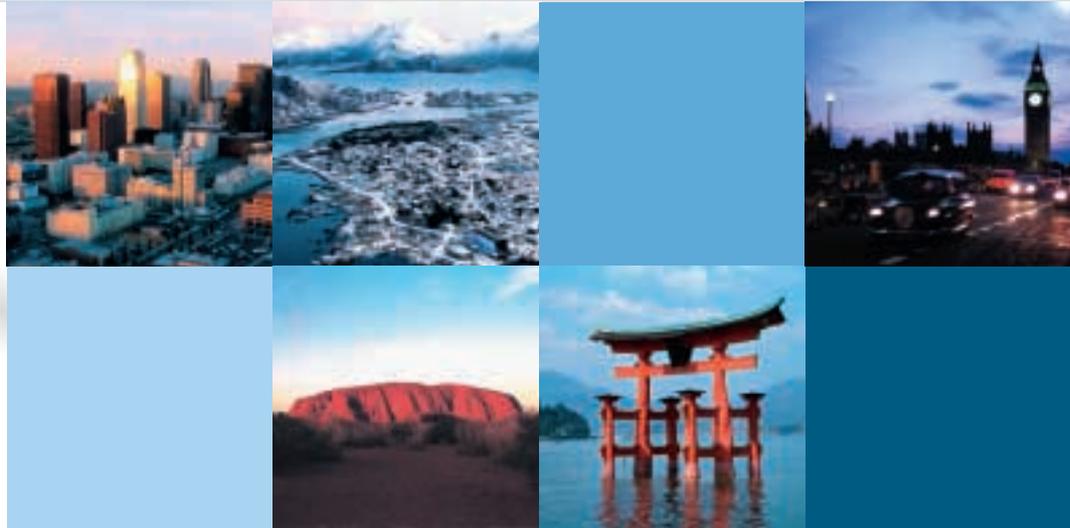


# Annual Report 2002–2003



**SECTRA**

### **Annual General Meeting**

The Annual General Meeting of shareholders in Sectra AB will be held at 4:00 p.m. on Thursday, June 26, 2002 at Collegium, Teknikringen 7, Mjärdevi Science Park in Linköping, Sweden.

### **Dividend**

A dividend of SEK 0.50 per share is proposed for fiscal 2002/2003. July 1, 2003 is proposed as the record date for the dividend. If the Annual General Meeting adopts the proposal, VPC is expected to pay the dividend on July 4, 2003.

### **Future reports**

- Interim Report May–Jul 2003  
September 2, 2003
- Interim Report May–Oct 2003  
December 9, 2003
- Interim Report May 2003–Jan 2004  
March 2, 2004
- Preliminary Earnings 2003/2004  
May 25, 2004

Press releases, Annual Reports and Interim Reports are available at Sectra's homepage at [www.sectra.com](http://www.sectra.com) or can be ordered from:

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E-mail [info@sectra.se](mailto:info@sectra.se)

Since the mid-1980s, Sectra has successfully developed and sold high-technology products within expansive niche segments. Today the business includes medical systems, secure communication systems and wireless information systems. The company's products are used by customers in Europe, North America, Asia and Australia.

Sectra's headquarter is located in Mjärdevi Science Park in Linköping, Sweden, and grew out of research done at Linköping University. The company has business operations in eight countries, with a total of 274 employees. Sectra has been listed on the Stockholm Stock Exchange's O-list since March 1999.

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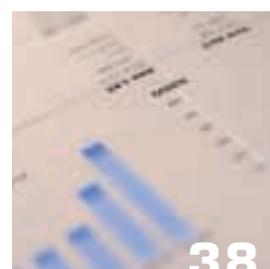
Strategic partnerships provide a solid base for continued international expansion within medical systems.



Sectras new digital mammography system combines high image quality with very low radiation dose.



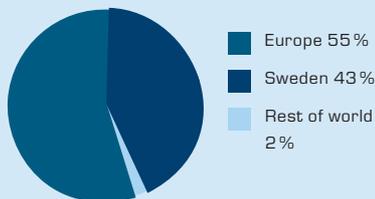
Sectras mobile encryption telephones in NATO service.



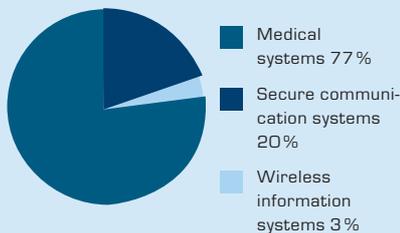
Growth, profitability and a solid financial position.

# The year in brief

## Sales by geographical market



## Sales by business area



## Sales and profit margin



|                                       | 2002/03 | 2001/02 | 2000/01 |
|---------------------------------------|---------|---------|---------|
| Orders received, MSEK                 | 489.8   | 459.7   | 310.5   |
| Sales, MSEK                           | 503.4   | 410.0   | 264.9   |
| Income before taxes, MSEK             | 78.9    | 61.4    | 39.3    |
| Profit margin, %                      | 15.7    | 15.0    | 13.5    |
| Earnings per share, SEK <sup>1)</sup> | 1.62    | 1.23    | 0.85    |
| Earning capacity of equity, %         | 28.7    | 26.9    | 22.7    |
| Equity ratio, %                       | 43.6    | 45.6    | 54.1    |
| Dividend per share, SEK <sup>2)</sup> | 0.50    | 0.40    | 0.30    |
| No. of employees at year-end          | 274     | 250     | 185     |

<sup>1)</sup> Before dilution <sup>2)</sup> Proposed for 2002/03

## Medical Systems

- Sectra and Philips Medical Systems extended their successful cooperation in the area of systems for managing and archiving digital radiology images an additional five years.
- As part of Sectra's internationalization effort, the company entered into a number of strategic partnerships and opened new offices in Great Britain and Australia.
- There is strong interest in the new digital mammography system, Sectra Micro-Dose Mammography™, and the quality and low dose levels associated with the system have been verified at St. Göran's Hospital in Stockholm.

## Secure Communication Systems

- NATO's central organization and the defense forces of Holland and the Czech Republic ordered the NATO-approved version of Sectra's eavesdrop-secure GSM telephone.
- Sectra was entrusted by the Swedish Defense to take part in the development of systems for the network-based defense of the future via orders for high-speed encryption for international use and a pilot study of the next generation of military radio systems.

## Wireless Information Systems

- Operations in the area of wireless information systems have been adapted to prevailing market conditions, which are characterized by low investment volumes in the finance and aviation industries.
- Sectra installed and placed into service a mobile emergency rescue system that provides alarm and warning information to the Finnish Emergency Rescue Service.



CEO Jan-Olof Brüer comments:

# Sectra is expanding with profitability

**Sectra has had a successful year, and we can once again announce the best year in the Company's nearly 25-year history. We have achieved record levels in orders, sales and earnings.**

Our international sales have increased, and we have expanded our offering to the market with new products. These products have been well received, which bodes well for the future. We have seen continued growing interest from potential customers, the media, analysts and institutional investors. This increased attention has strengthened our brand, which improves our opportunities for winning the confidence of new customers.

### Continued internationalization

We are working to gradually increase our international sales. Revenues in markets

expand our international operations, with an initial emphasis on Western Europe and North America.

During the year, we extended our successful cooperation with Philips Medical Systems in the area of digital image management systems for another five years. As a part of our commitment to internationalization, we also entered into a number of new strategic partnership agreements. These agreements complement and strengthen our existing partnerships, and enable us to reach a broader market. The new cooperations are initially focused on training our partner companies'

Scandinavia, resulting in a change in the nature of these deals. With direct sales, which constitute the model that the company uses in Scandinavia, a deal generally involves a complete system delivery, including both hardware and software. Sales outside of Scandinavia are being made largely through partners, and consist of pure software licenses. These deals generally have very short delivery times, while at the same time incorporating a high level of added value, and thus high profit margins.

### Good profitability and strong growth

We again met our strategic growth and profit-margin targets this year. Sales increased 23 % to SEK 503.4 million (410.0) and profit before tax rose 29 % to SEK 78.9 million (61.4). Our aim is to achieve an average rate of annual growth of at least 30 % over a seven-year period, with a 10 % profit margin. Our growth rate over the last seven years has averaged 30 %, while profits have exceeded 10%. Our equity ratio was 44 % at year-end, and we have remained financially solid throughout our expansion.

Sectra's operations include three areas of business: medical systems, secure communication systems and wireless information systems. The market for medical systems is in a strong growth phase, while the market for wireless communication systems is being affected by general market conditions in the

outside of Sweden increased from 43 % to 57 % over the year. We are investing in expanding market niches where Sectra can obtain a position among the major players in the world market. We will achieve this through cooperation with strong partners that have customer bases in local and global markets, and through our own activities in selected markets. Our strategy is to gradually

sales organizations and integrating our systems in order to build a strong platform for successful business operations in the coming years. During the year we opened offices in Great Britain and Australia in order to support sales via our partners, and Sectra now has a presence in eight countries.

An increasing share of our medical system sales derives from markets outside of

*“As a part of our commitment to internationalization, we also entered into a number of new strategic partnership agreements. These agreements complement and strengthen our existing partnerships, and enable us to reach a broader market.”*

financial markets and the airline industry, where investment volumes are low. The market for secure communication systems is characterized by increasing defense investment in IT systems.

In the area of **medical systems**, we have consolidated our market-leading position in Scandinavia, in part through orders from private healthcare providers Medicinsk Röntgen AB and Capiro Diagnostik AB.

These orders represent a major inroad into the private sector – a market that has major international significance.

In total, over 370 radiology departments worldwide are using Sectra's system for digital radiology image management. The number of installations increased during the year, mainly in North America and Western Europe. Our investment in the North America market is described in further detail on page 18.

Interest in our new digital mammography system Sectra MicroDose Mammography™ is strong and we estimate that the first units will be placed into service in the fall of 2003. The mammography system, developed in cooperation with Mamea Imaging AB, is based on a revolutionary new sensor technology. The new system makes it possible to attain the same high image quality as current film-based systems at a radiation dose that is five times lower. The quality and dose levels associated with the system have been verified at St. Göran's Hospital in Stockholm. Read more about our investments in the area of preventive healthcare on page 16.

Our operations in the area of **secure communication systems** expanded successfully during the year. One contributing factor has been the successful sale of our mobile encryption telephone. As a result of our coop-

eration with Norwegian Kongsberg Defence Communications, we have been able to deliver the NATO-approved version of this phone to a number of new customers. Our secure telephones are currently being used by defense and government agencies in Sweden, Norway, Germany, Holland and the Czech Republic, and within NATO's central organization.

We have also been entrusted to take part in the Swedish military's development of systems for the network-based defense of the future, including orders for high-speed encryption for international use. The Swedish military has also commissioned a pilot study of the next generation of radio systems, which

their strict requirements in terms of functionality, quality and performance. We are working in cooperation with universities on a number of development projects, which helps to provide our products with unique technical solutions.

Our system for managing digital radiology images, PACS (Picture Archive and Communication System) has again been ranked highly in a study in which the leading PACS suppliers in the American market were compared on the basis of customer satisfaction, providing proof that our development strategy is working. Philips Medical Systems, which sells Sectra PACS™ under its own trademark in the U.S.,

*“We are working in close cooperation with universities on a number of development projects, which helps to provide our products with unique technical solutions.”*

represents an important inroad into the tactical radio systems market.

With respect to **wireless information systems**, during the year we have restructured our operations to limit costs and adapt the operations to prevailing market conditions.

### **Research and development**

We have made substantial investments in advanced new systems and products. Our development work is carried out in close cooperation with expert and demanding customers to ensure that our systems and products meet

ranked highest in technology. This confirms that Sectra's customers are offered the best solutions on the market, and validates our position as one of the world's leading suppliers of digital radiology systems.

### **The future**

Many hospitals are opting to improve their operations by implementing digital systems, and more and more countries are seeking the system solutions that Sectra offers. We can contribute to more efficient healthcare via our proven digital radiology systems and our new



*“Our strong position in the domestic market, combined with strategic partnerships, provides a solid platform for continued international expansion.”*

clinical applications for orthopedics and osteoporosis. As the market leader in Scandinavia, and with our strong focus on international expansion, Sectra is in an excellent position to engage the growing global market for digital radiology.

We foresee major potential for our new digital mammography system. Mammography examinations constitute the second most commonly performed radiology examinations in the world. Each year some 4,500 mammography systems are sold and installed, and a large proportion of them will be digital in the future. Sectra MicroDose Mammography™ enables us to meet the extremely stringent image-quality requirements associated with mammography examinations, and there is currently no supplier that can compete with our system's low radiation dose.

Like other defense organizations worldwide, the Swedish military is in the process of transitioning to an entirely new defense structure that utilizes network-based information management. The information flow associated with the network-based defense of the future will require the integration of strong security solutions into the communication structures. The restructuring effort also

extends to tactical radio systems. We possess strong core competence in encryption and advanced radio design and Sectra is well positioned in these areas.

The Sectra Tiger®, one of the world's most secure GSM telephones, makes us the leading supplier of eavesdrop-secure mobile communication solutions. The NATO market will have a major impact on our continued sales in this area. The NATO approval granted Sectra at the end of 2001 puts us in a unique position in this market.

The long-term trend in the wireless information systems market is toward increasing demand for access to information in real time. We are focusing primarily on market niches in the financial and aviation industries. Once these industries emerge from the prevailing economic downturn, we believe that we will see increased demand.

The products and system solutions we are developing target markets with strong growth potential. Our presence in the international market is being increased through the establishment of new offices in selected markets, and through new strategic partnerships throughout the world. Our strong position in the domestic market, combined with strategic

partnerships, provides a solid platform for continued international expansion.

In light of the foregoing, I am confident that the niches in which we are active will increase in volume over the next 10 years. We are looking forward to growing our business together with our customers and cooperative partners, so that modern, efficiency-enhancing technology can benefit as many people as possible.

I would also like to thank all our hard-working, highly skilled employees for their unflagging efforts, which have contributed to yet another splendidly successful year for Sectra!

Linköping, May 2003

Jan-Olof Brüer  
President and CEO

# Sectra

## Cutting edge solutions in expanding niches

Since the mid-1980s, Sectra has successfully developed and sold high-technology products within expansive niche segments. Current operations include medical systems, secure communication systems and wireless information systems – three niches in which Sectra has the potential to achieve international leadership. Sectra has over 270 employees in eight countries, and the company's products are used by customers in Europe, North America, Asia and Australia.

The combination of business areas enables Sectra to offer its customers, employees, cooperative partners and shareholders long-term security and stability as a major company. At the same time, Sectra's organization preserves and protects the advantages of a small company, such as proximity and sensitivity to customer needs.

All system and product development is conducted in close cooperation with customers. This approach combined with Sectra's comprehensive expertise in each market segment and the company's close ties with research institutions, has resulted in cutting edge products characterized by high quality and strong user-friendliness.

### Visions

- Our trademark shall be a high-value brand for high-tech solutions and products.
- All our operations shall have the potential to achieve international leadership.
- All our operations shall contribute to strengthening our financial position.
- All our operations shall contribute to strengthening our brand.
- We shall continuously innovate and make improvements at the cutting edge of technology.

### Goals

Sectra's aims from a commercial, customer and investor perspective:

- To establish a strong global brand.
- To achieve annual average growth of 30 % over a seven-year period.
- To finance new development projects together with customers or partners.
- To create high-quality solutions.
- To be as responsive as a small company.
- To be as long-term and trustworthy as a major company.
- To ensure long-term appreciation of the share price.
- To achieve a profit margin of 10 %.

### Strategies

- To develop all products in close cooperation with customers.
- To find the most qualified customers in order to ensure that our systems and products meet the market's highest requirements in terms of performance, quality and user-friendliness.
- To strive for modular design in our products.
- To recruit and cultivate highly qualified employees.
- To outsource everything that does not fall within our core technology or strategic expertise.

### Group Structure



Sectra's three business areas are organized into the following companies: Sectra Imtec AB, Sectra Communications AB and Sectra Wireless Technologies AB. In addition to Sweden, Sectra Imtec also has subsidiaries in Norway, Germany, the U.S., Denmark, Italy, Great Britain and an office in Australia.



## History

|           |  |
|-----------|--|
| 2003      | Establishment of Sectra in Australia.  |
| 2002      | Establishment of Sectra in Great Britain.<br>Acquisition of the operations in the Danish company Pronosco that develops systems for diagnosing and monitoring osteoporosis.  |
| 2001      | In the end of 2001 Sectra's eavesdrop-secure GSM telephone is approved for secret communication up to the NATO Secret level.<br><br>Sectra's radiology image management system (PACS) received the highest ranking in a study conducted by the American consulting firm KLAS. The study evaluated leading PACS suppliers in the American market in terms of customer satisfaction with their systems.  |
| 2000      | Establishment of Sectra in Italy and Denmark.  |
| 1999      | Acquisition of RadiSoft AB, which develops and sells administrative systems for radiology departments and mammography screening.<br>IPO, listing on Stockholm Stock Exchange's O-list.<br>Sectra wins the 1999 Electronic Prize, which is awarded to the hi-tech company that most successfully launches one or more new products during the year while at the same time achieving exceptional profitability. The prize is awarded by the Swedish magazine Elektronik i Norden, the Swedish Electronics Industry Association and the Swedish Association for Instruments and Measurement Technology. |
| 1998      | Establishment of Sectra in Germany.  |
| 1997      | Establishment of Sectra in the U.S.  |
| 1996      | Sectra named "IT Company of the Year" by the Swedish magazine Datavärlden, which justifies its choice as follows:<br><i>"Very strong expertise combined with a long-term, market analysis-based approach has laid the groundwork for Sectra's success. With roots in Swedish university research, Sectra is currently leading the way in Sweden in two areas: digital imaging in healthcare and advanced encryption for demanding customers such as the military."</i>   |
| 1995      | Establishment of Sectra in Norway.   |
| 1994      | Acquisition of Imtec AB, which is now fully integrated into Sectra's medical operations.   |
| 1993      | Sectra begins developing systems for the DARC digital radio channel under a Swedish Defense contract. This marks the beginning of Sectra's operations in the area of wireless information systems.   |
| 1988      | Sectra begins focusing its activities within digital image coding for digital imaging systems used by radiology departments.   |
| 1987      | Sectra receives its first contract from the Swedish Defense. It concerns the development of an encryption module and marks the beginning of Sectra's focus on data security for encrypted communications systems for defense departments and public authorities.   |
| Mid 1980s | New guidelines for future operations. Sectra makes the transition from consulting operations to developing and selling products and system solutions.  |
| 1978      | Sectra is founded by Professor Ingemar Ingemarsson and his three doctoral students Rolf Blom, Robert Forchheimer and Viiveke Fåk at the Linköping Institute of Technology. The company started as a sideline to its founders' academic research, with a focus on consulting services in the areas of data security and image coding. Three of Sectra's founders are still associated with the company in an ownership and advisory capacity.   |



# Medical systems

- Successful sales continued and operations expanded both in Scandinavia and internationally. Revenues rose 18% to SEK 386.0 million.
- Sectra and Philips Medical Systems extended their successful cooperation in systems for managing and archiving digital radiology images by five more years.
- In accordance with the strategy for international expansion, a number of strategic partnerships have been initiated around the world, and new offices have been established in the UK and Australia.
- Sectra's MicroDose Mammography™ system has been verified at St. Göran's Hospital in Stockholm, assuring the quality and dosage levels.

Sectra is one of the world's leading suppliers of radiology image management systems. The medical systems operations are conducted through the wholly-owned subsidiary Sectra Imtec AB, with a focus on digital image management and information systems for radiology clinics. Customers include both public and private hospitals worldwide. With a solid base as the market leader in Scandinavia, Sectra has a strong international focus, realizing the potential of the radiology market globally.

With headquarters in Linköping, Sweden, Sectra is established in numerous markets, with offices in Norway, Denmark, Germany, Italy, the U.S., UK and Australia. In addition to direct sales operations, Sectra sells through business partners in most markets, which has resulted in major sales successes, particularly in the U.S.

## Fiscal year 2002/2003

### Continued sales successes

Sectra's sales growth continued, and operations have expanded both in Scandinavia and internationally. Sales for the fiscal year totaled to SEK 386.0 million, of which international sales accounted for 55%. Most revenues derive from systems used in film-free radiology departments. The proportion of additional sales to the installed base, such as supplemental sales, maintenance and upgrade agreements, is increasing.

In Sweden, several new contracts have been signed during the fiscal year. Among these is the digitization of the radiology operations in Västmanland County. Through orders from the private healthcare providers Medicinsk Röntgen AB and Capiro Diagnostik AB, Sectra in one year became the dominant IT provider to private radiology in Scandinavia. Private radiology is considered to be a market of high importance internationally.

An order from Ribe County in Denmark for a complete integrated radiology IT solution, gives Sectra a strong foothold and serves as an important reference in Sectra's strategic focus on the Danish market. In the Finnish market, orders from Central Hospital at Jyväskylä and the Kupio University Hospital represent great successes.

The international sales totaled to SEK 210.5 million, up 43%. A large part generated from the North American market, where Sectra's subsidiary has worked in cooperation with business partners to sell and install Sectra's radiology image management system. With new installations in more than 50 hospitals in the U.S. and Canada, the North American installed base increased with approximately 36% compared to last year. Through its business partners, Sectra has also received a large number of orders from Germany, the Netherlands, UK and Japan.

With increased sales via partners, the nature of the business changes. Whereas

direct sales, which are made primarily in the Scandinavian market, include the delivery of complete systems, sales via partners consist mainly of software licenses with short delivery times and high added value. As Sectra continues to expand internationally, an increasing share of the company's sales will be derived from markets outside Scandinavia.

#### Increased international focus

As a natural step in the extended international focus, Sectra has opened a subsidiary in the UK during the fiscal year to meet demand from British hospitals for radiology IT systems. In addition, Sectra has opened a representative office in Sydney to meet the increasing demand from hospitals in Australia and New Zealand.

#### Extended partnerships

Sectra has an established and successful global partnership with Philips Medical Systems in providing digital radiology since 1997. This partnership has been extended for another five years. In line with the increased international focus Sectra has also, during the fiscal year, initiated a number of new strategic partnership agreements to complement the existing partnerships and enable the company to access a broader market.

Focusing on the U.S. market, Sectra has signed agreements with Eclipsys, one of the

leading U.S. suppliers of general medical IT systems, Galen Orthopaedic Technologies, a reseller of orthopedic applications on the U.S. market, and RIS Logic, provider of radiology information systems for imaging centers in North America. These partnerships enable Sectra to cover the different market segments in the U.S. radiology market, ranging from major hospital chains to smaller outpatient imaging centers. Sectra's focus on the U.S. market is presented in greater detail on page 18.

The opening of the UK office combined with a partnership agreement with Torex Health in the UK also supports the international expansion. Torex is one of the leading suppliers of medical IT systems in Europe. Through its partnerships with Philips and Torex Health, Sectra has a strong base to reach customers in the British and Irish markets.

In Australia, Sectra has started a strategic partnership with InSight Oceania Pty Ltd, an Australian medical distribution company. The partnership with InSight complements Sectra's existing partnership with Philips, each covering a specific segment in the Australian and New Zealand market.

Being in the first phase with these new partnerships, the focus will be on integration of systems, education and training, thus building a solid base for successful business in the coming years.

#### FACTS

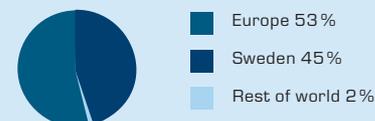
**Business concept:** Increase effectiveness of healthcare, while maintaining or increasing quality in patient care.

**No. of employees, incl. subsidiaries:** 193 (163)

**Sales:** 386,0 Mkr (326,9)

**Exports:** 55 percent (45)

#### Sales by market



Torbjörn Kronander, President



*“With a solid base as the market leader in Scandinavia, Sectra has a strong international focus, realizing the potential of the radiology market globally.”*



## Market

### Digital radiology – the key to efficiency

A general trend in the industrial world is that the proportion of elderly people is increasing, thus resulting in rising healthcare costs. Given today's structure and resources in healthcare services, it will be close to impossible to meet this increasing demand while still maintaining quality standards without major increases in productivity. This calls for new technology in order to increase efficiency, combined with improved quality. In radiology this means moving to digital reading and management of images.

When it comes to radiology equipment, new technologies are being introduced, creating new and heavier demands on imaging management. Technologies such as multi-slice CT may produce thousands of images per examination, making it impossible to use film-

based technologies. Virtually every new hospital built in the western world today is designed to be film-free.

As the use of digital technology in healthcare increases, a tightly integrated IT infrastructure has become more and more important when building or digitizing a radiology department. In recent years, there has been an increased focus on integration between different IT systems in the healthcare environment. Consequently, seamless integration between different information systems, such as PACS (Picture Archiving and Information System), RIS (Radiology Information System), HIS (Hospital Information System) and EPR (Electronic Patient Record), is essential to radiology departments as well as to hospitals.

In the light of upcoming new image technologies and the requirements for a tightly integrated IT infrastructure as strong driving

forces in the healthcare market, a demand for digital imaging and information systems grows accordingly.

### Market potential

There are various ways of describing the market potential for radiology IT systems. In the industrial world the number of performed radiology examinations per year is dependent on the size of the population. The number of radiology examinations performed per capita and year is more or less the same when comparing countries in the industrial world. Consequently, the size of the population provides a good estimate of the size of a market from a digital radiology perspective.

Scandinavia is one of the markets that has come the farthest in adopting digital radiology, and more than 50% of the radiology departments have moved from film-based to



*“Digital radiology offers major benefits to both healthcare professionals and patients.”*

digital systems. In the U.S., one of the largest markets in the world, only approximately 15 % of hospital radiology departments are currently film-free, and only approximately 10 % of the imaging centers, where more than 50 % of all examinations are performed. Other markets of interest include the UK, Australia, Germany and France, all with very low PACS penetration, less than 10 %, and consequently an increasing demand for digital radiology can be expected. It is fair to assume that quite a few of the countries in the industrial world will follow the trend in Scandinavia and reach a much higher penetration of digital radiology.

Globally there are about 10 players who compete directly with Sectra and its partners. These include large groups such as General Electric, Siemens and Agfa, and specialized local medium-sized software companies. Sectra's main advantage is the ability to offer a complete image management system (PACS), based on a modular and open design enabling scalability and integration with other systems. With a market share of more than 50 % in Scandinavia, strong strategic partnerships, and over 370 installations worldwide, Sectra has a strong base for continued international expansion.

## Products

### Benefits of a radiology IT system

The use of digital radiology offers major benefits to both healthcare professionals and patients. An increase in efficiency combined with improved image quality can be achieved. A radiology IT system includes RIS (Radiology Information System) and PACS (Picture Archiving and Communication System). A

RIS facilitates administrative tasks such as appointment scheduling, billing and referrals. A PACS streamlines the process of reviewing, processing, distributing and storing radiology images, thus increasing the efficiency of the general workflow. Consequently, questions posed by referring clinicians will be answered more quickly, allowing treatments to begin at an earlier stage. The PACS enables instant quality assurance, reducing the number of retakes. Furthermore, the patient does not need to be in the same place as the doctor, since images are available simultaneously throughout the entire hospital network. Accessing the images and referrals through digital networks eliminate shipping costs and shortens waiting times for both doctors and patients. Radiologists on call can also review images from emergency patients from home. Another advantage of digital radiology is that it eliminates the use of environmentally harmful chemicals and films, as well as the heavy lifting of X-ray film cassettes that often results in repetitive stress injuries.

### Sectra's system for digital radiology

Sectra is one of the handful of companies in the world to offer a complete PACS solution. The system includes both clients and servers, workflow manager and archives that enable integration and communication with systems from other suppliers. Thanks to its modular design, the Sectra system can be tailored to fit the size of any radiology department, thus providing a cutting-edge solution for both small independent imaging clinics and major hospital chains. Sectra PACS™ covers the entire workflow within a radiology depart-

ment, from receiving incoming referrals and reviewing images to signing off on referral responses. The system is focused on security and high-availability, and has a proven track record of 99.997% uptime.

Realizing the need for total radiology solutions, Sectra acquired a local Scandinavian RIS company in 1999 to be able to offer a fully integrated clinical IT system, including RIS and PACS, for the Scandinavian market. Because of major differences in the healthcare structures in different countries, leading to large difficulties in selling RIS on a global basis, Sectra RIS is sold only in the Scandinavian market. Outside of Scandinavia, Sectra is working in cooperation with leading local RIS companies.

Included in the Sectra product family are clinical applications developed to maximize the efficiency for those who are referring patients to the radiology department. One example is the Sectra Orthopedic Package™. Using digital radiology technique, a very precise tool for selecting a prosthesis for an individual patient has been developed. It enables the orthopedic surgeons to fit in the most suitable prosthesis individually for every patient directly on the workstation monitor.

Sectra also offers two new products for improving women's health. Sectra MicroDose Mammography™, a unique digital mammography system enabling a significant reduction in radiation dose, and Sectra Osteoporosis Package™, a screening tool to for early osteoporosis detection. These products are presented in greater detail on page 16.



### **Focusing on integration**

A system for digital radiology, which often is a major investment for a hospital, is a part of the entire IT strategy in a healthcare enterprise. Integration with existing systems is therefore of vital importance. Realizing this, Sectra offers products based on an open platform with an architecture designed to support integration with other IT systems used in the hospital environment. Consequently, Sectra's efforts to integrate the system more fully have become an important factor as market demand for such integration continues to grow.

The Sectra Clinical Solution Network™ (CSN) is a network of third-party vendors with cutting-edge expertise in specialized fields. The open nature of Sectra PACS enables smooth integration of clinical applications developed by the CSN members. Consequently, Sectra's customers will gain access to a broad array of functionalities and can select the application relevant to their particular medical field. A CSN membership also gives research institutions and healthcare providers the opportunity to develop applications directly integrated into the Sectra PACS workstation. During the fiscal year, Sectra has signed cooperative agreements with 15 new CSN members.

### **Research and development**

#### **With the end user in mind**

Sectra is continuously developing its products to meet the increasing demands of the radiology market. The company strives to involve end users in all development, making it possible to meet the strict requirements in terms of quality, performance and user-friendliness imposed on the systems by its users. Sectra is

working close with demanding hospitals throughout Europe and the U.S., producing highly effective and efficient solutions integrated with other IT systems used in hospitals.

To be able to provide systems based on the latest technology, Sectra also cooperates with a number of universities and research centers. One example is the Center for Medical Image Science and Visualization (CMIV) at Linköping University. The center's research focuses on how digitization of radiology can further facilitate the work of clinicians and radiologists.

Sectra's radiology image management system has placed highly in various evaluations on more than one occasion. For several consecutive years, Sectra's system has ranked highly in a study conducted by the American consulting firm KLAS, where leading PACS suppliers in the American market were evaluated based on customer satisfaction with their systems. Philips Medical Systems, which sells Sectra PACS™ under its own trademark in the U.S., was this year ranked highest in terms of technology. Such a high ranking in a study in which the system users themselves make the judgements confirms that Sectra's development strategy works, and that Sectra delivers a world-leading solution to its customers.

### **Future prospects**

The market for radiology IT systems is in a strong growth phase, and demand for clinical solutions is increasing. With a proven PACS solution and clinical applications in orthopedics and osteoporosis care, Sectra provides high-quality solutions for digital radiology, thus enabling more efficient healthcare. And with the unique Sectra MicroDose Mammo-

graphy™ system, Sectra can meet the extremely rigorous demands in terms of image-quality and radiation dose associated with mammography examinations. Consequently Sectra has a strong potential to become a major player in mammography screening.

Sectra's presence in the international market is increasing through the establishment of new offices in selected markets, and through several new strategic partnerships worldwide. Efforts to build up reference installations in new markets are ongoing. Sectra's strong position in Scandinavia, combined with vital references in important markets and strategic partnerships, provides a solid base for continued international expansion.



## Focus on women's health



**Sectra's revolutionary systems for mammography screening and bone mass measurement are examples of clinical solutions with a growing demand on the global healthcare market.**

As life spans continue to increase, the incidence of diseases associated with advancing age also increases. Examples of such diseases include breast cancer, the most common type of cancer in the world, and osteoporosis, considered to be the most expensive disease in the world. These diseases affect mainly middle-aged and older women, and early diagnosis is critical in successful treatment. Sectra's digital mammography and osteoporosis systems dedicated to women's health enable highly effective solutions for hospitals and breast clinics all over the world.

### **Sectra MicroDose Mammography™**

#### **Significant reduction of radiation dose**

Sectra MicroDose Mammography™ consists of a digital mammography unit for screening and clinical examinations together with Sectra PACS™, specially designed to meet the strict requirements involved in breast imaging, including a dedicated diagnostic workstation.

The system is based on an entirely new digital detection technology, developed by Mamea Imaging AB. The new technology makes it possible to combine extremely high image quality with a significantly lower radiation dose to the patient. Sectra MicroDose Mammography™ enables a five-fold reduction in the radiation dose compared to traditional film-based examinations – a revolutionary advance. Minimizing the radiation dose is particularly important in connection with screening programs, where the majority of women being examined are healthy.

#### **A user-friendly system**

In a mammography department, a large number of examinations is performed in the same way day after day. This calls for a user-friendly system in order to reduce the number of steps in the workflow. Sectra MicroDose Mammography™ provides a tool for an efficient workflow, from first patient contact to documented diagnosis. This of course is a great benefit to the patient, since a faster diagnosis means less waiting time, and treatment can be initiated at an earlier stage.

#### **Leading the way**

As the first country in the world to perform mammography screening on a large scale, Sweden has a long tradition of strong competence and expertise in this field. Taking advantage of this competence and expertise, Sectra has had a solid base for developing the mammography system. The Swedish hospital Helsingborgs Lasarett AB installed the Sectra mammography PACS in 2002, making it the first totally film- and paper-free breast image clinic in Sweden. Helsingborg Lasarett will also be the first to have a Sectra mammography stand, which is scheduled to be in operation by autumn 2003.

#### **Major market potential**

Women have opportunities to participate in some type of mammography program in almost every country in the western world. Mammography is the second most common radiological examination performed, and the

market potential for cost-effective mammography systems that use low radiation doses is considered to be very large. Today there are approximately 30,000 conventional mammography systems currently installed worldwide. Many countries are also expanding their mammography programs, leading to an increasing total market. Sectra estimates that installed systems will be replaced at a rate of some 4,500 new systems each year, a large part of which will be digital, thus creating major market potential.

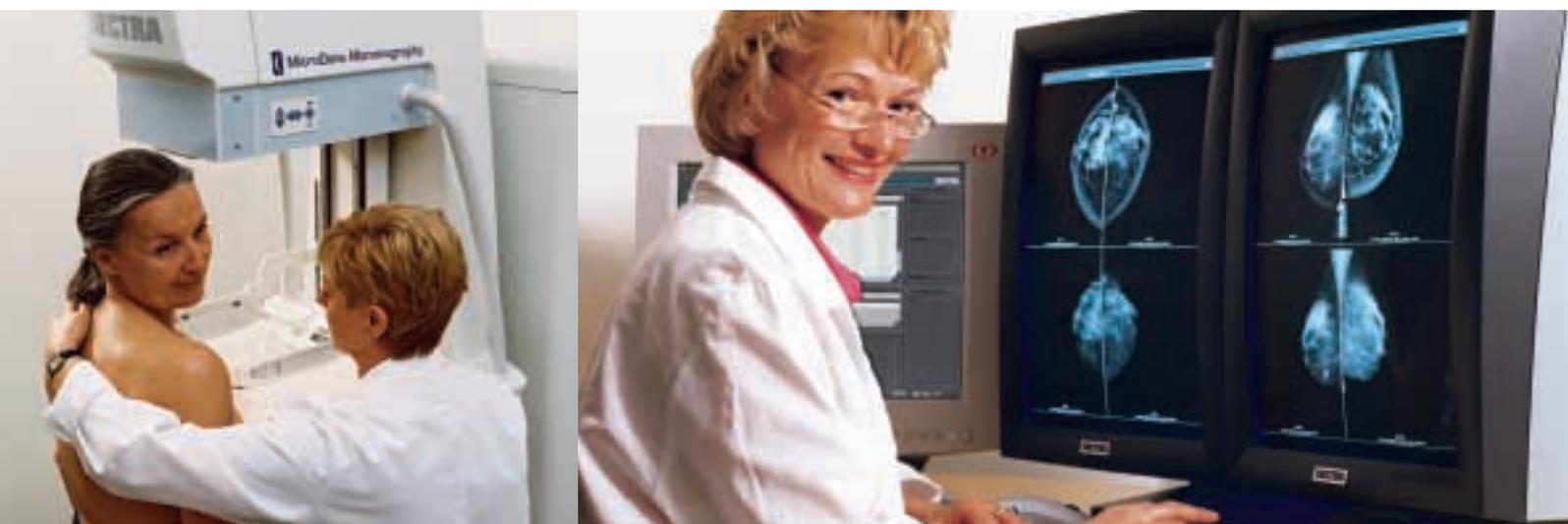
The digitization of radiology operations has not affected the mammography market to any great extent. Existing digital systems have not been able to meet the extremely rigorous image-quality demands associated with mammography examinations. Sectra MicroDose Mammography™ combines high image quality with a significantly lower radiation dose, and the system has been verified at St. Göran's Hospital in Stockholm. Consequently, Sectra has a strong potential to become a major player in mammography screening.

### **Sectra Osteoporosis Package™**

#### **A growing problem**

Osteoporosis, a disease that causes the skeleton to lose a portion of its calcium content, results in over 2.3 million<sup>1)</sup> fractures a year in the U.S. and Europe. Calculations show that the number of individuals worldwide over the age of 50 is expected to double between 1990 and 2020. In Europe there will, for the first

<sup>1)</sup> Source: Riksföreningen Osteoporotiker



time, be more people over 60 years of age than people less than 20 years of age by 2010, resulting in a huge escalation of treatment costs.

Osteoporosis is often discovered only after fractures occur, at which point it may already have progressed to an advanced stage. However, with the help of bone mass measurements, osteoporosis can be detected at an early stage. Early detection is essential, since no method of rebuilding the skeleton currently exists, and preventing the progress of the disease is the only countermeasure available at present.

#### **An ideal screening tool**

Sectra offers a tool for measuring bone mass, the Sectra Osteoporosis Package™. An x-ray image of the patient's hand is used as the basis for digital image analysis, enabling an osteoporosis diagnosis with high clinical accuracy in just a few seconds. The ease and simplicity achieved enables a fast and comfortable

measurement for the patient, as well as unsurpassed precision, due to the underlying robust image analysis tools. Having the highest precision in the market, Sectra Osteoporosis Package™ is an ideal tool for monitoring the progress of the disease and the efficacy of medical treatment. Monitoring intervals can be as frequent as 9–12 months.

Measuring the hand substantially reduces the time spent on each examination. As the measurement is fully automated, no doctor is required, and the measurement can be performed by a nurse or administrative staff person. This enables the hospital to reduce costs even as the number of examinations increases.

#### **Growing market potential**

The major factor driving market demand for tools enabling cost-effective bone measurements is the increasing cost of osteoporosis treatment due to an aging population in general. Increasing awareness of osteoporosis

among both patients and physicians is another major factor. Consequently, there is a need for a less costly tool to enable screening of larger populations for osteoporosis, thus targeting the disease as early as possible and at the lowest cost possible for health services. Sectra Osteoporosis Package™ has proven its ability as an ideal tool for screening larger populations with clinically proven results, and has also demonstrated its excellent monitoring capabilities.

#### **Patented technologies**

Sectra MicroDose Mammography™ and Sectra Osteoporosis package™ are protected by several international patents. Patents for Sectra MicroDose Mammography™ are held by Mamea Imaging AB, which is part owned by Sectra.

## Increased focus on the U.S. healthcare market



**The U.S. is one of the world's largest healthcare markets. Sectra's strategy is to work in cooperation with business partners to provide innovative solutions to the business and clinical challenges faced by U.S. healthcare providers.**

During the fiscal year, Sectra's North American subsidiary has worked in cooperation with business partners to sell and install Sectra's radiology image management system in more than 50 additional hospitals in the U.S. and Canada, an increase of the installed base with approximately 36 % compared to last year.

### **A growing market**

With approximately 5,800 hospitals and 7,000 outpatient imaging centers, the U.S. radiology market is one of the largest and fastest growing PACS (Picture Archiving and Communications System) markets in the world. The penetration of PACS in the U.S. market can be estimated at about 15 % for hospitals and no more than about 10 % for imaging centers, indicating a huge market potential.

Sectra's goal is to be the preferred PACS partner, not only for the end customer, but also for potential and existing partners. The aim is to work with the best partners in each segment in order to cover as large part of the market as possible. In line with the increased international focus, Sectra has initiated a number of strategic partnerships to complement existing partners in the U.S.. These partnerships enable Sectra to cover the different market segments in the U.S. healthcare market, ranging from major hospital chains to smaller outpatient imaging centers.

### **Extended cooperation**

Sectra's global partner Philips Medical Systems, represents Sectra's first and largest partner in delivering PACS to the U.S. radiology market. With the growing acceptance of PACS, Philips' delivery of Sectra systems has grown rapidly, and the overall PACS market has continued to expand. Philips is one of the top three radiology companies, and as such is in a very strong position when customers are buying a combination of modalities and PACS, and also in accounts where they have a strong presence as a modality vendor.

### **Complete IT solutions**

A partnership agreement with Eclipsys Corporation, one of the leading U.S. suppliers of general medical IT systems, was signed during the fiscal year supporting Sectra's vision to integrate medical imaging into the entire healthcare enterprise infrastructure. A PACS system is a major investment for a hospital. Chief Information Officers of large hospital enterprises require a solution provider to offer a complete IT system to serve as a backbone and manage the complete workflow of the healthcare enterprise. As one of the top providers of EPR (electronic patient records), Eclipsys targets this segment precisely. Eclipsys offers an EPR containing different clinical modules, where Sectra PACS™ is one integrated part of their offering.

*"Eclipsys Corporation's Knowledge-Based Diagnostic Imaging, powered by Sectra's PACS technology, gives healthcare organizations the opportunity to build an integrated system that streamlines patient care and minimizes the chance of errors. Working with Sectra has let us move quickly into this critical market with people and technology of the highest quality," says Michael B. Kaufman, Executive Vice President for Business Initiatives, Eclipsys Corporation.*

### **Outpatient imaging centers**

Today more than 50 % of the radiological examinations in the U.S. are performed at outpatient imaging centers. These centers often have dedicated RIS (radiology information system) tailor-made for their operations. It is vital for them to have a radiology workflow in and between affiliated clinics that works as smoothly as possible. PACS has become an important tool to maximize resource utilization. RIS Logic is a RIS provider that has been very successful in this segment and now, together with Sectra, offers an integrated RIS/PACS solution.

### **Orthopedic Surgery**

Orthopedic surgeons are beginning to adopt the digital technology, performing quite a lot of radiology examinations. The digital technology enables orthopedic surgeons to access digital prostheses templates, thus creating an efficient tool for selecting a prosthesis. The



Paul Unkel, on the right, Director, Inturis for Radiology Program, Philips Medical Systems, North America and John Goble, President of Sectra North America. Sectra has an established and successful global partnership with Philips Medical Systems in providing digital radiology since 1997.



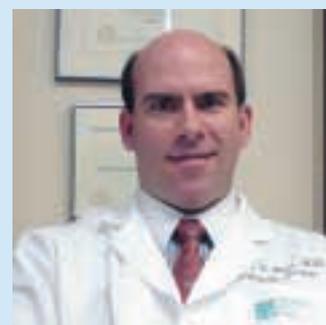
U.S. market for hip, knee, shoulder and ankle replacement surgery is expected to top 14 BUSD in 2003. The market is growing at an annual rate of more than 15%. These figures serve as an indication of the potential demand for imaging systems supporting digital prostheses templates.

Sectra is developing relationships with key orthopedic manufacturers, and using industry experts to develop products that meet the requirements of this new market. With Sectra's workstation for orthopedic surgeons and a partnership agreement with Galen Orthopaedic Technologies, a reseller of orthopedic applications on the U.S. market, Sectra is well positioned to take advantage of this huge market.

### **A foundation for continued success**

For several consecutive years Sectra's radiology image management system has placed highly in a study conducted by the American consulting firm KLAS. Philips Medical Systems, which sells Sectra's PACS under its own trademark in the U.S., this year was ranked highest in terms of technology. Such high rankings in a study in which the system users themselves make the judgements confirm Sectra's development strategy, and will have a major positive impact on future sales.

*"Digital technology lets us perform the measurements critical to the templating procedure, allowing us to work more efficiently and with unprecedented accuracy."*



Dr Bono practices in Boston at New England Baptist Hospital, a center that has developed many advances in orthopedic surgery.

### **Going Digital in Orthopedic Surgery**

Orthopedic surgeons in the U.S. are seeing their colleagues in radiology adopt PACS at a record pace, and many surgeons are taking advantage of digital technology to improve patient safety and productivity. A leader in this movement is James V. Bono, M.D., who is a pioneer in the use of digital techniques to reduce the error in pre-operative planning of THA, better known to patients as hip replacement surgery.

*"Digital technology lets us perform the measurements critical to the templating procedure, allowing us to work more efficiently and with unprecedented accuracy," Dr Bono explains.*

Plain films historically have not been standardized according to magnification. An orthopedic surgeon must guess at the degree of over or under magnification to select a hip implant that is neither too large nor too small.

By using markers in the digital hip image and scaleable templates, which are in fact the actual engineering drawings of the hip prostheses, surgeons can select a device that best fits the size and geometry of the patient's hip joint, and which will maintain leg length.

Sectra, along with Galen Orthopaedic Technologies, is working with Dr Bono to build the next generation of automated hip replacement planning technology. This work complements Sectra's industry-leading PACS and continues the tradition of applying information technology to increase the effectiveness of healthcare.

# Östergötland County Council



**Östergötland is one of Sectras first and latest digitization projects, and provides an example of the long-term customer relations that Sectra cultivates.**

The digitization of the radiology operations in Östergötland, Sweden, was initiated more than ten years ago. It includes the radiology departments at the hospitals in Linköping, Norrköping and Motala, and at the healthcare centers in Mjölby and Finspång. In total, approximately 200,000 radiology examinations are performed annually in the county. Since spring 2002, the radiology departments of the region have been completely film- and paper-free, using Sectra's radiology IT system.

## **First film-free radiology department in Sweden**

It all started in the early 1990's when a visionary senior radiologist from the radiology department in Mjölby, Dr Göran Karner, met Torbjörn Kronander, President of Sectra Imtec AB. The vision of a film-free, county-wide radiology department was born.

As a first step towards this, at the time rather revolutionary vision, a system for communication of digitized images for quick consultancy was set up between Mjölby Healthcare Center and Motala Hospital.

The small radiology clinic of Mjölby Healthcare Center was the ideal starting point for the project of creating a film-free radiology environment, as it was limited in size and had a staff that was very positive towards the idea. The development of the system for managing radiology images was carried out in close

cooperation between Sectra and the Mjölby staff, resulting in the first completely film-free radiology department in Sweden in 1995.

*"Torbjörn Kronander and I connected right away, and that first meeting was the beginning of a very fruitful cooperation", Dr Göran Karner comments. "Sectra really wanted to work closely with us, the customer, when developing the system. They didn't just try to sell us something we didn't need."*

Mjölby Healthcare Center has since then continued to develop its radiology operations with a number of generations of Sectra's radiology IT system.

## **Pioneers in digital radiology**

Close cooperation with the customer is the core in Sectra's development philosophy. As early users of Sectra's radiology IT-system, the Mjölby and Motala radiology departments have had a rather large impact on the evolution of the system. In close cooperation with Sectra, the Motala and Mjölby radiology departments have pioneered new versions of Sectra PACS™ (Picture Archiving and Communication System) on several occasions, working together with Sectra's quality assurance department.

## **Countywide workflow**

In the spring of 2000, Sectra signed a contract with Östergötland County Council regarding the digitization of all radiology operations

within the county. An important factor for implementing digital radiology in the entire county was to ensure improved patient care and efficiency in the radiology departments. Today all hospitals are connected in a digital workflow, and a radiologist at one hospital can easily access images taken at any of the other hospitals.

Dr Gunnar Wiklund, senior radiologist and project manager, University Hospital of Linköping, explains:

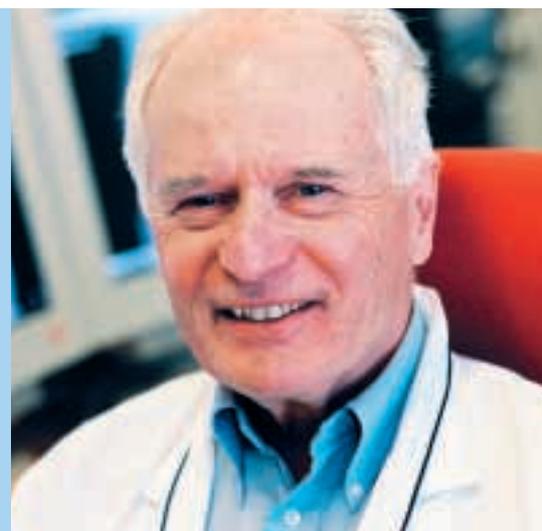
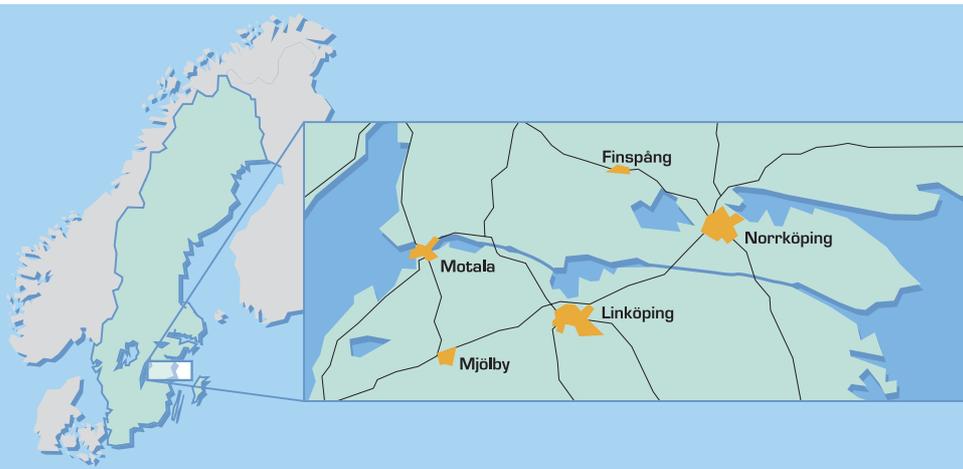
*"The PACS has made the work of the radiologists much more efficient in that we are now able to review images at all the sites simultaneously, regardless of where the actual images were taken".*

The hospitals in the region are connected with very high bandwidth, which means that a radiologist or radiographer in Linköping can retrieve an image stored in Norrköping in only a few seconds, practically the same time it would take to retrieve one stored in Linköping. This facilitates the work of the University Hospital of Linköping considerably in its role as a regional hospital, and in providing both Östergötland and Kalmar counties with specialist care.

## **Smooth delivery on time and within budget**

The countywide system was installed in three phases, starting in 2000 with the upgrading of the Mjölby and Motala radiology departments, followed by the installation of a system

*“Close cooperation with the customer is the core in Sectra’s development philosophy.”*



Dr Göran Karner.

The digitization of Östergötland County Council includes the radiology departments at the hospitals in Linköping, Norrköping and Motala, and at the healthcare centers in Mjölby and Finspång.

in Finspång. The University Hospital of Linköping went paper- and film-free in 2001, and finally the hospital in Norrköping concluded the project by going live in 2002.

Dr Gunnar Wiklund explains his experiences of the digitization project:

*“Digitizing a radiology department is not only about computers; the major difference is that people get entirely new assignments in their everyday work. Some staff categories are given new roles. This made it a necessity for us to watch and analyze the analog workflow very closely, and with the help of Sectra and their very experienced and professional project team, we could make a truly streamlined workflow for the digital environment.”*

The hospitals in the county have had an opportunity to learn from each other, in particular since both Mjölby and Motala have had extensive experience with Sectra’s products.

Helene Fogelberg, Sectra’s project manager during the installation period, comments:

*“We stayed within the time frame and the budget for the digitization project, and all the hospitals were back in normal production levels very soon after going live.”*

Today Östergötland County is using the latest version of Sectra’s digital radiology system. No film-based images, no paper-based requests can be found in the radiology departments anymore.

### More than just a handshake

Östergötland County and Sectra have worked together for more than a decade. The film-free radiology department was born in the county, and the technology and working methods have developed considerably since then. Sectra’s philosophy even since the beginning has been to work closely with the customer in digitization projects, and in product development. User groups, ongoing training and personal contact between end-users and Sectra engineers ensure that Sectra’s systems help solve the problems healthcare providers face today and tomorrow.



# Secure Communication Systems

- Sales increased 62 % to SEK 102.6 million, and operations expanded internationally.
- NATO's central organization and the Dutch and Czech Republic defense forces ordered the NATO-approved version of Sectra's eavesdrop-secure GSM telephone.
- Sectra was entrusted by the Swedish Defense to cooperate in developing systems for future network-based defense, including orders for a high-speed encryption for international use, and a pilot study of the next generation of military radio systems.

Sectra is one of the world's leading companies in the design and development of secure communication systems. Sectra's operations in the field of secure communications are carried out through a wholly-owned subsidiary, Sectra Communications AB, and are focused on eavesdrop-secure mobile communication systems, high-speed encryption for telecom and data lines, and tactical radio systems. Customers comprise defense departments, public authorities and governments in Europe and within NATO. Sectra is the market leader in Sweden in the areas of communication security and secure IT systems for military applications. Tiger®, one of the world's most secure GSM telephones, has also gained Sectra international recognition as the leading supplier of eavesdrop-secure mobile communications in the EU and NATO.

In addition to its own direct sales activities, Sectra is also working in cooperation with Kongsberg Defence Communications AS. This company is part of Kongsberg Group, a Norwegian defense group, and markets the NATO-approved telephone based on Sectra Tiger® internationally.

## Fiscal 2002/2003

### International expansion

During the year Sectra received new orders from both Swedish and international customers. Sales increased to SEK 102.6 million, 64 % of which derived from revenues from the international market, with Norway accounting for a large share. The bulk of these revenues derive from development projects and customer-specific products.

### A number of new NATO orders

During the year Sectra received a number of new orders through its cooperative partner, Kongsberg Defence Communications, for the NATO telephone based on Tiger® technology (NSK 200). The Dutch and Czech Republic defense forces placed orders for eavesdrop-secure telephones during the fall. NATO's central organization has also decided to purchase the NSK 200. These orders are strategically important, and provide proof of confidence in Sectra technology. NSK 200 is one of few GSM telephones that is approved for secret communication up to the NATO Secret level, which puts Sectra in a unique position in the market.

### Framework agreement with renowned defense company

Early in the year Sectra signed a framework agreement with Saab AB, which develops advanced systems for the aviation, defense and aerospace industries. The agreement pertains to 100 eavesdrop-secure Tiger® telephones. Saab, whose employees are often on the road and need to be able to communicate without being at risk of being eavesdropped, has had previous experience using Sectra Tiger® internationally.

### High-speed encryption for international use

During the year, Sectra continued to be entrusted by the Swedish Defense to cooperate in the development of the network-based defense of the future. The Swedish Defense signed, among other contracts, an agreement with Sectra to continue development of high-speed encryption for voice, data and video transmission to meet the military's increased demand for faster communication links. Later in the year the Swedish Defense also ordered a new type of high-speed encryption that can be adapted for international use. Supplemental orders of Sectra's encryption equipment were

also placed simultaneously in order to expand the existing infrastructure of the military's telecom and data networks.

#### Next-generation of military radio systems

Communication is becoming an increasingly important factor in military operations, and the Swedish Defense has been exchanging experience with the American Defense for several years concerning the next generation of military radio systems. As part of this cooperation, Sectra has been chosen to conduct a pilot study of flexible radio systems, which must be adaptable and capable of use both nationally and internationally in conjunction with joint military exercises and operations. For Sectra, which has extensive experience in advanced radio design, this order represents an important step in the tactical radio systems market.

#### Market

##### International adaptation of defense products

Today's threats are global rather than being focused on the borders of a single country. The need to protect the borders of one's own country remains important, but more and more joint initiatives are being undertaken.

Cooperative defense alliances are being forged so that countries can work together to protect themselves against new terrorist attacks or encroachments from other states. Military thinking is becoming more global than regional.

Cooperation among the defense organizations of different countries imposes demands in terms of interoperability and international adaptation when it comes to designing and manufacturing defense materiel. This is evident in connection with peacekeeping efforts, where secure communications among the cooperating forces must be ensured.

##### Network-based defense organizations

Defense forces are being restructured the world over, and are moving away from emphasizing investment of large portions of their defense budgets in traditional areas such as weapons and personnel and toward an entirely new defense structure in which network-based information processing is one of the chief cornerstones. Achieving and maintaining an intelligence advantage is becoming increasingly important. During military operations, or when faced with clear threats from terrorist organizations, the defense organizations and/or coalition that can gather intelligence

#### FACTS

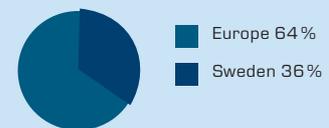
**Business concept:** To be the leading supplier of secure communication systems and tactical radio systems to defense and government customers in the EU and NATO.

**Sales:** SEK 102,6 million (63,2)

**Exports:** 64 % (37)

**No. of employees:** 54 (44)

##### Sales by geographical market



Tommy Waszkiewicz, President



*“Sectra is one of the leading companies in the world in designing and developing secure communication systems, and the company's strong position in its domestic market provides the foundation for continued international expansion.”*



rapidly and form a joint status assessment of the situation will have a head start. These systems are vulnerable in and of themselves, and the information must be safeguarded against falling into the wrong hands, or becoming compromised.

#### **Consolidation of the defense industry**

As defense organizations with tight budgets endeavor to keep pace with rapid technological advancements, they are becoming increasingly dependent on integrating standard products into their systems. Purchases are being made to an increasing extent with the framework of large-scale projects, and it is not unusual for suppliers for large-scale projects to consist of a consortium of the primary defense suppliers. These suppliers in turn subcontract smaller suppliers to furnish technical solutions that they themselves are unable to develop. Rapid technology advancements, international cooperation on defense and purchasing within the framework of large-scale projects are all placing new demands on the defense industry. Defense suppliers are seeking cooperative partners at the international level, and the industry is undergoing consolidation.

Our competition on the world market within the defense sector consists of major IT/electronics companies such as Rhode & Schwarz and General Dynamics, as well as specialized security companies such as Crypto AG in Switzerland. Sweden contains a small number of security companies that compete directly with Sectra in certain areas.

Sectra is one of the leading companies in the world in designing and developing secure communication systems, and the company's strong position in its domestic market

provides the foundation for continued international expansion.

#### **Products**

##### **Standardized platforms**

Sectra's product offering in the field of secure communication systems encompasses the entire security chain, from encryption modules, encryption interfaces and encryption cards to complete systems for, e.g. eavesdrop-secure mobile telephones.

These products are developed under customer contract, and based on standardized platforms. This enables our customers to cooperate efficiently at the system level with respect to both proprietary systems and systems developed by other suppliers. Using standardized platforms enables Sectra to shorten development times and cut costs in developing new products. Because of their modular design, these products are optimally adaptable to changing requirements in the future.

Customers using Sectra's communication systems comprise national defenses, governments and public authorities that have the most stringent requirements in terms of security. They must feel totally safe and secure, both now and in the future. Confidence in our solutions is based largely on the ability of a system to keep public information and information that must be safeguarded physically separated within the system.

##### **Encryption core**

The encryption modules are both the core of and smallest building blocks in Sectra's security products. Since the late 1980s, Sectra has developed a number of different encryption modules for the Swedish Defense, in both

national and international variants. These encryption modules contain algorithms and processing for encryption keys, which are the most sensitive components in an encryption system.

##### **Fastest high-speed encryption on the market**

Sectra has specialized in encryption equipment for high-speed and high-capacity telecom and data communication. Sectra products can encrypt voice, data and video at speeds of up to 622 Mbit/s, which is considerably faster than other products on the market.

##### **Cost-effective security solution**

Sectra has developed a security solution to facilitate development and security evaluation of new applications for the Swedish Defense. This security solution is based on a standardized interface that automatically administers all security operations from key management to secure Internet and e-mail communications. This is a cost-effective security solution, since it reduces the costs associated with securing individual applications.

##### **Secure, world-class mobile communications**

Sectra Tiger® is a system for secure mobile communication that has been developed for military applications in cooperation with experts from the Swedish and Norwegian Defenses. The Tiger® system ensures secure communication along the entire path, from transmitter to receiver in connection with voice and data transfer. Encryption and GSM technologies are integrated into the telephone in a way that makes Tiger® one of the most secure GSM telephones on the market. Tiger®



Sectra received a visit during the year from Swedish Defense Minister Leni Björklund, who participated in a demonstration of the future encryption products that are being developed for the Swedish Defense. The defense minister uses a Tiger® telephone from Sectra for secret telephone calls.

our goal is to provide those customers with the best solutions on the market, solutions that meet their requirements in terms of high performance, quality and user-friendliness.

### Outlook

Information security is essential to our customers, i.e. defense forces, public authorities and governments in the EU and NATO. Both the Swedish Defense and other defense organizations around the world are in the process of restructuring, moving toward an entirely new defense structure involving network-based information processing. The information flow in the network-based defense of the future will demand the integration of strong security solutions into the communication structures. This restructuring applies to tactical radio systems as well. Today's defense organizations are active both nationally and internationally, and the need for adaptable radio systems is substantial. Sectra is far ahead of the competition in these fields, and possesses strong core expertise in encryption and advanced radio design.

Sectra's aim is to continue to be a leading partner in the field of eavesdrop-secure communication systems for the Swedish Defense. The company is also striving to expand its position in the international market. The need for eavesdrop-secure mobile communication within NATO is considerable, and Sectra's secure telephones are currently being used by defense forces and public authorities in Sweden, Norway, Germany, the Netherlands and the Czech Republic, and within NATO's central organization. The NATO approval granted to Sectra late in 2001 for the sale of eavesdrop-secure GSM telephones is significant, and gives the company a unique position in the market.

works using regular subscriptions on the public GSM networks, and can also be used in locations that are not GSM-accessible by connecting to the fixed telecom networks. The Tiger® system is modular in design, which facilitates the implementation of new communication technologies such as GPRS, CDMA, 3G, etc., and of alternative encryption algorithms.

### Tactical radio system for flight-position information

Working in cooperation with the Swedish Defense, Sectra has developed a complete flight-position information system, LuLIS, which has been in use by the Sweden's total defense organization since 2000. Flight-position information is distributed via FM radio (DARC) and fixed networks (IP), and serves as the basis of air force operations, naval units and airbases, and for air alert warnings and alarms.

### Research & development

#### Unique encryption and radio expertise

Sectra has amassed unique expertise in encryption and advanced radio design through its close cooperation with the Swedish Defense and the Swedish Defense Research Institute (FOI), and more recently with the Norwegian Defense as well. These projects, which encompass everything from designing individual components to integrating entire systems, have given the company a strong technology platform for the growing IT security and tactical radio markets.

With its strong foundation of core expertise in encryption and radio design, Sectra is on the cutting edge in developing secure communication and tactical radio systems. Sectra has been involved in numerous instances in pushing forward the boundaries of what is possible within these areas of technology. All development work is carried out in close cooperation with the end customers, and

## Sectra telephones in NATO service



**During the year, NATO's central organization in Brussels ordered 50 eavesdrop-secure telephones (NSK 200), which are based on Sectra's Tiger® platform. These telephones have now been out on their first missions.**

*"NSK 200 is used wherever crises arise, and wherever NATO is involved. We need access to secure communications in certain situations. This is particularly true when we are out conducting missions around the world," reports a spokesman from NATO headquarters in Brussels.*

The main users at NATO headquarters are usually senior officers. When they are out in the field, they must be able to contact headquarters or their colleagues without the risk of someone listening in. For instance, they may be discussing sensitive issues that need to be

resolved on site. The ability to communicate securely is thus equally important regardless of whether the communication is taking place in a capital city or out in the field.

### **Convenient to use the same telephone**

Many users have replaced their previous mobile phones with an NSK 200, which they now use exclusively.

*"A number of our personnel are regularly out on missions. They occasionally have the need to*

*contact headquarters over a secure line. That's one reason why it's convenient to be able to use the same telephone all the time. For individual missions it suffices for them to borrow the equipment temporarily."*

When NATO headquarters first became aware of Sectra's telephone, it had not yet been approved under NATO standards. Following a tip from a NATO member nation regarding Sectra's eavesdrop-secure telephone, NATO headquarters borrowed a few of the units to test them out themselves.

### **Approved for NATO Secret level**

Sectra's telephone then underwent NATO's official approval process, and was approved for NATO security level "NATO Secret," which is a classification that is used for secret information. In this case it means that it must be impossible for any other party to listen in on the information communicated via the phone. NSK 200 remains the only mobile telephone that fulfills the security requirements for a NATO Secret approval.

Once the telephone had been approved, 50 phones were ordered through Sectra's cooperative partner, Kongsberg Defence Communications, in Norway. The phones were delivered in 2002 and, now that they have been in use for a while, they have made a positive impression.

The NSK 200 NATO telephone guarantees secure communications all the way from sender to recipient for voice and data transmission over public GSM networks.





Following NATO approval, NATO's central organization ordered 50 telephones. Now that they have been in use for a while, the phones have made a positive impression.

*“We think a great deal of this telephone, and are using it just as we had intended. In view of NATO's operations, we must be able to communicate over a secure line. We don't need the security all the time, but it is important that we always have the capability,” concludes the spokesman at NATO headquarters in Brussels.*

*“In view of NATO's operations, we must be able to communicate over a secure line. We don't need the security all the time, but it is important that we always have the capability.”*

#### **Used by several NATO countries**

In addition to being used within NATO's central organization, Sectra's mobile eavesdrop-secure telephone is currently being used by defense forces and government agencies in countries such as Germany, Norway, the Netherlands and the Czech Republic. The NATO telephone, the NSK 200, was developed in close cooperation with the Norwegian Defense, to whom the first of the

telephones were delivered in 2001. The NSK 200 enables secure communications between the defense forces and government agencies of different countries in connection with, e.g. international peacekeeping operations. NATO Secret approval gives Sectra a unique position in the market, and is a significant factor in sales to NATO countries.



# Wireless Information Systems

- Revenue totaled SEK 14.7 million.
- Operations in wireless information systems have been adapted to prevailing market conditions, which are characterized by low investment volumes in the financial and aviation industries.
- Sectra has installed and placed into service a mobile rescue system that is managing alarm and warning information for the Finnish Emergency Rescue Service.

Sectra's operations in wireless information systems are conducted via Sectra Wireless Technologies AB, a wholly owned subsidiary. The operation focus on two areas:

- Systems for wireless information services subject to strict real-time requirements, based on the DARC digital radio channel. The customers consist of network operators and service providers who offer their customers mobile information services in real time for, e.g. financial information and warning information.
- Aircraft communication systems based on the new international standard VDL Mode 4, which makes it possible to improve safety and, in turn, flight capacity in terms of air space utilization. The end customers in this segment consist of civil aviation authorities and commercial airlines.

Sectra is the market leader in DARC technology, and has delivered infrastructure to all the major DARC operators in the world. Sectra is also one of the first companies in the world to develop and deliver equipment based on the new international standard for aircraft communication.

## Fiscal 2002/2003

### Continued expansion of DARC

Sales for the fiscal year totaled SEK 14.7 million. The market for wireless information systems has been affected by general market conditions in the financial markets and aviation industry, which have been characterized by low investment volumes. Sectra has restructured these operations to adapt its cost structure to the prevailing market conditions.

During the year, Sectra was involved in expanding the DARC infrastructure in India, and delivered equipment for the continued expansion of the DARC networks in France and Switzerland.

### Mobile rescue system placed into operation

In early 2002, network operator Digita ordered a mobile rescue system from Sectra to manage alarm and warning information for the Finnish Emergency Rescue Service. The platform for this service is Sectra's mobile information terminal, CitySurfer®. During the year, Sectra installed the system, which is now in operation at the Finnish Emergency Rescue Service.

## Market

### Market for DARC

For many people, wireless communication is taken for granted as a result of the emergence of mobile telephony in their daily lives. The need for information access and for staying continuously updated is increasing. Supported by this trend, the market for wireless information is expanding, and will continue to proliferate over the next 10 years.

Expensive 3G licenses and relatively high GSM network fees are opening the market to more cost-effective technologies. The DARC digital radio channel provides a competitive alternative for disseminating wireless information subject to strict real-time requirements. Using DARC technology, digital information is transmitted over FM radio networks. The cost of supplementing radio networks, which are currently available throughout the entire world, with DARC infrastructure is relatively low. DARC infrastructure is currently built out into portions of Europe, the U.S., India, Japan, Korea and Taiwan. This expansion is moving forward in step with the increasing number of commercial applications.

DARC systems enable FM radio network owners, the network operators, to offer information service providers cost-effective solutions for distributing information to many recipients simultaneously, which is known as multicasting. An expanded offering of services enables them to increase earnings from their radio networks.

DARC is the optimal solution for services with special needs in terms of extensive coverage, group-addressing capability and real-time capability. Information can be received in less than a second wherever FM radio reception is available. Sectra is focusing on three market segments in which this new technology offers major added value for customers:

- Banking and finance
- Emergency rescue services
- Traffic information and vehicle tracking

There are relatively few actors in the international market, but the level of competition is increasing as the technology becomes more established. As a result of the global trend toward phasing out traditional pager networks, more actors are looking for new technologies. Sectra differs from other DARC actors in its ability to deliver complete systems with an extensive range of services, and in its ability to assume total responsibility. Sectra has delivered infrastructure to all the major

DARC operators in the world, and holds a strong position on this market.

## Products

### Cost-effective wireless information solutions

Sectra offers network operators and providers of information services cost-effective DARC-based solutions for distributing information in real time. Our product line ranges from infrastructure and receivers to complete systems for various information services. These systems have been developed in close cooperation with customers, and offer high reliability, availability and scalability.

Sectra offers network operators who are expanding their DARC infrastructures components for information distribution, signal processing and monitoring that can be incorporated into their existing radio networks. Sectra builds and integrates components to create a complete system, and assumes responsibility for installation and startup.

Together with service providers, Sectra develops applications that assemble the information to be distributed and makes it available to the recipients. Sectra currently delivers total solutions for distributing information services such as:

## FACTS

**Business concept:** To create cost effective wireless information services for applications with high demand for real time functionality.

**Sales:** MSEK 14.7 (19,8)

**Exports:** 70 % (28)

**No. of employees:** 11 (31)

### Sales by geographical market



Dick Ollas, President



*“The DARC data radio channel is a competitive alternative for disseminating wireless information subject to strict real-time requirements.”*



- alarm and warning information
- financial information
- positioning information accurate to within a centimeter
- mobile Internet/Intranet
- traffic information and vehicle tracking

The users must be equipped with receivers in order to receive the information. Sectra has developed an advanced pocket-sized information terminal with a high-resolution display, CitySurfer®. The terminal is designed for real-time graphics- and text-based mobile services. Sectra's product line also includes receivers in the form of modules that can be integrated into other products, and standalone units that can be connected to devices such as portable and stationary computers.



#### Always updated

Sectra is working in cooperation with SIX, Scandinavia's leading provider of financial information, on a mobile financial service. The service, SIX Pocket, provides actors in the financial and stock markets with real-time updates of stock quotes and financial news.

SIX Pocket is the fastest and easiest mobile financial information service on the market. The service includes stock quotes, interest rates, currency exchange rates and financial news from the Direkt news agency. The information is broadcasted on the regular FM radio network, and covers all of Sweden. Sectra's mobile information terminal, CitySurfer®, serves as the platform for the service. The combination of up-to-the-second news flashes and stock quotes is packaged in an attractive and user-friendly palm terminal.

#### Mobile rescue service system

Sectra has developed a solution that manages alarm and warning information in real time for emergency rescue services. Sectra's mobile information terminal, CitySurfer®, serves as the platform for this service. Sectra's mobile rescue system makes it possible to transmit traditional text messages and distribute maps, building plans and other graphical information to facilitate rescue efforts. The system is a cost-effective tool for rescue services, which need to be able to reach emergency personnel at all hours of the day. The system, which is DARC-based, is extremely secure and highly reliable. It improves the efficiency of rescue operations and increases the safety of the emergency personnel, since accurate information about the accident site can be mediated wirelessly to each member of the rescue force.

#### Next generation of aircraft communication systems

Sectra began developing aircraft communication systems in 1995. Since 2000 the operation is focused on further developing components for the next generation of aircraft communication systems. The new aircraft communication system has now been placed into operation in a real airport environment by the Swedish Civil Aviation Administration, and the new technology is undergoing evaluation and validation.

The development work is based on the new worldwide standard for international air traffic, VDL Mode 4. Communication between airplanes is synchronized with the help of GPS technology. The new system provides pilots with a complete graphical flight-position display that indicates the location of each aircraft relative to the others. Ground vehicles can also be equipped with equipment for receiving and transmitting position indications, making it possible to monitor all types of traffic at an airport.

In the long term, people will be traveling more and more, which means that air traffic will increase. This will lead in turn to heavier demand for flight capacity. Systems based on the new technology will enable more efficient use of air space, which will in turn enable increased traffic capacity. The new standard for aircraft communication will also contribute to a substantial improvement in air safety.

#### Research and development

##### Sectra leads the way

On the strength of its extensive expertise in radio, signal processing and computer



sciences, Sectra is leading the way in the development of the pioneering new DARC and VDL Mode 4 technologies. Because Sectra has been involved in the development of these technologies since the beginning, the company can offer proven, working solutions.

Since 1995, Sectra has developed and delivered a complete flight-position information system to the Swedish military, thus laying the groundwork for our current DARC and aircraft communication operations. Many of the technology solutions developed in military projects have been recycled, resulting in rapid and cost-effective development and fostering a high level of confidence on the market.

### Outlook

The maturation of the information society has led to increasing demand for systems that can manage wireless information in real time.

*“Sectra has the important reference projects and strong expertise needed to be able to continue to lead the way in developing and selling DARC-based products and systems for commercial services.”*

People’s need for greater mobility and mobile freedom is driving the market. DARC enables Sectra to offer cost-effective solutions for disseminating information subject to strict real-time requirements. Sectra has the important reference projects and strong expertise needed to be able to continue to lead the way in developing and selling DARC-based products and systems for commercial services.

Sectra is among the first companies in the world to deliver equipment and components

based on the new international standards for aircraft communication. However, the current severe downturn in the aircraft industry is hampering growth and development in this field.



# Employees

## Unique expertise in an international environment

Sectra develops high-technology products based on the latest research results. The expert role that Sectra plays in its relationships with its customers demands that our employees possess extensive experience and cutting-edge expertise. In addition to mastering advanced technologies, they also need to have a sound knowledge of each customer's business. The employees are the company's primary resource, and their commitment is vital to Sectra's success.

Sectra has offices in seven countries in addition to Sweden, and has customers in Europe, North America, Asia and Australia. This gives Sectra employees an opportunity to work and grow in an exciting international environment.

### Stimulating work environment

It is essential for Sectra to attract, retain and cultivate skilled employees. Sectra's headquarter is based in Mjärdevi Science Park, near Linköping University and Institute of Technology, which facilitates recruitment of new employees. The company offers university students an opportunity to complete a portion of their education at Sectra in the form of degree projects.

As a growth company, Sectra is in an excellent position to offer its employees new challenges and opportunities for professional and personal growth and advancement in a stimulating work environment.

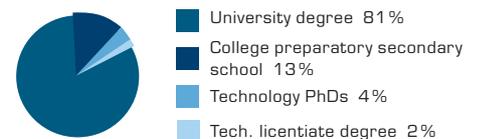
### Expertise, education and training

Sectra employees possess unique expertise. Most of them are university graduates. Many of the employees have done post-graduate research work, acquiring highly specialized IT expertise. The company also benefits from the contributions of four professors and 14 PhDs.

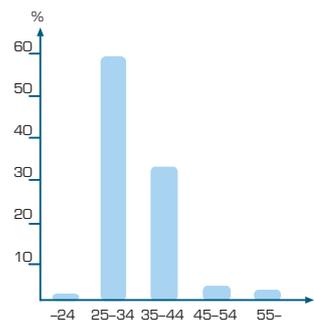
Sectra conducts an annual review with each employee of their need to develop skills and expertise. The employees then undergo ongoing individually tailored training based on the results of their review.

### Participation in Sectra's success

To increase employee commitment and motivation, it is important for Sectra to offer participation in the company's success. Sectra has consequently striven over the years to follow a compensation strategy that serves the best interests of both the employees and the company. In addition to traditional compensation systems, Sectra has systematically worked to spread ownership to its employees via employee option and convertible debenture plans. As a result, the majority of the employees are also Sectra shareholders.



Employee education levels



Employee age distribution

|                            | 2002/03 | 2001/02 | 2000/01 |
|----------------------------|---------|---------|---------|
| No. of employees           | 274     | 250     | 185     |
| of which women             | 68      | 63      | 36      |
| Staff turnover, %          | 7.3     | 3.2     | 9.7     |
| Average age                | 34      | 33      | 33      |
| Value added/employee, MSEK | 0.9     | 0.8     | 0.7     |



*“Smart people know when to ask other smart people.”<sup>®</sup>*

*“We are around ten employees at Sectra that have a pilot’s license. This makes it possible for us to stay close to our customers and cooperative partners even when the geographical distances are great. Most importantly, this is a major advantage when we are installing systems or need to get on site quickly and cost effectively to provide customers with service and support,” says Johan Hammarström, Business developer, Sectra Imtec AB, who is one of Sectra’s employees with a pilot’s license.*



# The Sectra share

**Sectra's series B share has been listed on the Stockholm Stock Exchange's O-list since March 1999. A round lot corresponds to 200 shares.**

## Share capital

Sectra's share capital as of April 30, 2003 totaled SEK 33,076,511, divided among 33,076,511 shares. Of these shares, 2,620,692 are series A shares, while 30,455,819 are series B shares. The par value of each share is SEK 1. All shares confer equal rights to the company's assets and earnings. One series A share confers ten votes, while each series B share confers one vote at the Annual General Meeting.

Convertible debentures issued in 1999 were converted during the 2002/03 fiscal year. This resulted in an SEK 315,566 increase in share capital via the issuance of 315,566 series B shares.

Full conversion and exercise of the issued convertible debentures and employee options (see list on following page) will result in a maximum increase of 3.2% in share capital and 1.9% in the number of votes. The dilution resulting from the convertible debenture loan in 2000/2001 (327,700) is expected to be zero according to the company's evaluation, since the conversion rate for these debentures amounts to SEK 84. It is therefore calculated that the loan will be repaid at the maturity date on July 1, 2003. After dilution through convertible debentures and personnel stock options, the total number of shares will amount to 33,806,261.

## Share price evolution

The last price paid for Sectra shares as of April 30, 2003 was SEK 38.0 (62.0), corresponding to a total market capitalization of SEK 1,257

million. Compared with the end of the preceding fiscal year, Sectra's share price decreased by 39%. The Swedish newspaper Affärsvärlden's general index declined 26% over the same period. The highest quotation for the Sectra share was SEK 63.0 on May 13, 2002, while the lowest quotation was SEK 31.0 on October 9, 2002.

## Shareholders

The number of shareholders increased 29% during the fiscal year to 6,530 (5,064). The percentage of institutional and legal owners totaled roughly 21% (24). Sectra's ten largest shareholders accounted for 62% (67) of the total share capital.

## 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 for an average of 15–20% of the after-tax profit to be distributed to the shareholders.

## Convertible debentures

In October 2002, convertible debentures with a total par value of SEK 11.1 million were issued to Sectra employees. Upon full conversion, the debentures will provide Sectra with 171,550 series B shares, corresponding to roughly 0.5% of the share capital and 0.3% of the votes. The convertible debentures mature

on July 1, 2005, and have a conversion price of SEK 64.80. Similar convertible debenture plans have existed in the past; see list on following page.

## Employee options

An offer to subscribe for additional employee options was extended to Sectra's employees in the USA during the year. If these options are fully exercised, those employees will acquire a maximum of 80,000 series B shares in the company, corresponding to roughly 0.2% of the share capital and 0.1% of the votes. The options can be exercised through January 2006, and have a conversion price of SEK 42. See the following page for a listing of all issued employee options.

## Analysts monitoring Sectra

A number of analysts monitor Sectra's growth, including the following:

### Alfred Berg Fondkommission

Patrik Clase ph: +46 8 573 58 00

### Deutsche Bank

David Halldén ph: +46 8 463 55 00

### Enskilda Securities

Lars Sveder ph: +46 8 696 20 47

### Hagströmer & Qviberg

Hampus Brodén ph: +46 8 791 48 35

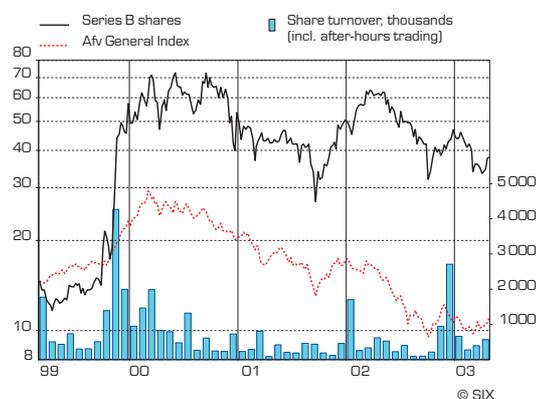
### Kaupthing Bank Sverige AB

Daniel Djurberg ph: +46 8 791 48 35

### Redeye

Urban Ekelund ph: +46 8 545 013 31

Key figures per share, see the five-year overview on page 37.



Breakdown of shares by owner category

### Progress of share capital

| Year    | Transaction | Par value | Increase in no. of shares | Total no. of shares | Increase in share capital | Total share capital |
|---------|-------------|-----------|---------------------------|---------------------|---------------------------|---------------------|
| 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          |
| 1999/00 | New issue   | 2.50      | 420 315                   | 10 920 315          | 1 050 787                 | 27 300 787          |
| 2000/01 | Bonus issue | 3.00      | 0                         | 10 920 315          | 5 460 158                 | 32 760 945          |
| 2000/01 | Split 3:1   | 1.00      | 21 840 630                | 32 760 945          | 0                         | 32 760 945          |
| 2002/03 | New issue   | 1.00      | 315 566                   | 33 076 511          | 315 566                   | 33 076 511          |

### Distribution of shares

| No. of shares per shareholder | No. of owners | No. of shares | Votes   | Share capital |
|-------------------------------|---------------|---------------|---------|---------------|
| 1-10 000                      | 6 396         | 4 878 233     | 8.7 %   | 14.7 %        |
| 10 001-100 000                | 104           | 3 597 611     | 7.1 %   | 10.9 %        |
| 100 001-1 000 000             | 22            | 5 989 137     | 13.2 %  | 18.1 %        |
| > 1 000 001                   | 8             | 18 611 530    | 71.0 %  | 56.3 %        |
| Total                         | 6 530         | 33 076 511    | 100.0 % | 100.0 %       |

### Sectra's largest shareholders

Sectra's largest shareholders as of April 30, 2003 according to the share register kept by the VPC, plus subsequent changes known to Sectra:

| Shareholders                | No. of    |            | Total No. B shares | Votes, % | Capital, % |
|-----------------------------|-----------|------------|--------------------|----------|------------|
|                             | A shares  | B shares   |                    |          |            |
| Jan-Olof Br uer             | 638 059   | 3 719 904  | 4 357 963          | 17.8 %   | 13.2 %     |
| Torbj rn Kronander          | 638 057   | 3 719 901  | 4 357 958          | 17.8 %   | 13.2 %     |
| Frihthjof Qvigstad          | 332 866   | 2 422 569  | 2 755 435          | 10.1 %   | 8.3 %      |
| Fidelity Investments        | 0         | 1 678 400  | 1 678 000          | 3.0 %    | 5.1 %      |
| Robert Forchheimer          | 202 203   | 1 348 104  | 1 550 307          | 5.9 %    | 4.7 %      |
| Thomas Ericson              | 196 329   | 1 349 044  | 1 545 373          | 5.8 %    | 4.7 %      |
| Viiveke F k                 | 196 629   | 1 320 150  | 1 516 779          | 5.8 %    | 4.6 %      |
| Ingemar Ingemarsson         | 196 316   | 1 228 499  | 1 424 815          | 5.6 %    | 4.3 %      |
| AMF Pensions-f rs krings AB | 0         | 830 000    | 830 000            | 1.5 %    | 2.5 %      |
| Bengt Bengtsson             | 135 593   | 503 319    | 638 912            | 3.3 %    | 1.9 %      |
| Other (roughly 6,520)       | 84 640    | 12 335 929 | 12 420 569         | 23.4 %   | 37.5 %     |
| Total                       | 2 620 692 | 30 455 819 | 33 076 511         | 100.0 %  | 100.0 %    |

### Summary of convertible debentures

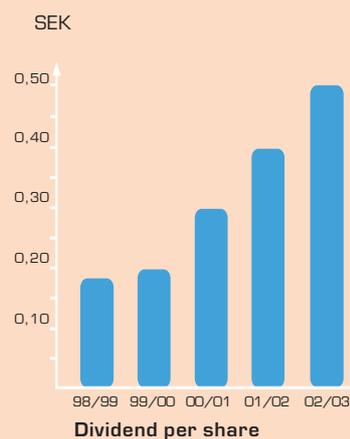
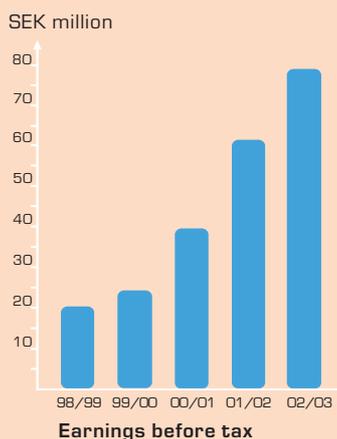
|                                      | 2000/01             | 2001/02             | 2002/03             |
|--------------------------------------|---------------------|---------------------|---------------------|
| No. of series B shares               | 327 700             | 308 200             | 171 550             |
| Conversion price                     | SEK 84,00           | SEK 57,70           | SEK 64,80           |
| Conversion period                    | May 15-June 14 2003 | May 15-June 14 2004 | May 16-June 14 2005 |
| Expiration                           | July 1, 2003        | July 1, 2004        | July 1, 2005        |
| Dilution at full conversion, capital | 1.0 %               | 0.9 %               | 0.5 %               |

### Summary of employee options

|  | 2000/01                   | 2001/02                     | 2002/03                     |
|--|---------------------------|-----------------------------|-----------------------------|
| No. of B shares                              | 90 000                    | 80 000                      | 80 000                      |
| Conversion price                             | 62                        | 42                          | 42                          |
| Conversion period                            | Jan. 1-2001-Nov. 29, 2003 | Nov. 29, 2002-Jan. 28, 2005 | Nov. 29, 2003-Jan. 28, 2006 |
| Exercised no. of shares as of April 30, 2003 | 0                         | 0                           | 0                           |
| Dilution when fully exercised, capital       | 0.3 %                     | 0.2 %                       | 0.2 %                       |

# Five year summary

| Amounts in SEK thousands unless otherwise stated | 2002/03        | 2001/02        | 2000/01        | 1999/00        | 1998/99        |
|--|----------------|----------------|----------------|----------------|----------------|
| <b>CONSOLIDATED INCOME STATEMENTS</b>            |                |                |                |                |                |
| Net sales  | 503 418        | 409 969        | 264 909        | 211 760        | 177 632        |
| Other operating income                           | -              | -              | 80             | 846            | 960            |
| Operating expenses                               | - 419 849      | - 342 980      | - 219 824      | - 180 371      | - 154 333      |
| Depreciation                                     | - 6 849        | - 6 841        | - 6 335        | - 6 184        | - 3 491        |
| <b>Operating profit</b>                          | <b>76 720</b>  | <b>60 148</b>  | <b>38 830</b>  | <b>26 051</b>  | <b>20 768</b>  |
| Net financial items                              | 2 202          | 1 253          | 509            | 1 609          | 991            |
| <b>Profit after financial items</b>              | <b>78 922</b>  | <b>61 401</b>  | <b>39 339</b>  | <b>27 660</b>  | <b>21 759</b>  |
| Items affecting comparability                    | -              | -              | -              | - 3 574        | -              |
| <b>Earnings before tax</b>                       | <b>78 922</b>  | <b>61 401</b>  | <b>39 339</b>  | <b>24 086</b>  | <b>21 759</b>  |
| Income tax                                       | - 25 703       | - 21 113       | - 11 601       | - 7 886        | - 4 929        |
| Minority interest                                | 96             | 142            | -              | -              | -              |
| <b>Net earnings for the year</b>                 | <b>53 315</b>  | <b>40 430</b>  | <b>27 738</b>  | <b>16 200</b>  | <b>16 830</b>  |
| <b>CONSOLIDATED BALANCE SHEETS</b>               |                |                |                |                |                |
| <b>Assets</b>                                    |                |                |                |                |                |
| Intangible assets                                | 11 202         | 11 033         | 12 609         | 16 327         | -              |
| Tangible assets                                  | 97 692         | 54 236         | 29 405         | 14 087         | 12 093         |
| Cash and bank balances                           | 170 479        | 130 439        | 87 401         | 42 450         | 32 916         |
| Other current assets                             | 193 155        | 165 760        | 119 431        | 102 052        | 88 996         |
| <b>Total assets</b>                              | <b>472 528</b> | <b>361 468</b> | <b>248 846</b> | <b>174 916</b> | <b>134 005</b> |
| <b>Equity and liabilities</b>                    |                |                |                |                |                |
| Equity   | 206 030        | 164 660        | 134 702        | 109 923        | 77 958         |
| Provisions                                       | 15 389         | 11 610         | 8 440          | 6 558          | 4 623          |
| Minority interests                               | 42             | - 112          | -              | -              | -              |
| Long-term liabilities                            | 57 626         | 68 031         | 37 967         | 9 134          | 4 059          |
| Current liabilities                              | 193 441        | 117 279        | 67 737         | 49 301         | 47 365         |
| <b>Total equity and liabilities</b>              | <b>472 528</b> | <b>361 468</b> | <b>248 846</b> | <b>174 916</b> | <b>134 005</b> |



| <b>KEY FIGURES</b>                                     | <b>2002/03</b> | <b>2001/02</b> | <b>2000/01</b> | <b>1999/00</b> | <b>1998/99</b> |
|--|----------------|----------------|----------------|----------------|----------------|
| <b>Financial</b>                                       |                |                |                |                |                |
| Working capital, SEK million                           | 291.0          | 237.9          | 182.1          | 125.6          | 86.6           |
| Liquidity ratio  | 2.0            | 2.6            | 3.3            | 3.2            | 2.8            |
| Solvency, %  | 43.6           | 45.6           | 54.1           | 62.9           | 58.1           |
| Debt ratio   | 0.41           | 0.45           | 0.29           | 0.08           | 0.05           |
| Investments, SEK million                               | 5.1            | 8.8            | 10.3           | 24.6           | 3.0            |
| <b>Profitability</b>                                   |                |                |                |                |                |
| Gross margin, %  | 16.6           | 16.4           | 15.5           | 16.8           | 13.3           |
| Operating margin, %                                    | 15.2           | 14.7           | 13.3           | 13.6           | 11.4           |
| Profit margin, %                                       | 15.7           | 15.0           | 13.5           | 14.4           | 11.9           |
| Earning capacity of total capital, %                   | 20.6           | 21.2           | 18.6           | 17.1           | 20.9           |
| Earning capacity of working capital, %                 | 32.5           | 30.0           | 26.7           | 26.9           | 31.0           |
| Earning capacity of equity, %                          | 28.7           | 26.9           | 22.7           | 20.1           | 27.7           |
| <b>Employees</b>                                       |                |                |                |                |                |
| No. of employees, average                              | 262            | 221            | 182            | 156            | 123            |
| No. of employees at end of period                      | 274            | 250            | 185            | 166            | 133            |
| Sales per employee, SEK millions                       | 1.9            | 1.9            | 1.6            | 1.2            | 1.5            |
| Added value per employee, SEK million                  | 0.9            | 0.6            | 0.7            | 0.7            | 0.7            |
| <b>Data per share</b>                                  |                |                |                |                |                |
| No. of shares at fiscal year-end <sup>1)</sup>         | 33 076 511     | 32 760 945     | 32 760 945     | 32 760 945     | 31 500 000     |
| Average number of shares                               | 32 918 728     | 32 760 945     | 32 760 945     | 32 130 472     | 30 250 000     |
| Equity per share, SEK                                  | 6.23           | 5.03           | 4.12           | 3.36           | 2.46           |
| Equity per share after dilution <sup>2)</sup> , SEK    | 6.09           | 4.91           | 4.04           | 3.33           | 2.46           |
| Cash flow per share, SEK                               | 1.92           | 1.53           | 1.10           | 0.75           | 0.66           |
| Cash flow per share after dilution <sup>2)</sup> , SEK | 1.88           | 1.50           | 1.09           | 0.76           | 0.66           |
| Earnings per share, SEK                                | 1.62           | 1.23           | 0.85           | 0.51           | 0.56           |
| Earnings per share after dilution <sup>2)</sup> , SEK  | 1.57           | 1.20           | 0.84           | 0.49           | 0.56           |
| Dividend per share, SEK                                | 0.50           | 0.40           | 0.30           | 0.20           | 0.17           |
| Dividend yield, %                                      | 1.3            | 0.7            | 0.7            | 0.3            | 1.3            |
| P/E ratio, times                                       | 23.6           | 50.0           | 50.0           | 115.7          | 22.8           |
| Share price at fiscal year-end, SEK                    | 38.0           | 62.0           | 42.50          | 59.0           | 12.77          |

Definitions of key figures, see page 51.

<sup>1)</sup> Adjusted for stock splits and bonus issues.

<sup>2)</sup> The dilution include convertible debentures issued 2001/02 (308 200) och 2002/03 (171 550) and personnel options issued 2000/01 (90 000), 2001/02 (80 000) and 2002/03 (80 000). The dilution resulting from the convertible debenture loan in 2000/2001 (327 700) is expected to be zero according to the company's evaluation, since the conversion rate for these debentures amounts to SEK 84. It is therefore calculated that the loan will be repaid at the maturity date on July 1, 2003.

# Administration Report

The Board of Directors and President of Sectra AB (publ.), organization no. 556064-8304, hereby issue the Annual Report and Consolidated Financial Statements for May 1, 2002 – April 30, 2003.

## Business activities

Since the mid-1980s, Sectra has successfully developed and sold high-technology products within expanding niche segments. Current operations include medical systems, secure communication systems and wireless information systems.

All systems and products are developed in close cooperation with customers. This approach, combined with Sectra's strong expertise in each market segment and close ties to research, has resulted in advanced products characterized by extremely high quality and user-friendliness.

## Group structure

Sectra AB is the Parent Company of the Group, which comprises the wholly-owned subsidiaries Sectra Communications AB, Sectra Imtec AB, Sectra Wireless Technologies AB and one dormant company, Sectra Secure Transmission AB. Sectra Imtec AB has eight wholly-owned operating subsidiaries: Sectra Skandinavien AB, Sectra Norge AS, Sectra GmbH (Germany), Sectra A/S (Denmark), Sectra Italia S.r.l, Sectra North America Inc, Sectra Ltd (Great Britain) and Sectra Pronosco A/S (Denmark). Sectra Imtec AB is also a part-owner of Paxlink AB (70 %).

## Markets

More and more hospitals are opting to improve the efficiency of their radiology operations by

implementing digital systems, and the market for **medical systems** is in a strong growth phase. Scandinavia is one of the markets that have progressed the farthest in the transition to digital radiology. Sectra currently has the largest share of its installations in Scandinavia and North America (via partners). In Scandinavia, Sectra has a market share of more than 50 % with respect to sales of film-free radiology systems, and Sectra is growing rapidly in the world largest market, the U.S..

The market for **secure communication systems** within the defense sector is characterized by increasing investment in IT systems at the same time as traditional defense investment is on the decline. Internationally, the trend is toward a completely new defense structure involving network-based information management. The flow of information in the network-based defense of the future will demand the integration of strong security solutions into the communication structures. This restructuring also extends to tactical radio systems. Sectra possesses strong core competence in encryption and advanced radio design.

The long-term trend in the market for **wireless information systems** is toward more and more people wanting access to mobile information in real time. However, this market is being negatively affected by general market conditions, with low investment volumes in the finance market and the aviation industry.

## The 2002/2003 fiscal year

Successful sales continued in the area of **medical systems**, with operations expanding both in Scandinavia and internationally. During the year, our successful global cooper-

ation with Philips Medical Systems in the area of digital image management systems was extended for an additional five-year period. As part of Sectra's internationalization effort, the company entered into a number of strategic partnerships, and opened new offices in Great Britain and Australia.

There is strong interest in the new digital mammography system, Sectra MicroDose Mammography™, and the first system units are expected to enter service in the fall of 2003. The system, which is developed in cooperation with Mamea Imaging, AB, an associated company of which Sectra is part-owner, is based on a sensor technology that makes it possible to achieve the same high image quality as today's film-based systems at a radiation dose that is five times lower. The quality and dose levels associated with the system have been verified at St. Göran's Hospital in Stockholm.

Operations in the area of **secure communication systems** expanded successfully during the year. One contributing factor was the successful sale of Sectra's eavesdrop-secure GSM telephone to the NATO market. Through its cooperation with Norwegian Kongsberg Defence Communications, Sectra has delivered the NATO-approved version of the telephone to customers such as NATO's central organization and the defense forces of the Netherlands and the Czech Republic.

Sectra was also entrusted by the Swedish military to take part in the development of systems for the network-based defense of the future. One of the ways this occurred was through an order for high-speed encryption for international use. The Swedish military also commissioned a pilot study of the next generation of radio systems from Sectra,

which represents an important inroad into the tactical radio systems market.

Sectra restructured its operations in the area of **wireless information systems** during the year in order to limit costs and adapt to prevailing market conditions. Sectra also put into service a mobile emergency rescue service in Finland, and helped in expanding DARC infrastructures in countries such as India, France and Switzerland.

### Sales and earnings

Consolidated net sales increased 23 % to SEK 503.4 million (410.0). Consolidated earnings before taxes totaled SEK 78.9 million (61.4), an improvement of 28.5 % over the previous year.

Parent Company revenues totaled SEK 51.8 million (57.0), while operating income totaled SEK 19.5 million (18.1).

### Financial position

Sectra enjoys a stable financial position. The Company's equity ratio as of April 30, 2003 was 43.6 % (45.6), with liquidity at 2.0 (2.6). The Company's interest-bearing debt totaled SEK 85.0 million (74.3), of which 54.5 (50.8) was attributable to convertible debentures.

### Investments

The Company's investments totaled SEK 5.1 million (10.3). The investments pertain mainly to computer, equipment and other equipment.

### Associated companies

Sectra is a part-owner of Mamea Imaging AB (38 %). This company develops the underlying technology on which our digital mammography system, Sectra MicroDose Mammography™, is based.

### The Sectra share

Sectra's capital stock as of April 30, 2003 totaled SEK 33 076 511, divided among 33 076 511 shares. Of these shares, 2 620 692 are series A shares, while 30 455 819 are series B shares. The par value of each share is SEK 1. All the shares confer equal rights to the Company's assets and earnings. One series A share confers ten votes at the Annual General Meeting, while each series B share confers one vote.

Convertible debentures issued in 1999 were converted during the fiscal year. This conversion resulted in an SEK 315 566 increase in the capital stock via the issue of 315 566 series B shares.

Full conversion and exercise of the convertible debenture programs and employee options issued in 2000/01, 2001/02 and 2002/03 will yield a maximum increase in 3.2 % in the capital stock, and of 1.9% in the number of votes. In the Company's assessment the dilution from the convertible loan for 2000/01 (327 700) is expected to be zero, since the conversion price for these convertibles is SEK 84. It is thus anticipated that the loan will be paid off at maturity, i.e. on July 1, 2003. The number of shares after dilution by convertible debentures and employee options total 33 806 261.

### Convertible debentures program and employee options

In October 2002, convertible debentures with a total par value of SEK 11.1 million were issued to Sectra employees. Upon full conversion, these debentures will create 171 550 more series B shares in Sectra, corresponding to approximately 0.5 % of the capital stock and 0.3 % of the votes. The convertible debentures

will mature on July 1, 2005, and have a conversion price of SEK 64.80.

An offer to subscribe additional employee options was extended to Sectra's employees in the U.S. during the year. If these options are fully exercised, those employees will acquire a maximum of 80 000 series B shares in the Company, corresponding to roughly 0.2 % of the capital stock and 0.1 % of the votes. The options can be exercised through January 2006, and have a conversion price of SEK 42.

See page 35 for a table showing previously issued convertible debenture programs and employee options.

### Employees

Sectra had 274 (250) employees as of fiscal year-end, April 30, 2003, of whom 25 % (25) are women. The employee turnover rate was 7.3 % (3.2).

### Activities of the Board of Directors during the year

Sectra's Board of Directors consists of five members elected by the Annual General meeting, two employee representatives with two deputy members. Other senior Group executives make presentations to the meetings of the Board whenever they are deemed necessary.

In addition to its statutory meeting, the Board held eight meetings during the year. The meeting agenda items have included business trends within the Group, year-end accounts, interim reports, financing, investments and budgets.

The Board of Directors has, as required by the provisions of the Swedish Companies Act, established a fixed agenda for the Board and instructions for the President. There are

no special committees within Sectra's Board of Directors; all issues are addressed by the entire Board.

The June 2002 Annual General Meeting authorized the Board to adopt resolutions to issue a maximum of 3 300 000 new series B shares on one or more occasions in order to finance any acquisitions with the Company's own stock. This authorization has not been exercised to date.

### Outlook

Sectra has a strong technology platform. The products and system solutions that Sectra

develops target markets with strong growth potential. The Company's strong position in its domestic market provides a solid platform for continued international expansion. The Board's assessment that Sectra will continue to expand with favorable profitability remains valid.

### Proposed allocation of profit

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

|                                       |               |
|---------------------------------------|---------------|
| Dividend (33 076 511 shares SEK 0.50) | 16 538 255.50 |
| Earnings to be carried forward        | 62 403 453.50 |
| Total                                 | 78 941 709.00 |

Please refer to the following Balance Sheets, Income Statements, Cash Flow Statements and appurtenant notes for additional information regarding the earnings and financial status of the Group and the Parent Company.

Linköping, June 2, 2003

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

Karin Partain  
Employee representative

Claes Lundström  
Employee representative

My Auditor's Report was submitted on June 5, 2003

Lindebergs Grant Thornton AB

Ivar Verner  
Authorized Public Accountant

# Income Statements

| Amounts in SEK thousands                     | Note | Group         |               | Parent company |               |
|--|------|---------------|---------------|----------------|---------------|
|  |      | 2002/03       | 2001/02       | 2002/03        | 2001/02       |
| <b>Operating income</b>                      | 1    |               |               |                |               |
| Net sales                                    |      | 503 418       | 409 969       | 51 842         | 56 979        |
| Other operating income                       |      | -             | -             | -              | -             |
| <b>Operating expenses</b>                    |      |               |               |                |               |
| Goods for resale                             |      | - 162 889     | - 156 434     | -              | - 16 500      |
| Personnel costs                              | 2    | - 162 912     | - 127 974     | - 9 089        | - 6 878       |
| Other external costs                         | 3    | - 94 048      | - 58 572      | - 21 788       | - 13 738      |
| Depreciation                                 | 8    | - 5 273       | - 5 265       | - 1 432        | - 1 791       |
| Goodwill amortization                        | 9    | - 1 576       | - 1 576       | -              | -             |
| <b>Operating profit</b>                      |      | <b>76 720</b> | <b>60 148</b> | <b>19 533</b>  | <b>18 072</b> |
| <b>Result from financial investments</b>     |      |               |               |                |               |
| Income from participation in Group companies | 4    | -             | -             | 64 211         | 45 371        |
| Interest income                              | 5    | 9 253         | 4 607         | 6 238          | 2 788         |
| Interest expense                             | 6    | - 7 051       | - 3 354       | - 5 679        | - 2 746       |
| <b>Profit before appropriations</b>          |      | <b>78 922</b> | <b>61 401</b> | <b>84 303</b>  | <b>63 485</b> |
| Appropriations                               | 7    | -             | -             | - 13 708       | - 11 294      |
| <b>Earnings before tax</b>                   |      | <b>78 922</b> | <b>61 401</b> | <b>70 595</b>  | <b>52 191</b> |
| Income tax, paid                             |      | - 21 924      | - 17 942      | - 21 180       | - 15 275      |
| Income tax, deferred                         |      | - 3 779       | - 3 171       | -              | -             |
| Minority interest                            |      | 96            | 142           | -              | -             |
| <b>Net earnings for the year</b>             |      | <b>53 315</b> | <b>40 430</b> | <b>49 415</b>  | <b>39 916</b> |
| <b>Profit per share, SEK</b>                 |      |               |               |                |               |
| Before dilution                              |      | 1.62          | 1.23          |                |               |
| After dilution                               |      | 1.57          | 1.20          |                |               |
| <b>No. of shares at end of year</b>          |      |               |               |                |               |
| Before dilution                              |      | 33 076 511    | 32 760 945    |                |               |
| After dilution <sup>1)</sup>                 |      | 33 806 261    | 33 554 145    |                |               |
| Average, before dilution                     |      | 32 918 728    | 32 760 945    |                |               |
| Average, after dilution <sup>1)</sup>        |      | 33 680 203    | 33 360 045    |                |               |

<sup>1)</sup> The dilution include convertible debentures issued 2001/02 (308 200) and 2002/03 (171 550) and personnel options issued 2000/01 (90 000), 2001/02 (80 000) och 2002/03 (80 000). The dilution resulting from the convertible debenture loan in 2000/2001 (327 700) is expected to be zero according to the company's evaluation, since the conversion rate for these debentures amounts to SEK 84. It is therefore calculated that the loan will be repaid at the maturity date on July 1, 2003.

# Balance Sheets

| Amounts in SEK thousands              | Note | Group          |                | Parent Company |                |
|---------------------------------------|------|----------------|----------------|----------------|----------------|
|                                       |      | 030430         | 020430         | 030430         | 020430         |
| <b>ASSETS</b>                         |      |                |                |                |                |
| <b>Fixed assets</b>                   |      |                |                |                |                |
| Patent                                | 8    | 1 745          | -              | -              | -              |
| Goodwill                              | 9    | 9 457          | 11 033         | -              | -              |
| Machinery and equipment               | 10   | 14 352         | 17 442         | 5 817          | 5 428          |
| Participation in subsidiaries         | 11   | -              | -              | 8 978          | 8 978          |
| Participation in associated companies | 12   | 8 366          | 8 949          | -              | -              |
| Other securities held as fixed assets |      | 1 804          | 1 853          | 39             | 87             |
| Receivables from group companies      |      | -              | -              | -              | -              |
| Receivables from associated companies |      | 73 170         | 25 992         | 25 132         | 21 992         |
| <b>Total fixed assets</b>             |      | <b>108 894</b> | <b>65 269</b>  | <b>39 966</b>  | <b>36 485</b>  |
| <b>Current assets</b>                 |      |                |                |                |                |
| Inventories                           |      | 11 719         | 16 393         | -              | -              |
| Accounts receivables                  |      | 154 999        | 138 004        | 74             | -              |
| Receivables from group companies      |      | -              | -              | 173 914        | 148 715        |
| Receivables from associated companies |      | 7 243          | 2 398          | 2 719          | -              |
| Other receivables                     |      | 1 516          | 3 029          | 41             | 72             |
| Prepaid expenses and accrued income   | 13   | 17 678         | 5 936          | 2 466          | 2 192          |
| Cash and bank balances                | 16   | 170 479        | 130 439        | 89 719         | 68 489         |
| <b>Total current assets</b>           |      | <b>363 634</b> | <b>296 199</b> | <b>268 933</b> | <b>219 468</b> |
| <b>TOTAL ASSETS</b>                   |      | <b>472 528</b> | <b>361 468</b> | <b>308 899</b> | <b>255 953</b> |

| Amounts in SEK thousands                         | Note   | Group          |                | Parent Company |                |
|--|--------|----------------|----------------|----------------|----------------|
|  |        | 030430         | 020430         | 030430         | 020430         |
| <b>EQUITY AND LIABILITIES</b>                    |        |                |                |                |                |
| <b>Equity</b>                                    | 14     |                |                |                |                |
| <b>Restricted equity</b>                         |        |                |                |                |                |
| Share capital                                    |        | 33 077         | 32 761         | 33 077         | 32 761         |
| Restricted reserves                              |        | 63 583         | 59 568         | 33 085         | 26 030         |
| <b>Total restricted equity</b>                   |        | <b>96 660</b>  | <b>92 329</b>  | <b>66 162</b>  | <b>58 791</b>  |
| <b>Unrestricted equity</b>                       |        |                |                |                |                |
| Unrestricted reserves                            |        | 56 055         | 31 901         | 29 527         | 25 046         |
| Net earnings for the year                        |        | 53 315         | 40 430         | 49 415         | 36 916         |
| <b>Total unrestricted equity</b>                 |        | <b>109 370</b> | <b>72 331</b>  | <b>78 942</b>  | <b>61 962</b>  |
| <b>Total equity</b>                              |        | <b>206 030</b> | <b>164 660</b> | <b>145 104</b> | <b>120 753</b> |
| <b>Untaxed reserves</b>                          | 15     | -              | -              | <b>51 204</b>  | <b>37 496</b>  |
| <b>Provisions</b>                                |        |                |                |                |                |
| Deferred tax                                     |        | 15 389         | 11 610         | -              | -              |
| <b>Total provisions</b>                          |        | <b>15 389</b>  | <b>11 610</b>  | <b>0</b>       | <b>0</b>       |
| <b>Minority interest</b>                         |        | 42             | - 112          | -              | -              |
| <b>Long-term liabilities</b>                     |        |                |                |                |                |
| Liabilities to financial institutions            | 17     | 28 550         | 22 721         | 28 550         | 21 096         |
| Other long-term liabilities                      | 18     | 29 076         | 45 310         | 27 171         | 45 310         |
| <b>Total long-term liabilities</b>               |        | <b>57 626</b>  | <b>68 031</b>  | <b>55 721</b>  | <b>66 406</b>  |
| <b>Current liabilities</b>                       |        |                |                |                |                |
| Advances from customers                          |        | 1 029          | 8 718          | -              | -              |
| Accounts payable                                 |        | 14 260         | 34 301         | 1 099          | 1 654          |
| Liabilities to group companies                   |        | -              | -              | -              | 6 034          |
| Tax liability                                    |        | 13 100         | 7 748          | 11 566         | 9 922          |
| Other current liabilities                        | 18, 19 | 47 955         | 19 818         | 36 147         | 11 666         |
| Accrued expenses and deferred income             | 20     | 117 097        | 46 694         | 8 058          | 2 022          |
| <b>Total current liabilities</b>                 |        | <b>193 441</b> | <b>117 279</b> | <b>56 870</b>  | <b>31 298</b>  |
| <b>TOTAL EQUITY AND LIABILITIES</b>              |        | <b>472 528</b> | <b>361 468</b> | <b>308 899</b> | <b>255 953</b> |
| <b>Pledged assets and contingent liabilities</b> | 21     |                |                |                |                |
| Pledged assets                                   |        | 106 132        | 103 038        | 16 000         | 16 000         |
| Contingent liabilities                           |        | 25 000         | -              | -              | -              |

# Cashflow Statements

| Amounts in SEK thousands   | Group           |                | Parent Company |                 |
|--|-----------------|----------------|----------------|-----------------|
|  | 2002/03         | 2001/02        | 2002/03        | 2001/02         |
| <b>CURRENT OPERATIONS</b>  |                 |                |                |                 |
| Operating income   | 76 720          | 60 148         | 19 533         | 18 072          |
| Adjustments for items not included in funds                            | 5 938           | 6 841          | 1 432          | 1 791           |
| Depreciation   | 3               | 138            | 3              | 138             |
| Earnings from stock  | 543             | -              | 122            | -               |
| Items not included in cash flow:                                       | - 5 568         | -              | -              | -               |
| Interest received  | 9 282           | 4 469          | 7 018          | 2 722           |
| Interest paid  | - 6 748         | - 3 354        | - 6 719        | - 2 746         |
| Paid income tax  | - 16 599        | - 17 942       | - 12 018       | - 11 356        |
| <b>Funds from current operations before changes to working capital</b> | <b>63 571</b>   | <b>50 300</b>  | <b>9 371</b>   | <b>8 621</b>    |
| <b>Changes in working capital</b>                                      |                 |                |                |                 |
| Change in inventories  | 4 674           | 7 139          | -              | -               |
| Change in receivables  | - 32 069        | - 53 468       | - 28 235       | - 45 973        |
| Change in current liabilities  | 70 360          | 49 542         | 23 928         | 18 914          |
| <b>Funds from current operations</b>                                   | <b>106 536</b>  | <b>53 513</b>  | <b>5 064</b>   | <b>- 18 438</b> |
| <b>INVESTMENT ACTIVITY</b>   |                 |                |                |                 |
| Acquisitions of tangible fixed assets                                  | - 5 221         | - 8 719        | - 1 972        | - 2 803         |
| Sales of equipment   | 2 025           | -              | 30             | -               |
| <b>Funds from investment activity</b>                                  | <b>- 3 196</b>  | <b>- 8 719</b> | <b>- 1 942</b> | <b>- 2 803</b>  |
| <b>FINANCING ACTIVITY</b>  |                 |                |                |                 |
| Sales of shares  | 16              | -              | 16             | -               |
| New issues/conversion  | 5 460           | -              | 5 460          | -               |
| Change in receivables  | - 47 178        | - 21 992       | - 3 140        | - 3 992         |
| Change in liabilities  | - 8 494         | 30 064         | - 8 774        | 31 640          |
| Dividend to the shareholders   | - 13 104        | - 9 828        | - 13 104       | - 9 828         |
| Received group contribution  | -               | -              | 37 650         | 31 300          |
| <b>Funds from financing activity</b>                                   | <b>- 63 300</b> | <b>- 1 756</b> | <b>18 108</b>  | <b>49 120</b>   |
| <b>Change in cash and bank balances</b>                                | <b>40 040</b>   | <b>43 038</b>  | <b>21 230</b>  | <b>27 879</b>   |
| Cash and bank balances at beginning of year                            | 130 439         | 87 401         | 68 489         | 40 610          |
| Cash and bank balances at year end                                     | 170 479         | 130 439        | 89 719         | 68 489          |
| Unused overdraft facility  | 15 000          | 15 000         | 15 000         | 15 000          |

# Accounting Principles

Amounts in SEK thousands unless otherwise stated.

## General accounting principles

The Annual Report has been prepared in accordance with the Swedish Annual Accounts Act, and with the recommendations and pronouncements of the Swedish Financial Accounting Standards Council.

## Consolidated financial statements

The consolidated financial statements have been prepared according to acquisition accounting in accordance with the Swedish Accounting Standards Council's recommendation 1:00. The consolidated financial statements include all the companies for which the Parent Company either directly or through subsidiaries controls more than 50 % of the votes.

## Associated company financial statements

Shareholding in associated companies, for which the group controls between 20 and 50 % 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.

## Reporting of revenues

Revenues are reported as per Swedish Financial Accounting Standards Council recommendation no. 11. Project-based income is reported based on the project's degree of completion as of the Balance Sheet date. The degree of completion is calculated as the ratio of expenses paid as of the Balance Sheet date to the estimated total expenses. In cases where a loss is expected to occur on an uncompleted project, the entire anticipated loss is posted to the income for the year.

## Depreciation and amortization

Depreciation and amortization according to plan are based on the historical cost and estimated service life of the assets. The following periods apply:

|                                |          |
|--------------------------------|----------|
| Patents                        | 10 years |
| Goodwill                       | 10 years |
| Office furniture               | 10 years |
| Computers and office equipment | 5 years  |
| Personnel computers            | 3 years  |

## Receivables

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

## Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency are converted at the closing 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

100 % of the Parent Company's total sales related to other companies within the Group. Purchase were made from Group companies with 100 %.

## Development costs

Development costs not associated with customer-specific projects are charged on a continuing basis. Customer-specific development costs are part of the project costs and are charged when accounts are settled.

# Notes

## NOTE 1 NET SALES BY AREA

Consolidated net sales by business area:

|                              | 02/03          | 01/02          |
|------------------------------|----------------|----------------|
| Medical Systems              | 385 951        | 326 876        |
| Secure Communication Systems | 102 585        | 63 208         |
| Wireless Information Systems | 14 689         | 19 765         |
| Others                       | 193            | 120            |
| <b>Group total</b>           | <b>503 418</b> | <b>409 969</b> |

Consolidated net sales distributed by geographical markets:

|                    | 02/03          | 01/02          |
|--------------------|----------------|----------------|
| Sweden             | 217 254        | 234 088        |
| Europe             | 277 293        | 140 776        |
| Other markets      | 8 871          | 35 105         |
| <b>Group total</b> | <b>503 418</b> | <b>409 969</b> |

## NOTE 2 EMPLOYEES AND PERSONNEL COSTS

| Average number of employees | Of which, female | Of which, female |            |
|-----------------------------|------------------|------------------|------------|
| 02/03                       | 01/02            | 01/02            |            |
| <b>Parent Company</b>       |                  |                  |            |
| Sweden                      | 16               | 10               | 12         |
| <b>Group</b>                |                  |                  |            |
| Sweden                      | 227              | 55               | 203        |
| Norway                      | 9                | 2                | 5          |
| United States               | 9                | 2                | 6          |
| Germany                     | 6                | 1                | 4          |
| Denmark                     | 7                | 1                | 2          |
| Italy                       | 2                | -                | 1          |
| Great Britain               | 1                | -                | -          |
| Australia                   | 1                | -                | -          |
| <b>Group total</b>          | <b>262</b>       | <b>61</b>        | <b>221</b> |

## Salaries and other remuneration

|                       | 02/03         |                 | 01/02         |                 |
|-----------------------|---------------|-----------------|---------------|-----------------|
|                       | Board and CEO | Other employees | Board and CEO | Other employees |
| <b>Parent Company</b> |               |                 |               |                 |
| Sweden                | 1 274         | 4 214           | 1 018         | 3 005           |
| <b>Group</b>          |               |                 |               |                 |
| Sweden                | 4 317         | 79 515          | 3 760         | 66 375          |
| Norway                | 909           | 4 309           | 650           | 2 627           |
| United States         | 1 437         | 5 508           | 1 531         | 2 539           |
| Germany               | 661           | 2 534           | 825           | 1 539           |
| Denmark               | 1 058         | 2 952           | 172           | 815             |
| Italy                 | 350           | 229             | 431           | 55              |
| Great Britain         | 391           | 98              | -             | -               |
| Australia             | -             | 189             | -             | -               |
| <b>Group total</b>    | <b>9 123</b>  | <b>95 334</b>   | <b>7 369</b>  | <b>73 950</b>   |

## Social security costs

|                          | 02/03         |                 | 01/02         |                 |
|--------------------------|---------------|-----------------|---------------|-----------------|
|                          | Board and CEO | Other employees | Board and CEO | Other employees |
| <b>Parent Company</b>    |               |                 |               |                 |
| Sweden                   | 700           | 1 738           | 617           | 1 433           |
| (of which pension costs) | (357)         | (733)           | (332)         | (627)           |
| <b>Group</b>             |               |                 |               |                 |
| Sweden                   | 2 431         | 35 231          | 2 188         | 25 084          |
| (of which pension costs) | (1 257)       | (15 641)        | (1 152)       | (13 216)        |
| Norway                   | 178           | 1 603           | 157           | 1 077           |
| (of which pension costs) | (51)          | (797)           | (90)          | (598)           |
| United States            | 783           | 2 726           | 151           | 428             |
| (of which pension costs) | -             | -               | (85)          | (217)           |
| Germany                  | 92            | 431             | 97            | 180             |
| (of which pension costs) | (46)          | (165)           | (72)          | (67)            |
| Denmark                  | 120           | 381             | 1             | 2               |
| (of which pension costs) | (102)         | (128)           | -             | -               |
| Italy                    | 560           | 269             | 223           | 27              |
| (of which pension costs) | (217)         | (142)           | (128)         | (17)            |
| Great Britain            | 42            | 14              | -             | -               |
| (of which pension costs) | -             | -               | -             | -               |
| Australia                | -             | 17              | -             | -               |
| (of which pension costs) | -             | (17)            | -             | -               |
| <b>Group total</b>       | <b>4 206</b>  | <b>40 672</b>   | <b>2 817</b>  | <b>26 798</b>   |

### Terms for the Board of Directors, President and senior executives Principles

The Chairman of the Board and the Board members are compensated as resolved by the Annual General Meeting. The compensation paid to the President/Group CEO is determined by the Chairman of the Board. The President/Group CEO determines the compensation paid to other senior executives. 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 six individuals who, together with the President/Group CEO, comprise the Group management.

### Salaries and compensation

The remuneration paid to the members of the Board in 2002/03 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 2003 equaled SEK 38,600. The President/Group CEO received SEK 1,004 thousand in compensation for 2002/03. Pension premiums totaling SEK 227 thousand were also paid. Compensation paid to other senior executives totaled SEK 2,740 thousand. Pension premiums totaling SEK 540 thousand were also paid. The executives received no adjustable compensation during the fiscal year. Please refer to the presentation of the Board of Directors and Group management for information concerning executive holdings of Sectra stock and convertible debentures.

### 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 3 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

No special agreements exist concerning retirement ages for the President/Group CEO and other senior executives. 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.

### AUDIT FEE

|              | Group      |            |
|--------------|------------|------------|
|              | 02/03      | 01/02      |
| Audit        | 526        | 286        |
| Consultation | 437        | 172        |
| <b>Total</b> | <b>963</b> | <b>458</b> |

### NOTE 3 COSTS FOR OPERATING LEASES

Annual leasing fees paid for operating leases equaled SEK 405 (587) thousand. Agreed future leasing fees for operating leases are payable as shown below.

| Group        | 03/04      | 04/05      | 05/06      |
|--------------|------------|------------|------------|
| Cars         | 142        | 83         | -          |
| Other        | 205        | 107        | 107        |
| <b>Total</b> | <b>347</b> | <b>190</b> | <b>107</b> |

### NOTE 4 INCOME FROM PARTICIPATION IN GROUP COMPANIES

|                    | Group    |          | Parent Company |               |
|--------------------|----------|----------|----------------|---------------|
|                    | 02/03    | 01/02    | 02/03          | 01/02         |
| Group contribution | -        | -        | 64 500         | 45 300        |
| Interest income    | -        | -        | 751            | 456           |
| Interest expenses  | -        | -        | - 1 040        | - 385         |
| <b>Total</b>       | <b>-</b> | <b>-</b> | <b>64 211</b>  | <b>45 371</b> |

### NOTE 5 INTEREST INCOME AND SIMILAR INCOME

|                               | Group        |              | Parent Company |              |
|-------------------------------|--------------|--------------|----------------|--------------|
|                               | 02/03        | 01/02        | 02/03          | 01/02        |
| Other interest income         | 9 282        | 4 469        | 6 267          | 2 650        |
| Dividend                      | 3            | 26           | 3              | 26           |
| Earnings from sales of shares | - 32         | 112          | - 32           | 112          |
| <b>Total</b>                  | <b>9 253</b> | <b>4 607</b> | <b>6 238</b>   | <b>2 788</b> |

### NOTE 6 INTEREST EXPENSE AND SIMILAR COSTS

|  | Group        |              | Parent Company |              |
|--|--------------|--------------|----------------|--------------|
|  | 02/03        | 01/02        | 02/03          | 01/02        |
| Interest portion of annual costs of financial leases | 303          | 291          | -              | -            |
| Other interest expenses                              | 6 748        | 3 063        | 5 679          | 2 746        |
| <b>Total</b>   | <b>7 051</b> | <b>3 354</b> | <b>5 679</b>   | <b>2 746</b> |

### NOTE 7 APPROPRIATIONS

|                               | Parent Company  |                 |
|-------------------------------|-----------------|-----------------|
|                               | 02/03           | 01/02           |
| Change in accrual fund        | - 13 640        | - 11 294        |
| Change in excess depreciation | - 68            | -               |
| <b>Total</b>                  | <b>- 13 708</b> | <b>- 11 294</b> |

**NOTE 8 PATENTS**

|  | Group        |          | Parent Company |          |
|--|--------------|----------|----------------|----------|
|  | 030430       | 020430   | 030430         | 020430   |
| Incoming acquisition value               | -            | -        | -              | -        |
| Purchases during the year                | 1 904        | -        | -              | -        |
| Cumulative acquisition value             | 1 904        | -        | -              | -        |
| Incoming depreciation                    | -            | -        | -              | -        |
| Depreciation for the year                | 159          | -        | -              | -        |
| Cumulative depreciation                  | 159          | -        | -              | -        |
| <b>Outgoing scheduled residual value</b> | <b>1 745</b> | <b>-</b> | <b>-</b>       | <b>-</b> |

**NOTE 9 GOODWILL**

|                                   | Group        |               | Parent Company |          |
|-----------------------------------|--------------|---------------|----------------|----------|
|                                   | 030430       | 020430        | 030430         | 020430   |
| Cost at beginning of year         | 15 761       | 15 761        | -              | -        |
| Accumulated purchase value        | 15 761       | 15 761        | -              | -        |
| Amortization at beginning of year | 4 728        | 3 152         | -              | -        |
| Amortization for the year         | 1 576        | 1 576         | -              | -        |
| Accumulated amortization          | 6 304        | 4 728         | -              | -        |
| <b>Residual value at year-end</b> | <b>9 457</b> | <b>11 033</b> | <b>-</b>       | <b>-</b> |

**NOTE 10 MACHINERY AND EQUIPMENT**

|  | Group         |               | Parent Company |              |
|--|---------------|---------------|----------------|--------------|
|  | 030430        | 020430        | 030430         | 020430       |
| Cost at beginning of year              | 34 261        | 26 588        | 17 019         | 14 181       |
| Investments for the year               | 3 317         | 7 998         | 1 972          | 2 838        |
| Sales/Disposals for the year           | - 10 465      | - 325         | - 5 778        | -            |
| Accumulated purchase value at year-end | 27 113        | 34 261        | 13 213         | 17 019       |
| Depreciation at beginning of year      | 19 297        | 14 935        | 11 591         | 9 800        |
| Sales/Disposals                        | - 8 389       | - 133         | - 5 627        | -            |
| Depreciation for the year              | 4 470         | 4 495         | 1 432          | 1 791        |
| Accumulated depreciation at year-end   | 15 378        | 19 297        | 7 397          | 11 591       |
| <b>Residual value</b>                  | <b>11 735</b> | <b>14 964</b> | <b>5 817</b>   | <b>5 428</b> |

**Equipment held under financial lease agreements:**

|                          |               |               |              |              |
|--------------------------|---------------|---------------|--------------|--------------|
| Acquisition value        | 4 005         | 3 528         | -            | -            |
| Accumulated depreciation | - 1 388       | - 1 050       | -            | -            |
| <b>Total book value</b>  | <b>14 352</b> | <b>17 442</b> | <b>5 817</b> | <b>5 428</b> |

**NOTE 11 PARTICIPATION IN SUBSIDIARIES**

|                                 | Registration number | Location          | No. of shares | Share of capital, % | Par value | Book value at April 30, 2003 |
|---------------------------------|---------------------|-------------------|---------------|---------------------|-----------|------------------------------|
| <b>Parent Company:</b>          |                     |                   |               |                     |           |                              |
| Sectra Imtec AB                 | 556250-8241         | Linköping, Sweden | 300 000       | 100                 | 3 000     | 2 883                        |
| Sectra Communications AB        | 556291-3300         | Linköping, Sweden | 3 000 000     | 100                 | 3 000     | 3 000                        |
| Sectra Wireless Technologies AB | 556570-9325         | Linköping, Sweden | 3 000 000     | 100                 | 3 000     | 3 000                        |
| Sectra Secure Transmission AB   | 556247-1283         | Linköping, Sweden | 100 000       | 100                 | 100       | 95                           |
| <b>Total book value</b>         |                     |                   |               |                     |           | <b>8 978</b>                 |
| <b>Sectra Imtec AB:</b>         |                     |                   |               |                     |           |                              |
| Sectra Skandinavien AB          | 556483-9479         | Linköping, Sweden | 4 035         | 100                 | 100       | 21 016                       |
| Paxlink AB                      | 556572-3292         | Örebro, Sweden    | 700           | 70                  | 100       | 0                            |
| Sectra Norge AS                 |                     | Oslo, Norway      | 5 000         | 100                 | NOK 500   | 283                          |
| Sectra NA Inc                   |                     | Shelton, U.S.A.   | 500           | 100                 | USD 50    | 384                          |
| Sectra GmbH                     |                     | Aachen, Germany   | 500           | 100                 | EUR 26    | 219                          |
| Sectra Italia S.r.l.            |                     | Milano, Italy     | 500           | 100                 | EUR 50    | 453                          |
| Sectra A/S                      |                     | Herlev, Denmark   | 5 000         | 100                 | DKK 100   | 639                          |
| Sectra Ltd                      |                     | London, UK        | 1             | 100                 | £1        | 0                            |
| <b>Total book value</b>         |                     |                   |               |                     |           | <b>22 994</b>                |
| <b>Sectra A/S:</b>              |                     |                   |               |                     |           |                              |
| Sectra Pronosco AS              |                     | Herlev, Denmark   | 5 000         | 100                 | DKK 500   | DKK 500                      |
| <b>Total book value</b>         |                     |                   |               |                     |           | <b>DKK 500</b>               |

**NOTE 12 PARTICIPATION IN ASSOCIATED COMPANIES**

|                         | Registration<br>number | Location          | No. of<br>shares | Share of<br>capital, % | Par<br>value | Book value at<br>April 30, 2003 |
|-------------------------|------------------------|-------------------|------------------|------------------------|--------------|---------------------------------|
| Mamea Imaging AB        | 556570-7022            | Stockholm, Sweden | 4 000            | 38                     | 68           | 8 366                           |
| <b>Total book value</b> |                        |                   |                  |                        |              | <b>8 366</b>                    |

**NOTE 13 PREPAID EXPENSES AND ACCRUED INCOME**

|                            | Group         |              | Parent Company |              |
|----------------------------|---------------|--------------|----------------|--------------|
|                            | 030430        | 020430       | 030430         | 020430       |
| Prepaid rental             | 1 290         | 1 158        | 950            | 840          |
| Accrued interest income    | 2 224         | 1 679        | 1 211          | 1 085        |
| Prepaid support agreements | 358           | 294          | 28             | -            |
| Other items                | 13 806        | 2 805        | 277            | 267          |
| <b>Total</b>               | <b>17 678</b> | <b>5 936</b> | <b>2 466</b>   | <b>2 192</b> |

**NOTE 14 EQUITY**

| Group                         | Share capital | Restricted reserves | Unrestricted capital | Earnings for the year |
|-------------------------------|---------------|---------------------|----------------------|-----------------------|
| At beginning of year          | 32 761        | 59 568              | 31 901               | 40 430                |
| New issues/conversion         | 316           | 5 144               |                      |                       |
| Resolution by the AGM:        |               |                     |                      |                       |
| Dividend                      |               |                     |                      | - 13 104              |
| To be carried forward         |               |                     | 27 326               | - 27 326              |
| Change to restricted reserves |               | - 2 457             | 2 457                |                       |
| Share of equity               |               | - 583               |                      |                       |
| Present value difference      |               | 1 911               |                      |                       |
| Translation difference        |               |                     | - 5 629              |                       |
| Net earnings for the year     |               |                     |                      | 53 315                |
| <b>At year end</b>            | <b>33 077</b> | <b>63 583</b>       | <b>56 055</b>        | <b>53 315</b>         |

**Parent Company**

|                           | Share capital | Share premium reserve | Legal reserve | Earnings for the year | Earnings for the year |
|---------------------------|---------------|-----------------------|---------------|-----------------------|-----------------------|
| At beginning of year      | 32 761        | 25 880                | 150           | 25 046                | 36 916                |
| New issues/conversion     | 316           | 5 144                 |               |                       |                       |
| Resolution by the AGM:    |               |                       |               |                       |                       |
| Dividend                  |               |                       |               |                       | - 13 104              |
| To be carried forward     |               |                       |               | 23 812                | - 23 812              |
| Group contribution paid   |               |                       |               | - 26 850              |                       |
| Tax impact                |               |                       |               | 7 519                 |                       |
| Present value difference  |               | 1 911                 |               |                       |                       |
| Net earnings for the year |               |                       |               |                       | 49 415                |
| <b>At year-end</b>        | <b>33 077</b> | <b>32 935</b>         | <b>150</b>    | <b>29 527</b>         | <b>49 415</b>         |

**NOTE 15 UNTAXED RESERVES**

|                          | Parent Company |               |
|--------------------------|----------------|---------------|
|                          | 030430         | 020430        |
| Tax allocation reserves: |                |               |
| Allocated fiscal year 98 | -              | 2 560         |
| Allocated fiscal year 99 | 3 483          | 3 483         |
| Allocated fiscal year 00 | 3 160          | 3 160         |
| Allocated fiscal year 01 | 4 400          | 4 400         |
| Allocated fiscal year 02 | 8 328          | 8 328         |
| Allocated fiscal year 03 | 13 619         | 13 619        |
| Allocated fiscal year 04 | 16 200         | -             |
| Excess depreciation      | 2 014          | 1 946         |
| <b>Total</b>             | <b>51 204</b>  | <b>37 496</b> |

Of total untaxed reserves, SEK 14.337 (10.449) thousand is deferred tax.

**NOTE 16 BANK OVERDRAFT FACILITY**

|                          | Group    |          | Parent Company |          |
|--------------------------|----------|----------|----------------|----------|
|                          | 030430   | 020430   | 030430         | 020430   |
| Total overdraft facility | 15 000   | 15 000   | 15 000         | 15 000   |
| Amount unutilized        | - 15 000 | - 15 000 | - 15 000       | - 15 000 |
| <b>Amount utilized</b>   | <b>0</b> | <b>0</b> | <b>0</b>       | <b>0</b> |

**NOTE 17 OTHER LIABILITIES TO FINANCIAL INSTITUTIONS**

|  | Group         |               | Parent Company |               |
|--|---------------|---------------|----------------|---------------|
|  | 030430        | 020430        | 030430         | 020430        |
| Due 0-5 years from fiscal year-end         | 20 484        | 16 078        | 20 484         | 14 453        |
| (of which refers to financial leases)      | (1 905)       | (1 626)       | (1 905)        | (1 626)       |
| Due more than 5 years from fiscal year-end | 8 066         | 6 643         | 8 066          | 6 643         |
| <b>Total</b>                               | <b>28 550</b> | <b>22 721</b> | <b>28 550</b>  | <b>21 096</b> |

**NOTE 18 CONVERTIBLE DEBENTURES**

|                              | Group         |               | Parent Company |               |
|------------------------------|---------------|---------------|----------------|---------------|
|                              | 030430        | 020430        | 030430         | 020430        |
| Convertible debentures 99/02 | -             | 5 460         | -              | 5 460         |
| Convertible debentures 00/03 | 27 345        | 27 527        | 27 345         | 27 527        |
| Convertible debentures 01/04 | 16 974        | 17 783        | 16 974         | 17 783        |
| Convertible debentures 02/05 | 10 196        | -             | 10 196         | -             |
| <b>Total</b>                 | <b>54 515</b> | <b>50 770</b> | <b>54 515</b>  | <b>50 770</b> |

The convertible debentures run at 4% interest. Debentures 00/03 will mature on July 1, 2003. Conversion to series B shares can occur from May 15 – June 14, 2003. Debentures 01/04 will mature on July 1, 2004. Conversion to series B shares can occur from May 15 – June 14, 2004. Debentures 02/05 will mature on July 1, 2005. Conversion to series B shares can occur from May 16 – June 14, 2005. Full conversion of the issued convertibles program will increase the number of series B shares by 729 750, which corresponds to 3.2% of the capital stock and 1.9% of the number of votes.

**NOTE 19 OTHER CURRENT LIABILITIES**

Of other current liabilities in the Group at April 30, 2003 SEK 712 (852) thousand refers to financial leases.

**NOTE 20 ACCRUED EXPENSES AND DEFERRED INCOME**

|                              | Group          |               | Parent Company |              |
|------------------------------|----------------|---------------|----------------|--------------|
|                              | 030430         | 020430        | 030430         | 020430       |
| Accrued social security fees | 13 090         | 10 553        | 851            | 570          |
| Accrued vacation pay         | 16 397         | 12 873        | 874            | 614          |
| Prepaid support agreements   | 5 971          | 2 325         | -              | -            |
| Accrued debts to suppliers   | 33 919         | 10 722        | -              | -            |
| Advances received            | 27 509         | -             | -              | -            |
| Accrued royalties            | 4 005          | -             | -              | -            |
| Other items                  | 16 206         | 10 221        | 6 333          | 838          |
| <b>Total</b>                 | <b>117 097</b> | <b>46 694</b> | <b>8 058</b>   | <b>2 022</b> |

**NOTE 21 PLEDGED ASSETS AND CONTINGENT LIABILITIES**

|                                     | Group          |                | Parent Company |               |
|-------------------------------------|----------------|----------------|----------------|---------------|
|                                     | 030430         | 020430         | 030430         | 020430        |
| Chattel mortgages                   | 73 438         | 71 761         | 11 000         | 11 000        |
| Bank accounts                       | 32 694         | 31 277         | 5 000          | 5 000         |
| <b>Total pledged assets</b>         | <b>106 132</b> | <b>103 038</b> | <b>16 000</b>  | <b>16 000</b> |
| Guarantee commitments               | 25 000         | -              | -              | -             |
| <b>Total contingent liabilities</b> | <b>25 000</b>  | <b>0</b>       | <b>0</b>       | <b>0</b>      |

# Auditor's Report

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

I 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 1 May 2002 – 30 April 2003. 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 annual accounts, the consolidated accounts and the administration based on my audit.

I conducted my audit 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 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, as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for my opinion concerning discharge from liability, I 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. I 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. I believe that my audit provides a reasonable basis for my opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, 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.

I recommend to the 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 5th 2003

Lindebergs Grant Thornton

Ivar Verner

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.

**Capital employed** Total assets reduced by non-interest-bearing debts.

**Cash flow per share** Funds from current operations divided by the number of shares at the end of the period.

**Debt ratio** Interest-bearing debts divided by equity.

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

**Earning capacity of equity** Income 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.

**Equity** Equity includes 72 percent 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** 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.

**Profit per share** Profit after tax divided by the number of shares at the end of the period.

**Yield** Dividend as a percent of share price.

# Board of Directors, Group Executive Board and Auditor

## Board of Directors

### Thomas Ericson

Born 1942. Member of the Board and Chairman since 1984. Professor of Data Transmission at Linköping Institute of Technology. Sectra holdings: 196 329 A shares and 1 349 044 B shares. Convertible debentures SEK 459 800.

### Jan-Olof Brüer

Born 1951. PhD. Board member since 1982. President and CEO Sectra AB since 1985. Sectra holdings: 638 059 A shares and 3 719 904 B shares. Convertible debentures SEK 4 065 200.

### Torbjörn Kronander

Born 1957. PhD. Board member since 1988. President Sectra Imtec AB since 1997 and Vice President Sectra AB since 1998. Board member of Bäver & Nilsson AB. Sectra holdings: 638 057 A shares and 3 719 901 B shares. Convertible debentures SEK 4 065 200.

### Gündor Rentsch

Born 1941. M. Pol. Sc. Board member since 1994. Chairman of the Board at ITB AB and Board member of WM-Data AB, Streamserve Inc., Readsoft AB and Atea Holding AB et al. Sectra holdings: 250 000 B shares. Convertible debentures SEK 2 380 400.

### Carl-Erik Ridderstråle

Born 1942. Tech. lic. Board member since 2001. Chairman of the Board at Hultdin System AB, Bröderna Edstrand AB and SGS and Board member of KMT AB et al. Sectra holdings: 16 500 B shares. Convertible debentures SEK 1 788 700.

### Karin Partain

Born 1964. M. Sc. Employee representative since 2003. Project manager Sectra Communications AB, employee since 1996. Sectra holdings: 7 810 B shares.

### Claes Lundström

Born 1973. M. Sc. Employee representative since 2003. Systems engineer Sectra Imtec AB, employee since 1997. Sectra holdings: 6 012 B shares. Convertible debentures SEK 207 720.



From left to right: Claes Lundström, Gündor Rentsch, Carl-Erik Ridderstråle, Jan-Olof Brüer, Torbjörn Kronander, Karin Partain, Thomas Ericson.



From left to right: Dick Ollas, Tommy Waszkiewicz, Kjell Norin, Jan Johansson, Helena Johansson.

## Deputy members of the Board of Directors

### Patrik Preimer

Born 1968. M. Sc. and MBA. Deputy employee representative since 2003. Area Operations Manager Sectra Imtec AB, employee since 1995. Sectra holdings: 7 621 B shares. Convertible debentures SEK 902 700.

### George Ekström

Born 1966. B. Sc. Deputy employee representative since 2003. System developer Sectra Communications AB, employee since 1998. Sectra holdings: Convertible debentures SEK 218 400.

## Group Executive Board

### Jan-Olof Brüer

President and CEO Sectra AB. See also under Board of Directors above.

### Torbjörn Kronander

President Sectra Imtec AB and Vice President Sectra AB. See also under Board of Directors above.

### Dick Ollas

Born 1968. President Sectra Wireless Technologies AB since 1999. Employee since 1993. Sectra holdings: 21 652 B shares. Convertible debentures SEK 692 400.

### Tommy Waszkiewicz

Born 1965. President Sectra Communications AB since 2002. Employee since 1990. Sectra holdings: 228 090 B shares. Convertible debentures SEK 1 380 600.

### Kjell Norin

Born 1944. Controller Sectra AB, employee since 1998. Sectra holdings: 5 612 B shares. Convertible debentures SEK 470 400.

### Jan Johansson

Born 1972. IT Coordinator Sectra AB, employee since 1999. Sectra holdings: 4 012 B shares. Convertible debentures SEK 722 500.

### Helena Johansson

Born 1970. Chief Information Officer Sectra AB, employee since 1993. Sectra holdings: 9 239 B shares. Convertible debentures SEK 180 000.

## Auditor

### Lindebergs Grant Thornton AB

Chief coordinating auditor Ivar Verner, certified public accountant.

# Dictionary



## **DARC (DAta Radio Channel)**

International standard for transmitting digital data via FM radio.

## **EPR (Electronic Patient Record)**

Electronic system for patient records.

## **Encryption**

To mathematically alter (encrypt) data so that it can be interpreted or read only by the intended recipient. In order to read encrypted data, the recipient must have the correct key and the correct program (algorithm) to decode the data into its original form.

## **HIS (Hospital Information System)**

General information management system used at a hospital.

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

A system for managing digital radiology images that makes it possible to review, process, distribute and archive these images more efficiently.

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

A system for managing patient information that facilitates administrative tasks such as scheduling, invoicing and payment.

## **VDL Mode 4 (VHF Data Link Mode 4)**

New international standard for aircraft communication based on VHF radio that improves safety, thereby enabling increased traffic capacity.

# Where to find Sectra

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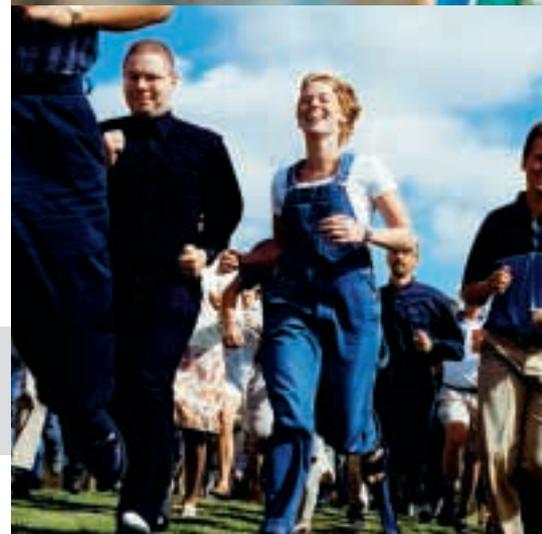
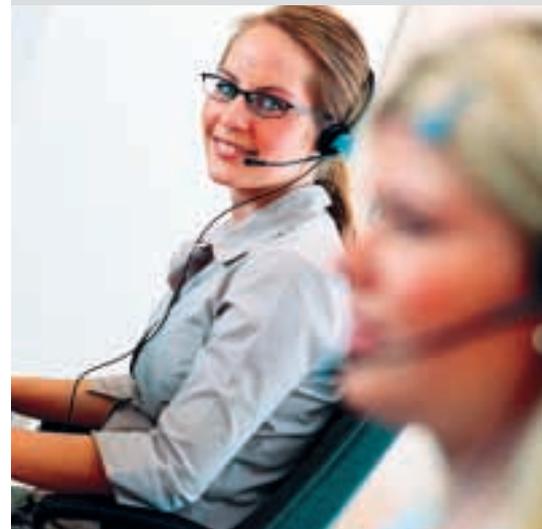
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