182	-84
Paid income tax	-3,766	-4,124	-3,544	-3,852
Funds from current operations before changes to operating capital	20,774	17,566	-8,001	8,225
Changes in operating capital				
Change in stock	4,536	-14,006	100	7,506
Change in receivables	-37,436	2,356	-16,435	-7,973
Change in current liabilities	25,181	-11,514	-1,228	-12,891
Funds from current operations	13,055	-5,598	-25,564	-5,133
INVESTMENT ACTIVITY				
Acquisitions of tangible fixed assets	-3,006	-6,428	-652	-6,954
Funds from investment activity	-3,006	-6,428	-652	-6,954
FINANCING ACTIVITY				
New issue	12,625	12,098	12,625	12,098
Change in receivables	-107	383	-	-
Change in liabilities	1,358	-2,769	-860	-2,769
Dividend to the shareholders	-4,160	-1,200	-4,160	-1,200
Received group contribution	-	-	27,634	8,225
Funds from financing activity	9,716	-8,512	35,239	16,354
Change in cash and bank balances	19,765	-3,514	9,023	4,267
Cash and bank balances at beginning of year	13,151	16,665	10,361	6,094
Cash and bank balances at year end	32,916	13,151	19,384	10,361
Unused overdraft facility	12,256	12,496	12,000	12,000

Accounting principles

Amounts in SEK thousands unless otherwise stated.

General accounting principles

The financial statement and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act. The Company follows the recommendations of the Accounting Commission and the Swedish Accounting Standards Council.

Consolidated financial statements

The consolidated financial statements have been prepared according to the acquisition accounting in accordance with the Swedish Accounting Standards Council's recommendation 1:96. The consolidated financial statements include all the companies for which the Parent Company either directly or through subsidiary companies controls more than 50 percent of the votes.

Associated company financial statements

Shareholding in associated companies, for which the Group controls between 20 and 50 percent of the votes, is recorded according to the equity method.

Significant accounting principles

Assets, provisions and liabilities are reported at historical cost or nominal value unless otherwise stated.

Inventories

Stock is reported at the lower of cost or market value based on the first-in-first-out principle. Estimated obsolescence

was taken into account. Costs for manufactured work in progress and finished goods are comprised of direct production costs plus a reasonable surcharge for indirect costs.

Work in progress

Work in progress that was contracted for a fixed price is valued as direct costs incurred with a surcharge for indirect costs, minus revenues received. Profit and loss settlement for projects takes place successively as defined sections are completed. Other projects are settled financially after completion. Valuation of work in progress includes risk assessment of each individual project.

Depreciation principles for fixed assets

In previous financial years depreciation has taken place with the highest possible written-down value. This year we have converted to depreciation according to plan whereby excess depreciation has been added to untaxed reserves. The applicable notes show the effect of this altered principle. Depreciation on intangible and tangible fixed assets according to plan is based on the assets' initial value and estimated economic life span. The applicable depreciation periods are:

Good will	5 years
Computers and office machines	5 years
Personal computers	3 years
Office furniture	10 years

Receivables

Receivables are reported at the amount expected to be collected based upon individual assessment of collectability.

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency are converted at the closing day rate. Exchange differences on current receivables and liabilities are included in operating income.

Taxes

Consolidated total tax expenses comprise paid tax and deferred tax. Deferred tax on untaxed reserves is calculated wherever applicable in accordance with the relevant country's tax rate.

Conversion of the financial statements of foreign subsidiaries

The accounts of foreign subsidiaries were converted using the current rate method.

Inter-company transactions

99 percent of the Parent Company's total sales concern other companies within the Group. Any purchases from group companies have not taken place.

Development costs

Development costs not linked to customer-related projects are booked on a running basis. Customer-related development costs are a part of the project cost and will be booked at settlement of results. Capitalization of development costs does not occur.

Notes

Note 1

Net sales by area

Consolidated net sales by business area:

	98/99	97/98
Medical imaging systems	97,400	72,652
Secure communication systems	62,199	70,785
Digital radio systems	23,404	19,084
Group total	182,923	162,521

Consolidated net sales distributed by geographical markets:

	98/99	97/98
Sweden	146,870	130,688
EU	31,062	24,415
Other markets	4,991	7,418
Group total	182,923	162,521

From 1998/99 all sales of medical imaging systems through Philips Medical Systems to the North American market take place through Philips Holland and are reported in sales to the EU.

Note 2

Employees and personnel costs

Average number of employees

	98/99	Of which female	97/98	Of which female
Parent Company	12	7	54	10
Group total	123	22	111	15

Salaries and other remuneration

	98/99	97/98
	Board and CEO	Other employees
	Board and CEO employees	Other and CEO employees
Parent Company	874	2,656
Group total	3,397	40,084

Social benefits costs

	98/99	97/98
	Board and CEO	Other employees
	Board and CEO employees	Other and CEO employees
Parent Company	431	1,188
(of which pension costs)	(143)	(235)
Group total	1,228	16,094
(of which pension costs)	(439)	(2,710)

Terms for the Board of Directors, CEO and managers

Remuneration payable to board members during 1998/99 was 0.5 of the basic amount and to the chairman of the board the basic amount. Remuneration to board members and chairman for 1999/00 will be paid according to the same principles. For the CEO remuneration for 1998/99 amounted to SEK 768,000. Pension benefits for the CEO and other managers are paid within the framework of the pension plan valid for all employees. Notice from the company to the CEO involves a period of 12 months. Notice from the CEO is a period of 6 months. There are no special agreements regarding severance pay.

Note 3

Operational leasing costs

Annual paid leasing costs regarding operational leasing contracts amount to SEK 362 thousand. Agreed future leasing charges regarding operational leasing are payable per year as below:

	99/00	Group	
		00/01	01/02
Cars	53	39	20
Other	263	263	263
Total	316	302	283

Note 4

Earnings from stocks

	Group		Parent Company	
	98/99	97/98	98/99	97/98
Dividend	20	27	20	27
Earnings from sales of stock	142	0	142	0
Total	162	27	162	27

Note 5

Interest expense and similar costs

	Group		Parent Company	
	98/99	97/98	98/99	97/98
Annual interest share in financial leasing contracts	104	-	-	-
Group interest expenses	-	-	40	-
Other interest expenses	361	270	182	84
Total	465	270	222	84

Note 6

Appropriations

	Parent Company	
	98/99	97/98
Group contribution	27,634	8,225
Change in tax allocation reserve	-3,160	-3,483
Restoration of tax equalization reserve	214	214
Change in excess depreciation	-266	-
Total	24,422	4,956

Change in excess depreciation refers to the year's estimated excess depreciation.

Note 7
Good will

	Group		Parent Company	
	98/99	97/98	98/99	97/98
Cost at beginning of year	1,000	1,000	1,000	1,000
Disposals	-500	-	-500	-
Accumulated purchase value	500	1,000	500	1,000
Depreciation at beginning of year	-900	-744	-900	-744
Disposals	500	-	500	-
Depreciation for the year	-100	-156	-100	-156
Accumulated depreciation	-500	-900	-500	-900
Remainder value at year end according to plan	0	100	0	100

Note 8
Machinery and equipment

	Group		Parent Company	
	98/99	97/98	98/99	97/98
Cost at beginning of year	25,562	19,293	22,969	18,291
Investments for the year	2,391	6,269	627	4,678
Sales/Disposals for the year	-8,674	-	-8,327	-
Accumulated purchase value at year end	19,279	25,562	15,269	22,969
Depreciation at beginning of year	-13,965	-12,824	-13,637	-12,522
Sales/Disposals	8,530	-	8,327	-
Depreciation for the year	-3,208	-3,540	-2,632	-2,979
Accumulated depreciation at year end	-8,643	-16,364	-7,942	-15,501
Remainder value according to plan	10,636	9,198	7,327	7,468

Equipment not included under financial leasing contracts is included in the following amount:

Acquisition value value	1,050	-	-	-
Accumulated depreciation	-264	-	-	-
Total book value	11,422	-	-	-

Disposals for the year refer to disposals that are realized in connection with the transition to depreciation according to plan.

Note 9
Participation in subsidiaries

	Registration number	Location	No. of shares	Share of capital in %	Nominal value	Book value 990430
Parent Company						
Sectra Imtec AB	556250-8241	Linköping, SE	300,000	100	3,000	2,883
Sectra Communications AB	556291-3300	Linköping, SE	3,000,000	100	3,000	3,000
Sectra Secure Transmission AB	556247-1283	Linköping, SE	100,000	100	100	95
						5,978
Sectra Imtec AB						
Sectra Norge AS		Oslo, NO	5,000	100	NOK 500	283
Sectra NA Inc		Shelton, US	500	100	USD 50	384
Sectra GmbH		Krefeld, DE	500	100	DEM 50	219
						886

Note 10
Participation in associated company

	Location	No. of shares	Share of capital in %	Nominal value	Book value 990430
Sectra Commit Oy	Espoo, FI	2,925	45	FIM 293	442

Note 11**Work in progress**

	Group	
	990430	980430
Cost incurred	65,456	44,853
Less: progress billings	-49,561	-23,167
Total	15,895	21,686

Note 12**Prepaid expenses and accrued income**

	Group		Parent Company	
	990430	980430	990430	980430
Prepaid rental	323	323	323	323
Accrued interest income	244	363	146	308
Other items	2,242	2,535	30	479
Total	2,809	3,221	499	1,110

Note 13**Equity**

	Share capital	Restricted reserves	Un-restricted reserves	Earnings for the year
Group				
At beginning of year	20,801	11,538	5,324	12,868
New issue	1,250	11,375		
Resolution by the AGM:				
Appropriation for restricted reserves				-1,052
Bonus issue	4,199	-4,199		
Dividend				-4,160
To be balanced in new account			7,656	-7,656
Change to restricted reserves		1,544		
Alteration		2,499	-2,499	
Conversion difference		228		
Net earnings for the year				16,470
At year end	26,250	24,037	10,481	16,470

Change in restricted reserves refers to the effect of the changed depreciation principle of SEK 1,544 thousands.

continuation note 13

	Share capital	Legal reserve	Retained earnings	Earnings for the year
Parent Company				
At beginning of year	20,801	3,297	7,706	10,047
New issue	1,250	11,375 ¹⁾		
Resolution by the AGM:				
Bonus issue	4,199	-4,199		
Appropriation for reserve fund		1,052		-1,052
Dividend				-4,160
To be balanced in new account			-4,835	-4,835
Net earnings for the year				13,649
At year end	26,250	11,525	12,541	13,649

1) After deduction for issue and quotation costs of SEK 4,875 thousands.

Note 14**Untaxed reserves**

	Parent Company	
	990430	980430
Tax allocation reserves:		
Allocated fiscal year 96	1,823	1,823
Allocated fiscal year 97	2,325	2,325
Allocated fiscal year 98	2,560	2,560
Allocated fiscal year 99	3,483	3,483
Allocated fiscal year 00	3,160	-
Tax equalization reserve	214	428
Excess depreciation	2,145	-
Total	15,710	10,619

Of the untaxed reserves SEK 4,399 thousand (SEK 2,973 thousand) is deferred tax.

Note 15**Bank overdrafts**

	Group		Parent Company	
	98/99	97/98	98/99	97/98
Total facility	14,158	12,496	12,000	12,000
Unutilized facility	12,256	12,496	12,000	12,000
Utilized facility	1,902	0	0	0

Note 16**Other liabilities to financial institutions**

	Group		Parent Company	
	990430	980430	990430	980430
Due 1-5 years from closing day	2,157	2,701	1,841	2,701
Due later than 5 years from closing day	-	-	-	-

Note 17**Pledged assets and contingent liabilities**

	Group		Parent Company	
	990430	980430	990430	980430
Chattel mortgage	42,880	13,760	11,000	11,000
Bank accounts	2,372	5,165	81	5,165
Total pledged assets	45,252	18,925	11,081	16,165
Guarantee commitment	3,000	14,111	-	14,111
Total contingent liabilities	3,000	14,111	-	14,111

Note 18**Other long-term liabilities**

Of other long-term liabilities in the group April 30 1999, SEK 315 thousand refers to financial leasing contracts.

Note 19**Other current liabilities**

Of other current liabilities in the group April 30 1999, SEK 473 thousand refers to financial leasing contracts.

Note 20**Accrued expenses and deferred income**

	Group		Parent Company	
	990430	980430	990430	980430
Accrued social charges	4,344	669	521	292
Accrued vacation pay	5,824	4,651	660	518
Other items	1,670	2,413	201	778
Total	11,838	9,733	1,382	1,588

Linköping June 7, 1999

Thomas Ericson
Chairman
of the board

Jan-Olof Brüer
President
and CEO

Torbjörn Kronander

Sverker Littorin

Gündor Rentsch

Staffan Bergström
Employee
representative

Per Unell
Employee
representative

My audit report was given on June 7, 1999

Hans Franzén
Authorized public accountant

Board of Directors, auditor and key personnel



Sverker Littorin

Staffan Bergström

Jan-Olof Brüer

Thomas Ericson

Gündor Rentsch

Niklas Carlsson

Torbjörn Kronander

Board of Directors

Thomas Ericson

Born 1942. Member and chairman of the board since 1984. Professor of Data Transmission at Linköping Institute of Technology. Chairman of the board of the IEEE Information Theory Society. Shares in Sectra: 71,588 A-shares and 563,101 B-shares.

Jan-Olof Brüer

Born 1951. Member of the board since 1982. President of Sectra AB since 1985 and Sectra Communications AB since 1998. Shares in Sectra: 195,205 A-shares and 1,593,432 B-shares.

Torbjörn Kronander

Born 1957. Member of the board since 1988. President of Sectra Imtec AB since 1997 and Vice President of Sectra AB since 1998. Shares in Sectra: 195,204 A-shares and 1,593,430 B-shares.

Sverker Littorin

Born 1955. Member of the board since 1998. Chairman of the board at DynaMed AB and Momentor AB. Member of the board of PartnerTech AB, ComSearch AB, EPOS Capital AB, The British-Swedish Chamber of Commerce Senior Advisor for Stockholms Börsinformation (SBI) and Fondbolaget Fondita Oy. Shares in Sectra: 1,000 B-shares.

Gündor Rentsch

Born 1941. Member of the board since 1994. Member of the board at WM-Data AB, SPCS AB, Genidata AB, CAV AB and others. Shares in Sectra: 89,992 B-shares.

Staffan Bergström

Born 1962. Employee representative since 1995. Marketing Director at Sectra Imtec AB. Employee of Sectra since 1989. Shares in Sectra: 78,276 B-shares.

Per Unell

Born 1965. Employee representative since 1998. Product line Director at Sectra Communications AB. Employee of Sectra since 1992. Shares in Sectra: 11,380 B-shares.

Deputy members of the Board of Directors

Niklas Carlsson

Born 1970. Employee representative since 1998. Project leader at Sectra Communications AB. Employed since 1997. Shares in Sectra: 4,400 B-shares.

Dick Ollas

Born 1968. Staff representative since 1998. Project leader at Sectra Communications AB. Employed since 1993. Shares in Sectra: 12,980 B-shares.

Key personnel

Jan-Olof Brüer

President of Sectra AB and Sectra Communications AB. Further details under Board of Directors.

Torbjörn Kronander

President of Sectra Imtec AB. Further details under Board of Directors.

Tommy Pedersen

Born 1963. Business manager at Defence Communication Systems. Employed since 1989. Business manager since 1990. Shares in Sectra: 11,536 A-shares and 164,338 B-shares.

Frithjof Qvigstad

Born 1958. Business manager at Data Broadcasting Systems. Employed since 1985. Business manager since 1997. Shares in Sectra: 121,036 A-shares and 1,009,764 B-shares.

Auditor

Hans Franzén

Born 1946. Authorized public accountant, Lindebergs Revisionsbyrå AB. Auditor for Sectra since 1998.

Auditor's report

To the general meeting of the shareholders of Sectra AB (publ),
Registration number 556064-8304

I have audited the parent company and the consolidated financial statements, the accounts and the administration of the board of directors and the managing director of Sectra AB (publ) for the financial year 1 May 1998–30 April 1999. These accounts and the administration of the Company are the responsibility of the board of directors and the managing director. My responsibility is to express an opinion on the financial statements and the administration based on my audit.

The audit was conducted in accordance with Generally Accepted Auditing Standards in Sweden. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles and their application by the board of directors and the managing director, as well as evaluating the overall presentation of information in the financial statements. I examined significant decisions, actions taken and circumstances of the Company in order to be able to

determine the possible liability to the Company of any board member or the managing director or whether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. I believe that my audit provides a reasonable basis for my opinion set out below.

In my opinion the parent company and consolidated financial statements have been prepared in accordance with the Annual Accounts Act, and consequently I recommend

that the income statements and the balance sheet of the Parent Company and the Group be adopted and

that the profit of the Parent Company be dealt with in accordance with the proposal in the Administration Report.

In my opinion, the board members and the managing director have not committed any act or been guilty of any omission, which could give rise to any liability to the company, and I therefore recommend

that the members of the Board of Directors and the managing director be discharged from liability for the financial year.

Linköping June 7, 1999

Hans Franzén
Authorized public accountant

Definitions of key figures

Added value: Operating profit plus labor costs. Labor costs are calculated as wage costs with the addition of the 50 percent model for social charges etc.

Debt ratio: Interest-bearing debts divided by equity.

Earning capacity of equity: Profit after net financial items reduced by actual tax as a percentage of average adjusted equity.

Earning capacity of total capital: Profit after net financial items plus financial expenses as a percentage of average total assets.

Earning capacity of working capital: Profit after net financial items plus financial expenses as a percentage of average working capital.

Equity: Equity includes 72 percent of untaxed reserves.

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

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

Liquidity: Current assets divided by current liabilities.

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

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

Profit per share: Profit after net financial items reduced by actual tax divided by the number of shares.

Solvency: Equity as a percentage of total assets.

Working capital: Total assets reduced by non-interest-bearing debts.

Addresses

Sectra AB

Teknikringen 2
SE-583 30 Linköping
Sweden
Phone +46 13 23 52 00
Fax +46 13 21 21 85
info@sectra.se
www.sectra.se

Sectra Communications AB

Teknikringen 2
SE-583 30 Linköping
Sweden
Phone +46 13 23 52 00
Fax +46 13 21 21 85
info@sectra.se
www.sectra.se

Sectra Intec AB

Teknikringen 2
583 30 Linköping
SE-Sweden
Phone +46 13 23 52 00
Fax +46 13 21 21 85
info.image@sectra.se
www.sectra.se/medical

Sectra Norge AS

Godthaab
Strandveien 50
NO-1324 Lysaker
NORWAY
Phone +47 67 58 97 70
Fax +47 67 58 97 76

Sectra GmbH

Europark Fichtenhain A 13a
DE-47807 Krefeld
GERMANY
Phone +49 2151 3363030
Fax +49 2151 33630320
an-kei@sectra.se

Sectra North America, Inc.

Two Corporate Drive, Suite 248
Shelton, Connecticut 06484
USA
Phone +1 (203) 925 0899
Fax +1 (203) 925 0906
info@sectra.com

Sectra Commit Oy

PL 75
SF-02101 Espoo
FINLAND
Phone +358 9 549 12200
Fax +358 9 549 12201
sectra@commit.fi



Please visit our website www.sectra.se

SECTRA

Sectra AB

Teknikringen 2

SE-583 30 Linköping

Sweden

Phone: +46 13 23 52 00

Fax: +46 13 21 21 85

info@sectra.se

www.sectra.se