

Annual Report

04/05

SECTRA



The Sectra brand stands for world-leading products that make healthcare more efficient and protect military secrets. Sectra products are used by customers in 35 countries.

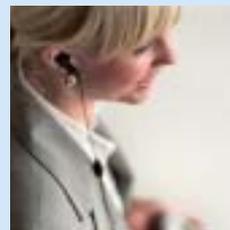
Sectra was founded 1978 and has been successfully developing and selling high-tech systems and products in expanding niche segments since the mid-1980s. Operations include medical systems and secure communication systems, niches in which Sectra has the potential to become world-leading.

Sectra operations are conducted in eight countries with a total of 370 employees. Sectra has its roots at the Linköping Institute of Technology in Sweden, and the company's headquarter is located in Linköping. Sectra's shares have been listed on the Stockholm Stock Exchange's O-list since March 1999.



Medical systems

Sectra develops medical IT systems that contribute to cost savings in healthcare operations. Sectra's offering includes products and systems for film-free radiology, women's health and orthopedics.



Secure communication systems

Sectra develops products for secure communication that target customers with the strictest security requirements. These products are used by defense departments as well as public and government agencies.

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Sectra reports increased international sales and continued strong profitability.



The investments to introduce Sectra's new mammography system in Northern Europe is starting to yield results.



Sectra's secure communication products are being used by defense departments and government agencies in a number of European countries.

Annual general meeting

The annual general meeting in Sectra AB will be held Tuesday 28 June CET 16.00 at Collegium, Teknikringen 7 in Linköping, Sweden.

Dividend

A dividend of SEK 0.50 per share is proposed for fiscal year 2004/2005. July 1, 2005 is proposed as the record date for the dividend. If the annual general meeting adopts the proposal, the dividend will be paid on July 6, 2005.

Future reports

- Interim report May – July 2005: September 6, 2005
- Six-month report May – October 2005: December 6, 2005
- Nine-month report May 2005 – January 2006: March 7, 2006
- Preliminary Earnings 2005/2006: May 23, 2006

The 2004/2005 fiscal year in brief

- Sectra's order bookings increased 52.0% to SEK 570.1 million (375.1), which is the highest order bookings in the Company's history.
- Net sales totaled SEK 455.9 million (495.3). Earnings after net financial items rose to SEK 81.7 million (27.6), which corresponds to a profit margin of 17.9% (5.6). Excluding the acquired operations in Sectra Mamea AB, earnings after net financial items for comparable units increased to SEK 117.0 million (98.5).
- The Company's wireless information system operations were sold in June 2004. The business accounted for less than 1% of the Group's total net sales, and its sale had no material effect on Sectra's earnings or financial position.

Medical systems

- Medical systems posted increased sales in markets outside of Scandinavia. The market for digital radiology systems continues to grow, and the number of radiology departments using Sectra systems increased roughly 30% over the fiscal year.
- Investments made to introduce Sectra's digital mammography systems in Northern Europe are starting to bear fruit. Sectra sold mammography systems in Sweden, Germany and Ireland during the fiscal year.

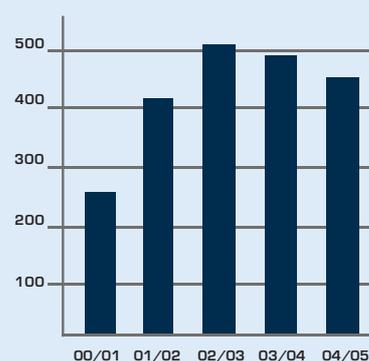
Secure communication systems

- Sectra has strengthened its role as a leading encryption provider to the Swedish defense forces through orders for products for the future Swedish military's new communication systems.
- The Dutch government has ordered national adaptation of Sectra's Tiger XS personal encryption terminal. The order represents a European breakthrough for Tiger XS, and includes a number of products in the Tiger family.

| Key figures | 04/05 | 03/04 | 02/03 |
|--|-------|-------|-------|
| Orders received | 570.1 | 375.1 | 489.8 |
| Sales, MSEK | 455.9 | 495.3 | 503.4 |
| Earnings after financial items, MSEK ¹⁾ | 81.7 | 27.6 | 78.9 |
| Value added, MSEK | 300.6 | 206.9 | 239.6 |
| Profit margin, % ¹⁾ | 17.9 | 5.6 | 15.7 |
| Earnings per share, SEK ¹⁾²⁾ | 1.49 | 0.63 | 1.62 |
| Return on shareholder's equity, % | 13.1 | 5.8 | 28.7 |
| Equity ratio, % | 61.5 | 61.7 | 43.6 |
| Dividend per share, SEK, ³⁾ | 0.5 | 0.5 | 0.5 |
| No. of employees at year-end | 370 | 347 | 274 |

¹⁾ A non-recurring writedown of capitalized development costs within Sectra Mamea AB had a negative effect of SEK 70.9 million on earnings for the fiscal year 2003/2004. ²⁾ Before dilution ³⁾ Proposed for 2004/2005.

Net sales
SEK million



Sectra invests in women's health

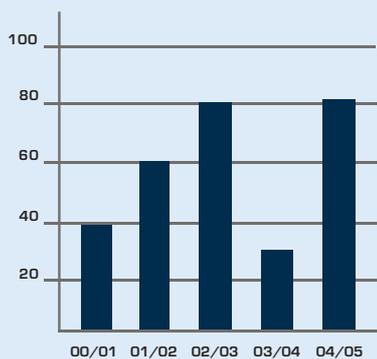
Sectra's mammography operations have progressed from the development phase to industrial production. In April 2005, Swedish Prime Minister Göran Persson dedicated Sectra's new unit for producing mammography stands. Sectra's mammography operations represent the Company's single largest future investment, and the Company intends to be one of the leading suppliers in the mammography market.

“To be able to help give people a chance to live longer and to live a good life is an effort that can only be praised, honored and supported, said Swedish Prime Minister Göran Persson in his dedication speech.”

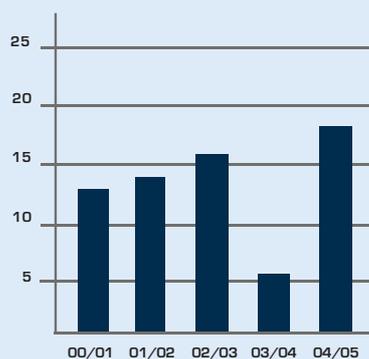


Here Assoc. Professor Mats Danielsson, inventor of the low-dose detector for mammography, tells Prime Minister Göran Persson about the development of Sectra's mammography stand, from the first prototype to today's series production.

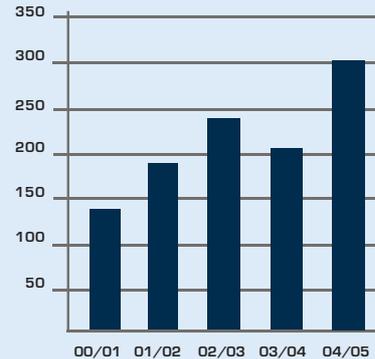
Earnings after financial items
SEK million



Profit margin
%



Value added
SEK million



The highest order bookings in the Sectra's history

Sectra is one of the leading suppliers of medical IT systems and products for protecting sensitive information. This position is the result of our long-term and goal-oriented efforts to become no. 1 within our niche markets.

Our markets continue to grow, and we can look back on a year in which we have had the highest order bookings in Sectra's history. Sales in markets outside of Sweden have increased, and we continue to report good profitability. We have continued to develop our products and expand our market offering with new products that will help to lower costs and raise productivity for our customers.

Growth in international markets

We are investing in expanding niches where Sectra can gain a position among the top actors in the world market. We are continuing to follow our strategy of gradually expanding our international operations with a focus on Europe, North America and certain parts of the Far East. Our successful cooperative relationships with global and local partners in the medical systems field have resulted in increased international sales. International sales now account for 65% of the Group's total net sales.

The increasing share of medical systems sales deriving from markets outside of Scandinavia has entailed a change in the nature of the deal involved. With direct sales, which is the model used by the Company in Scandinavia, deals generally involve total system deliveries, i.e. including both hardware and software. Sales outside of Scandinavia are made largely through partners, and mainly involve software licenses. A deal made through partners is much smaller in terms of

volume. It is also characterized by very short delivery times, high value-added and a higher contribution margin.

Good profitability

Net sales for 2004/2005 totaled SEK 455.9 million (495.3). Both of our business segments reported lower net sales than last year. The change with respect to secure communication systems is attributable to the restructuring of the Swedish defense forces, and to the fact that international billing has not yet achieved volume. The change with respect to medical systems is attributable mainly to a decrease in the number of major digitalization projects in Scandinavia, since over 90% of all the radiology departments there have now implemented digital technology, and to some extent to lower market prices for digital radiology systems.

Our average growth rate is currently 17%. We have not succeeded in achieving our growth target, i.e. average growth of 30% over a seven-year period. However, the potential for growth in our niche markets remains very strong. We are working to increase sales in markets outside of Scandinavia within both of our business segments, and our order bookings rose 52.0% to SEK 570.1 million (375.1) in 2004/2005. In the area of medical systems, we are investing in products for new niches such as women's health and orthopedics. These are niche markets with long-term growth potential where the use of medical IT

systems is tremendously beneficial. These markets are consequently expected to expand in the coming years.

Our earnings after net financial items rose to SEK 81.7 million (27.6), which corresponds to a profit margin of 17.9% (5.6). Earnings for the previous year were encumbered by a one-time write-down of SEK 70.9 million in capitalized development costs for the acquired operations in Sectra Mamea AB. These operations were consolidated within the Sectra Group as of April 2004. Excluding Sectra Mamea AB, earnings after financial items for comparable units totaled SEK 117.0 million (98.5).

Our medical systems segment continues to achieve good profitability, even given our heavy investments in the mammography field. Secure communication systems posted a negative result, mainly because of the investments we have made in order to grow internationally. Our investments in new geographic markets initially entail higher costs, but shall have the potential to generate profits within two to three years, and to yield a solid return over the long term.

Medical systems grow internationally

Medical systems comprise Sectra's biggest business segment, accounting for 86% of the Group's total net sales. Over 30 million radiology examinations are performed each year



using the Company's systems, making Sectra one of the world's leading suppliers of digital systems for managing radiology images.

The number of radiology departments using our system increased roughly 30% during the fiscal year, from some 500 to over 650. The greatest number of new installations occurred in the U.S., which is the world's biggest market for medical IT, and one of the fastest growing. The largest share of Sectra's digital radiology systems are currently installed in North America.

We have a strong position in Scandinavia, which is one of the most highly developed markets for digital radiology. Penetration of digital radiology systems is estimated at roughly 25% in the U.S.. The corresponding figures for countries such as Great Britain, Spain and France are believed to be substantially lower. These countries will be switching over to digital systems at an ever-increasing rate, which means that the market for medical systems will continue to grow.

The British government's commitment to introducing IT in healthcare will make Great Britain one of the biggest markets for medical IT in the years ahead. We have, in cooperation with Philips Medical Systems Nederland B.V., been appointed to supply PACS (Picture Archiving and Communication System) to public hospitals in the London area. Under a 10-year contract signed in 2004/2005, we will be the exclusive Philips software subcontractor for digital radiology systems for this region.

Major investment in women's health

One of our biggest investments is in the mammography field, where we progressed from the development phase to industrial



production of digital mammography systems during the year. Efforts to introduce our mammography system in Northern Europe are starting to bear fruit, and we have sold systems in Sweden, Germany and Ireland. The mammography system is currently under evaluation with respect to meeting the requirements for sale in Great Britain and the U.S.. The system has successfully met the technical and safety requirements in Great Britain, and the final phase of the evaluation process has begun. Clinical studies have begun in the American market. Our goal is for this segment to account for a significant share of Sectra's total operations within a few years.

Orthopedics clinics improve care using digital technology

Orthopedists comprise a field of specialization that uses radiology images extensively. Advances in joint surgery combined with longer life spans have led to a pronounced increase in hip and knee replacement surgeries. The use of digital systems remains relatively limited in orthopedics departments throughout the world, and the market for orthopedics-specific applications has major growth potential.

We have invested in developing products that will meet orthopedists' demand for digital radiology image-management systems. The



requirements in this field differ to some extent from those set by radiologists, as a result of which we have established a product division in Denmark that is dedicated to developing orthopedics-specific applications. Our system can help to lower costs, increase productivity and improve the care provided to patients. With a number of successful installations plus products developed in cooperation with leading orthopedists, we are ready to meet the increasing future demand in this field.

Our market-leading position in Scandinavia, combined with our strategic partners, provides a strong platform for continued international expansion.

The market for secure communications is growing

I touched last year on the restructuring efforts that are under way within both the Swedish defense forces, which is one of our oldest and biggest customers, and other defense forces around the world. Information management is a very important element in these new, smaller and more efficient defense structures, which means that the need for new communication systems is growing. Strong security solutions are needed to protect information transfers in these systems.

Increased international cooperation has opened up the international defense and government agency market for Sectra, and our

investments to increase our international sales are starting to pay off. For instance, during the fiscal year our encryption products gained security certification in a number of countries, and new defense organizations and government agencies have put our Tiger products into service. This demonstrates an increased international interest in our communication solutions.

New development projects from the Swedish defense forces

The Swedish defense market was in a holding pattern during the fiscal year, pending a resolution regarding the new orientation of the Swedish defense forces, which was adopted in December 2004. The resolution has resulted in cutbacks in personnel and military units.

In 2004/2005 we landed a number of new contracts to develop and deliver products that will be part of the Swedish military's future communication system. The Swedish 2004 defense resolution and increased cooperation among the countries of the EU will result in a growing market for Sectra. With our cost-effective products that can be adapted to meet

national and international security requirements and our strong core competence in encryption, we are well equipped to grow in the European market.

Continued focus on profitable growth

The products and system solutions that Sectra is developing target markets with strong growth potential. Our presence in the international market is growing through our establishment of new offices in selected markets, and through our partners worldwide. Our market-leading position in Scandinavia, combined with our strategic partners, provides a strong platform for continued international expansion. I believe that the niche markets in which we operate will increase in volume over the next ten years, offering opportunities for good growth in the future as well.

Finally, I would like to thank all our employees who, through their tremendous efforts, have contributed to yet another highly successful year for Sectra.

Linköping, May 2005

Jan-Olof Brüer
President and Group CEO

Vision, goals and strategies

Sectra's vision is to be the world market-leader in selected niche markets. By developing and delivering systems and products that create long-term added value for its customers, Sectra can help innovative technology to benefit as many people as possible.

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

With a focus on cost control and profitability, innovative technology, highly skilled and committed employees, a sound internal social climate, close and long-term cooperation with customers and partners and its openness to new opportunities, Sectra is working to achieve the goals that the company has set for itself.

Goals

Overall goals

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

Growth goal

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

Financial and ownership-related goals

- To achieve a profit margin of 10%
- To maintain a stable financial status
- To ensure long-term appreciation of the share price

- To finance new development projects together with customers or partners in order to ensure that all development work is guided by commercial value-added needs
- To work long-term with strategic and complementary partners to reach a broader geographic market and expand our product offering to customers

Strategies

Sectra's overall strategies may be summarized as follows:

- To work together with the most qualified customers to ensure that our systems and products meet the market's strictest requirements in terms of performance, quality and user-friendliness
- To offer our customers products and systems that create unique added value and contribute to increasing their productivity
- To recruit and cultivate highly qualified employees
- To focus on areas where Sectra has core competence, and to outsource anything that is not a core technology and/or an area of strategic expertise in order to make the company's deals highly flexible and scalable

Cutting-edge solutions in expanding niches

Sectra develops and sells high-technology systems and products in expanding niche segments. Current operations include medical systems and secure communication systems, niches in which Sectra has the potential to become the world leader.

Sectra has approximately 370 employees in eight countries, and the company’s products are used by customers all around the world. The combination of business areas enables Sectra to offer its customers, employees, cooperative partners and shareholders the long-term security and stability of a major company. At the same time, Sectra’s organization preserves and protects the advantages of a smaller company, such as proximity and sensitivity to customer needs.

Organization

The two business operations are conducted in the wholly-owned Swedish subsidiaries Sectra Intec AB (medical systems) and Sectra Communications AB (secure communication systems). These companies have, in turn, a number of subsidiaries and offices throughout the world.

Sales strategy

Sectra’s business model is based on direct sales to end customers in Scandinavia, and in selected markets. Outside of Scandinavia, Sectra works in cooperation with global and local partners. Sectra has established offices in a number of countries, mainly to support partners in their sales activities.

Profitable growth

Sectra’s niche markets have major growth potential, and the goal is to achieve average annual growth of 30% over a seven-year period. The growth rate over the last seven years has been 17%, and this expansion has occurred both organically and through acquisitions. Sectra is growing profitably, and the company has achieved profit margins of 6–18% over the same period of time.

Cost control and a focus on profitability are two of Sectra’s outstanding characteristics. There is a high level of cost-consciousness within the company, and the company’s employees strive to be prudent with both Sectra’s and customers’ money at all times.

Research and development

The company’s development strategy is for customers’ needs, combined with Sectra’s knowledge of emerging technology trends, to drive technological advances and product renovation. As a result, Sectra strives to ensure end-user participation in all product development. User groups, continuous training and personal contacts ensure that Sectra’s systems contribute to meeting the demands of the market. Customer insight into how technology can best be utilized, combined with the

| | Business segments | Geographical markets | Net sales and operating profit |
|--------|--|---|---|
| Sectra |  Medical systems | Europe, North America, Australia and Asia | SEK 392.1 million SEK 59.0 million |
| |  Secure communication systems | Europe and NATO | SEK 63.4 million loss SEK 15.5 million |

employees' know-how within each market segment and the company's close ties to research, have resulted in advanced products that offer unique technical solutions, high quality and strong user-friendliness.

Sectra is open to new opportunities, and has consequently contributed to pushing forward the boundaries of the technology fields in which the company is engaged. Sectra works in cooperation with a number of universities and research centers in order to be able to offer systems that are based on the very latest technology. One example is the Center for Medical Image Science and Visualization (CMIV) at Linköping University, whose research is focused on ways that digital radiology can make the work of radiologists and other physicians easier.

Service – an important part of the product offering

Service, training and upgrades comprise an important part of Sectra's product offering, so that the customers can derive maximum benefit from their investments, and have the opportunity to develop their operations with Sectra's systems. The customers are offered different types of service packages, such as full-service and upgrade agreements.

Sectra's customers, and particularly those in the healthcare field, have strict requirements in terms of access to service and support. Sectra provides round-the-clock service from its offices or, when necessary, on site at the customer. Some 20 of Sectra's employees have a pilot's license, which makes it easier to provide on-site service at the customer.

Quality awareness

Quality awareness is an integral part of all of Sectra's operations. Methods and tools are designed to ensure high quality in the company's products and services. All of Sectra business operations are certified under ISO 9001:2000 and TickIT.

The company's products are subject to industry-specific regulations and requirements. Sectra's medical systems meet the European requirements for CE marking, Medical Devices Directive 93/42/EEC, while the products that are installed in the North American market are approved by the FDA (Food and Drug Administration). Sectra's security products are designed in accordance with international security standards ITSEC (Information Technology Security Evaluation Criteria) and Common Criteria.

Patents and trademarks

Building and protecting our brand and safeguarding the company's intellectual property are a part of Sectra's business development strategy. This protection covers patents, trademarks and registered Internet domain names. Sectra's trademark portfolio includes some 10 registered trademarks, and the company holds approximately 20 patents.

Environmental considerations

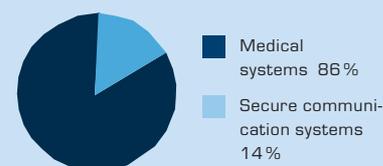
Environmental considerations are important, and Sectra is working to limit the environmental impact of its operations and products. This means that any decisions that may affect the environment are made based on what is ecological justified, technically feasible and financial reasonable.

Sectra develops and sells mainly software and, to a lesser extent, physical products. The company's activities are not subject to license

or reporting requirements under the Swedish Environmental Code. Both the company's products and the actual production processes have little environmental impact. Sectra began in-house production of mammography equipment at the end of the fiscal year, in connection with which a project has been started to map the environmental impact of this in-house activity.

The digital radiology systems that Sectra develops offer major advantages from an environmental standpoint. The implementation of digital technology contributes to reducing the use of film and chemicals, which has a heavy environmental impact.

Net sales by geographical market



Net sales by business segment



¹⁾ Philips Medical Systems' global deliveries of Sectra's digital radiology systems are invoiced to Philips in the Netherlands, and reported as sales under "Rest of Europe".

Medical systems

With more than 650 installations around the globe performing over 30 million radiology examinations a year, Sectra is one of the world's leading suppliers of digital image management systems to healthcare providers.

Sectra's medical systems operations are conducted through the wholly owned subsidiary Sectra Imtec AB, with a focus on digital image management and information systems for hospitals and radiology clinics. Sectra's offering includes products for film-free radiology operations, women's health and orthopedics. For more than 15 years, Sectra has been developing medical IT solutions – always with the need for modular design and flexible capabilities in mind – and the products ensure scalability and integration with other IT systems used in the hospital environment. Customers include both public and private healthcare providers worldwide.

With headquarters in Linköping, Sweden, Sectra Imtec is established in numerous markets, with offices in Norway,

Denmark, Germany, Italy, the U.S., U.K. and Australia. In addition to direct sales operations, Sectra sells through global and local business partners, which has resulted in major sales successes. Today the largest number of Sectra's systems are installed in North America.

Improving women's health

Early detection of breast cancer saves lives, and Sectra has developed a digital low-dose mammography system dedicated to improving women's health. The investments to introduce the system in Northern Europe are starting to pay off. During the fiscal year, Sectra has sold its mammography system in Sweden, Germany and Ireland.

Sectra's mammography operations have moved from development into industrial production. The new facilities in Stockholm include dedicated assembly and testing areas to enable industrial production of mammography stands and ramp up volumes. The mammography operations represent the company's major future-oriented investment. Marketing and sales channels are being established and strengthened, and Sectra aims to be one of the leading suppliers on the mammography market within the next two to four years.

Like breast cancer, osteoporosis is a disease that affects many women. Osteoporosis is considered to be one of the most costly diseases in the world, and early detection is essential to preventing its progression.



Benefits of digital image management systems

The use of digital image management offers major benefits to healthcare providers such as:

- Increased efficiency and effectiveness combined with improved image quality.
- Elimination of costs associated with printing, storing, handling and archiving film.
- Elimination of use of environmentally harmful chemicals and films.

- Access to images and information at any time throughout the entire hospital network.
- Improved service to the radiology department customers.

Altogether, an increased efficiency of the general workflow can be achieved, which in turn helps ensure faster responses and better service for the patient.



“Our business concept is to increase effectiveness of healthcare, while maintaining or increasing quality in patient care.”

Torbjörn Kronander, President Sectra Imtec AB

Sectra offers an efficient tool for measuring bone mass, and a combination of this product and Sectra's mammography system was launched during the fiscal year. The new product enables a unique capability to perform osteoporosis testing in connection with a mammography examination, which represents a highly cost-effective solution from the caregiver's perspective.

Efficient tools meeting new demands in healthcare

Sectra is continuously developing its product portfolio to meet the demand for efficient tools corresponding to the customer's needs of today and tomorrow. For example, Sectra has developed a 3D visualization tool that enables physicians to efficiently perform diagnostics reviews on large image volumes generated by new modalities such as multi-detector CT and MRI that produce hundreds of images per study.

Sectra's strategy of offering cutting-edge products also includes close cooperation with universities and research centers, such as the Center for Medical Image Science and Visualization (CMIV) at Linköping University. An ongoing research project together with CMIV is addressing the need for handling the increasing data volumes generated by today's radiology operations.

MARKET TRENDS

The proportion of elderly people is increasing in the industrial world, a trend that is resulting in rising healthcare costs. New technology is needed to increase efficiency in healthcare operations while maintaining quality in patient care. Studies have shown that switching from traditional film-based radiology to digitized operations may increase efficiency up to 30 % while keeping a constant workforce. Consequently, the market for medical systems continues to grow, with many hospitals moving to film-free operations.

Integration – making healthcare more efficient

Along with the need for increased efficiency and quality of patient care comes increasing demand for complete solutions that integrate all medical specialties into a single platform. Sectra is focused on continued development of its core products in order to provide healthcare specialists with clinical applications for everyday use. Examples include an orthopedic templating application and an analysis package for cardiovascular imaging.

In order to expand its offering of clinical applications, Sectra has built up a network of developers with cutting-edge expertise in specialized fields. Sectra's products enable smooth integration of applications developed by third-party vendors and, through the network, Sectra's customers gain access to a broad array of clinical applications such as computer-aided cancer detection, virtual colonoscopy and voice recognition.



Film free radiology

Sectra's products for film-free radiology include systems for managing and archiving digital radiology images and patient information. Included in the portfolio are also several clinical applications developed to meet the physician's individual needs.



Women's health

Sectra's digital mammography system and tools for osteoporosis testing are products dedicated to improve women's health. The system's efficient workflow and high productivity lower the cost of mammography operations.



Orthopedic solutions

Extending the value of digital radiology, Sectra offers products that enable orthopedic surgeons to improve productivity and patient care.



MARKET POTENTIAL

The market potential for Sectra's product segments can be determined by population size. The number of medical radiology examinations performed per capita and year varies from between 0.6 and 1.3 when comparing countries in the industrial world. Consequently, the size of the population provides a reasonable estimate of the size of a market from a digital radiology perspective.

Sectra has over 650 installations around the globe performing more than 30 million radiology examinations per year. With a market-leading position in Scandinavia and strong worldwide partnerships, Sectra has a solid base for continued international expansion.

The market for film-free radiology

Scandinavia is currently one of the most advanced markets for digital radiology, with about 90% of radiology departments being film-free. In the U.S. penetration of PACS (Picture Archiving and Communication System) is estimated at about 25%. In Germany, the penetration is estimated to be approximately 20%, and significantly lower in countries such as the U.K., Spain and France. It is a fair assumption that these countries will follow the Scandinavian model and move from film to digital radiology at an accelerating rate of penetration.

Scandinavia – a market in a leading position

In Scandinavia there are roughly 250 hospitals and private radiology clinics that perform a total of some 13 million radiology examinations each year. With a market share of more than 50% Sectra has a leading position in the Scandinavian market. This position, in

Successful use of Sectra's mammography system

Customers in Sweden, Germany and Ireland are currently using Sectra's digital mammography stand. One of Sectra's new customers is Praxisgemeinschaft in Kapuzinerkarree, a large private radiology institute in Aachen, Germany. The institute is committed to high quality mammography screening, and performs more than 12,000 examinations a year. With Sectra's system, installed in December 2004, the institute offers safe and efficient screening to improve women's health.

Dr. Hardebeck, Mammography Specialist at Praxisgemeinschaft in Kapuzinerkarree says: "With Sectra's digital mammography system, we can optimize our workflow and significantly increase our throughput capacity. Today we are able to screen more than 70 women a day, which we consider as top performance".

Benefit for workflow and patient care

With Sectra's leading orthopedic products, surgeons can take advantage of digital technology to reduce costs, increase speed and workflow efficiency, and improve the accuracy of the pre-operative planning process.

Tri-State Orthopaedic Surgeons, Inc. (Tri-State) in Evansville, Indiana is one of the

customers using Sectra's orthopedic products. Tri-state is one of the largest orthopedic facilities in the U.S. With the way that medical imaging is integrated into the diagnosis and treatment of orthopedic trauma and disease, and the resulting benefits on workflow and patient care, Tri-State has become a model for orthopedic practices in the 21st century.

Phillip Stiver, MD at Tri-State says: "We chose Sectra and its orthopedic PACS solution due to their ability to customize and enhance workflow, for its established architectural stability and proven operational outcomes in demanding installations, and for its advanced digital orthopedic preoperative planning tools".

combination with the focus on long-term customer relationships, is creating opportunities for new contracts to maintain and upgrade existing systems, and for selling additional products and applications.

During 2004/2005, new and existing Scandinavian customers have showed confidence in Sectra. The use of digital radiology systems rewards regional cooperation, and several hospital trusts have placed orders for further digitization to increase and simplify collaboration and information exchange between hospitals in their region.

The U.S. – a fast-growing market for medical IT

With more than 6,000 hospitals and 3,000 outpatient imaging centers performing some 380 million radiology examinations per year, the U.S. radiology market is one of the largest PACS markets in the world. Sectra's strategy is to work in cooperation with partners to provide innovative solutions for the business and clinical challenges faced by U.S. healthcare providers. This has proven to be a successful strategy, and the number of installed Sectra systems in the U.S. has increased with approximately 35% during the fiscal year.

Healthcare IT project in the U.K.

On an initiative from the British government, a national project for bringing IT into the healthcare sector is under way. Consequently, the U.K. will be one of the largest markets for medical IT in the years ahead. Sectra has signed a 10-year contract with Philips Medical Systems Nederland B.V. to deliver PACS software to public hospitals in London. Sectra will be an exclusive subcontractor to Philips,

which has been chosen to supply PACS to this region.

During the fiscal year Sectra extended its radiology information system (RIS) offering to the U.K. market. Through the successful adoption of RIS to the U.K. market, Sectra can meet British customers' demand for a fully integrated radiology IT solution. The first installation of Sectra's integrated radiology IT solution (RIS/PACS) outside Scandinavia was made in Scotland. Due to national differences in healthcare structure, Sectra RIS is only available in Scandinavia, the U.K. and Ireland, which are markets with similar healthcare organizations. Outside these markets, Sectra is working in cooperation with local RIS companies.

The mammography market

Mammography is the second most prevalent type of medical radiology examination in the world and today approximately 50 million mammography examinations are performed in Europe and equally many in the U.S. Driven by technology advantages and reduced film and storage costs, a transition from film-based to digital mammography systems has begun. The transition is proceeding slowly, but is likely to pick up speed.

Today there are approximately 30,000 conventional film-based systems installed worldwide. Sectra estimates that the installed systems will be replaced at a rate of some 3,000 new systems each year. A rapidly growing share of these systems will be digital, indicating a major market potential.

Sectra provides a mammography system that benefits both women and mammography operations. The system entails the lowest radiation dose on the international market,

which is an important factor in mammography screening, where large numbers of healthy patients are examined. The system's high throughput, customized workflow and good ergonomics lower the costs to medical services and contribute to a better working environment.

Expanding screening programs

The World Health Organization (WHO) believes that early detection of cancer increases the chances of successful treatment, and emphasizes screening and education as two important components. WHO has a strong desire to expand screening programs at the same rate at which countries around the world develops. The European parliament passed a resolution on breast cancer in June 2003. The resolution put additional pressure on the EU member countries to introduce mammography programs.

Orthopedic market

Orthopedic surgeons are among the biggest users of radiology examinations. Advancements over the past decade in surgical joint replacement and repair techniques, coupled with an aging population, have led to a significant increase in the number of annual joint replacement surgeries performed. Adopting digital technology is becoming a requirement in orthopedics in order to reduce costs, increase productivity, enhance diagnostic capabilities and improve overall patient care. The transition to digital technology has started, but the penetration of digital image management systems in the orthopedic sector is still low worldwide.

Orthopedic surgeons have different demands in terms of imaging functionality

than radiologists. Consequently, Sectra has a dedicated product division in Denmark for multiple orthopedic-specific applications. The products are developed in conjunction with leading orthopedic surgeons, and are aimed at helping the orthopedic surgeon increase the speed and accuracy of the pre-operative planning process.

U.S. orthopedic clinics are going digital

In the U.S. healthcare market, there are an estimated 6,000 – 8,000 private orthopedic clinics. As the U.S. healthcare system continues to change in order to deal with the increasing costs, private orthopedic surgeons must increase the efficiency of their practices. The increased demand for orthopedic procedures and changing levels of reimbursement makes this market ripe for conversion to digital operations.

With a number of successful installations in U.S. orthopedic clinics, Sectra is well equipped to meet the American market's

growing demand for orthopedics-specific applications.

Market actors

Globally, the actors in film-free radiology consist of a few larger companies, primarily film companies like Agfa, Kodak and Fuji, and modality companies such as Philips, Siemens and General Electric. Locally, several medium-sized software companies and dedicated PACS companies like Sectra can be found. Some of the actors in the mammography segment are the same as in the film-free radiology market, mainly modality companies. But there are also some dedicated mammography companies like Fischer Imaging and Hologic.

Sectra's main advantage is its ability to adapt to meet market demands for efficient workflow and complete image management solutions that are easily deployed and integrated throughout the enterprise.

FINANCIAL DEVELOPMENT

During the fiscal year 2004/2005, Sectra has continued to develop its medical systems operations both internationally and in Scandinavia.

Strong profitability

Medical systems net sales for the fiscal year totaled SEK 392.1 million compared with SEK 418.4 million the preceding year. The bulk of the net sales derives from software licenses issued to film-free radiology departments. The change in net sales compared with the preceding year is mainly due to fewer major digitization projects at radiology departments in Scandinavia. Net sales were also impacted by lower prices for digital radiology systems.

The international net sales has increased and the largest number of new installations of Sectra systems was in the U.S.. As the number of installations increases, revenue from addi-



Torbjörn Andersson, MD,
PhD Professor of Radiology
Head of Division of Radiology and
Hospital Physics Örebro University
Hospital, Sweden.

Örebro University Hospital – a decade with Sectra PACS

Sectra's strategy is to work closely and long-term with its customers, and Örebro University Hospital in Sweden represents one of Sectra's long-term customers. The hospital's digitization project started in 1995, with the aim of digitizing all radiological imaging within the region's five radiology departments.

Performing more than 200,000 radiology examinations a year, Örebro County is one of the largest film-free areas in Europe.

Professor Torbjörn Andersson, at Örebro University Hospital says: "Sectra has involved us in their development process, thus giving us opportunities to influence the products. We feel that our close cooperation is beneficial for both parties. Together with Sectra, we are prepared to meet the challenges we encounter in our radiology operations, today and tomorrow."

tional sales and from service and upgrade agreements is also growing.

The increasing sales in markets outside Scandinavia imply a change in the nature of business. In the case of direct sales, which is the model the company uses in Scandinavia, a sale normally encompasses complete system deliveries including both software and hardware. Sales outside Scandinavia normally take place via partners and consist exclusively of software licenses. Transactions via partners are considerably smaller in volume terms. At the same time, they generally have very short delivery times, a high degree of value added and a higher contribution margin.

Medical system shows strong profitability. Operating profit for the fiscal year increased to SEK 59.0 million (0.0), which corresponds to an operating margin of 15%. The operating profit for 2004/2005 was affected positively by increased international license sales, which are the result of Sectra's

successful cooperative arrangements with global and local partners. Operating profit for the preceding year included a non-recurring write-down of SEK 70.9 million in capitalized development costs for Sectra Mamea AB. Excluding the acquired operations Sectra Mamea AB, the operating profit for comparable units was SEK 94.3 million compared with SEK 70.9 million the preceding year.

FUTURE PROSPECTS

The market for radiology IT systems is in a strong growth phase. With a proven PACS solution and a strong portfolio of clinical applications being continuously developed to meet the physician's individual needs, Sectra is well positioned in the growing healthcare market.

In the mammography area, digital solutions are beginning to be adopted. Sectra's mammography system has continued to receive great interest from the market, and

Sectra is investing in marketing and sales all over Europe. An FDA (Food and Drug Administration) evaluation is in progress, and approval will open up the U.S. mammography market. Sectra's goal is to establish itself as a leading supplier in the mammography area.

Orthopedic surgeons are another group of healthcare professionals that have started to take advantage of the digital technology. With more than 15 years in the PACS industry and dedicated orthopedic solutions, Sectra is well prepared to grow in this segment.

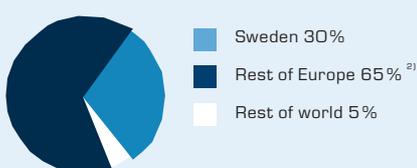
Sectra has a strong technology platform. The products and system solutions that Sectra develops are aimed at markets with high growth potential. The company's strong position in its home market combined with worldwide strategic partnerships provides a solid platform for continued international expansion.

Key figures

| | 04/05 | 03/04 |
|---|-------|-------|
| Net sales, SEK million | 392.1 | 418.4 |
| Operating profit, SEK million ¹⁾ | 59.0 | 0.0 |
| No. of employees | 293 | 260 |

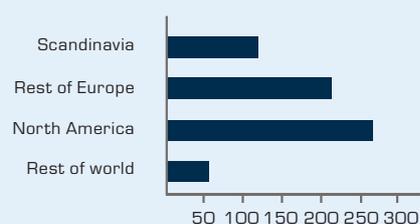
¹⁾ A non-recurring write-down of capitalized development costs within Sectra Mamea AB had a negative effect of SEK 70.9 million on operating profit for the 2003/2004 fiscal year.

Net sales by geographic market



²⁾ Philips Medical Systems' global deliveries of Sectra's digital radiology systems are invoiced to Philips in the Netherlands, and reported as sales under "Rest of Europe".

Number of installations



Secure Communication Systems

With unique expertise in encryption, and products that are being used by defense departments and government agencies in a number of European countries, Sectra is one of the leaders in designing and developing secure communication systems.

Sectra's secure communication systems operations are conducted through a wholly-owned subsidiary, Sectra Communications AB, and are geared toward systems and products for secure mobile communications, network security and tactical radio systems. These products are developed in cooperation with defense customers and meet the very strictest security requirements. The customers comprise defense departments and public and government agencies in Europe and within NATO.

Sectra is the market leader in Sweden in providing secure communication and information management systems to the military. Sectra is committed to increasing international sales and, outside of Sweden, Sectra Communications has an office in Great

Britain. In addition to direct sales, Sectra also cooperates with partners in selected markets.

Tiger family expands

Defense departments and government agencies have a strong need for products that facilitate the exchange of valuable and sensitive information, regardless of whether it is transmitted from a desktop phone at a workplace, from a mobile phone or from a tactical radio in the field. To meet this demand, Sectra has developed Tiger, a family of products that enable secure communication of voice and data.

Sectra launched two new Tiger products during the fiscal year; the Tiger XS Office desktop telephone, which includes secure fax

transmission and is a modern replacement for current fixed encryption telephones, and Tiger XS Conference, which enables secure teleconferencing. The Tiger products function in many different types of communication networks, and can be adapted to new communication technologies and changing security requirements.

European breakthrough for Tiger XS

Different countries have different requirements in terms of protecting sensitive information, and Sectra's products can be cost-effectively adapted for new markets and national security requirements. The Dutch government is one new customer that has



Tiger XS – secure communication when you need it

Tiger XS is a personal encryption unit that is used to protect voice and data communication. The unit works in different types of communication networks, thereby increasing user flexibility and facilitating the exchange of sensitive information.

Tiger XS is part of a family of products that meet the very strictest security requirements, and has been approved by numerous national security and accrediting bodies in Europe and NATO. The Tiger family includes products for office environments, mobile and radio communications, and systems for managing user groups and encryption keys.



Our business concept is to be the leading supplier of secure communication systems to defense and government agency customers.

Tommy Waszkiewicz, President Sectra Communications AB

chosen to adapt Sectra's Tiger products to meet its national requirements.

The agreement with the Dutch government represents an European breakthrough for the Tiger XS personal encryption unit, and represents one of Sectra Communication's biggest orders outside of Sweden. The order comprises an adaptation project plus a five-year framework agreement for the delivery of Tiger XS, Tiger XS Office and other products and services from the Tiger family to the Dutch government.

Cooperation with British government

During the year, Sectra's subsidiary in Cheltenham worked to market and sell security products in the British market, which is one of the biggest defense and government agency markets in Europe. One of the first projects assigned by the British government was to develop a security pouch for mobile telephones, Sectra Radio Blocker. The pouch

improves security and efficiency for those who need to take mobile telephones into areas where radio transmitters are not permitted.

The product was developed in cooperation with the British information security authority, CESG (Communications-Electronics Security Group). Sectra Radio Blocker was delivered to the British defense department and Government Communications Headquarters during the fiscal year.

Leading encryption supplier for future defense

Orders from the Swedish Defense Materiel Administration to develop and deliver secure communication products for tactical environments and a new generation of encryption modules in 2004/2005 have bolstered Sectra's position as a leading supplier of communication encryption products to the Swedish defense forces.

The orders for new products for tactical environments pertain to a new generation of

modems for encrypting data communications in various telecom networks, and to the development and serial delivery of mobile voice-encryption equipment to safeguard tactical radio communications. The new encryption module, which will handle the most security-critical parts of the military's encryption system, is the first in a new family of encryption modules intended to meet the future needs of the Swedish defense forces.

MARKET TRENDS

Defense departments in many parts of the world are being restructured. The trend is moving away from traditional investment in weapons and personnel toward an entirely new defense structure in which situation-adapted rapid reaction forces and network-based IT are important cornerstones. Public agencies, organizations and governments are also becoming increasingly aware of the need to be able to protect sensitive information against eavesdropping.



Secure mobile communication

With Tiger, Sectra offers a family of products and systems to protect mobile and fixed voice and data communications against eavesdropping. These products can be adapted to meet different national and international requirements cost-effectively.



Network security

Customers contract Sectra to develop and deliver products that use encryption to protect traffic on different networks. These projects encompass the entire security chain, from security-critical encryption modules to entire systems.



Sectra's products are being used by defense departments and government agencies in a number of European countries, and by NATO's central organization and US European Command (US EUCOM).

International adaptation

The trend toward a more global mindset continues, as the boundaries between military and civil threat scenarios blur. Various international cooperative settlements have been initiated between militaries and government agencies so that countries can offer common defense against, e.g. terrorist attacks. Protection of the homeland remains important, but more and more international initiatives are being undertaken.

Secure communications must function between cooperating militaries and government agencies when they are conducting joint operations. This imposes heavy demands in terms of interoperability and the capacity for international adaptation when it comes to designing and manufacturing secure communication products. To meet these demands, Sectra is developing products and systems that work in different communication networks. Their modular design enables these products to be adapted to meet different national and international requirements.

European Defense Agency

The newly established European Defense Agency (EDA) is an example of a common cooperative defense initiative. The EDA was established to develop the EU's crisis-management capacity, and one of its missions is to ensure that the EU's rapid reaction forces are equipped with the right types of materiel. It must be possible to send these forces out on short notice in order to stabilize the situation in a conflict zone, with subsequent follow-up by different types of forces, e.g. peacekeeping forces and/or civilian crisis-management forces.

The EU forces must begin to function to a limited extent as of 2005, and are to reach full capacity as of 2007. From Sectra's standpoint, the establishment of the EDA will create growth in the European market for military communication systems.

MARKET POTENTIAL

The commitments to and investments in new defense structures within the Swedish military and internationally, combined with the increasing prevalence of cooperative projects between the militaries and government agencies of various countries are predicated on the integration of security solutions into these communication structures. This creates major potential for secure communication systems.

Sectra's products are being used by defense departments and government agencies in a number of European countries, and by NATO's central organization and US European Command (US EUCOM). With its market-leading position in Sweden in military communication security and its strong core competence in encryption and radio design, Sectra is well positioned to continue to expand internationally.

The Swedish defense market

The Swedish defense debate during the year was dominated by the parliament's resolution in December 2004 concerning the direction to be taken by the Swedish Defense Forces in 2005–2007. The resolution will mean severe cutbacks in personnel and military units. The resolution will also entail a step toward an international rapid reaction defense force.

From Sectra's standpoint, the defense resolution will create a bigger market for

secure communication products. In 2004/2005 the Swedish defense forces have assigned Sectra a number of new development projects, and secure communication systems will be involved in many future defense investments.

The international market

Increased cooperation between countries has opened up the international defense department and government agency market for Sectra. Sectra's Tiger products have garnered international attention, and Sectra is currently the leading supplier of secure mobile communication systems to the defense department and government agency market in Europe.

Sectra has obtained security certification for Tiger XS in numerous countries, and new defense organizations and government agencies began using Sectra's Tiger products during the fiscal year. Together with the cooperative project with the British information security authority, this demonstrates the increased international interest in Sectra's communication solutions.

Market actors

Sectra's competition in the world market consists of major international IT/electronics companies such as Rohde & Schwarz and General Dynamics, for whom communication security is a minor secondary area of activity, as well as specialized security companies in defined geographic markets.

Sectra has been supplying the Swedish defense forces and government agencies with secure communication systems for over 20 years. The company has built up a strong technology platform and expertise that covers

everything from designing individual security components to integrating entire systems. Sectra's strength derives both from flexible products that work in different types of communication networks and the fact that these products meet users' needs for secure communication and can be adapted to meet different security requirements cost-effectively.

FINANCIAL DEVELOPMENT

Sectra's commitment to increasing international sales has paid dividends in 2004/2005 in the form of orders from new European customers. The focus on new markets within secure communication systems entails an initial cost increase but has the potential to become profitable within two to three years and yield a good return in the longer term.

Commitment to international growth

For fiscal year 2004/2005 secure communication systems net sales totaled SEK 63.4 million

compared with SEK 72.5 million the preceding year. The bulk of the net sales derive from development projects and customer-specific products. The secure communications segment generated an operating loss of SEK 15.5 million compared to an operating profit of SEK 0.2 million the preceding year.

Markets outside of Sweden account for 40% of the net sales. International sales have not reached expected levels and Sectra's market investments in international growth contributed to the loss. Earnings were also affected by a lower volume of orders for existing products and the Swedish defense market postponing the procurement of new development projects.

OUTLOOK

Agencies, organizations and governments are becoming increasingly aware of the need to protect sensitive information against eavesdropping, and information management constitutes a very important element in the new defense structures. The restructuring

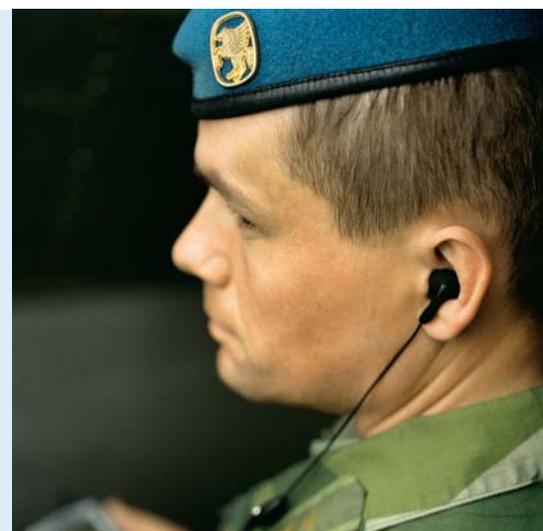
that is under way within both the Swedish defense forces and other military organizations around the world is increasing the demand for new communication systems. Strong security solutions are needed to safeguard the transfer of information in these systems. The Swedish defense resolution of 2004 and increased cooperation between countries will create a bigger market for Sectra.

Sectra provides products and systems that can be adapted to meet current and future requirements for secure communication. With its adaptable products and strong core competence in encryption and radio design, Sectra is well positioned to continue to grow in the European market.

Key figures

| | 04/05 | 03/04 |
|-------------------------------|-------|-------|
| Net sales, SEK million | 63.4 | 72.5 |
| Operating profit, SEK million | -15.5 | 0.2 |
| No. of employees | 58 | 62 |

Net sales by geographic market



Expertise and commitment contribute to success

Sectra's employees are its most important resource, and the company's success is the direct result of their expertise and commitment. Solid experience, cutting-edge expertise and a sound grasp of our customers' operations are essential to meeting customer needs.

Sectra has offices in eight countries, with customers mainly in Europe and North America, but also in Asia and Australia. This gives Sectra employees an opportunity to work and grow in an international environment.

Expertise, education and training

As of year-end, Sectra had 370 permanent employees and an additional 30 individuals employed on a project-basis. The majority of Sectra's employees hold an M.Sc. degree. Many of the employees have done post-graduate research work, and the company benefits from the contributions of four professors and 21 PhDs.

Sectra's employees have developed unique skills in the company's areas of specialization.

Sectra conducts an annual interview with each employee to review their need to develop their skills and expertise, and each employee then undergoes ongoing, individually tailored training.

The company offers university students opportunities to complete portions of their education at Sectra in the form of degree projects and practical experience.

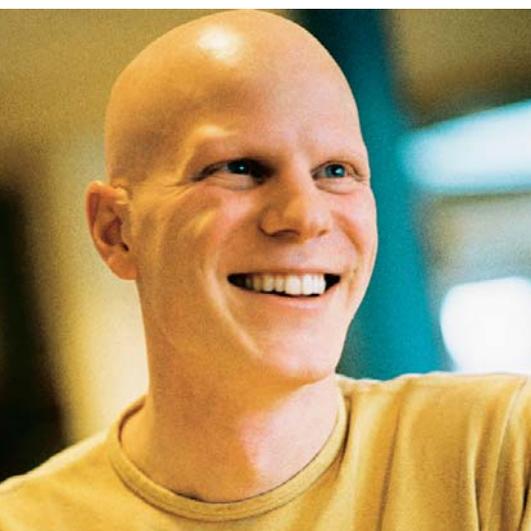
Stimulating work environment

Sectra develops high-tech products based on the latest research results, and places major emphasis on developing its employees and attracting skilled new ones. Sectra's goal is to offer a stimulating work environment that encourages creativity, personal growth and new ways of thinking.

Sectra currently has customers in over 35 countries, and the company's goal is to become the world leader in its niche markets. That is why Sectra strives to create a multicultural environment. Employees from 17 countries bring to the company their experiences from different cultures and environments, and their various language skills. These are very positive factors, both internally and in terms of the company's international contacts.

Healthy employees

Employee wellbeing is of the utmost importance at Sectra. Absence due to illness amounted to 1.7% (2.2) for the fiscal year. Sectra takes a preventive approach to the work environment and health issues by offering its employees regular health checkups and access



Key figures

| | 04/05 | 03/04 |
|------------------------------|-------|-------|
| No. of employees at year-end | 370 | 347 |
| of which women, % | 24 | 24 |
| Average age | 36 | 35 |
| Staff turnover, % | 5.4 | 2.3 |
| Absence due to illness, % | 1.7 | 2.2 |
| Value added/employee, MSEK | 0.9 | 0.7 |



Smart people know when to ask other smart people.®

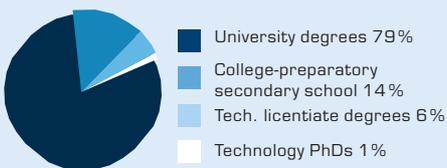
to subsidized physical activities. Sectra's health program also includes ergonomic counseling to minimize the risk of work-related injuries.

Participation in Sectra's success

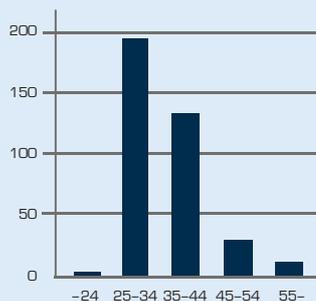
In order to strengthen employee commitment and motivation, Sectra has offered its employees opportunities over the years to participate in the company's success. In addition to traditional compensation systems, Sectra has worked systematically to spread ownership to its employees through convertible debenture and stock option programs. As a result, many of the company's employees are also part of Sectra's ownership.



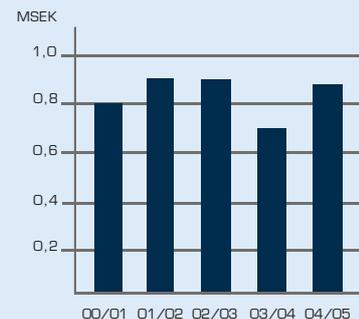
Employee education levels



Employee age distribution



Value added per employee



The Sectra share

The Sectra share's bid price was listed at SEK 74.00 (58.50) at market close on April 29, 2005, which represents a 26% increase over the fiscal year. The Stockholm Stock Exchange All-Share-index rose 11% over the same period.

Sectra's market capitalization totaled SEK 2,507 million, as compared to SEK 2,097 million at the end of the previous fiscal year. The fiscal year's highest quotation for the share was SEK 83.50 on March 8, 2005, while the lowest quotation was SEK 48.00 on September 13, 2004. Sectra's series B share has been listed on the Stockholm Stock Exchange O-list since March 1999.

Share capital

Sectra's share capital as of April 30, 2005 totaled SEK 36,528,638, divided among 36,528,638 shares. Of these shares, 2,620,692 are series A shares, while 33,907,946 are series B. 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 one series B share confers one vote at the Annual General Meeting (AGM).

Full conversion and exercise of issued incentive programs would increase the number of shares by a maximum of 781,350, which correspond to 2.1% of the share capital and 1.3% of the votes.

Issues of new shares

The AGM authorized the Board of Directors to adopt resolutions to issue new shares corresponding to a maximum of 10% of the share capital on one or more occasions during the time until the next AGM. The purpose of this is to enable issues of new shares to finance acquisitions of companies or operations, and in connection with market investments.

In order to clarify the ownership situation in Sectra Mamea AB, Sectra increased its ownership stake from 95 to 100% in June 2004. The Board of Directors exercised the authorization granted by the 2003 AGM and issued

47,387 series B shares to the sellers in payment for the acquisition.

Shareholders

The number of shareholders as of April 30, 2005 totaled 6,525, as compared to 7,245 the year before. The proportion of institutional and legal owners rose from 28 to 34%. Sectra's ten largest owners control 54.5% of the share capital and 70.1% of the votes.

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 2004, convertible debentures with a total par value of SEK 11.6 million were issued to Sectra's employees. Upon full conversion these debentures will provide Sectra with 154,800 series B shares, which correspond to 0.4% of the share capital and 0.3% of the votes. The convertible debentures mature on September 30, 2007 and have a conversion price of SEK 74.70. Similar convertible debenture plans exist; see list on following page.

Employees and board members converted debentures corresponding to 11,200 series B shares during the fiscal year at a conversion price of SEK 57.70 under the convertible loan issued in 2001/2002. SEK 17.1 million were paid back on the due date for the loan, July 1, 2004.

Employee options

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, the employees will acquire a maximum of 40,000 series B shares, corresponding to roughly 0.1% of the share capital and 0.1% of the votes. The options can be exercised on September 10-14, 2007, and have a conversion price of SEK 74.70. See the next page for a list of all outstanding employee options.

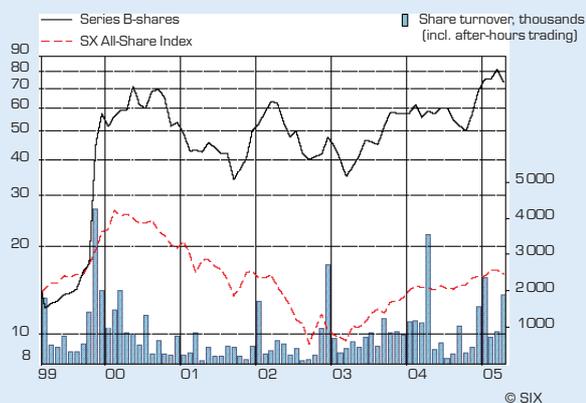
During the fiscal year, Sectra redeemed employee options issued in 2001/2002 and 2002/2003 corresponding to 54,667 series B shares at a conversion price of SEK 42, plus employee options issued in 2003/2004 corresponding to 23,333 series B shares at a conversion price of SEK 47.

Subscription warrants

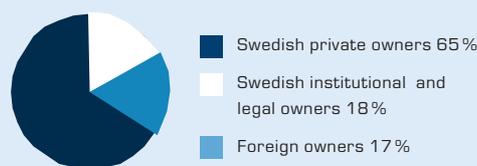
The 2004 AGM approved the Board of Director's resolution to issue a maximum of 900,000 subscription warrants to enable future payment of the additional purchase price pursuant to the purchase agreement with Sectra Mamea's founders. The warrants can be exercised through May 31, 2015; however, no warrants had been issued as of April 30, 2005. Full exercise of all the warrants to subscribe shares would increase the share capital by SEK 900,000 which corresponds to 2.5% of the share capital and 1.5% of the votes.

Repurchase of own shares

The 2004 AGM granted the Board of Directors authorization until the 2005 AGM to repurchase and divest up to 10% of the outstanding shares. The Board of Directors had not used this authorization as of April 30, 2005.



Ownership structure



Progress of share capital

| Date | Transaction | Par value | Increase in no. of shares | Total no. of share | Increase in share capital | Total share capital |
|-----------|-----------------------------|-----------|---------------------------|--------------------|---------------------------|---------------------|
| 1998/1999 | New issue at listing | 2.50 | 500 000 | 10 500 000 | 1 250 000 | 26 250 000 |
| 1999/2000 | New issue | 2.50 | 420 315 | 10 920 315 | 1 050 787 | 27 300 787 |
| 2000/2001 | Bonus issue | 3.00 | 0 | 10 920 315 | 5 460 158 | 32 760 945 |
| 2000/2001 | Split 3:1 | 1.00 | 21 840 630 | 32 760 945 | 0 | 32 760 945 |
| 2002/2003 | Redemption of conv. debts. | 1.00 | 315 566 | 33 076 511 | 315 566 | 33 076 511 |
| 2003/2004 | Redemption of empl. options | 1.00 | 75 000 | 33 151 511 | 75 000 | 33 151 511 |
| 2003/2004 | New issue | 1.00 | 2 700 000 | 35 851 511 | 2 700 000 | 35 851 511 |
| 2004/2005 | New issue | 1.00 | 540 540 | 36 392 051 | 540 540 | 36 392 051 |
| 2004/2005 | Redemption of conv. debts. | 1.00 | 11 200 | 36 403 251 | 11 200 | 36 403 251 |
| 2004/2005 | New issue | 1.00 | 47 387 | 36 450 638 | 47 387 | 36 450 638 |
| 2004/2005 | Redemption of empl. options | 1.00 | 54 667 | 36 505 305 | 54 667 | 36 505 305 |
| 2004/2005 | Redemption of empl. options | 1.00 | 23 333 | 36 528 638 | 23 333 | 36 528 638 |

Distribution of shares as of April 30, 2005

| No. of shares per shareholder | No. of share-holders | No. of shares | Votes, % | Capital, % |
|-------------------------------|----------------------|-------------------|--------------|--------------|
| 1-10 000 | 6 378 | 4 717 163 | 7.9 | 12.9 |
| 10 001-100 000 | 103 | 3 616 386 | 6.2 | 9.9 |
| 100 001-1 000 000 | 35 | 9 139 986 | 17.2 | 25.0 |
| > 1 000 000 | 9 | 19 055 103 | 68.7 | 52.2 |
| Total | 6 525 | 36 528 638 | 100.0 | 100.0 |

Convertible debentures

| | 02/03 | 03/04 | 04/05 |
|--------------------------------------|--------------------|--------------------|----------------|
| No. of underlying series B shares | 171 550 | 330 000 | 154 800 |
| Conversion price, SEK | 64.80 | 62.50 | 74.70 |
| Conversion period | 16 May-14 Jun 2005 | 16 May-14 Jun 2006 | 10-14 Sep 2007 |
| Maturity date | 1 Jul 2005 | 30 Jun 2006 | 30 Sep 2007 |
| Dilution at full conversion, capital | 0.5 % | 0.9 % | 0.4 % |

Sectra's largest shareholders as of April 30, 2005

| Shareholder | No. of | | Votes, % | Capital, % |
|--|------------------|-------------------|--------------|--------------|
| | A shares | B shares | | |
| Jan-Olof Bröder | 673 059 | 3 444 904 | 16.9 | 11.3 |
| Torbjörn Kronander | 673 057 | 3 444 901 | 16.9 | 11.3 |
| Frithjof Qvigstad | 332 866 | 2 272 569 | 9.3 | 7.1 |
| Viiveke Fåk | 196 629 | 1 320 150 | 5.5 | 4.2 |
| Robert Forchheimer | 202 203 | 1 248 104 | 5.4 | 4.0 |
| Thomas Ericson | 196 329 | 1 249 044 | 5.3 | 4.0 |
| Roburs fonder | 0 | 1 376 473 | 2.3 | 3.8 |
| Ingemar Ingemarsson | 196 316 | 1 128 499 | 5.1 | 3.6 |
| Tredje AP-fonden | 0 | 1 100 000 | 1.8 | 3.0 |
| Lannebo fonder | 0 | 860 450 | 1.4 | 2.4 |
| Total for 10 largest shareholders | 2 470 459 | 17 445 094 | 70.1 | 54.5 |
| Others (roughly 6,515) | 150 233 | 16 462 852 | 29.9 | 45.5 |
| Total | 2 620 692 | 33 907 946 | 100.0 | 100.0 |

Source: VPC

Employee options

| | 02/03 | 03/04 | 04/05 |
|--|-------------------------|-------------------------|----------------|
| No. of underlying series B shares | 79 000 | 80 000 | 40 000 |
| Conversion price, SEK | 42.00 | 47.00 | 74.70 |
| Conversion period | 29 Nov 2003-28 Jan 2006 | 29 Nov 2004-28 Jan 2007 | 10-14 Sep 2007 |
| No. of shares exercised as of Apr 30, 2005 | 50 667 | 23 333 | 0 |
| Dilution upon full redemption, capital | 0.2 % | 0.2 % | 0.1 % |

Administration Report

The Board of Directors and President of Sectra AB (publ.), organization number SE5560648304-01 hereby issue the Annual Report and Consolidated Financial Statements for May 1, 2004 – April 30, 2005.

Operations and Group structure

Sectra successfully develops and sells high-tech products in expanding niche markets. The operations comprise medical systems for public and private healthcare providers and secure communication systems for defense and government agency customers.

Sectra AB is the Parent Company in the Group, which comprises the wholly-owned operational subsidiaries Sectra Communications AB (secure communication systems) and Sectra Imtec AB (medical systems). These companies have a number of subsidiaries with offices throughout the world; see Note 14 for further information.

Market and sales

Demand for Sectra's products remains strong, and the Group's order bookings increased 52.0% to SEK 570.1 million in 2004/2005, compared to SEK 375.1 million the preceding year.

Sectra's business model is based on direct sales to end customers in Scandinavia, and in selected markets. In the rest of the world Sectra cooperates with global and local partners. These cooperative arrangements have contributed to Sectra's major international sales successes, and the company's systems are being used by customers in 35 countries. Sectra has its own offices in eight countries, which are established primarily to support our partners in their sales activities.

Medical systems

Many hospitals are opting to make their radiology operations more efficient by introducing digital systems. More and more countries are demanding the system solutions that Sectra offers, and the market for medical systems continues to grow. The number of radiology departments using Sectra systems increased roughly 30% during the fiscal year. The greatest number of new installations occurred in the U.S., the world's largest and one of the fastest growing markets for medical IT. The largest share of Sectra's digital radiology systems are currently installed in North America. As more and more Sectra systems are installed, revenues from additional sales and from maintenance and upgrade agreements increase.

Over 30 million radiology examinations are performed each year using the company's systems, making Sectra one of the world's leading suppliers of digital systems for managing radiology images. With a proven digital radiology solution and a product portfolio with clinical applications that are constantly growing to meet physicians' different needs, Sectra is well equipped to engage the growing market for medical IT systems.

With respect to medical systems, Sectra is also committed to products for women's health and orthopedics, niche markets where the introduction of medical IT systems are tremendously beneficial. These markets have long-term growth potential, and are expected to expand dramatically in the years ahead. Sectra's biggest investment is in the area of women's health, where Sectra has developed a digital mammography system that delivers the lowest radiation dose on the market. Efforts to introduce the company's mammography

system in Northern Europe are starting to bear fruit, with Sectra selling systems in Sweden, Germany and Ireland during the fiscal year.

Sectra's mammography system is currently under evaluation to ensure that it meet the requirements for sales in Great Britain and the USA. The system has successfully met the technical and safety requirements in Great Britain, and the final phase of the evaluation process has begun. Clinical studies have begun in the U.S. market. The mammography field has major growth potential, and Sectra's goal is for this segment to account for a significant share of the Group's total operations within a few years.

Secure communication systems

Public agencies, organization and governments have become more conscious of the need to protect sensitive information against eavesdropping, and information management is a very important element in the new, more streamlined defense structures. The restructuring efforts that are under way both within the Swedish military and in other militaries throughout the world are increasing the need for new communication systems. Strong security solutions are needed to safeguard the transfer of information in these new systems.

During 2004/2005 Sectra landed a number of new contracts to develop and deliver products that will be part of the Swedish military's future communication system. The Swedish defense market was, however, in a holding pattern pending a resolution regarding the new orientation of the Swedish defense forces, which was adopted in December 2004.

Sectra is committed to increasing sales to European defense departments and govern-

ment agencies. During the fiscal year Sectra obtained security certification of its encryption products in numerous countries, and new defense organizations and government agencies have placed Sectra's Tiger products into service. This demonstrates an increased international interest in Sectra's communication solutions. The Swedish 2004 defense resolution and increased cooperation among the countries of the EU will result in a growing market for Sectra. With its cost-effective products that can be adapted to meet national and international security requirements and its strong core competence in encryption, Sectra is well equipped to grow in the European market.

Structural changes

During the fiscal year Sectra acquired 5,260 shares in Sectra Mamea AB (formerly Mamea Imaging AB), thereby increasing its ownership stake in the company from 95 to 100%. The acquisition was paid for with 47,387 series B shares in Sectra, and was made subject to terms and conditions corresponding to those under which Sectra acquired majority ownership in Sectra Mamea from the company's founders on April 30, 2004. The purchase has increased Sectra's goodwill by SEK 5.7 million, and had no material impact on Sectra's earnings or financial position. A reorganization also took place during the year, in the course of which the product division for mammography within Sectra Imtec AB was consolidated with the acquired operations in Sectra Mamea AB.

Sectra sold its wireless information system operations within Sectra Wireless Technologies AB to the startup Axentia Technologies AB in June 2004. The sold operations accounted for less than 1% of

Sectra's total net sales for fiscal 2003/2004, and the sale had no material impact on Sectra's earnings or financial position.

Sales and earnings

Group

Consolidated net sales totaled SEK 455.9 million (495.3). Consolidated earnings after financial items rose to SEK 81.7 million (27.6), corresponding to a profit margin of 17.9% (5.6). Earnings for the previous year were affected by a one-time write-down of SEK 70.9 million in capitalized development costs in Sectra Mamea AB. These operations were consolidated within the Sectra Group as of April 2004. Excluding the acquired operations in Sectra Mamea AB, earnings after financial items for comparable units totaled SEK 117.0 million (98.5).

Sectra increased its international net sales of medical systems during the year, with 65.4% (59.3) of the total net sales for the year deriving from markets outside of Sweden. Sales in international markets occur mainly in USD and EUR, which means that Sectra's sales and earnings are affected by changes in the exchange rates for these currencies. The prices of the company's products on the world market, which is controlled to a large extent by major American companies, were also affected by changes in the dollar exchange rate. The dollar exchange rate did have some negative effects on net sales and earnings for the fiscal year.

Medical systems

Net sales for the medical systems segment totaled SEK 392.1 million (418.4) for 2004/2005. The change in sales compared with the previous year is attributable mainly to

a decline in the number of major digitalization projects undertaken by radiology departments in Scandinavia. Sales were also affected by lower prices for digital radiology systems.

Medical systems posted operating profit of SEK 59.0 million (0.0). Last year's result was affected by a one-time write-down of SEK 70.9 million in capitalized development costs in Sectra Mamea AB. Excluding Sectra Mamea AB, the operating income for comparable units totaled SEK 94.3 million (70.9). Increased international license sales had a positive impact on the result.

The increased sales of medical systems in markets outside of Scandinavia have entailed a change in the nature of the deals involved. With direct sales, which is the model used by Sectra in Scandinavia, deals generally involve total system deliveries, i.e. including both hardware and software. Sales outside of Scandinavia are made largely through partners, and involve software licenses only. Deals made through partners are much smaller in terms of volume. They are also characterized by very short delivery times, high value-added and a higher contribution margin.

Secure communication systems

Net sales for the secure communication systems segment totaled SEK 63.4 million (72.5), with operating loss of SEK 15.5 million (profit 0.2). The change occurred because international sales did not achieve the anticipated volumes. Sectra's major market investments to grow internationally contributed to the negative result. Income was also affected by the fact that the Swedish market has been characterized by postponements in procurements for new development projects, and because orders for existing products have not

been placed at the same series volumes as previously.

Parent Company

The Parent Company's revenues totaled SEK 57.3 million (53.0), with operating profit of SEK 34.5 million (22.6).

Financial position

Sectra enjoys a stable financial position. The Group's equity ratio as of April 30, 2005 was 61.5% (61.7), with a liquidity ratio of 2.9 (3.1). The Group's interest-bearing debts totaled SEK 57.0 million (87.4), SEK 43.0 million (49.3) of which is attributable to convertible debentures.

Investments

Group investments for the fiscal year totaled SEK 44.6 million (91.6). The main part of the investments pertains to capitalized development costs, which totaled SEK 88.4 million (71.4) as of April 30, 2005. Other investments pertained mainly to purchases of machinery and other equipment.

The higher depreciation compared with previous years is attributable mainly to higher depreciation on intangible assets associated with capitalized development costs.

Research and development

The Sectra Group continually invests resources for research and development in fields related to the Company's niche markets, i.e. medical systems and secure communication systems. Research and development are conducted both in-house and in cooperation with customers and partners. Sectra also works in cooperation with numerous research centers so that Sectra can offer systems and products based on the latest technologies.

Environmental impact

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

The digital radiology systems that Sectra develops offer major benefits from an environmental standpoint. The implementation of digital technology contributes to reducing the use of film and chemicals, which have major environmental impacts.

Disputes

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

The Sectra share

Sectra's share capital as of April 30, 2005 totaled SEK 36,528,638 divided among 36,528,638 shares. Of these shares, 2,620,692 are series A shares, while 33,907,946 are series B shares. Full conversion and exercise of issued incentive programs would increase the number of shares by a maximum of 781,350, which correspond to 2.1% of the share capital and 1.3% of the votes.

Sectra issued convertible debentures with a total face value of SEK 11.6 million to Sectra employees in 2004/2005. Full conversion would provide Sectra with 154,800 series B shares, which correspond to 0.4% of the share capital and 0.3% of the votes. Sectra's employees in the USA were given an opportunity to subscribe additional employee options during the fiscal year. If these options are full exercised, the employees will acquire 40,000 series B shares in the Company, corresponding to 0.1% of the share capital and 0.1% of the votes.

Similar employee option and convertible programs have been in place from before. See Note 20 and the section on the Sectra share on page 24 for further information on issued incentive programs.

During the fiscal year Sectra employees and Board members redeemed convertible debentures corresponding to 11,200 series B shares at a conversion price of SEK 57.70 for a convertible loan issued in 2001/2002. SEK 17.1 million were paid back when the loan matured on July 1, 2004. Sectra has also redeemed employee options issued in 2001/2002 and 2002/2003 corresponding to 54,667 series B shares at a redemption price of SEK 42, plus employee options issued in 2003/2004 corresponding to 23,333 series B shares at a redemption price of SEK 47.

Employees

Sectra had 370 (347) employees as of fiscal year-end, April 30, 2005, 24% (24) of whom were women. The employee turnover rate was 5.4% (2.3).

Outlook

Sectra has a strong technology platform. The products and system solutions that Sectra is developing target markets with strong growth potential. Sectra's leading position in its domestic market provides a solid platform for continued international expansion. The Board's assessment that Sectra will continue to expand with good profitability remains valid.

Corporate governance

Management and control of the Sectra Group are divided among the shareholders, the Board of Directors and the President in accordance with the Swedish Companies Act and the Articles of Association. The Board of

Directors considers it its mission to grow the shareholders' investments and strive for a high and sustainable long-term return.

Nominating Committee

The Nominating Committee has the task of preparing and submitting proposals to the Annual General Meeting prior to elections of the Board of Directors, and with regard to compensation of the Board. The 2004 Annual General Meeting resolved to call upon the Company's five largest shareholders to appoint a Nominating Committee at the end of the third fiscal quarter. This has been done, and Viiveke Fåk (major shareholder and founder), Thomas Ericson (Chairman of the Board and major shareholder) and Bengt Bengtsson (owner representative) were appointed to the nominating committee. They represent 59% of the voting shares in the Company.

Sectra Board of Directors

Sectra's Board of Directors consists of five members elected by the Annual General Meeting, plus two employee representatives with two deputies. As proposed by the Nominating Committee, the 2004 Annual General Meeting re-elected Board members Thomas Ericson, Torbjörn Kronander, Gündor Rentsch and Carl-Erik Ridderstråle, and newly elected Anders Persson. Thomas Ericson was re-elected as Chairman of the Board at a statutory Board meeting in connection with the Annual General Meeting. See page 50 for information concerning the members of the Board of Directors.

Activities of the Board of Directors

The Sectra AB Board of Directors annually establishes an agenda governing the activities

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

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

During the 2004/2005 fiscal year, the Board of Directors held one statutory meeting, six ordinary meetings, two meetings per capsulam and one telephone meeting. Four of the meetings were coordinated with the financial reporting. The Company's President and CFO participate in the Board meetings regularly. Other executives take part in the Board meetings as needed. The Company's auditors participated in the meeting at which the year-end accounts were presented, and provided the Board with their views and observations from the conducted audit.

Chairman of the Board

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

pension benefits and bonus system for the President.

President

The Group CEO/President leads the Sectra Group within the framework established by the Board of Directors. He prepares the documentation necessary for informational and decision-making purposes, prepares reports and submits justified resolution proposals. The President provides the Board members monthly with the information needed to monitor the status of the Company and the Group, and their operations and growth, and keeps the Chairman of the Board informed about the operations on an ongoing basis.

Senior executives

The President leads the activities of the Group's senior executives, and makes decisions upon consultation with them. The senior executives comprise six members who meet once a month and whenever the need arises. See page 51 for information about the senior executives.

Internal control and risk management

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

These systems are designed to ensure the efficiency of the operations and compliance with laws and regulations. Sectra uses various methods to continuously monitor and control the risks associated with its operations.

Identification and assessment of the most serious risks associated with the Group's operations are conducted on an ongoing basis. See Note 25 concerning the Group's financial risks.

External audit

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

Swedish Code of Corporate Governance

Sectra's Board of Directors currently employs a working method and approach to disseminating information concerning corporate governance issues that is in accordance with the new Swedish Code of Corporate Governance. During 2005/2006, Sectra's Board of Directors will monitor the progress of the Code's implementation and determine whether the Company needs to make further changes in this area.

Sectra's adaptation to IFRS

As is the case for all exchange-listed companies within the EU, Sectra must apply the accounting regulations set forth in the International Financial Reporting Standards (IFRS) as of January 1, 2005. The 2004/2005 Annual Report is the last one to be prepared using the earlier accounting rules. The transition to IFRS is being reported in accordance with IFRS 1, "First-time Adoption of International Financial Reporting," with a transition date of May 1, 2004, which means that the comparison figures for 2004/2005 are being converted retroactively as per IFRS. The transition will entail only minor adjustments of the Income Statement and Balance Sheet for 2004/2005, since Sectra has been adapting, on an ongoing basis, its accounting practices to conform with the recommendations of the Swedish Financial Accounting Standards Council, which are based on IFRS. A summary of adjustments and new accounting principles pursuant to IFRS is provided in Note 26.

Proposed allocation of profit

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

| | |
|--|----------------|
| Dividend (36,528,638 shares SEK 0.50) | 18 264 319.00 |
| Earnings to be carried forward | 87 406 468.03 |
| Total | 105 670 787.03 |

No transfer to restricted reserves has been proposed.

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 3, 2005

Jan-Olof Brüer
Group CEO and President

Thomas Ericson
Chairman of the Board

Torbjörn Kronander
Board Member

Gündor Rentsch
Board Member

Carl-Erik Ridderstråle
Board Member

Anders Persson
Board Member

Karin Partain
Employee Representative

Claes Lundström
Employee Representative

Our Auditor's Report was submitted on June 3, 2005

Lindebergs Grant Thornton AB
Ivar Verner, Certified Public Accountant

Income Statements

| Amounts in SEK thousands | Note | Group | | Parent Company | |
|---|------|---------------|---------------|----------------|----------------|
| | | 04/05 | 03/04 | 04/05 | 03/04 |
| Operating income | 1 | | | | |
| Net sales | | 455 862 | 495 336 | 57 328 | 53 018 |
| Capitalized work for own use | | 24 221 | - | - | - |
| Operating expenses | | | | | |
| Goods for resale | | -70 227 | -111 717 | -41 | - |
| Personnel costs | 2 | -227 870 | -187 307 | -9 895 | -12 249 |
| Other external costs | 3, 4 | -91 225 | -99 729 | -11 789 | -16 900 |
| Depreciation according to plan | 13 | -14 293 | -4 476 | -1 141 | -1 316 |
| Goodwill amortization | 12 | -3 740 | -1 576 | - | - |
| Items affecting comparability ¹⁾ | 10 | - | -70 936 | - | - |
| Operating profit | | 72 728 | 19 595 | 34 462 | 22 553 |
| Result from financial investments | | | | | |
| Income from participations in Group companies | 5 | - | - | 97 499 | 80 548 |
| Interest income and similar income | 6 | 9 909 | 14 285 | 5 032 | 6 086 |
| Interest expenses and similar expenses | 7 | -908 | -6 239 | -1 431 | -5 536 |
| Net earnings after financial items | | 81 729 | 27 641 | 135 562 | 103 651 |
| Appropriations | 8 | - | - | 1 868 | -22 979 |
| Earnings before tax | | 81 729 | 27 641 | 137 430 | 80 672 |
| Tax on income for the year | 9 | -27 871 | -10 199 | -37 541 | -22 761 |
| Minority interest | | 313 | 3 547 | - | - |
| Net earnings for the year | | 54 171 | 20 989 | 99 889 | 57 911 |
| Profit per share, SEK | | | | | |
| Before dilution | | 1.49 | 0.63 | | |
| After dilution | | 1.46 | 0.61 | | |
| No. of shares at year-end | | | | | |
| Before dilution | | 36 528 638 | 35 851 511 | | |
| After dilution ²⁾ | | 37 309 988 | 37 366 801 | | |
| Average, before dilution | | 36 415 995 | 33 326 511 | | |
| Average, after dilution ²⁾ | | 37 210 879 | 34 215 473 | | |

¹⁾ Items affecting comparability pertain to a non-recurring write-down of capitalized development costs in Sectra Mamea AB.

²⁾ The dilution is based on convertible debentures issued in 2002/03 (171,550), 2003/04 (330,000) and 2004/05 (154,800) and on employee options from 2002/03 (28,333), 2003/04 (56,667) and 2004/05 (40,000).

Balance Sheets

| Amounts in SEK thousands | Note | Group | | Parent Company | |
|-------------------------------------|------|----------------|----------------|----------------|----------------|
| | | 050430 | 040430 | 050430 | 040430 |
| ASSETS | | | | | |
| Fixed assets | | | | | |
| Capitalized development costs | 10 | 88 347 | 71 359 | - | - |
| Patents | 11 | 1 202 | 1 494 | - | - |
| Goodwill | 12 | 26 258 | 24 257 | - | - |
| Machinery and equipment | 13 | 23 700 | 14 773 | 2 955 | 5 322 |
| Participations in Group companies | 14 | - | - | 56 845 | 53 978 |
| Other stocks and securities | | 13 554 | 1 908 | 11 639 | 39 |
| Total fixed assets | | 153 061 | 113 791 | 71 439 | 59 339 |
| Current assets | | | | | |
| Inventories | | 34 262 | 9 950 | - | - |
| Accounts receivable | | 144 446 | 116 286 | 310 | - |
| Receivables from Group companies | | - | - | 202 452 | 220 151 |
| Current tax assets | | 4 421 | - | 4 421 | - |
| Other receivables | | 5 154 | 16 066 | 4 | 12 541 |
| Prepaid expenses and accrued income | 15 | 38 205 | 48 594 | 2 135 | 2 216 |
| Cash and bank balances | 16 | 320 176 | 332 342 | 261 321 | 276 399 |
| Total current assets | | 546 664 | 523 238 | 470 643 | 511 307 |
| TOTAL ASSETS | | 699 725 | 637 029 | 542 082 | 570 646 |

| Amounts in SEK thousands | Note | Group | | Parent Company | |
|--|--------|----------------|----------------|----------------|----------------|
| | | 050430 | 040430 | 050430 | 040430 |
| EQUITY AND LIABILITIES | | | | | |
| Equity | | | | | |
| Restricted equity | | | | | |
| Share capital | | 36 529 | 35 852 | 36 529 | 35 852 |
| Restricted reserves | | 312 848 | 271 507 | 215 638 | 209 342 |
| Total restricted equity | | 349 377 | 307 359 | 252 167 | 245 194 |
| Unrestricted equity | | | | | |
| Unrestricted reserves | | 27 107 | 64 685 | 5 782 | 59 308 |
| Profit for the year | | 54 171 | 20 989 | 99 889 | 57 911 |
| Total unrestricted equity | | 81 278 | 85 674 | 105 671 | 117 219 |
| Total equity | | 430 655 | 393 033 | 357 838 | 362 413 |
| Untaxed reserves | 17 | - | - | 72 315 | 74 183 |
| Appropriations | 18 | 27 057 | 891 | - | - |
| Minority interest | | - | -2 561 | - | - |
| Long-term liabilities | | | | | |
| Debts to financial institutions | 19 | 13 872 | 39 953 | 8 941 | 36 074 |
| Other liabilities | 20 | 32 043 | 31 662 | 31 930 | 31 549 |
| Total long-term liabilities | | 45 915 | 71 615 | 40 871 | 67 623 |
| Current liabilities | | | | | |
| Advances from customers | | 10 935 | - | - | - |
| Accounts payable | | 26 183 | 21 789 | 1 116 | 706 |
| Debts to Group companies | | - | - | 45 881 | 6 337 |
| Current tax liability | | 630 | 20 569 | - | 21 903 |
| Other current liabilities | 20, 21 | 27 087 | 32 936 | 14 428 | 26 409 |
| Accrued expenses and deferred income | 22 | 131 263 | 98 757 | 9 633 | 11 072 |
| Total current liabilities | | 196 098 | 174 051 | 71 058 | 66 427 |
| TOTAL EQUITY AND LIABILITIES | | 699 725 | 637 029 | 542 082 | 570 646 |
| Pledged assets and contingent liabilities | | | | | |
| Pledged assets | 23 | 23 745 | 46 250 | 21 000 | 21 000 |
| Contingent liabilities | | - | - | - | - |

Changes in Equity

GROUP

| Amounts in SEK thousands | Share capital | Restricted reserves | Unrestricted equity | Total equity |
|--|---------------|---------------------|---------------------|----------------|
| Equity as of April 30, 2003 | 33 077 | 63 583 | 109 370 | 206 030 |
| New issues of shares | 2 775 | 147 977 | - | 150 752 |
| Paid unregistered shares | - | 30 000 | - | 30 000 |
| Transfer | - | 28 147 | -28 147 | - |
| Share of capital | - | -2 366 | - | -2 366 |
| Shareholdings reclassified to subsidiaries | - | 5 885 | - | 5 885 |
| Present value difference | - | -1 719 | - | -1 719 |
| Dividend | - | - | -16 538 | -16 538 |
| Net earnings for the year | - | - | 20 989 | 20 989 |
| Equity as of April 30, 2004 | 35 852 | 271 507 | 85 674 | 393 033 |
| New issues of shares | 677 | 6 229 | - | 6 906 |
| Transfer | - | 35 505 | -35 505 | - |
| Reclassification ¹ | - | - | -4 866 | -4 866 |
| Exchange rate differences | - | -459 | - | -459 |
| Present value difference | - | 66 | - | 66 |
| Dividend | - | - | -18 196 | -18 196 |
| Net earnings for the year | - | - | 54 171 | 54 171 |
| Equity as of April 30, 2005 | 36 529 | 312 848 | 81 278 | 430 655 |

¹ Pertain to reclassification in foreign subsidiaries.

PARENT COMPANY

| Amounts in SEK thousands | Share capital | Share premium fund | Legal reserve | Unrestricted equity | Total equity |
|------------------------------------|---------------|--------------------|---------------|---------------------|----------------|
| Equity as of April 30, 2003 | 33 077 | 32 935 | 150 | 78 942 | 145 104 |
| New issues of shares | 2 775 | 147 976 | - | - | 150 751 |
| Paid unregistered shares | - | 30 000 | - | - | 30 000 |
| Group contribution paid | - | - | - | -4 300 | -4 300 |
| Tax effect | - | - | - | 1 204 | 1 204 |
| Present value difference | - | -1 719 | - | - | -1 719 |
| Dividend | - | - | - | -16 538 | -16 538 |
| Net earnings for the year | - | - | - | 57 911 | 57 911 |
| Equity as of April 30, 2004 | 35 852 | 209 192 | 150 | 117 219 | 362 413 |
| New issues of shares | 677 | 6 229 | - | - | 6 906 |
| Group contribution paid | - | - | - | -129 500 | -129 500 |
| Tax effect | - | - | - | 36 260 | 36 260 |
| Present value difference | - | 66 | - | - | 66 |
| Dividend | - | - | - | -18 196 | -18 196 |
| Net earnings for the year | - | - | - | 99 889 | 99 889 |
| Equity as of April 30, 2005 | 36 529 | 215 487 | 150 | 105 672 | 357 838 |



Cash Flow Statements

| Amounts in SEK thousands | Note | Group | | Parent Company | |
|--|------|-----------------|-----------------|-----------------|----------------|
| | | 04/05 | 03/04 | 04/05 | 03/04 |
| CURRENT OPERATIONS | | | | | |
| Operating profit | | 72 728 | 19 595 | 34 462 | 22 553 |
| <i>Corrections for items not included in cash flow:</i> | | | | | |
| Depreciation | | 17 043 | 76 704 | 1 141 | 1 316 |
| Earnings from securities | | 6 | 6 | 6 | 6 |
| Sales of fixed assets | | - 648 | - 118 | - 312 | - |
| Items not included in cash flow | | - | - | - | -9 |
| Interest received | | 9 127 | 14 286 | 6 709 | 6 686 |
| Interest paid | | - 1 107 | - 6 239 | - 1 046 | - 6 387 |
| Income tax paid | | - 31 130 | - 17 894 | - 27 605 | - 11 220 |
| Cash flow from current operations before changes in working capital | | 66 019 | 86 340 | 13 355 | 12 945 |
| Changes in working capital | | | | | |
| Change in inventories | | - 24 311 | 1 770 | - | - |
| Change in receivables | | - 6 078 | - 6 754 | 22 133 | - 55 694 |
| Change in current liabilities | | 48 852 | - 17 298 | 40 507 | 8 782 |
| Cash flow from current operations | | 84 482 | 64 058 | 75 995 | -33 967 |
| INVESTMENT ACTIVITY | | | | | |
| Acquisitions of fixed assets | | - 43 375 | - 4 081 | - 413 | - 821 |
| Acquisitions of subsidiaries | 24 | - | - 33 841 | - | - |
| Sales of tangible fixed assets | | 2 272 | 488 | 1 951 | - |
| Cash flow from investment activity | | - 41 103 | - 37 434 | 1 538 | - 821 |
| FINANCING ACTIVITY | | | | | |
| Sales of shares | | 4 039 | 150 752 | 4 039 | 150 752 |
| Change in convertibles | | - 6 220 | - 6 902 | - 6 220 | - 6 902 |
| Change in long-term receivables | | - 11 646 | - 104 | - 11 601 | 10 132 |
| Change in long-term liabilities | | - 23 003 | 10 199 | - 27 133 | 7 524 |
| Dividend to shareholders | | - 18 196 | - 16 538 | - 18 196 | - 16 538 |
| Received Group contributions | | - | - | - 33 500 | 76 500 |
| Cash flow from financing activity | | - 55 026 | 137 407 | - 92 611 | 221 468 |
| Cash flow for the year | | - 11 647 | 164 031 | - 15 078 | 186 680 |
| Liquid assets at start of year | | 332 342 | 170 479 | 276 399 | 89 719 |
| Exchange rate difference in liquid assets | | - 519 | - 2 168 | - | - |
| Liquid assets at year-end | | 320 176 | 332 342 | 261 321 | 276 399 |
| Unutilized credit facilities | | 15 000 | 15 000 | 15 000 | 15 000 |

Accounting Principles

All amounts in SEK thousands unless otherwise indicated.

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. The implementation of Swedish Financial Accounting Standards Council Recommendation RR29, Employee Compensations, has had no impact on the reported equity.

The application of the recommendations of the Swedish Financial Accounting Standards Council constitutes a gradual adaptation to the International Financial Reporting Standards (IFRS), which must be applied by all exchange-listed companies as of January 2005.

Consolidated Financial Statements

The Consolidated Financial Statements have been prepared using the acquisition method in accordance with Swedish Financial Accounting Standards Council Recommendation 1:00. The Consolidated Financial Statements include those companies in which the Parent Company controls more than 50% of the votes, either directly or through subsidiaries. In the event of acquisitions, the acquired companies are absorbed into the Group as of their acquisition date. To establish the Group's historical cost, the assets and liabilities of acquired subsidiaries are valued at their fair market value. The difference between the calculated historical cost and the purchase price for the shares of the subsidiary is reported as Group goodwill. Shareholdings in associated companies in which the Group holds no less than 20% and no more than 50% of the votes are reported using the equity ratio method. The value of the associated company's shares is adjusted based on Sectra's share of net earnings after tax.

Translation of foreign subsidiaries

Financial statements for foreign subsidiaries are translated using the current rate method. Foreign companies are operated with a high degree of independence, and all foreign units are consequently classified as independent. The translation differences that arise are charged directly against equity.

Valuation principles etc.

Assets, appropriations and liabilities are valued at their historical cost or face value unless otherwise indicated in the notes below.

Reporting of revenues

Revenues are reported as per Swedish Financial Accounting Standards Council Recommendation 11, Revenue Recognition. 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 applied against the income for the year.

Pensions and employee compensations

Sectra applies Swedish Financial Accounting Standards Council Recommendation 29, Employee Compensations, pursuant to which defined-benefit pension obligations must be posted as liabilities in the Balance Sheet. The Sectra Group has defined-contribution pensions only, which means that the Group makes payments to various pension institutions on a current basis. These pension payments are expensed currently, and constitute the Group's pension costs for the year, which are reported under Personnel Costs. There are no other pension obligations, and Sectra is not responsible for any changes in the

values of the paid premiums. Sectra thus bears no risk in connection with pension disbursements.

Intangible fixed assets

Intangible fixed assets are reported at their historical cost, less depreciation and write-downs. Individual assessments of productive value are conducted on an ongoing basis in accordance with Swedish Financial Accounting Standards Council Recommendation 17, Write-downs, in order to identify any needed write-downs. If the reported value exceeds the recoverable value, the differences are applied to the income for the period on a current basis as they arise.

Capitalized development costs

Sectra develops proprietary software and equipment in the fields of medical equipment and secure communications. All research costs are expensed directly, and customer-related development costs are included in project costs, which are expensed at the time of revenue recognition. Internal development costs are capitalized in accordance with Swedish Financial Accounting Standards Council Recommendation 15, Intangible Fixed Assets. These internal development costs for standard products are capitalized to the extent that they are expected to generate financial benefits in the future, and reported as an intangible asset when the criteria per RR 15 are met. Capitalized development costs are subject to straight-line depreciation over the period of use per individual asset, although the maximum depreciation period is 10 years.

Patents

Patent rights pertain to proprietary registered patents and trademarks. These rights are reported at their historical cost and subject to straight-line depreciation over the assets' 10-year estimated period of use.

Goodwill

Group-level goodwill arises when the historical cost of the subsidiaries' shares exceeds the fair market value of the Group's participations in the subsidiary's net assets at the time of acquisition. These surpluses are reported as intangible assets and subject to straight-line depreciation over the assets' estimated period of use, which is determined based on individual assessment. The period of use for the Group's strategic acquisitions is currently considered to be 10 years.

Tangible fixed assets

Depreciation according to plan is based on the original historical cost and estimated financial lifetime. The following depreciation periods are used:

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

Leasing

Sectra applies Swedish Financial Accounting Standards Council Recommendation 6, Lease Agreements. Financial lease agreements are reported in the Balance Sheet as fixed assets, and as current or long-term liabilities corresponding to the Group's obligation to pay rent in the future. In the Income Statement, the expenses are divided between depreciation and interest over the term of the lease agreement.

Costs of operating leases encumber net earnings for the year. These costs are reported as operating expenses in the Income Statement, and spread over the entire term of the lease.

Inventories

Sectra applies Swedish Financial Accounting Standards Council Recommendation 2, Inventories. Inventories are reported at the lower of historical cost according to the FIFO method or fair market value. Estimated obsolescence has thus been taken into account. Costs

for self-manufactured works in progress and finished goods consist of direct production costs plus a reasonable surcharge for indirect production costs.

Receivables

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

Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currencies are translated at the exchange rate as of the Balance Sheet date. Exchange rate differences on current receivables and liabilities are included in the operating profit.

Reporting of tax

Sectra applies Swedish Financial Accounting Standards Council Recommendation 9, Income Taxes. The Group's total tax comprises current tax and deferred tax. Deferred tax pertains to tax on temporary differences and loss carryforwards. Within the Group, deferred tax is calculated on untaxed reserves, loss carryforwards and internal profits. Current tax is calculated as the taxable surplus, including any adjustments for tax paid in previous years. Deferred tax assets pertaining to loss carryforwards are reported only if it is likely that future profits will arise that will entail lower tax in the future.

Financial instruments

Sectra applies Swedish Financial Accounting Standards Council Recommendation 27. Financial instruments reported in the Balance Sheet include financial assets, securities, financial liabilities and derivative instruments.

Financial assets

Financial assets are posted to the Balance Sheet when the Company becomes party to the agreement, and removed when the agreement expires

or the Company loses control over the assets. Securities transactions are reported on the settlement date at their accrued historical cost. A write-down is carried out in connection with long-term decreases in the value of securities.

Financial liabilities

Loan debts are initially reported at face value after subtracting transaction costs. Adjustments are subsequently made for any over/undervaluation with interest accrued over the term of the loan. The loan portion of convertible debenture loans is valued by discounting future cash flows at the market interest rate.

Derivative instruments

Derivate instruments in the form of futures contracts can be used within the Group to reduce risks associated with changes in current exchange rates. The change in the value to adjust the underlying asset or liability is compensated for by the change in the value of the futures contract. These flows are offsetting, and are not posted to the Balance Sheet. Futures premiums accrue over the term of the contract.

Segment reporting

The primary segments comprise the Group's operational divisions, i.e. Medical Systems and Secure Communication Systems. Other activities are not reported separately, as they account for such a small share of the total business activity. Geographic regions are reported as secondary segments. Primary and secondary segments comprise services and products that are subject to risks different from those to which other operational divisions and geographic regions are subject.

Notes

NOTE 1 SEGMENT REPORTING

Group breakdown based on primary segments:

| | Medical systems | | Secure comm. systems | | Other operations | | Eliminations | | Total Group | |
|------------------|-----------------|---------|----------------------|--------|------------------|---------|--------------|----------|-------------|---------|
| | 04/05 | 03/04 | 04/05 | 03/04 | 04/05 | 03/04 | 04/05 | 03/04 | 04/05 | 03/04 |
| Net sales | 392 118 | 418 379 | 63 382 | 72 499 | 57 910 | 57 520 | -57 548 | -53 062 | 455 862 | 495 336 |
| Operating profit | 58 982 | -39 | -15 487 | 203 | 31 157 | 19 431 | -1 924 | - | 72 728 | 19 595 |
| Assets | 377 350 | 261 902 | 49 928 | 50 370 | 561 310 | 584 584 | -288 863 | -259 827 | 699 725 | 637 029 |
| Liabilities | 356 580 | 292 063 | 35 628 | 36 389 | 124 069 | 213 920 | -247 207 | -298 375 | 269 070 | 243 997 |
| Investments | 36 480 | 90 027 | 176 | 241 | 7 956 | 1 349 | - | - | 44 612 | 91 617 |
| Depreciation | 13 119 | 74 665 | 599 | 571 | 1 162 | 1 751 | 3 153 | - | 18 033 | 76 987 |

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

Group breakdown based on secondary segments:

| | Sweden | | Rest of Europe | | Other markets | | Total | |
|-------------|---------|---------|----------------|---------|---------------|--------|---------|---------|
| | 04/05 | 03/04 | 04/05 | 03/04 | 04/05 | 03/04 | 04/05 | 03/04 |
| Net sales | 157 619 | 201 763 | 276 922 | 270 972 | 21 321 | 22 601 | 455 862 | 495 336 |
| Assets | 604 128 | 574 705 | 80 954 | 53 148 | 14 643 | 9 176 | 699 725 | 637 029 |
| Investments | 42 487 | 90 521 | 1 899 | 1 082 | 226 | 14 | 44 612 | 91 617 |

NOTE 2 EMPLOYEES AND PERSONNEL COSTS

Average no. of employees

| | 04/05 | | 03/04 | |
|-----------------------|------------|----------------|------------|----------------|
| | Total | of which women | Total | of which women |
| Parent Company | | | | |
| Sweden | 17 | 10 | 17 | 11 |
| Group | | | | |
| Sweden | 277 | 69 | 243 | 61 |
| Norway | 10 | 2 | 10 | 2 |
| USA | 26 | 4 | 16 | 2 |
| Germany | 10 | 3 | 8 | 2 |
| Denmark | 10 | 1 | 9 | 1 |
| Italy | 1 | - | 2 | - |
| Great Britain | 13 | 1 | 6 | - |
| Australia | 3 | 1 | 2 | - |
| Group total | 350 | 81 | 296 | 68 |

Salaries and other remunerations

| | 04/05 | | 03/04 | |
|-----------------------|---------------|-----------------|---------------|-----------------|
| | Board and CEO | Other employees | Board and CEO | Other employees |
| Parent Company | | | | |
| Sweden | 1 329 | 5 145 | 1 220 | 4 748 |
| Group | | | | |
| Sweden | 4 218 | 107 637 | 4 377 | 84 382 |
| Norway | 853 | 5 124 | 880 | 4 871 |
| USA | 2 673 | 17 201 | 1 118 | 7 007 |
| Germany | 717 | 4 148 | 838 | 2 871 |
| Denmark | 2 253 | 4 694 | 1 455 | 4 137 |
| Italy | 324 | 133 | 1 636 | 301 |
| Great Britain | 1 815 | 5 592 | 2 207 | 2 236 |
| Australia | 757 | 1 181 | 650 | 426 |
| Group total | 13 610 | 145 710 | 13 161 | 106 231 |

Social security costs

| | 04/05 | | 03/04 | |
|--------------------------|---------------|-----------------|---------------|-----------------|
| | Board and CEO | Other employees | Board and CEO | Other employees |
| Parent Company | | | | |
| Sweden | 738 | 2 049 | 701 | 1 956 |
| (of which pension costs) | (380) | (894) | (366) | (841) |
| Koncernen | | | | |
| Sweden | 2 359 | 48 379 | 2 409 | 38 211 |
| (of which pension costs) | (1 219) | (21 530) | (1 229) | (16 931) |
| Norway | 193 | 1 454 | 196 | 1 622 |
| (of which pension costs) | (59) | (595) | (56) | (695) |
| USA | 206 | 2 466 | 171 | 1 536 |
| (of which pension costs) | - | - | - | - |
| Germany | 100 | 726 | 100 | 601 |
| (of which pension costs) | (54) | (381) | (55) | (319) |
| Denmark | 100 | 758 | 101 | 713 |
| (of which pension costs) | (83) | (279) | (83) | (267) |
| Italy | 229 | 59 | 1 677 | 419 |
| (of which pension costs) | - | - | (337) | (118) |
| Great Britain | 318 | 861 | 303 | 361 |
| (of which pension costs) | (93) | (199) | (86) | (88) |
| Australia | 69 | 117 | 58 | 38 |
| (of which pension costs) | (69) | (117) | (58) | (38) |
| Group total | 3 574 | 54 820 | 5 015 | 43 501 |
| (of which pension costs) | (1 577) | (23 101) | (1 904) | (18 456) |

Absenteeism due to illness

Total absenteeism in % of regular work hours

| | Group | | Parent Company | |
|--------------------------------|-------|-------|----------------|-------|
| | 04/05 | 03/04 | 04/05 | 03/04 |
| All employees | 1.7 | 2.2 | 2.0 | 6.8 |
| Of which long-term absences | 41.1 | 57.6 | 40.2 | 70.0 |
| Women | 3.6 | 2.8 | 1.7 | 2.6 |
| Men | 1.0 | 2.1 | 2.3 | 13.6 |
| Employees 29 years and younger | 1.2 | 0.7 | 2.2 | 1.4 |
| Employees 30 – 49 years | 1.9 | 1.9 | 1.0 | 3.1 |
| Employees 50 years and older | 1.4 | 21.8 | 5.0 | 33.3 |

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 five individuals who, together with the President/Group CEO, comprise the Group management.

Salaries and compensation

| | Board remuneration | Base salary | Adjustable compensation | Pensions cost | Total |
|-----------------------|--------------------|--------------|-------------------------|---------------|--------------|
| Chairman of the Board | 118 | - | - | - | 118 |
| Board members | 237 | - | - | - | 237 |
| President | - | 975 | - | - | 244 1 219 |
| Senior executives | - | 2 930 | 30 | 523 | 3 483 |
| Total | 355 | 3 905 | 30 | 767 | 5 057 |

The remuneration paid to the members of the Board in 2004/05 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 2005 equals SEK 39,300. The President/Group CEO compensation for 2004/05 is SEK 1,130 thousand. Please refer to the presentation of the Board of Directors and Group management, page 50, 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 or 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.

NOTE 3 FEES TO AUDITORS

| | Group | |
|--------------|--------------|--------------|
| | 04/05 | 03/04 |
| Audit | 724 | 569 |
| Consultation | 455 | 679 |
| Total | 1 179 | 1 248 |

NOTE 4 COSTS FOR OPERATING LEASES

Annual leasing fees paid for operating leases totaled SEK 546 thousand (434).

Agreed future leasing fees for operating leases are payable as shown below:

| | Group | | | |
|-------------------|--------------|--------------|--------------|--------------|
| | 05/06 | 06/07 | 07/08 | 08/09 |
| Cars | 122 | 59 | 21 | - |
| Other | 447 | 390 | 190 | - |
| Subleased objects | 1 713 | 1 713 | 1 713 | 1 713 |
| Total | 2 282 | 2 162 | 1 924 | 1 713 |

Total future leasing fees pertaining to non-terminable agreements for subleased objects amounted to SEK 6,851 thousand. There was no income pertaining to subleased objects in 2004/05.

NOTE 5 INCOME FROM PARTICIPATIONS IN GROUP COMPANIES

| | Group | | Parent Company | |
|---------------------|----------|----------|----------------|---------------|
| | 04/05 | 03/04 | 04/05 | 03/04 |
| Group contributions | - | - | 96 000 | 80 800 |
| Interest income | - | - | 2 465 | 600 |
| Interest expenses | - | - | -966 | -852 |
| Total | - | - | 97 499 | 80 548 |

NOTE 6 INTEREST INCOME AND SIMILAR INCOME

| | Group | | Parent Company | |
|-----------------------------------|--------------|---------------|----------------|--------------|
| | 04/05 | 03/04 | 04/05 | 03/04 |
| Other interest income | 9 903 | 14 274 | 5 026 | 6 075 |
| Dividend | 6 | 6 | 6 | 6 |
| Earnings from sales of securities | - | 5 | - | 5 |
| Total | 9 909 | 14 285 | 5 032 | 6 086 |

NOTE 7 INTEREST EXPENSES AND SIMILAR EXPENSES

| | Group | | Parent Company | |
|---|------------|--------------|----------------|--------------|
| | 04/05 | 03/04 | 04/05 | 03/04 |
| Interest portion of annual costs for financial leases | 113 | 656 | - | - |
| Other interest expenses | 2 345 | 5 583 | 2 232 | 5 536 |
| Exchange difference | -1 550 | - | -801 | - |
| Total | 908 | 6 239 | 1 431 | 5 536 |

NOTE 8 APPROPRIATIONS

| | Parent Company | |
|-------------------------------|----------------|----------------|
| | 04/05 | 03/04 |
| Change in accrual fund | 1 511 | -22 829 |
| Change in excess depreciation | 357 | -150 |
| Total | 1 868 | -22 979 |

NOTE 9 TAX ON NET EARNINGS FOR THE YEAR

| | Group | | Parent Company | |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 04/05 | 03/04 | 04/05 | 03/04 |
| <i>Tax</i> | | | | |
| Current tax | - 6 763 | -25 363 | - 37 541 | -22 761 |
| Deferred tax on temporary differences | - 6 341 | 21 603 | - | - |
| Deferred tax for untaxed reserves | - 14 767 | - 6 439 | - | - |
| Total tax | - 27 871 | - 10 199 | - 37 541 | - 22 761 |

Relationship between Group tax and reported tax per applicable tax rate

| | | | | |
|--|-----------------|-----------------|-----------------|-----------------|
| Earnings before tax | 81 729 | 27 641 | 137 430 | 80 672 |
| Tax per applicable tax rate | -22 885 | - 7 739 | -38 480 | -22 589 |
| Adjustment of tax for previous years | - 2 363 | -74 | 104 | 397 |
| Tax effect of non-deductible expenses | - 1 422 | -23 181 | - 4 | - 571 |
| Tax effect of non-taxable income | 4 705 | 29 | 839 | 2 |
| Change in temporary differences | - 5 803 | 21 603 | - | - |
| Adjustment for tax in foreign subsidiaries | - 103 | - 837 | - | - |
| Tax on net earnings for the year | - 27 871 | - 10 199 | - 37 541 | - 22 761 |

Temporary differences I Sectra Group

| | | |
|---|---------------|------------|
| Deferred tax liability on untaxed reserves | 36 526 | 21 907 |
| Deferred tax liability on current assets | 4 328 | - |
| Deferred tax receivable on unused loss carryforward | - 15 262 | - 21 603 |
| Net deferred tax liability | 25 592 | 304 |

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

Based on Sectra's positive market prospects and launches of new products, the Company expects to be able to apply the loss carryforward against future profits in the near future.

NOTE 10 CAPITALIZED DEVELOPMENT COSTS

| | Group | | Parent Company | |
|--|----------------|----------------|----------------|--------|
| | 050430 | 040430 | 050430 | 040430 |
| Historical cost at start of year | 142 295 | - | - | - |
| Investments for the year | 24 221 | 142 295 | - | - |
| Cumulative historical cost | 166 516 | 142 295 | - | - |
| Incoming depreciation | 70 936 | - | - | - |
| Depriciations and write-downs for the year | 7 233 | 70 936 | - | - |
| Cumulative depreciation | 78 169 | 70 936 | - | - |
| Residual value at year-end | 88 347 | 71 359 | - | - |

A non-recurring write-down for capitalized development costs in Sectra Mamea AB has been reported among the comparison-distorting items in the Income Statement.

NOTE 11 PATENTS

| | Group | | Parent Company | |
|-----------------------------------|--------------|--------------|----------------|--------|
| | 050430 | 040430 | 050430 | 040430 |
| Historical cost at start of year | 1 924 | 1 904 | - | - |
| Sales/Disposals for the year | - 20 | - | - | - |
| Investments for the year | - | 20 | - | - |
| Cumulative historical cost | 1 904 | 1 924 | - | - |
| Incoming amortization | 430 | 159 | - | - |
| Amortization for the year | 272 | 271 | - | - |
| Cumulative amortization | 702 | 430 | - | - |
| Residual value at year-end | 1 202 | 1 494 | - | - |

NOTE 12 GOODWILL

| | Group | | Parent Company | |
|-----------------------------------|---------------|---------------|----------------|--------|
| | 050430 | 040430 | 050430 | 040430 |
| Historical cost at start of year | 32 137 | 15 761 | - | - |
| Acquisitions | 5 741 | 16 376 | - | - |
| Cumulative historical cost | 37 878 | 32 137 | - | - |
| Amortization at start of year | 7 880 | 6 304 | - | - |
| Amortization for the year | 3 740 | 1 576 | - | - |
| Cumulative amortization | 11 620 | 7 880 | - | - |
| Residual value at year-end | 26 258 | 24 257 | - | - |

NOTE 13 MACHINERY AND EQUIPMENT

| | Group | | Parent Company | |
|---|---------------|---------------|----------------|---------------|
| | 050430 | 040430 | 050430 | 040430 |
| Historical cost at start of year | 29 687 | 27 113 | 13 961 | 13 213 |
| Acquisitions | - | 455 | - | - |
| Investments for the year | 16 930 | 3 895 | 413 | 821 |
| Sales/Disposals for the year | - 6 807 | - 1 776 | - 2 240 | - 73 |
| Cumulative historical cost at year-end | 39 810 | 29 687 | 12 134 | 13 961 |
| Depreciation at start of year | 19 148 | 15 378 | 8 639 | 7 397 |
| Sales/Disposals | - 4 821 | - 601 | - 601 | - 73 |
| Acquisitions | - | 166 | - | - |
| Depreciation for the year | 6 789 | 4 205 | 1 141 | 1 315 |
| Cumulative depreciation at year-end | 21 116 | 19 148 | 9 179 | 8 639 |
| Residual value according to plan | 18 694 | 10 539 | 2 955 | 5 322 |

*Equipment held under**financial lease agreements:*

| | | | | |
|-------------------------|---------------|---------------|--------------|--------------|
| Historical cost | 6 512 | 5 376 | - | - |
| Cumulative depreciation | - 1 506 | - 1 142 | - | - |
| Total book value | 23 700 | 14 773 | 2 955 | 5 322 |

NOTE 14 PARTICIPATIONS IN GROUP COMPANIES

| | Organization no. | Reg. office | No. of shares | Share of capital % | Par value | Book value 050430 |
|----------------------------------|---------------------|----------------|---------------|-----------------------|-----------|----------------------|
| Parent Company: | | | | | | |
| Sectra Imtec AB | 556250-8241 | Linköping, SE | 300 000 | 100 | 3 000 | 2 883 |
| Sectra Communications AB | 556291-3300 | Linköping, SE | 3 000 000 | 100 | 3 000 | 13 000 |
| Sectra Wireless Technologies AB | 556570-9325 | Linköping, SE | 3 000 000 | 100 | 3 000 | 8 000 |
| Sectra Secure Transmission AB | 556247-1283 | Linköping, SE | 100 000 | 100 | 100 | 95 |
| Sectra Mamea AB | 556570-7022 | Stockholm, SE | 65 260 | 62 | 111 | 32 867 |
| Totalt bokfört värde | | | | | | 56 845 |
| Sectra Imtec AB: | | | | | | |
| Sectra Skandinavien AB | 556483-9479 | Linköping, SE | 40 350 | 100 | 100 | 21 016 |
| Paxlink AB | 556572-3292 | Örebro, SE | 700 | 100 | 100 | 0 |
| Sectra Norge AS | 975 353 265 | Oslo, NO | 5 000 | 100 | NOK 500 | 283 |
| Sectra NA Inc. | | Shelton, US | 500 | 100 | USD 50 | 384 |
| Sectra GmbH | | Aachen, DE | 500 | 100 | EUR 26 | 219 |
| Sectra Italia S.r.l. | 03185950965 | Milano, IT | 500 | 100 | EUR 50 | 453 |
| Sectra A/S | 26121361 | Herlev, DK | 5 000 | 100 | DKK 100 | 639 |
| Sectra Ltd | 4571654 | London, UK | 1 | 100 | £ 0,001 | 0 |
| Sectra Pty Ltd | | Sydney, AU | 1 | 100 | AUD 0,1 | 0 |
| Sectra NZ | 1539744 | Auckland, NZ | 1 | 100 | NZD 0,1 | 0 |
| Sectra Mamea AB | 556570-7022 | Stockholm, SE | 40 000 | 38 | 68 | 6 000 |
| Total book value | | | | | | 28 994 |
| Sectra Communications AB: | | | | | | |
| Sectra Communications Ltd | 4884887 | Cheltenham, UK | 1 | 100 | £0,001 | 0 |
| Sectra Communications BV | | The Hague, NL | 1 800 | 100 | EUR 18 | 164 |
| Total book value | | | | | | 164 |
| Sectra A/S: | | | | | | |
| Sectra Pronosco A/S | 26591856 | Herlev, DK | 5 000 | 100 | DKK 500 | DKK 500 |
| Total book value | | | | | | DKK 500 |

Purchase surcharge for acquisition of Sectra Mamea AB (former Mamea Imaging AB) is difficult to calculate reliably and therefore not included in the acquisition analysis.

NOTE 15 PREPAID EXPENSES AND ACCRUED INCOME

| | Group | | Parent Company | |
|------------------------------|---------------|---------------|----------------|--------------|
| | 050430 | 040430 | 050430 | 040430 |
| Prepaid rent | 1 872 | 1 746 | 1 094 | 1 064 |
| Accrued interest income | 782 | 1 036 | 660 | 834 |
| Prepaid support agreements | 1 695 | 1 457 | 167 | 72 |
| Other items | 6 968 | 11 336 | 214 | 246 |
| Uninvoiced works in progress | 26 888 | 33 019 | - | - |
| Total | 38 205 | 48 594 | 2 135 | 2 216 |

NOTE 16 BANK OVERDRAFT FACILITY

| | Group | | Parent Company | |
|--------------------------|----------|----------|----------------|----------|
| | 050430 | 040430 | 050430 | 040430 |
| Total overdraft facility | 15 000 | 15 000 | 15 000 | 15 000 |
| Amount unutilized | - 15 000 | - 15 000 | - 15 000 | - 15 000 |
| Amount utilized | 0 | 0 | 0 | 0 |

NOTE 17 UNTAXED RESERVES

| | Parent Company | |
|--------------------------|----------------|---------------|
| | 050430 | 040430 |
| Tax allocation reserves: | | |
| Allocated to taxes 00 | - | 3 160 |
| Allocated to taxes 01 | 4 400 | 4 400 |
| Allocated to taxes 02 | 8 328 | 8 328 |
| Allocated to taxes 03 | 13 619 | 13 619 |
| Allocated to taxes 04 | 16 200 | 16 200 |
| Allocated to taxes 05 | 26 312 | 26 312 |
| Allocated to taxes 06 | 1 649 | - |
| Excess depreciation | 1 807 | 2 164 |
| Total | 72 315 | 74 183 |

Of total untaxed reserves, SEK 20,248 thousand (20,771) is reported as deferred Group tax.

NOTE 18 APPROPRIATIONS

| | Group | |
|--|---------------|------------|
| | 050430 | 040430 |
| Deferred tax liabilities/receivables referable to: | | |
| Untaxed reserves | 36 526 | 21 907 |
| Current assets | 4 328 | - |
| Unused loss carryforward | - 15 262 | - 21 603 |
| Other appropriations | 1 465 | 587 |
| Total | 27 057 | 891 |

NOTE 19 OTHER DEBTS TO FINANCIAL INSTITUTIONS

| | Group | | Parent Company | |
|--|---------------|---------------|----------------|---------------|
| | 050430 | 040430 | 050430 | 040430 |
| Due 0 – 5 years | | | | |
| from fiscal year-end | 4 999 | 16 676 | 68 | 12 797 |
| (of which referable to financial leases) | (4 885) | (3 880) | - | - |
| Due more than 5 years | | | | |
| from fiscal year-end | 8 873 | 23 277 | 8 873 | 23 277 |
| Total | 13 872 | 39 953 | 8 941 | 36 074 |

NOTE 20 OTHER LONG-TERM LIABILITIES

| | Group | | Parent Company | |
|------------------------------|---------------|---------------|----------------|---------------|
| | 050430 | 040430 | 050430 | 040430 |
| Convertible debentures 01/04 | - | 17 783 | - | 17 783 |
| Convertible debentures 02/05 | 11 116 | 11 116 | 11 116 | 11 116 |
| Convertible debentures 03/06 | 20 505 | 20 433 | 20 505 | 20 433 |
| Convertible debentures 04/07 | 11 425 | - | 11 425 | - |
| Other liabilities | 113 | 113 | - | - |
| Total | 43 159 | 49 445 | 43 046 | 49 332 |

Because convertible debenture loan 02/05 will fall due for payment within one year, it has been posted to the Balance Sheet as a current liability.

All convertible debentures run at 4% interest. Debentures 02/05 will mature on July 1, 2005. Conversion to series B shares can occur from May 16 – June 14, 2005. Debentures 03/06 will mature on June 30, 2006. Conversion to series B shares can occur from May 16 – June 14, 2006. Debentures 04/07 will mature on September 30, 2007. Conversion to series B shares can occur from September 10- September 14, 2007. Full conversion of the issued convertibles programs will increase the number of series B shares by 656,350, which corresponds to 1.8% of the share capital and 1.1% of the number of votes.

The present value difference is calculated as the difference between interest on convertible debentures 2003/06, convertible debentures 2004/07 and the market rate. The other convertible debentures are assumed to run under market conditions as of the date of issue.

NOTE 21 OTHER CURRENT LIABILITIES

Of the current liabilities in the Group as of April 30, 2005, SEK 0 thousand (354) are referable to financial leases.

NOTE 22 ACCRUED EXPENSES AND DEFERRED INCOME

| | Group | | Parent Company | |
|---------------------------------------|----------------|---------------|----------------|---------------|
| | 050430 | 040430 | 050430 | 040430 |
| Accrued social security contributions | 16 933 | 15 017 | 916 | 827 |
| Accrued vacation pay | 21 893 | 19 356 | 1 101 | 914 |
| Prepaid support agreements | 34 863 | 22 407 | - | - |
| Accrued accounts payable | 2 992 | 9 578 | 85 | - |
| Advances received | 15 419 | 8 548 | - | - |
| Accrued royalties | 3 872 | 4 767 | 1 081 | 1 081 |
| Other items | 35 291 | 19 084 | 6 450 | 8 250 |
| Total | 131 263 | 98 757 | 9 633 | 11 072 |

NOTE 23 PLEDGED ASSETS AND CONTINGENT LIABILITIES

| | Group | | Parent Company | |
|-------------------------------------|---------------|---------------|----------------|---------------|
| | 050430 | 040430 | 050430 | 040430 |
| Chattel mortgages | 13 745 | 36 250 | 11 000 | 11 000 |
| Bank accounts | 10 000 | 10 000 | 10 000 | 10 000 |
| Total pledged assets | 23 745 | 46 250 | 21 000 | 21 000 |
| Guarantee commitments | - | - | - | - |
| Total contingent liabilities | - | - | - | - |

NOTE 24 ACQUISITION OF SUBSIDIARY

| | Group | |
|--|----------|-----------------|
| | 04/05 | 03/04 |
| Acquisition of debt | - | - 7 330 |
| Financing of acquired subsidiary during the year | - | - 26 511 |
| Total | - | - 33 841 |

NOTE 25 FINANCIAL RISK MANAGEMENT, ASSETS AND LIABILITIES

Sectra group is exposed to financial risks regarding currency, interest, financing and liquidity risks. These financial risks are managed in accordance with the financial policy set by the Board of Directors. The purpose of the financial operations is to support the Group's business activities and identify and limit the Group's financial risks. The financial operations within the Sectra Group are carried out by the financial function of the Parent Company.

Financial risks

Currency exchange risks

Exchange rate exposure within the Sectra Group occurs primarily via transactions in foreign currencies and, to a lesser extent, in translating income statements and balance sheets from foreign subsidiaries. Exchange rate exposure pertains mainly to USD and EURO. The Group's policy at present is not to hedge transaction exposure, since the potential gains to be derived from building up routines to efficiently manage hedge contracts are not considered to be significant. Sectra monitors payment flows in foreign currencies on an ongoing basis, and hedging of transaction exposure may be implemented if the gains to be derived from exchange rate hedge contracts are deemed to be significant.

Interest rate risks

Interest rate risks pertain to the impact of changes in market interest rates on earnings. The Group's interest-bearing assets are mainly current in nature, and pertain to securities that can be liquidated on short notice in the event of major changes in the general interest rate situation. Interest on debts to financial institutions is locked in for periods of less than 12 months.

Credit risks

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

Liquidity risks

To ensure sufficiently strong liquidity, excess liquidity is placed only in bank deposits, or in securities that can be liquidated on short notice, and which have a highly efficient secondary market to minimize the liquidity risk. Unutilized bank overdraft facilities are used in connection with temporarily elevated liquidity needs.

Financial assets and liabilities

The Group's financial assets and liabilities fall into three categories: current holdings, i.e. liquid assets and short-term placements of excess liquidity; holdings that will fall due payable, i.e. long-term investments, financial leasing liabilities, debts to financial institutions and convertible debenture loans; and assets and liabilities generated by the Group's operations.

Current holdings

| | 050430 | | 040430 | |
|-------------------------------------|----------------|----------------|----------------|----------------|
| | Reported value | Fair value | Reported value | Fair value |
| Liquid assets in SEK | 73 687 | 73 687 | 282 655 | 282 655 |
| Liquid assets in foreign currencies | 66 713 | 66 713 | 49 687 | 49 687 |
| Short-term placements | 179 776 | 179 776 | - | - |
| Total | 320 176 | 320 176 | 332 342 | 332 342 |

Holdings that will fall due payable

| | 050430 | | 040430 | |
|--|----------------|---------------|----------------|---------------|
| | Reported value | Fair value | Reported value | Fair value |
| Long-term investments | 11 600 | 11 600 | - | - |
| Stocks and other securities | 1 954 | 1 954 | 1 908 | 1 908 |
| Total assets | 13 554 | 13 554 | 1 908 | 1 908 |
| Convertible debenture loans | 43 046 | 43 046 | 49 332 | 49 332 |
| Financial leasing agreements | 4 885 | 4 885 | 3 880 | 3 880 |
| Debts to financial institutions | 8 987 | 8 987 | 36 073 | 36 073 |
| Other long-term interest-bearing debts | 113 | 113 | 113 | 113 |
| Total liabilities | 57 031 | 57 031 | 89 398 | 89 398 |

Assets and liabilities generated by the Group's operations pertain mainly to accounts receivable and accounts payable, which are reported in the Balance Sheet. These assets are not intended for sale, and are valued at the values they are expected to bring in after deduction for feared credit losses. Liabilities are valued at their historical cost.

No foreign exchange forwards or derivative instruments existed within the Sectra Group at fiscal year-end.

NOTE 26 EFFECTS OF TRANSITION TO IFRS

The most significant differences between Sectra's current accounting practices and IFRS pertain to the valuation of goodwill (IFRS3) and share-based payments (IFRS2). Other recommendations introduced through transfer to IFRS have only little or no effect on Sectra Group's income statement and balance sheet. The table below shows the changes affecting the Sectra Group's Consolidated Income Statement for the full 2004/2005 year, and the effect on equity as of the opening and close of 2004/2005. The current rules are under ongoing EU oversight, which means that the IFRS rules may be subject to change. The information below is thus preliminary, and may be subject to change in response to clarifications and practice in this area. The comparison figures for 2004/2005 will be converted on an ongoing basis during 2005/2006.

Share-based payments, IFRS 2

IFRS 2, Share-Based Payments, is being applied as per the transition rules for share-based payments that were allotted after November 7, 2002 and have an earning date after May 1, 2006. According to these rules, the difference between what the employee pays and the fair market value of the share-related instruments must be expensed as a personnel cost in the Consolidated Income Statement. The Sectra Group has two options programs and two convertible programs that are covered by these rules. The effect of expensing the fair market value of these programs impacted the Group's earnings for 2004/2005 in the amount of SEK -1 314 thousand.

Reporting of corporate acquisitions, IFRS 3

Pursuant to IFRS 3, Business Combinations, more precise acquisition analyses must be conducted in connection with corporate acquisitions, in which identifiable intangible assets must be valued at their fair market value and reported separately from goodwill. Identifiable intangible assets such as patents, customer relationships, agreements, order stocks, licenses, trademarks, etc. must be depreciated over a specified lifetime, based on the estimated period of use. On the other hand, goodwill is not amortized, but rather is subject to periodic write-down tests to determine whether the need for a write-down exists.

Sectra is applying the transition rules, which means that SEK 32 262 thousand in goodwill deriving from acquisitions before May 1, 2004 have been reclassified as intangible assets, with the difference in terms of depreciation being applied directly against equity. Acquisitions made after May 1, 2004 have been converted, resulting in the reclassification of 5 714 in goodwill as intangible assets. These reclassifications have had no effect on depreciation costs during 2004/2005.

Effect on Group earnings

| | 04/05 | IFRS adjustment | 04/05 as per IFRS |
|----------------------------------|---------------|----------------------------|------------------------------|
| Net sales | 455 862 | - | 455 862 |
| Capitalized work on own account | 24 221 | - | 24 221 |
| Operating expenses | -389 322 | - 1 314 | -390 636 |
| Depreciation | - 18 033 | - | - 18 033 |
| Operating profit | 72 728 | - 1 314 | 71 414 |
| Financial items, net | 9 001 | - | 9 001 |
| Tax and minority interests | - 27 558 | - | - 27 558 |
| Net earnings for the year | 54 171 | - 1 314 | 52 857 |

Effect on Group equity and Consolidated Balance Sheet

| | 050430 | IFRS adjustment | 050501 as per IFRS |
|--------------------------------------|----------------|----------------------------|-------------------------------|
| Capitalized development costs | 88 347 | - | 88 347 |
| Patents | 1 202 | 20 353 | 21 555 |
| Customer relations | - | 4 000 | 4 000 |
| Trademarks | - | 1 905 | 1 905 |
| Goodwill | 26 258 | -26 258 | - |
| Other fixed assets | 37 254 | - | 37 254 |
| Total fixed assets | 153 061 | 0 | 153 061 |
| Current assets | 546 664 | - | 546 664 |
| Total assets | 699 725 | 0 | 699 725 |
| Restricted equity | 349 377 | 1 314 | 350 691 |
| Unrestricted equity | 81 278 | - 1 314 | 79 964 |
| Total equity | 430 655 | 0 | 430 655 |
| Provisions and long-term liabilities | 72 972 | - | 72 972 |
| Current liabilities | 196 098 | - | 196 098 |
| Total equity and liabilities | 699 725 | 0 | 699 725 |

Definitions of key figures

Added value Operating profit plus labor costs

Added value per employee Operating profit plus labor costs divided by average number of employees

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

Debt ratio Interest-bearing debts divided by equity.

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 ratio Current assets divided by current liabilities.

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

P/E Share price at the end of the year divided by profit per share.

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

Profit per share Profit after tax divided by average number of shares.

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

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

Return on working capital Profit after net financial items plus financial expenses as a percentage of average capital employed.

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

Yield Dividend as a percent of share price.



Audit Report

To the general meeting of the shareholders of Sectra AB, Company registration number 556064-8304

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Sectra AB for the financial year 2004-05-01 – 2005-04-30. These accounts and the administration of the company and the application of the Annual Accounts Act when preparing the annual accounts are the responsibility of the board of directors and the managing director. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts, 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, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any

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

The annual accounts and the consolidated accounts have been prepared in accordance with the 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. The statutory administration report is consistent with the other parts of the annual accounts.

We 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 3, 2005

Lindebergs Grant Thornton AB
Ivar Verner
Authorised Public Accountant

Five year summary

| Amounts in SEK thousands unless otherwise stated | 04/05 | 03/04 | 02/03 | 01/02 | 00/01 |
|--|----------------|----------------|----------------|----------------|----------------|
| CONSOLIDATED INCOME STATEMENTS | | | | | |
| Net sales | 455 862 | 495 336 | 503 418 | 409 969 | 264 909 |
| Capitalized work for own use | 24 221 | - | - | - | - |
| Other operating income | - | - | - | - | 80 |
| Operating expenses | -389 322 | -398 753 | -419 849 | -342 980 | -219 824 |
| Depreciation | -18 033 | -6 052 | -6 849 | -6 841 | -6 335 |
| Items affecting comparability | - | -70 936 | - | - | - |
| Operating profit | 72 728 | 19 595 | 76 720 | 60 148 | 38 830 |
| Net financial items | 9 001 | 8 046 | 2 202 | 1 253 | 509 |
| Profit after financial items | 81 729 | 27 641 | 78 922 | 61 401 | 39 339 |
| Income tax | -27 871 | -10 199 | -25 703 | -21 113 | -11 601 |
| Minority interest | 313 | 3 547 | 96 | 142 | - |
| Net earnings for the year | 54 171 | 20 989 | 53 315 | 40 430 | 27 738 |
| CONSOLIDATED BALANCE SHEETS | | | | | |
| Assets | | | | | |
| Intangible assets | 115 807 | 97 110 | 11 202 | 11 033 | 12 609 |
| Tangible assets | 37 254 | 16 681 | 97 692 | 54 236 | 29 405 |
| Cash and bank balances | 320 176 | 332 342 | 170 479 | 130 439 | 87 401 |
| Other current assets | 226 488 | 190 896 | 193 155 | 165 760 | 119 431 |
| Total assets | 699 725 | 637 029 | 472 528 | 361 468 | 248 846 |
| Equity and liabilities | | | | | |
| Equity | 430 655 | 393 033 | 206 030 | 164 660 | 134 702 |
| Provisions | 27 057 | 891 | 15 389 | 11 610 | 8 440 |
| Minority interests | - | -2 561 | 42 | -112 | - |
| Long-term liabilities | 45 915 | 71 615 | 57 626 | 68 031 | 37 967 |
| Current liabilities | 196 098 | 174 051 | 193 441 | 117 279 | 67 737 |
| Total equity and liabilities | 699 725 | 637 029 | 472 528 | 361 468 | 248 846 |

| KEY FIGURES ¹ | 04/05 | 03/04 | 02/03 | 01/02 | 00/01 |
|---|--------------|--------------|--------------|--------------|--------------|
| Financial | | | | | |
| Working capital, SEK million | 488.0 | 480.5 | 291.0 | 237.9 | 182.1 |
| Liquidity ratio | 2.9 | 3.1 | 2.0 | 2.6 | 3.3 |
| Equity ratio, % | 61.5 | 61.7 | 43.6 | 45.6 | 54.1 |
| Debt ratio | 0.13 | 0.22 | 0.41 | 0.45 | 0.29 |
| Investments, SEK million | 44.6 | 37.9 | 5.1 | 8.8 | 10.3 |
| Profitability | | | | | |
| Gross margin, % | 19.9 | 19.5 | 16.6 | 16.4 | 15.5 |
| Operating margin, % | 16.0 | 4.0 | 15.2 | 14.7 | 13.3 |
| Profit margin, % | 17.9 | 5.6 | 15.7 | 15.0 | 13.5 |
| Return on total capital, % | 12.6 | 6.1 | 20.6 | 21.2 | 18.6 |
| Return on working capital, % | 17.4 | 8.8 | 32.5 | 30.0 | 26.7 |
| Return on equity, % | 13.1 | 5.8 | 28.7 | 26.9 | 22.7 |
| Value added, SEK million | 300.6 | 206.9 | 239.6 | 188.1 | 138.3 |
| Employees | | | | | |
| No. of employees, average | 350 | 296 | 262 | 221 | 182 |
| No. of employees at end of period | 370 | 347 | 274 | 250 | 185 |
| Sales per employee, SEK million | 1.3 | 1.7 | 1.9 | 1.9 | 1.6 |
| Value added per employee, SEK million | 0.9 | 0.7 | 0.9 | 0.9 | 0.8 |
| Data per share | | | | | |
| No. of shares at fiscal year-end ² | 36 528 638 | 35 851 511 | 33 076 511 | 32 760 945 | 32 760 945 |
| Average number of shares | 36 415 995 | 33 326 511 | 32 918 728 | 32 760 945 | 32 760 945 |
| Equity per share, SEK | 11.79 | 10.96 | 6.23 | 5.03 | 4.12 |
| Cash flow per share after dilution ³ , SEK | 11.54 | 10.52 | 6.09 | 4.91 | 4.04 |
| Cash flow per share, SEK | 1.81 | 2.41 | 1.92 | 1.53 | 1.10 |
| Cash flow per share after dilution ³ , SEK | 1.77 | 2.31 | 1.88 | 1.50 | 1.09 |
| Earnings per share, SEK | 1.49 | 0.63 | 1.62 | 1.23 | 0.85 |
| Earnings per share after dilution ³ , SEK | 1.46 | 0.61 | 1.57 | 1.20 | 0.84 |
| Dividend per share, SEK | 0.50 | 0.50 | 0.50 | 0.40 | 0.30 |
| Dividend yield, % | 0.7 | 0.9 | 1.3 | 0.7 | 0.7 |
| P/E ratio, times | 49.7 | 92.9 | 23.6 | 50.0 | 50.0 |
| Share price at fiscal year-end, SEK | 74.0 | 58.50 | 38.0 | 62.0 | 42.50 |

¹ Definition of key figures, page 46.

² Adjusted for stock splits and bonus issues.

³ Dilution is based on the convertible debenture programs issued in 2002/2003 (171,550), 2003/2004 (330,000), 2004/2005 (154,800) and the personal options issued in 2002/2003 (28,333), 2003/2004 (56,667) and 2004/2005 (40,000).

Board of Directors, Group Executive Board and Auditor



Thomas Ericsson, Gündor Rentsch, Claes Lundström, Karin Partain.

Board of Directors

Thomas Ericsson Professor of Data Transmission at Linköping Institute of Technology. Born 1942. Chairman of the Board since 1984. Other posts: Board member of Linköping Institute of Technology. Sectra holdings: 196,329 A shares and 1,249,044 B shares.

Torbjörn Kronander PhD. Born 1957. Elected 1988. Employee since 1985, President Sectra Imtec AB and Vice President Sectra AB since 1997. Other posts: Board member of Center for Medical Imaging and Visualization, Milly Medical AB and member of the Royal Swedish Academy of Engineering Sciences. Sectra holdings: 673,057 A shares, 3,444,901 B shares and convertible debentures corresponding to 81,000 B shares.

Anders Persson MD. Born 1953. Elected 2004. Director of the Center for Medical Imaging and Visualization and chief physician in radiology. Other posts: Board member of Center for Medical Imaging and Visualization. Sectra holdings: 2,470 B shares and convertible debentures corresponding to 2,600 B shares.

Gündor Rentsch M. Pol. Sc. Born 1941. Elected 1994. Other posts: Chairman of the Board of ITB AB, Board member of WM-Data AB, Streamserve Inc. and Readsoft AB, et al. Sectra holdings: 150,000 B shares and convertible debentures corresponding to 29,400 B shares.

Carl-Erik Ridderstråle Tech. lic. Born 1942. Elected 2001. Other posts: Advisor Toyota Industries Corporation. Chairman of the Board of Hultdin System AB, Bröderna Edstrand AB and DIAB AB, and Board member of KMT AB. Sectra holdings: 16,500 B shares and convertible debentures corresponding to 44,400 B shares.

Karin Partain MSc. Born 1964. Employee representative since 2003. Project manager Sectra Communications AB. Sectra holdings: 7,810 B shares and convertible debentures corresponding to 1,600 B shares.

Claes Lundström MSc. Born 1973. Employee representative since 2003. Systems engineer Sectra Imtec AB and industrial graduate student at the Center for Medical Imaging and Visualisation. Sectra holdings: 3,412 B shares and convertible debentures corresponding to 3,200 B shares.



Board of Directors, Group
Executive Board and Auditor



Above: Tommy Waszkiewicz,
Erik Persson, Helena
Johansson, Simo Pykälistö,
Jan-Olof Brüer.

To the left: Carl-Erik
Ridderstråle, Anders
Persson, Torbjörn Kronander.

George Ekström BSc. Born 1966. Deputy employee representative since 2003. System engineer Sectra Communications AB. Sectra holdings: 0.

Patrik Preimer MSc. and MBA. Born 1968. Deputy employee representative since 2003. Manager Sales Support Sectra Imtec AB. Sectra holdings: 1,621 B shares and convertible debentures corresponding to 7,000 B shares.

Group Executive Board

Jan-Olof Brüer PhD. Born 1951. President and Group CEO Sectra AB since 1985. Sectra holdings: 673,059 A shares, 3,444,904 B shares and convertible debentures corresponding to 81,000 B shares.

Torbjörn Kronander President Sectra Imtec AB and Vice President Sectra AB. See also under "Board of Directors."

Tommy Waszkiewicz Born 1963. Hired 1990. President Sectra Communications AB since 2002. Sectra holdings: 208,090 B shares and convertible debentures corresponding to 26,000 B shares.

Simo Pykälistö Born 1972. CFO Sectra AB, employee since 2003. Sectra holdings: 400 B shares and convertible debentures corresponding to 22,600 B shares.

Helena Johansson Born 1970. Chief Information Officer Sectra AB, employee since 1993. Sectra holdings: 9,239 B shares and convertible debentures corresponding to 4,400 B shares.

Erik Persson Born 1971. IT Coordinator Sectra AB, employee since 2002. Sectra holdings: 0.

Auditor

Lindebergs Grant Thornton AB

Chief coordinating auditor Ivar Verner, certified public accountant.

From consulting to world-leading products

Sectra completed its first consulting project in the late 1970s. Today the company's products are used by customers in more than 35 countries, and the Sectra brand stands for world-leading products that make healthcare more efficient and protect military secrets.

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

"We were working as researchers in information theory and, under the company's name, we did consulting work in data security and image coding," says Professor Ingemarsson.

Linköping University and the Linköping Institute of Technology have been important to Sectra's development. These institutions are a source of knowledge, and a number of the company's most prominent employees were recruited there.

New strategic orientation

Jan-Olof Brüer earned his doctorate in information theory in the early 1980s, with Professor Ingemarsson as his advisor. Dr. Brüer had new ideas about how Sectra should become a "proper" company.

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

Dr. Brüer was hired as Sectra's President. The nature of the company changed under his leadership, making the transition to selling

products and system solutions in the areas of data security, digital radio and image coding. This new strategic orientation marked the beginning of Sectra's expansion phase.

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

Defense security

Sectra has been active in the area of security ever since the company was started. After spending its initial years working for bank customers, in the 1980s the company began focusing on the customers that have the strictest requirements of all in terms of security.

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

Sectra has been the market leader for advanced encryption equipment for the Swedish military since the mid-1990s.

Medical technology

Dr. Torbjörn Kronander came to the Linköping Institute of Technology to earn his doctorate in the mid-1980s, bringing with him a strong interest in medical technology and a vision of digital radiology. He was eventually recruited to Sectra, where he proposed expanding the company's operations in the

direction of medical technology. Sectra's focus on digital image management systems for radiology departments began in 1988, and today Dr. Kronander is the president of Sectra's medical systems operations.

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

Swedish healthcare adopted the new digital technology early on. Sectra developed the systems for Sweden's first entirely film-free radiology department, which was dedicated in Mjölby in 1993.

Long-term growth

The niches in which Sectra operates have been chosen from a growth perspective.

"A lot of people think that Sectra's areas of activity came about by chance. On the contrary, these were the fields of technology in which we had an interest. These fields were the basis on which we identified niche markets from a long-term growth perspective," continues Professor Ingemarsson.

Sectra resolved early on to target niches with global potential. The first foreign office was opened in Norway in 1995. Sectra has since opened offices in six more countries as part of the company's commitment to international growth.

Initial public offering

As early as 1990, Sectra had made it a goal to become a publicly traded company by the end of the century. Sectra had its IPO on the Stockholm Stock Exchange in 1999. The aim was to validate that the company had grown to become a strong player before continuing on its path toward internationalization. Becoming listed enabled strategic acquisitions and the financing of the continued international expansion, and gained Sectra greater legitimacy in the eyes of its customers and cooperative partners.

Strategic acquisitions

Sectra's operations have grown both organically and through strategic acquisitions. The first acquisition took place in 1995, when Sectra purchased Imtec, a company which, like Sectra, developed digital image management systems for healthcare applications. The most recent acquisition occurred in 2004,

when Sectra strengthened the Group by adding the company that is developing and manufacturing the new mammography stand, Sectra MicroDose Mammography.

"Our strategy is to acquire companies that can contribute to strengthening Sectra's existing product offering, or that have similar operations in complementary markets," says Jan-Olof Briier.

Cutting-edge technology

Since its inception, Sectra has maintained close ties to the world of research. Sectra is open to new possibilities, and has helped to push forward the boundaries in relevant fields of technology. The most recent example of this is the new digital mammography system, which was conceived at a meeting between Sectra and Assoc. Professor Mats Danielsson and his research team at the Royal Swedish Institute of Technology in the late 1990s. Professor Danielsson and his team had developed a revolutionary radiation detector that

Sectra perceived could be used in digital mammography. A cooperative arrangement was established, and today Sectra can offer the mammography departments of the world a unique solution.

Key to continued success

The key to Sectra's success consists of focusing on high-tech niche markets and profitability, committed and capable employees, a healthy internal social climate, close and long-term cooperation with customers, and being open to new opportunities. These attributes give Sectra an excellent foundation on which to face the future.



Sectra was founded 1978 by Professor Ingemar Ingemarsson and his three doctoral students, Viiveke Fåk, Rolf Blom and Robert Forchheimer.



Sectra won its first defense order 1987. This order was the start for Sectra's focus on security products for defense and government agency customers.



Sectra developed the systems to the first entirely film-free radiology department in Sweden, which was dedicated in Mjölby in 1993.

Financial information

Sectra distributes its annual report and six-month report to all shareholders, except for those who have notified the Company that they do not wish to receive financial reports.

All financial information, such as press releases, interim reports and annual reports are available at the Company's website, www.sectra.se. On the website it is also possible to subscribe to receive financial information from Sectra by e-mail.

Financial reports and press releases can be ordered by regular mail from the following address:

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Glossary

HIS (Hospital Information System) The overall information system at a hospital.

Cardiology The study of the heart and its action and diseases.

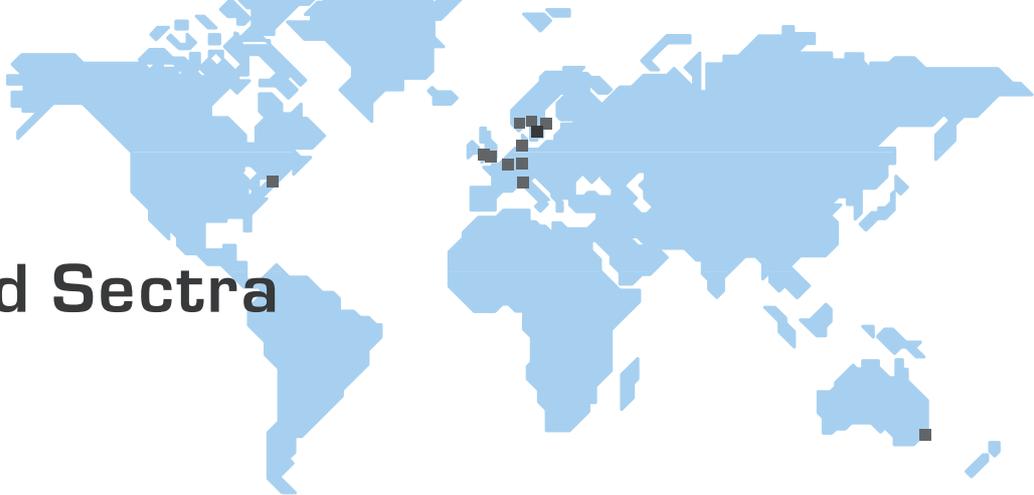
Crypto Equipment that uses mathematical manipulations (algorithms and keys) to encrypt clear-text data, so that they can be interpreted or read only by the intended recipient. In order to read encrypted data, the recipient must have the correct key and algorithm so that the data can be reconverted into their original clear-text form.

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

PACS (Picture Archiving and Communication System) A system for managing and archiving digital radiology images.

RIS (Radiology Information System) An administrative system for managing patient information at radiology departments.

Virtual colonoscopy Computer-aided examination of the colon.



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