

Annual Report

05/06

**SECTRA**

## This is Sectra

Sectra, founded 1978, successfully develops and sells high-tech systems and products in expanding niche segments. Operations include medical systems and secure communication systems. The company's products are used by customers worldwide and sales are conducted directly by Sectra as well as through regional and local partners.

Sectra has offices in eleven countries. The company is headquartered in Linköping, Sweden, and has its roots in research operations at Linköping University. Since 1999, Sectra's shares are listed on the O-List of the Stockholm Stock Exchange.

## Business areas



### Medical systems

*Business concept:*  
to increase effectiveness of health-care, while maintaining or increasing quality in patient care.

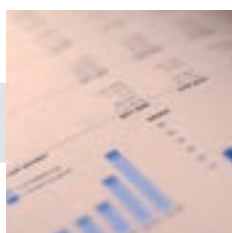


### Secure communication systems

*Business concept:*  
to be the leading supplier of secure communication systems to defense and government agency customers.

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reported record-high sales



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orders from six new markets



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cooperation within the EU



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## Annual General Meeting

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

## Dividend

A dividend of SEK 0.50 per share is proposed for the 2005/2006 fiscal year. July 3, 2006 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, 2006.

## Financial information 2006/2007

Interim report May – July 2006: September 5, 2006  
Six-month report May – October 2006: December 5, 2006  
Nine-month report May 2006 – January 2007: March 6, 2007  
Preliminary year-end report 2006/2007: May 23, 2007

All financial reports are published on the company's website [www.sectra.se](http://www.sectra.se). The annual report and interim reports are distributed automatically to shareholders.

By means of the company's homepage, it is possible to subscribe to annual reports, interim reports and press releases by e-mail. Subscription via conventional mail may be ordered by phone +46 13 23 52 00 or e-mail [info.investor@sectra.se](mailto:info.investor@sectra.se).

# The fiscal year in brief

## Financial outcome

- ➔ Sectra recorded the highest net sales, profit and order bookings in the company's history. Net sales rose 23.8% to SEK 564.4 million. Medical systems and Secure communication systems both increased their sales from the preceding year.
- ➔ Revenues from markets outside Sweden rose 23.0% to SEK 366.9 million. The largest single increase is attributable to the key US market.
- ➔ Profit after net financial items increased to SEK 80.7 million, corresponding to a profit margin of SEK 14.3%. Earnings were charged with large costs for Sectra's extensive investment in strengthening the company's position in key markets as well as extra costs for phasing out the cooperation with Philips Medical Systems.

## Medical systems

- ➔ The market for medical IT continues to expand and Sectra reported rising revenues from sales, service and support of medical imaging systems. In total, the number in-stallations of Sectra's medical systems rose 27% compared with a year earlier.
- ➔ Sectra initiated extensive investments in expanding the distribution networks and service organization to bolster the company's position in the medical-systems market.
- ➔ The transition from analog to digital mammography is in full swing and additional customers in Germany and Sweden, along with healthcare providers in six new markets, have purchased Sectra's digital mammography system.

## Secure communications systems

- ➔ Sectra's investments in the development and marketing of the third-generation Tiger products – Tiger XS – have begun to yield orders. During the fiscal year, Sectra supplied Tiger XS to public-sector clients in Austria, the Netherlands and Sweden.
- ➔ Increased cross-border cooperation has created a new market for EU-approved communications equipment. As a result of cooperation with organizations within the EU and the security authorities in a number of countries, Sectra has become one of the first companies to supply encryption products developed in line with common EU requirements.

highest order bookings in Sectra's history

Key figures	05/06	04/05
Order bookings	613,7	570,7
Sales, SEK M	564,4	455,9
Profit after financial items, SEK M	80,7	80,4
Value added	335,8	301,9
Profit margin, %	14,3	17,6
Equity ratio, %	58,9	61,5
Return on shareholders' equity, %	13,2	12,8
Earnings per share, SEK <sup>1)</sup>	1,65	1,45
Dividend per share, SEK <sup>2)</sup>	0,5	0,5
No. of employees at year-end	383	370

<sup>1)</sup> Before dilution. <sup>2)</sup> Proposed dividend for 2005/2006



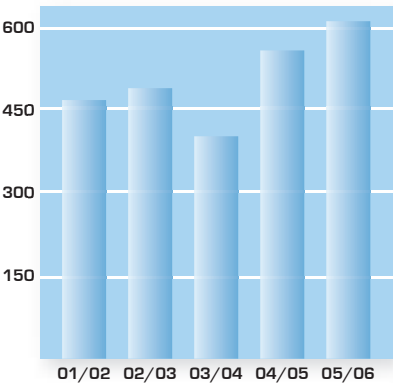
# Our customers sleep soundly at night

During the year, Sectra launched PACS-Guard<sup>SM</sup>, an international maintenance and support service for remote monitoring of radiology systems. With this new service, all customers using Sectra's systems are offered real-time, round-the-clock monitoring of their operationally critical IT systems.

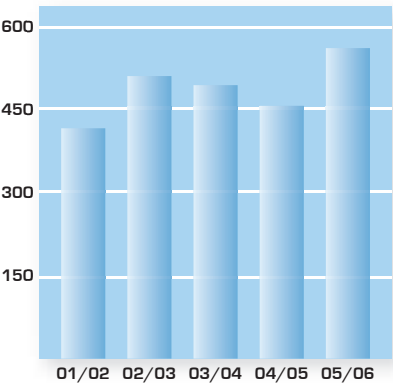
One of the new customers using PACS-Guard<sup>SM</sup> is Midstate Medical Center in Meriden, Connecticut, in the US. Richard Maskowsky, Radiology Information Service Manager at Midstate Medical Center, says:

*"I can sleep comfortably at night and feel more relaxed, knowing Sectra is monitoring the situation. Together, we are providing top-notch service to our users."*

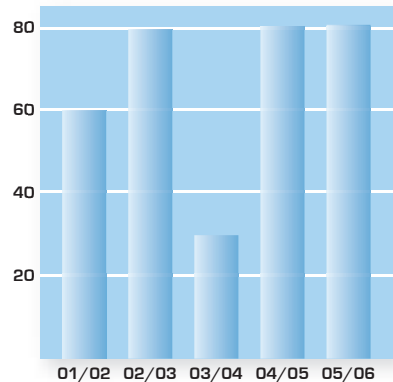
Order bookings  
SEK Million



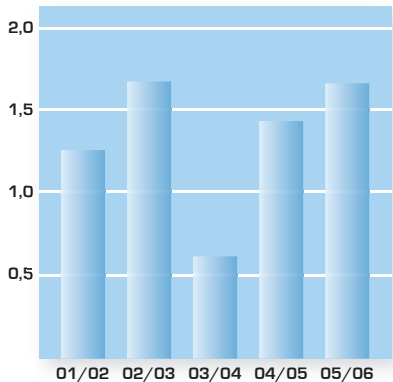
Net sales  
SEK Million



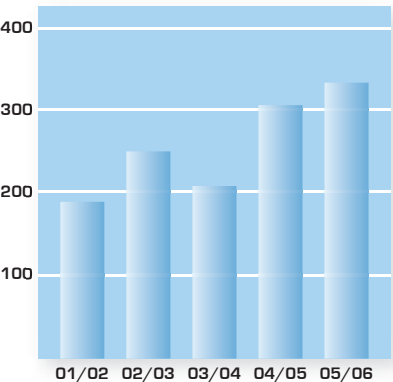
Earnings after net financial items  
SEK Million



Earnings per share  
SEK



Added value  
SEK Million



# Sectra advances positions to become a world leader

Sales, earnings and order bookings for 2005/2006 are the highest we have ever reported for a fiscal year. A year characterized by major moves to strengthen the company's positions in key markets – efforts that have borne fruit sooner than we had initially dared to hope.

The Group's net sales for 2005/2006 rose 23.8% to SEK 564.4 million (455.9), primarily as a result of increasing revenues from sales and service and support of medical systems. The outcome for the fiscal year would probably have been even better if the change in relations with our largest partner, Philips Medical Systems, had not disturbed the picture.

## **Change in relations with Sectra's largest partner**

On July 6, 2005, Philips Medical Systems announced that it had acquired a company that develops similar systems to Sectra's medical image management system (PACS). Although Philips continued to sell our PACS systems during the year, primarily in markets outside the US, the company's relative importance for distribution of our systems has begun to decline, and this trend is expected to progressively continue during the next few years. The change in the cooperation with Philips will encumber earnings during a transitional period lasting another six to 16 months.

## **Extensive marketing measures**

Our present aim is that the potential for new initiative on the market that Philips has given us, will bring us further success in due course. The changes in our cooperation with Philips made it possible for us to attack key markets with our own sales. Within our medical systems

operations, we initiated extensive measures to increase direct sales in strategically important markets and to expand our service and support offering to include all customers who use Sectra PACS. We also signed distribution agreements with around ten new partners.

## **Strong expansion in the US**

Our efforts to strengthen our position in the market for medical systems have, for example, led to increased sales in the US, the world's largest market for medical IT, through a combination of direct sales and sales through new partners. Sales in the US rose 76.5% to SEK 144.7 million (82.0). We have high hopes for further expansion in the US market as soon as we receive FDA approval to also sell our digital mammography system, Sectra MicroDose Mammography.

Revenues from markets outside Sweden increased by a total of 23.0% to SEK 366.9 million (298.2), and now account for 65.0% of the Group's total net sales.

## **Sound profitability**

Our consolidated profit after net financial items rose to SEK 80.7 million (80.4). The success of our focus on increased direct sales exceeded our expectations, and despite the significant cost of phasing out our relationship with Philips, we recorded a profit margin of 14.3% (17.6).



Sales in markets outside Sweden are increasing

Within secure communication systems, we recorded a loss of SEK 5.9 million – a significant improvement compared with the loss of SEK 15.5 million for the preceding fiscal year. Increased product sales, combined with the savings measures we took during the fiscal year, will continue to contribute to a positive earnings trend for this segment of operations.

#### **Growing market for medical systems**

Medical systems is our largest operational segment, accounting for 88.3% of the Group's net sales. A growing number of hospitals are choosing to enhance the efficiency of their radiology operations by introducing digital systems, and during the year we increased the number of installed systems by 27%. Today, we are one of the world's leading suppliers of systems for handling digital radiology images. A total of some 40 million radiology examinations are performed each year using our systems, and as the number of installations increases, revenues from ancillary sales and maintenance and upgrade agreements will also increase.

We have a particularly strong position in our domestic market, Scandinavia, which is one of the most highly developed markets for digital radiography systems. It is estimated that in the US, the world's largest market for medical IT, approximately 30-40% of the systems for processing of radiology images are digital. The proportion is estimated to be considerably lower in countries such as Spain and France, for example. The transition to digital systems is taking place at an accelerating speed, which means that the market for our systems will continue to grow.

#### **Mammography customers in six new markets**

Within medical systems, we have also been focusing for the past few years on products for mammography and orthopedic departments – niche markets that are expected to grow strongly during the next

few years. The most intensive efforts are being made in the mammography area, where we can offer customers one of the world's best digital mammography systems – Sectra MicroDose Mammography – which provides the market's lowest radiation dose and most efficient workflow. The transition from film-based to digital mammography systems is in full swing worldwide, and during the fiscal year we sold Sectra MicroDose Mammography to mammography clinics in six new markets. Our aim is for the mammography segment to represent a substantial portion of Sectra's total operations within a few years' time.

#### **EU-approved encryption products**

Within secure communication systems, we have made substantial investments in the development of the third generation of Tiger products – Tiger XS – during the past few years. This investment is beginning to show results, and during the fiscal year we delivered Tiger XS to public-sector customers in the Netherlands, Austria and Sweden.

A new market is currently developing for the type of advanced security products that we supply. As a result of increased European co-operation across national boundaries, the requirements that encryption products must meet are migrating from being national to being common for the entire EU. Products used for the transfer of sensitive information require EU-approved encryption systems, and we are among the first companies to offer products developed in conformity with the new EU requirements.

#### **Continued profitable growth**

Sectra's average growth rate over a seven-year period currently stands at 19.4%. While we have not yet achieved our strategic objective of growing by an average of 30% per year, we achieved a better result during 2005/2006 than in prior years. The products and system





solutions that we develop are aimed at markets with high growth potential. Our presence in the international market is increasing through the establishment of new offices in selected markets and through cooperation with partners worldwide. Our market-leading position in Scandinavia, combined with strategic partnerships, gives us a strong platform for continued international expansion.

Today, we are one of the leading suppliers of medical IT systems and products for protecting sensitive information. This position is the result of our long-term, goal-oriented efforts to become number one in our niche areas. I predict that the niches within which we operate will increase in volume during the next ten years, offering the potential for continued favorable development in the future.

Linköping in May, 2006

Jan-Olof Brüer  
President and CEO



# Visions, goals and strategies

Sectra's vision is to be the world 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.

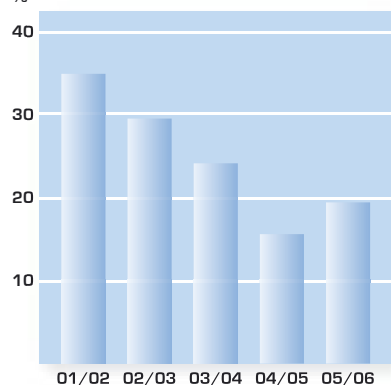
With a focus on cost control and profitability, innovative technology, highly skilled and committed employees, a sound internal social climate, close and long-term cooperation with customers and partners and its openness to new opportunities, Sectra is working to achieve the goals that the company has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

Annual average growth over a seven-year period %



- ➔ 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 30% over a seven-year period.

### Financial goals

- ➔ To achieve a profit margin of 10%.
- ➔ To maintain a stable financial status with an equity ratio of 30%.

## Strategies

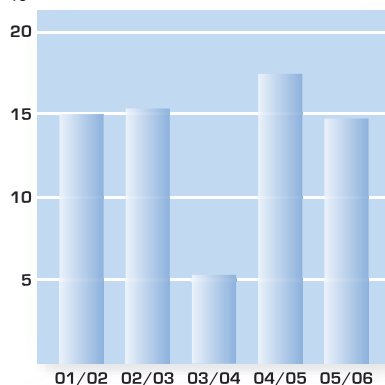
Sectra's overall strategies for achieving these goals may be summarized as follows:

- ➔ To work together with the most qualified customers to ensure that our systems and

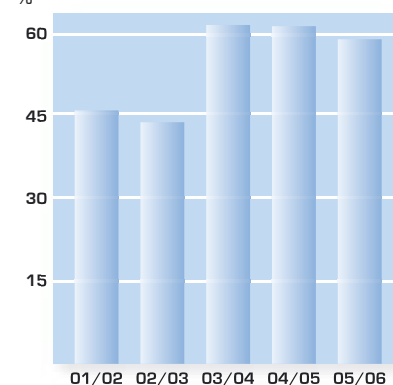
products meet the market's strictest requirements in terms of performance, quality and user-friendliness.

- ➔ To offer our customers products and systems that create unique added value and contribute to increasing their productivity.
- ➔ To recruit and cultivate highly qualified employees.
- ➔ To focus on areas where Sectra has core competence, and to 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.
- ➔ 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 global market and to expand our product offering to customers.

Profit margin %



Equity ratio %



# 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 a world leader.

Sectra's products are used by customers worldwide. Sales are conducted directly by the company as well as through some 20 local, regional and global business partners.

## Organization

The two business operations are conducted in the wholly-owned subsidiaries Sectra Imtec AB (medical systems) and Sectra Communications AB (secure communication systems). In turn, these companies have a number of subsidiaries and offices worldwide.

## Profitable growth

Sectra's niche markets offer major growth potential and the company's growth rate over the past seven years was 19,4%. Expansion has occurred both through organic growth and acquisitions. Sectra, which has consistently focused on profitability, reported profit margins of 6-18% over the same period. The company is characterized by a high level of cost consciousness and employees always endeavor to care for customers' and Sectra's resources.

## Service – a key component of the product offering

Service, training and upgrades comprise key components of Sectra's product offering, ensuring that customers can derive maximum benefit from their investments and gain the

opportunity to develop their operations with Sectra's systems. Customers are offered various service packages, such as full-service and upgrade agreements.

Sectra's healthcare customers impose stringent requirements in terms of access to service and support. Sectra provides round-the-clock service from its offices or on-site at the customer's facilities whenever required. Some 20 of Sectra's employees have a pilot's license, facilitating fast 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 Sectra operations are certified in line with the ISO 9001:2000 and TickIT quality standards.

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

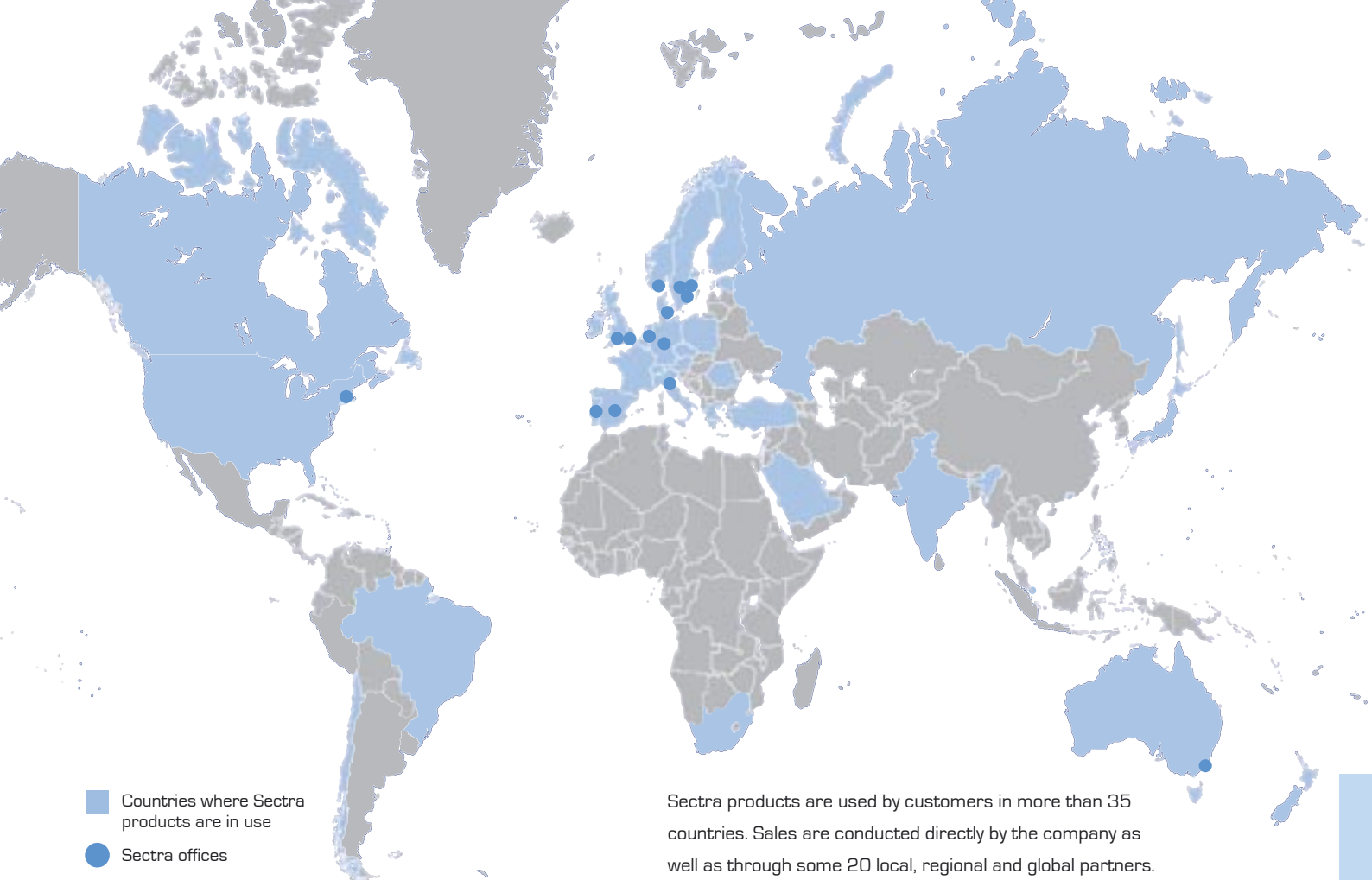
## Research and development close to customers

The company's development strategy is based on customer requirements combined with Sectra's knowledge of technology trends. 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 meet market requirements.

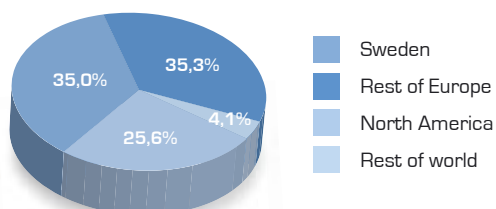
Sectra works in cooperation with a number of universities and research centers to offer systems based on the very latest technology. Customer insight into how technology best can be utilized, combined with employee know-how within each market segment and the company's close ties to research, have resulted in advanced products that offer unique technical solutions, high performance and maximum user-friendliness.

## Patents and trademarks

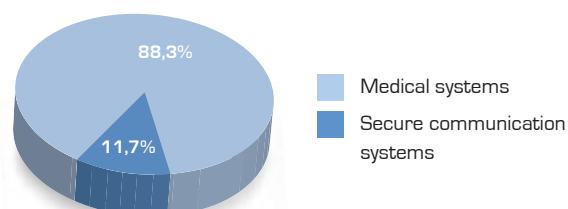
Building and protecting our brand and safeguarding the company's intellectual property rights are part of Sectra's business development strategy. This protection covers patents, trademarks and registered Internet domain names. Sectra's trademark portfolio includes some ten registered trademarks, and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



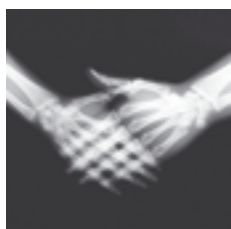
Net sales by geographic market



Net sales by business area



## Business areas



### Medical systems

#### Products

Systems for digital management of radiology images and patient information.

#### Customers

Private and public hospitals and clinics.

#### Net sales, SEK M

05/06	498.8
04/05	392.1

#### Number of employees

05/06	312
04/05	293



### Secure communication systems

#### Products

Systems and products for secure mobile communication and network security.

#### Customers

Government agencies and defense forces.

#### Net sales, SEK M

05/06	65.8
04/05	63.4

#### Number of employees

05/06	56
04/05	58

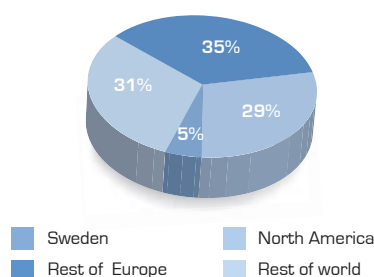
# Medical Systems



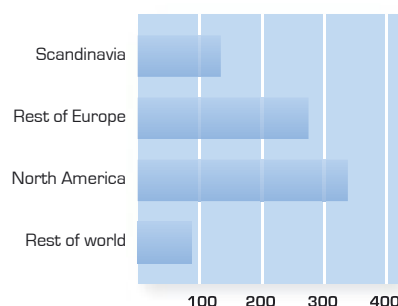
Sectra's medical operations continue to expand and the number of hospitals using the company's system now exceeds 800. A total of more than 40 million radiology examinations are conducted annually using Sectra's system, making Sectra one of the world's leading suppliers of digital image management systems to health-care providers.

Key figures	05/06	04/05
Net sales, SEK M	498.8	392.1
Operating profit, SEK M	43.9	59.0
Operating margin, %	8.8	15.0
Number of employees	312	293

Net sales by region



Total number of installations



Sectra's medical systems operations are conducted in the wholly owned subsidiary Sectra Imtec AB, with a focus on systems and products for digital processing of radiology images and patient information. Sectra's offering includes products for film-free radiology operations, mammography and orthopedics.

The sale of medical systems is conducted directly by the company as well as through some 15 local, regional partners and global partners. Customers include both public and private healthcare providers. Sectra's systems have been installed in Scandinavia, North America and most other major countries in Europe and the Far East.

For more than 15 years, Sectra has developed flexible medical IT solutions that can easily be customized and integrated with other systems in hospital environments. Focusing on efficient workflows and high productivity, the company's products contribute to cost savings in medical care.

## TREND OF OPERATIONS 2005/2006

During the fiscal year, Sectra made extensive investments aimed at strengthening the company's position in the market for medical systems. Among other results, investments led to new offices for direct sales in Spain and Portugal, the expansion of the distribution network and a strengthening of Sectra's own sales and service organization.

## New distribution channels

Sectra commenced cooperation with new distributors in the US, Australia, France, Italy and Turkey. As part of efforts to expand the distribution network and service organization, Sectra also acquired a 20% holding in ImaXperts BV, a Dutch distributor of medical systems in the Netherlands, Belgium and Luxemburg.

The expansion of the distribution network was permitted by the change that occurred in the cooperation with Sectra's major partner Philips Medical Systems, during



## Benefits of digital image management systems

- ➔ Cost savings through higher productivity and efficient workflows.
- ➔ Access to images and information throughout the entire hospital's network whenever required.
- ➔ Faster response to referring doctors and, accordingly, patient treatment can commence earlier.
- ➔ Reduced costs for archiving film and paper printouts for referrals.
- ➔ Elimination of environmentally hazardous chemicals and film – combined with ergonomic benefits – provides a superior work environment.

summer 2005. At that time, Philips announced it had acquired a US company developing similar systems as Sectra supply to Philips. As a result, the significance of Philips in the distribution of Sectra's digital image management systems will successively decline.

Philips continued to sell Sectra's products during the fiscal year and Sectra is striving to ensure that new and existing customers will continue to gain access to service, support and upgrades. The current cooperation agreement with Philips extends through 2007, in addition to this, certain project agreements extend for periods of up to the year 2016.

### Strong development in the US market

The number of Sectra systems installed in the key US market rose 25% during the fiscal year. This is the result of increased direct sales of digital image management systems (PACS), new partners, and Sectra's successful focus on the orthopedics market.

### Extensive investments in service and support

During the year, Sectra launched a new international service and support program for all users of Sectra PACS (Picture Archiving and Communication System). The launch entails that all users are offered real-time monitoring of the operationally critical IT system around the clock, a service that Sectra previously offered only to Scandinavian customers. The first unit to commence the sale of the service was Sectra's office in the US, which has already signed new service and support contracts with a number of customers.

Cost-efficient service, support and upgrading agreements represent a key component of Sectra's product offering. In pace with the growing number of installations, revenues also rise from this type of agreements.

### Sales successes in mammography

The transition from film-based to digital mammography systems is in full swing worldwide and has been boosted by the ACRIN study, a major US survey showing that digital mammography is as good if not better than film-based mammography. Sectra's largest sales successes in mammography operations have been in Germany. New customers include, for example, Mammographie Zentrum Münster, one of Germany's first mammography screening centers, and the Karlstal radiology clinic in Kiel.

Sectra's mammography system was also sold to additional customers in Sweden and mammography clinics in six new markets. As a result, mammography clinics in Sweden, Norway, Denmark, Germany, Switzerland, Austria, Ireland, UK, Australia and New Zealand have elected to digitize their operations using Sectra MicroDose Mammography.

## FINANCIAL DEVELOPMENT

Sectra's focus on increased direct sales of medical systems, combined with new partnerships in key markets, has contributed to increasing revenues from sales, service and support.

### Successful focus on the US market

Net sales for medical systems amounted to SEK 498.8 million (392.1), up 27.2% compared with the corresponding period in the preceding year. The largest single increase is attributable to the key US market. Most of the medical systems revenues pertain to sales of PACS to radiology departments, but sales to mammography and orthopedic departments have begun to accelerate and

developed highly positively during the fiscal year.

Operating profit for the fiscal year amounted to SEK 43.9 million (59.0), corresponding to an operating margin of 8.8% (15.0). Earnings were affected by the company's extensive investments in expanding the distribution network and service organization and by the increasing proportion of direct sales. In direct sales, the transaction normally involves complete system deliveries that include both software and hardware. Sales via partners are solely software licenses. Accordingly, a transaction via partners is much smaller in terms of volume. At the same time, the delivery time is generally very short, and the transaction has high added value and a higher contribution margin.

transition from film-based to digital mammography systems is in full swing worldwide



## Sectra focuses on women's health



Sectra's mammography system, Sectra MicroDose Mammography, contributes to improving women's health. The system has the lowest radiation dose worldwide, which is a major safety factor for the women examined. Combined with excellent ergonomics, this helps to ensure that women receive fast and stress-free examinations.

## Demographic changes are impacting on our welfare system



*What challenges await today's healthcare and medical-care systems?*

"An extensive process of demographic change is under way virtually throughout the industrialized world. People are living longer and the younger age groups are smaller than the older ones, which means that fewer people must support the elderly. The first effects of the change are only a few years away, when the large generation born in the 1940s gradually become more in need of care."

*What does the change mean in practice?*

"The change will eventually affect the entire community. We will have to meet sharply increased costs for healthcare and medical care, which will increase the pressure to optimize both time and resource efficiency. There will be an increased need for age-related medical care, in the form of cancer treatments, orthopedic surgery such as hip and knee replacements or treatment of bone fractures caused by osteoporosis."

*What are the greatest challenges in the market for Sectra's products?*

"New radiology equipment that produces a huge number of images will be one of the single greatest challenges during the next few years. An X-ray examination that used to involve about 20 images can today include thousands of images, imposing totally new demands on the systems for processing and storing data."

*How does Sectra work to meet these challenges?*

"We were aware of the needs in medical care at an early stage and are positioned with very competitive products for the future. We have a strong focus on systems that facilitate daily work for our customers – for example, by simplifying the handling of radiology images and speeding up workflows. The technology should not be there simply because it is possible; it should help to increase productivity at every stage."

"When it comes to the handling and storage of the extremely large amounts of data produced by the new radiology equipment, one of our main competitive advantages is the launch this year of a new version of our systems featuring a globally unique rapid and simple presentation of information, enabling the radiology physician to make reliable diagnoses without any unnecessary delay."

### About market and positioning

*Can you describe the market potential for Sectra's radiology system? Is there any difference between different parts of the world?*

"The greatest potential for digital radiology is in the US, simply because it is a huge market that is ready for products of this type and is far from saturated. Japan and Europe are also large and growing markets. But it should be borne in mind that Europe actually consists of a number of markets with different conditions. There is major potential for new sales in Germany and southern Europe, for example."

*What are the market prospects for Sectra's orthopedic products?*

"In this area too, the US is a strongly dominant market, where our sales are almost exclusively conducted through direct contact with the end customer."

*Does the US dominance also apply to mammography?*


"The situation is different in certain respects regarding our sales of mammography systems. Until our mammography system is approved by the Food and Drug Administration (FDA), the US market is not accessible to us. In the meantime, we are focusing on other markets, such as Germany, Scandinavia, the Netherlands, the UK, France, Australia and New Zealand."

*How does Sectra view the Asian market?*

"The Japanese market is important. It is the second largest medical-technology market in the world, and we have delivered many image management systems there, but no mammography systems as yet. Other Asian countries have not progressed as far in their development, but are growing rapidly."

*Who are Sectra's main competitors?*

"There are a few global players, including General Electric and Siemens, and in the mammography area the US company Hologic has been highly successful."



Ready  
steady  
the future

During 2005, Sectra launched a new generation of workstations offering unrivalled performance worldwide. Thanks to revolutionary image-processing methods, really large image volumes can be displayed 100 times faster than with conventional methods. The new methods were developed in cooperation with the Center for Medical Visualization (CMIV) at Linköping University in Sweden. Anders Persson, Manager of CMIV and senior radiology physician says:

*"Sectra's new generation of workstations is an example of how the results of our research can facilitate radiologists and other medical staff in capitalizing on the technical advances in the IT area."*

*What distinguishes Sectra from other players?*

"We have more than 15 years' development experience of Picture Archiving and Communication Systems (PACS). There are very few players who can offer a system that is as complete, workflow optimized and stable as ours. In addition, we offer products with unique features, such as our mammography system that gives the lowest radiation dose of any system in the international market. Service and support are also key competitive factors in which we excel with our strong service offering and highly professional service team."

*How strong is Sectra's position?*

"It is clear that we are one of the world's largest independent PACS suppliers. We have a large base of installed systems worldwide and are among the market leaders in Scandinavia. In countries where we are not so well known, we sell through well-known local and regional partners."

#### **About future outlook**

*What does Sectra plan to focus on during the coming year?*

"Continued expansion of our distribution network and increased direct sales in key markets, such as the US. We also plan to focus on marketing our global service and support offering and on further development of our products."

*What is the significance of the change in the cooperation with Philips, based on the year or so that has passed since the event?*

"That we have developed direct sales and strengthened our own service organization, particularly in the US, which involved increased costs. Direct sales have exceeded expectations and the change in the cooperation with Philips could turn out to be a positive experience in the long term. We now have closer contact with our end customers, which gives us better feedback and enhances our ability to maintain a high level of customer satisfaction."

*What are the greatest risks in the future?*

"One risk could be if we fail to build up our distribution network sufficiently rapidly and lose market shares as a result, despite the fact that our systems are actually superior to other systems in the market."

*What points to Sectra's continued success in the future?*

"All our products are in areas in which we see extremely rapid growth in the coming decades. The most rapid growth today is in the digitization of radiology departments. In the future, digital mammography and orthopedics are areas that are expected to develop strongly. To sum up where we stand, I can affirm that the future looks bright for Sectra."

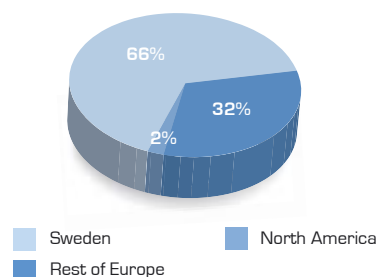
# Secure Communication Systems



European government agencies and defense forces are increasing their cross-border cooperation. This means that requirements in terms of secure communication systems are becoming less national and more pan-European. Sectra is among the first companies to offer encryption products developed in line with new EU requirements.

Key figures	05/06	04/05
Net sales, SEK M	65.8	63.4
Operating profit, SEK M	-5.9	-15.5
Number of employees	56	58

Net sales by region



Sectra's operations in secure communication systems are conducted in the wholly owned subsidiary Sectra Communications AB and focus on systems and products for secure mobile communications and network security. Customers are government agencies and defense forces in Europe and NATO. Sales are conducted directly and via partners.

In Sweden, Sectra is the market leader in secure communication and IT systems for the defense forces. In recent years, Sectra has established cooperation with security authorities in several European countries as well as EU organizations. As a result, Sectra's products have been approved by the Norwegian, Dutch and Austrian security authorities and NATO.

## Strong core expertise in encryption

Sectra has supplied authorities and defense forces with secure communication systems since the 1980s. As a result, the company has developed an advanced technical platform and expertise in the entire chain from

the development of crypto-algorithms to final products for secure communication. The products fulfill the strictest security requirements and have been developed in close cooperation with customers.


## TREND IN OPERATIONS 2005/2006

Government agencies and defense forces communicate increasingly at a distance, resulting in a greater need for products that protect the transfer of sensitive information. To satisfy these requirements, Sectra has developed Tiger®, a family of products for secure voice and data communications. Recent years investments in the development and marketing of third-generation Tiger products – Tiger XS – have begun to show results.

## A foothold in the European authorities market

During the year, Sectra supplied Tiger XS to customers in government agencies in the Netherlands, Austria and Sweden. In the





## Are you sure you are not bugged?

Tiger XS is a personal encryption device designed to facilitate the exchange of sensitive information regardless of whether it is communicated from a cell phone, desk phone, conference phone or computer. To increase operator flexibility, the product functions in several types of communication networks, such as GSM, fixed telephony networks and various satellite systems.

Arne Jonsson, Central Signals Security Coordinator at the Swedish Emergency Management Agency says:

*"The advantage of Tiger XS is that users can utilize their own cell phone, plus the simplicity of use. This permits a greater focus on in-house operations and the information to be conveyed rather than grappling with equipment."*

Netherlands, Sectra also signed a three-year general agreement with the department of defense. Thus, in the Dutch market, Sectra supplies Tiger products to customers among all government agencies as well as the defense forces. To meet the Dutch demand, Sectra has also opened an office in the Netherlands.

In Sweden, Sectra completed the initial delivery of Tiger XS to the Swedish Defense Materiel Administration (FMV). Among other, the Swedish Government Offices and government agencies active in public order and security will use the series. During the

year, FMV also ordered customization of Tiger XS to meet the needs of users with the strictest security requirements. Deliveries will commence in 2006.

### **Sectra secures EU communications**

New regulations governing the exchange of classified information have been introduced in EU. The new rules mean that products used in transferring sensitive information require EU-approved encryption.

In January 2006, Austria took over the Presidency of the EU. Ahead of this, the

Austrian authorities ordered Tiger XS and thus became the first presiding country to use Sectra's EU-approved encryption for secure voice and data communications. The transaction with the Austrian authorities is an example of how a greater cooperation in the EU contributes to strengthening the market for Sectra's security products.



### Leading encryption suppliers for the Swedish defense forces

For more than 15 years, Sectra – in cooperation with FMV, the Swedish Defense Forces and the academic world – has developed encryption modules, the most security-critical components and the core of an encryption system. The Swedish Defense Forces impose stringent demands in terms of secure and rapid communications and during the past year Sectra completed the development of the next generation of encryption modules.

During the year, Sectra also developed a new encryption modem for tactical environments with tough requirements in terms of

humidity and shock resistance. The new-generation encryption modem is to be used to protect the Defense Forces' computer communications in various telecom networks, and FMV made the first volume order for delivery in spring 2006.

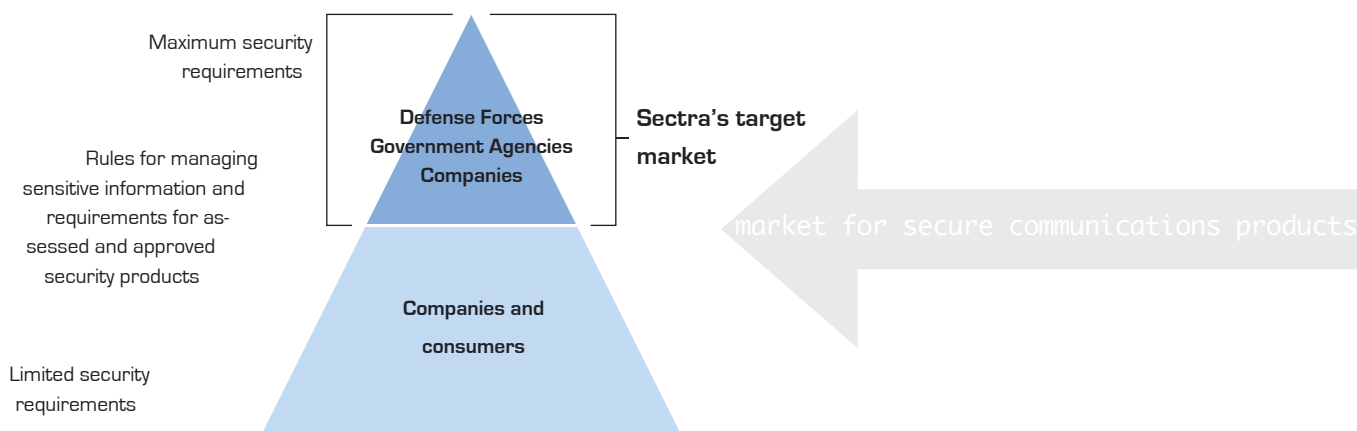
### FINANCIAL DEVELOPMENT

Sectra's focus on the development and marketing of Tiger XS is beginning to show results in the form of increased product sales. In combination with a reorganization of operations, this contributed to a strong improvement in earnings compared with the preceding fiscal year.

### Increased deliveries of Tiger products

Net sales for the secure communications operations rose 3.8% to SEK 65.8 million (63.4) as a result of increased deliveries of Tiger products. Most of the revenues pertain to development assignments and customer-specific products.

The operating loss was SEK 5.9 million (loss: 15.8). Increased product sales, combined with the savings measures taken in conjunction with the reorganization during autumn 2005, helped to reduce the loss.



Sectra's products fulfill the strictest security requirements and have been developed in close cooperation with customers. The products have been approved by the Swedish, Norwegian, Dutch and Austrian security authorities and NATO.



## Increased cooperation within the EU creates new market



*What are the most important market trends for Sectra's products?*

"Closer cooperation among the government authorities in Europe is increasing the information flow across national borders. This means that the regulatory requirements for handling sensitive information extend from being national to becoming common for the entire EU, which has created a new market for EU-approved crypto products. This trend also applies to the defense forces, in which increased European cooperation will in future require crypto products that are approved in accordance with common EU rules."

*How does Sectra work to respond to these trends?*

"We develop products in close cooperation with our customers and in this manner detect new demands and changed requirements at an early stage. As a result of our use of a module-based design in product development, we can adapt our products in a cost-efficient manner to the new EU rules, new technologies and to new customer segments."

### About market position and competitors

*What is Sectra's position on the market?*

"We are market leading in secure communications and IT systems to the Swedish defense forces. On the European market, we are a strong niche supplier within secure communications for customers that have the strictest requirements for handling of security classified information."

*What competition does Sectra face on its markets?*

"There are two types of players on the European market. There are some large electronics companies and system integrators in which communication security is a small segment of operations, such as Rohde & Schwartz and Thales. The other type we meet are smaller, and more pronounced, security companies on limited geographical markets."

*What differentiates Sectra from other players on the European markets?*

"We offer total solutions for voice and data communications that

function regardless of whether the information is communicated by mobile phone, office phone or conference telephone. The products operate in several different types of communications networks and are adaptable to future communications technologies and new demands, which ensures a long economic lifetime. Our Tiger products provide great flexibility for the user and we are the first to offer this type of total concept."

"We also have the major advantage that our products are approved by the security authorities in many countries and by NATO, and that we are the first company that offers products developed in accordance with the new EU requirements."

### About future outlook

*How do you view the future?*

"We have now reached the point at which we have the third-generation Tiger products fully developed. Consequently, we will increase the focus on marketing and sales of these products. Awareness that it is quite simple to eavesdrop on traffic in the public communications network is rising, which contributes to higher demand for the type of products we deliver."

*What are the greatest risks?*

"There is always a risk that customers will favor national industry rather than international players in procurement of crypto products. At the same time, budget restraints and savings demands within public authorities and defense forces open the market for 'off-the-shelf' products."

*Sectra is the market leader in Sweden, how will you also succeed internationally?*

"We have years of experience of developing crypto products in cooperation with the Defense Materiel Administration in Sweden. In recent years, we have also succeeded in establishing cooperation with other qualified customers at influential authorities and agencies in many European countries. Combined with our flexible products for secure mobile communications and our leading-edge expertise, we have favorable conditions to expand on the international market."

## Skill and commitment the keys to success



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

At year-end, Sectra had 383 permanent employees – an increase of 13 persons compared with the preceding year, as well as some 30 employees attached to specific projects.

### **Skills and education**

The majority of Sectra's employees have an academic education, most of them being graduate engineers. A large number of employees have pursued postgraduate research, and four professors and 18 PhDs in engineering are involved in the company's operations.

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

### **Diversity**

Employees from more than 20 countries work at Sectra, and the creation of a multicultural environment is one of the company's strategic goals. The employees contribute through their experience of different cultures and environments, which is a prerequisite for enabling Sectra to be successful internationally.

### **Recruitment**

During the fiscal year, Sectra recruited more than 50 new employees with a high level of expertise in different areas, including both persons with substantial experience and recent graduates. Recruitment was mainly to

positions in sales, service and support. The personnel turnover during the fiscal year amounted to 10.4% (5.4).

To foster recruitment of future highly skilled employees, Sectra offers university and college students the opportunity to pursue parts of their study program at the company in the form of work experience and degree projects.

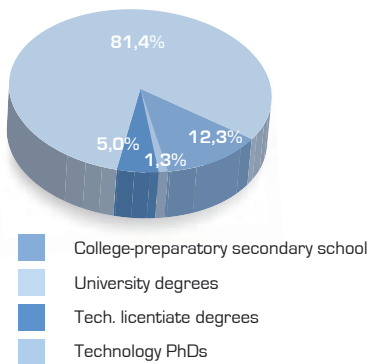
### **Healthy employees**

The well-being of employees is of paramount importance. Absence due to illness during the fiscal year was 1.1% (1.7). Sectra takes a preventive approach to work-environment and health issues by offering employees regular health checks, keep-fit programs and opportunities for subsidized fitness training. The company's health program also includes ergonomic counseling to reduce the risk of work-related injuries.

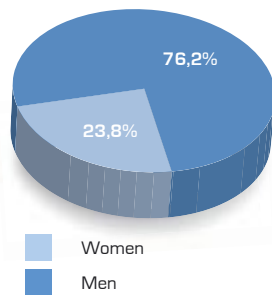
### **Participation in the company's success**

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

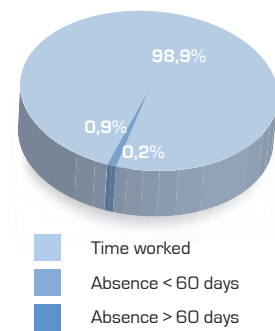
Employees' educational level



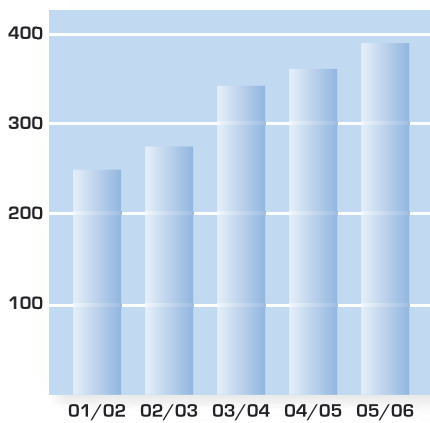
Employees per gender



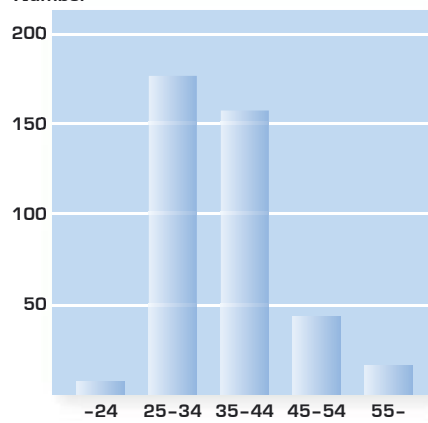
Absence due to illness in the Swedish companies



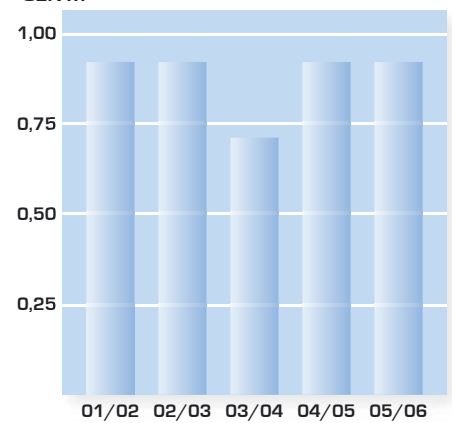
Number of employees



Age distribution  
Number



Value added per employee  
SEK M



smart people know when to ask other smart people ®

# The Sectra share

Sectra's Series B share has been listed on the Stockholm Stock Exchange's O-List since 1999. A trading lot consists of 200 shares. The latest price paid on April 28, 2006 was SEK 58.75, which corresponds to a market value of SEK 2,005 million [2,507].

The highest quotation for the share during the fiscal year was SEK 80.00 on May 19, 2005, while the lowest quotation was SEK 41.70 on July 25, 2005.

## Share capital

Sectra's share capital at April 30, 2006 totaled SEK 36,746,541, divided among 36,746,521 shares. Of these shares, 2,620,692 are Series A shares and 34,125,829 are Series B shares. The par value of each share is SEK 1. All shares confer equal rights to the company's assets and earnings. One Series A share confers ten votes, while 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 766,667, corresponding to 2.1% of the share capital and 1.3% of the votes. The number of shares after dilution amounts to 37,513,188.

## Convertible debentures program

During October 2005, convertible debentures with a total par value of SEK 11.7 million were issued to Sectra's employees. Upon full conversion of these debentures, the number of shares would increase by 165,200 Series B shares, corresponding to 0.4% of the share capital and 0.3% of the votes. The convertible debentures mature on June 15, 2008 and have a conversion price of SEK 71.10. Similar convertible

debenture plans implemented previously also exist; see list on following page.

During the fiscal year, convertible debentures issued to employees and Board members during fiscal year 2002/2003, corresponding to 169,550 Series B shares, were converted at a conversion price of SEK 64.80. SEK 0.1 million was paid back on the due date for the loan, July 1, 2005.

## Employee stock options

During the year, an offer to subscribe for additional employee stock options was extended to Sectra's employees in the US. If these options are fully 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. The options can be exercised from May 26-30, 2008, and have a conversion price of SEK 71.10. See next page for a list of all outstanding employee options.

During the fiscal year, Sectra redeemed employee stock options issued in 2002/2003 corresponding to 28,333 Series B shares at a conversion price of SEK 42, plus employee stock options issued in 2003/2004 corresponding to 20,000 Series B shares at a conversion price of SEK 47.

## Subscription warrants

In conjunction with the acquisition of Sectra Mamea AB in April 2004, the AGM approved the issuance of a maximum of

900,000 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 at April 30, 2006.

## Repurchase of own shares

The 2005 AGM granted the Company the right to repurchase up to 10% of the Company's own shares. The Board of Directors had not used this authorization at the end of the fiscal year.

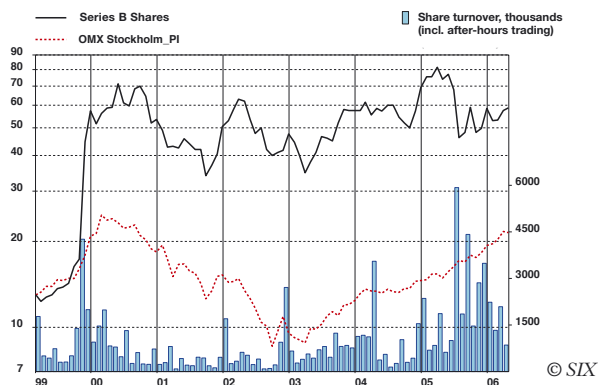
## Authorization

The 2005 Annual General Meeting authorized the Board of Directors to adopt resolutions to issue new shares corresponding to a maximum of 10% of the share capital during the time until the next AGM. The purpose of this is to enable issues of new shares to finance market investments and acquisitions of companies or operations. At the end of the fiscal year, the Board of Directors had not exercised this authorization.

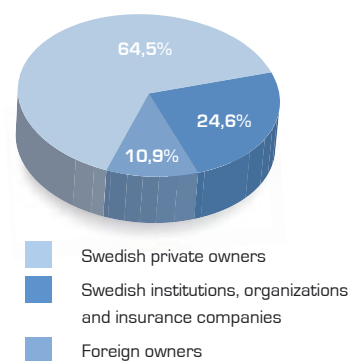
## Dividend policy

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

### The Sectra share price development



### Ownership structure in relation to capital



### Progress of share capital

Date	Transaction	Par value	Increase in no. of shares	Total no. of shares	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. debentures.	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. debentures.	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
2005/2006	Redemption of conv. debentures.	1.00	169 550	36 698 188	169 550	36 698 188
2005/2006	Redemption of empl. options	1.00	28 333	36 726 521	28 333	36 726 521
2005/2006	Redemption of empl. options	1.00	20 000	36 746 521	20 000	36 746 521

### Sectra's largest shareholders at April 30, 2006

Source: VPC

Shareholder	No. of A shares	No. of B shares	Share of votes	Share of capital
Jan-Olof Brüer	673 059	3 449 904	16.9%	11.2%
Torbjörn Kronander	673 057	3 449 901	16.9%	11.2%
Fjärde AP-fonden	0	2 813 200	4.7%	7.7%
Frithjof Qvigstad	332 866	2 272 569	9.3%	7.1%
Viiveke Fåk	221 700	1 320 150	5.9%	4.2%
Robert Forchheimer	202 203	1 248 104	5.4%	3.9%
Thomas Ericson	196 329	1 249 044	5.3%	3.9%
Ingemar Ingemarsson	221 387	1 128 499	5.5%	3.7%
If Skadeförsäkrings AB	0	1 297 700	2.2%	3.5%
Lannebo fonder	0	1 022 750	1.7%	2.8%
<b>Total for 10 largest shareholders</b>	<b>2 520 601</b>	<b>19 251 821</b>	<b>73.8%</b>	<b>59.2%</b>
Other shareholders with more than 100,000 shares (26)	35 295	5 824 769	10.1%	16.0%
Shareholders with 10,001-100,000 shares (124)	59 618	3 665 801	7.1%	10.1%
Shareholders with 1,001-10,000 shares (1,171)	5 178	3 525 080	5.9%	9.6%
Shareholders with up to 1,000 shares (5,132)	0	1 858 358	3.1%	5.1%
<b>Total: 6,463 shareholders</b>	<b>2 620 692</b>	<b>34 125 829</b>	<b>100.0%</b>	<b>100.0%</b>

### Convertible debentures program

	03/04	04/05	05/06
No. of underlying Series B shares	330 000	154 800	165 200
Conversion price, SEK	62.50	74.70	71.10
Conversion period	16/5-14/6 -06	10-14/9 -07	26-30/5 -08
Maturity	30/6 -06	30/9 -07	15/6 -08
Dilution at full conversion, capital	0.9%	0.4%	0.4%

### Employee stock options program

	03/04	04/05	05/06
No. of underlying Series B shares	80 000	40 000	40 000
Conversion price, SEK	47.00	74.70	71.10
Conversion period	29/11 -04 – 28/1 -07	10-14/9 -07	26-30/5 -08
No. of options exercised			
at April 30, 2006	43 333	0	0
Dilution at full exercise, capital	0.2%	0.1%	0.1%

# Administration Report

The Board of Directors and President of Sectra AB (publ.), corporate registration number 556064-8304, hereby present the Annual Report and Consolidated Financial Statements for May 1, 2005 – April 30, 2006. The following income statements and balance sheets, change in shareholders' equity, cash-flow statements, accounting principles and notes constitute an integrated part of the Annual Report.

## Operations and Group structure

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

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

## Acquisitions

During the fiscal year, Sectra acquired 20% of ImaXperts BV, a Dutch company that distributes medical systems in the Netherlands, Belgium and Luxembourg. The acquisition is part of Sectra's wide-ranging efforts to build out its distribution network and service organization for medical systems. The acquisition has had no immediate effect on Sectra's earnings or financial position.

## Market

Demand for Sectra's products remains strong, and the Group's order bookings increased by 7.6% to SEK 613.7 million (570.1) in 2005/2006. Sales are conducted directly by the Company and through some 20 local, regional and global partners.

Sectra traditionally experiences a seasonal variation, such that the operating year tends to begin with low sales. The major portion of invoicing and revenue receipts generally occurs during the third and fourth quarters. This pattern also applied to the fiscal year just completed.

## *Medical systems*

An increasing number of hospitals are opting to make their radiology operations more efficient by introducing digital systems, and the market for medical systems is growing. The number of installations of Sectra's medical systems increased by 27% during the fiscal year. The greatest number of new installations occurred in the US. A total of more than 40 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 digital radiology images. As more and more Sectra systems are installed, revenues from additional sales and from maintenance and upgrade agreements are increasing.

Within the medical systems product area, Sectra also focuses on products for mammography and orthopedics, niche markets that are expected to grow strongly in the years ahead. Sectra's largest investment is in the area of mammography, where Sectra has developed a digital mammography system that delivers the lowest radiation dose in the market, as well as higher productivity. The transition from film-based to digital mammography systems is in full swing worldwide and has gained added momentum from the ACRIN study, a major US study which has shown that digital mammography yields equally good or better results compared with film-based mammography. Sectra has experienced its largest sales successes in the mammography market in Germany. During the fiscal year, Sectra also sold its mammography systems to additional customers in Sweden and to mammography clinics in six new markets.

## *Secure communication systems*

Public agencies, organizations and governments have become increasingly conscious of the need to protect sensitive information against eavesdropping, and information management is a very important element in the new defense structures. To meet customer demand for advanced security products, Sectra has invested in the development and marketing of the third generation of Tiger products – Tiger XS – during the past few years. This investment is beginning to show results, and during the fiscal year Sectra delivered Tiger XS to public-sector customers in the Netherlands, Austria and Sweden.

Among European government agencies and defense forces, co-operation across national boundaries is increasing, with the result that the requirements for secure communication systems are going over



from being national to being common for the entire EU. This is creating a large new market for EU-approved crypto products, and Sectra is one of the first companies to offer products developed in conformity with the new EU standards.

### **Extensive marketing efforts in medical systems**

Sectra's results for the fiscal year would probably have been even better if the relation with the company's largest partner, Philips Medical Systems, had not changed. During July 2005, Philips announced that it had acquired a company that develops similar systems to Sectra PACS. Although Philips continued to sell Sectra's digital image management systems during the year, primarily in markets outside the US, the Philips' importance for the distribution is expected to progressively decline during the next few years. In addition to the present cooperation agreement with Philips, which remains in effect through 2007, there are project agreements that remain in effect until 2016.

As a result of the changes in the cooperation, Sectra initiated extensive measures during the fiscal year to build out the distribution network and service organization. These efforts resulted in new direct sales offices in Spain and Portugal, distribution agreements with around ten new regional and local partners, and a strengthening of Sectra's own sales and service organization in strategically important markets.

### **Sales and earnings**

#### *Group*

Consolidated net sales rose 23.8% to SEK 564.4 million (455.9). Revenues from markets outside Sweden increased by 23.0% to SEK 366.9 million (298.2) and amount to 65.0% of the Group's total net sales. The North American market accounted for the largest single increase, rising 76.5% to SEK 144.7 million (82).

Consolidated earnings after financial items rose to SEK 80.7 million (80.4), corresponding to an operating margin of 14.3% (17.6). Earnings were encumbered by significant costs for investments in building out the distribution network and service organization for medical systems, and for adjustments arising from the change in the relationship with Philips Medical Systems.

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.

#### *Medical systems*

Net sales for the medical systems segment rose 27.2% to SEK 498.8 million (392.1). The North American market accounted for the largest single increase. While the major portion of revenues within medical systems derives from sales of PACS to radiology departments, sales of mammography and orthopedics products have begun to gather pace and showed a highly positive trend during the fiscal year.

Medical systems posted an operating profit of SEK 43.9 million (59.0), corresponding to an operating margin of 8.8% (15.0). Earnings were affected by the Company's extensive efforts to build out its distribution network and service organization, and by an increased proportion of direct sales. Direct sales transactions normally involve complete system deliveries that include both hardware and software, while sales via partners consist solely of software licenses. As a result, transactions via partners involve considerably smaller volumes. They are also characterized by very short delivery times, high value-added and higher contribution margins.

#### *Secure communication systems*

Net sales for the secure communication systems segment rose 3.8% to SEK 65.8 million (63.4) due to increased deliveries of Tiger products. The major portion of revenues within secure communication systems relates to development projects and customer-specific products.

The operating loss in the segment was SEK 5.9 million (loss: 15.8). Increased product sales and savings measures taken in conjunction with a reorganization of operations during autumn 2005 helped to improve the operating result.

#### *Parent Company*

The Parent Company's net sales totaled SEK 67.6 million (57.3), with operating profit of SEK 39.5 million (34.5).

### Cash and cash equivalents and financial position

Sectra enjoys a stable financial position. The Group's equity/assets ratio at April 30, 2006 was 58.9% (61.5), with a liquidity multiple of 2.4 (2.9). The Group's interest-bearing debts totaled SEK 59.6 million (57.0), of which SEK 43.7 million (43.0) was attributable to convertible debentures.

### Investments

Group investments for the fiscal year totaled SEK 35.1 million (44.6), of which SEK 25.6 million pertained to capitalized development costs, which totaled SEK 105.3 million (88.4) at April 30, 2006. Other investments pertained mainly to purchases of machinery and other equipment.

### Research and development

The Sectra Group continuously invests resources for research and development in fields related to the Company's niche markets – 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 a number of universities and research centers to ensure that it can offer systems and products based on the latest technologies.

During 2005/2006, SEK 25.6 million of Sectra's development costs for standard products was carried forward as intangible assets in the balance sheet. Customer-related development costs for the development of new products and functions are included in project costs and expensed in the income statement. Direct research expenditures are not material and, accordingly, no separate reporting of total expenditures is made.

### Environmental information

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

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

### Disputes

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

### The Sectra share

Sectra's share capital at April 30, 2006 totaled SEK 36,746,521, divided among 36,746,521 shares. Of these shares, 2,620,692 are Series A shares, while 34,125,829 are Series B shares. Full conversion and exercise of issued incentive programs would increase the number of shares by a maximum of 766,667, corresponding to 2.1% of the share capital and 1.3% of the votes. After full dilution, the number of shares amounts to 37,513,188.

### Incentive program

Sectra issued convertible debentures with a total face value of SEK 11.7 million to Sectra employees in 2005/2006. Full conversion would provide Sectra with 165,200 Series B shares, corresponding to 0.4% of the share capital and 0.3% of the votes.

During the fiscal year, Sectra employees and Board members redeemed convertible debentures issued in 2002/2003 corresponding to 169,550 Series B shares at a conversion price of SEK 64.80. SEK 0.1 million was paid back when the loan matured on July 1, 2005.

Sectra's employees in the US subscribed for additional employee options during the fiscal year. If these options are fully 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. During the fiscal year, employee options issued to employees in the US during 2002/2003, corresponding to 28,333 Series B shares, were also redeemed at a redemption price of SEK 42, and employee options issued in 2003/2004 corresponding to 20,000 Series B shares were redeemed at a redemption price of SEK 47.

Similar employee options and convertible programs implemented previously are still in effect. See Note 20.

### Employees

Sectra had 383 (370) employees at fiscal year-end, of whom 23.8% (24.1) were women. The employee turnover rate was 10.4% (5.4).

## Financial risk management

A detailed description of financial risk management is provided in the accounting principles on page 37.

## Outlook

Sectra has a strong technology platform. The products and system solutions that Sectra develops are aimed at markets with high growth potential. The company's strong position in the home market provides a solid platform for ongoing international expansion. The change in the cooperation with the largest partner Philips Medical Systems means a realignment of Sectra's operations. This will impact on earnings during a transition period of an additional 6 to 16 months. The Board's assessment that Sectra will continue to expand with favorable profitability remains valid.

## Significant events after the reporting date

No significant events have occurred since the reporting date.

## Reporting in accordance with IFRS

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the pronouncements of the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the European Commission for application within the EU. This financial report is the first comprehensive financial report to have been pre-

pared in accordance with IFRS. The transition to IFRS is 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 comparative figures for 2004/2005 have been restated retroactively. Note 26 describes how the transition to IFRS has affected the Sectra Group's position and the comparative figures from 2004/2005.

## Approval of financial statements

Pursuant to a Board decision made on June 1, 2006, the consolidated financial statements have been approved for publication and will be presented to the Annual General Meeting for adoption on June 28, 2006.

## Board's pronouncement concerning proposed dividend

See Note 27 for the Board's pronouncement concerning proposed dividend.

## Proposed appropriation of profits

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

Dividend (36,746,521 shares at SEK 0.50 per share)	18,373,260.50
Earnings to be carried forward	100,867,342.13
<b>Total</b>	<b>119,240,602.63</b>

Linköping, June 1, 2006  
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 2, 2006  
Lindebergs Grant Thornton AB  
Ivar Verner  
Authorized Public Accountant

# The Group

## Consolidated income statements

Amounts in SEK thousands	Note	05/06	04/05
Operating income	1		
Net sales		564 382	455 862
Capitalized work for own use		25 572	24 221
<b>Total income, etc.</b>		<b>589 954</b>	<b>480 083</b>
<b>Operating expenses</b>			
Goods for resale		-120 984	-70 227
Personnel expenses	2	-260 017	-229 184
Other external costs	3, 4	-111 960	-91 225
Depreciation of machinery and equipment	11	-7 112	-6 788
Amortization of intangible assets	10	-13 645	-11 245
Income from participations in associated co.	13	-478	-
<b>Operating profit</b>		<b>75 758</b>	<b>71 414</b>
<b>Result from financial investments</b>			
Interest income and similar profit/loss items	6	7 692	9 909
Interest expenses and similar expense items	7	-2 704	-908
<b>Profit after financial items</b>		<b>80 746</b>	<b>80 415</b>
Tax on income for the year	9	-20 396	-27 871
<b>Net profit for the year</b>		<b>60 350</b>	<b>52 544</b>
Attributable to:			
Parent Company's shareholders		60 350	52 857
Minority interest		-	-313
<b>Earnings per share, SEK</b>			
Before dilution		1.65	1.45
After dilution		1.61	1.42
<b>Dividend per share, SEK <sup>1</sup></b>		<b>0.50</b>	<b>0.50</b>
<b>No. of shares at year-end</b>			
Before dilution		36 746 521	36 528 638
After dilution <sup>2</sup>		37 513 188	37 309 988
Average, before dilution		36 681 041	36 415 995
Average, after dilution <sup>2</sup>		37 379 430	37 210 879

<sup>1</sup> Dividend proposed by the Board of Directors for 2005/2006.

<sup>2</sup> The dilution is based on convertible debentures issued in 2003/2004 (330,000), 2004/2005 (154,800) and 2005/2006 (165,200) and on employee options from 2003/2004 (36,667), 2004/2005 (40,000) and 2005/2006 (40,000).

## Group cash-flow statements

Amounts in SEK thousands	Note	05/06	04/05
<b>CURRENT OPERATIONS</b>			
Operating profit		75 758	71 414
Adjustment for items not included in cash flow	24	22 071	17 715
Interest received		5 938	9 127
Interest paid		-2 294	-1 107
Income tax paid		-27 530	-31 130
<b>Cash flow from current operations before changes in working capital</b>		<b>73 943</b>	<b>66 019</b>
<b>Changes in working capital</b>			
Change in inventories		-10 489	-24 311
Change in receivables		10 275	-6 078
Change in current liabilities		57 614	48 852
<b>Cash flow from current operations</b>		<b>131 343</b>	<b>84 482</b>
<b>INVESTMENT ACTIVITY</b>			
Acquisitions of fixed assets		-32 356	-43 375
Acquisitions of associated companies		-2 841	-
Sales of equipment		105	2 272
<b>Cash flow from investment activity</b>		<b>-35 092</b>	<b>-41 103</b>
<b>FINANCING ACTIVITY</b>			
Sales of shares		13 117	4 039
Change in convertibles		630	-6 220
Change in long-term receivables		240	-11 646
Change in long-term liabilities		312	-23 003
Dividend to shareholders		-18 264	-18 196
Received Group contributions		-	-
<b>Cash flow from financing activity</b>		<b>-3 965</b>	<b>-55 026</b>
<b>Cash flow for the year</b>		<b>92 286</b>	<b>-11 647</b>
Cash and cash equivalents at start of year		320 176	332 342
Exchange rate difference in cash and cash equivalents		1 835	-519
Cash and cash equivalents at year-end		414 297	320 176
Unutilized credit facilities		15 000	15 000

## Consolidated balance sheets

Amounts in SEK thousands	Note	060430	050430
<b>ASSETS</b>			
<b>Fixed assets</b>			
Intangible assets	10	127 806	115 807
Machinery and equipment	11	24 137	23 700
Participations in associated companies	13	2 362	-
Long term financial investments	16	13 242	13 554
<b>Total fixed assets</b>		<b>167 547</b>	<b>153 061</b>
<b>Current assets</b>			
Inventories	14	44 751	34 262
Accounts receivable		127 548	144 446
Current tax assets		19 744	4 421
Other receivables		7 506	5 154
Prepaid expenses and accrued income	15	32 576	38 205
Short-term financial investments	16	11 600	-
Cash and cash equivalents	16	414 297	320 176
<b>Total current assets</b>		<b>658 022</b>	<b>546 664</b>
<b>TOTAL ASSETS</b>		<b>825 569</b>	<b>699 725</b>

Pledged assets and contingent liabilities, see Note 23

Amounts in SEK thousands	Note	060430	050430
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital		36 747	36 529
Other capital supplied		294 675	313 308
Reserves		216	-459
Retained earnings, including profit for the year		154 857	81 277
<b>Total shareholders' equity</b>		<b>486 495</b>	<b>430 655</b>
<b>Long-term liabilities</b>			
Provisions	18	1 326	1 465
Deferred tax liability	18	23 611	25 592
Debts to financial institutions	19	15 779	13 872
Other liabilities	20	23 202	32 043
<b>Total long-term liabilities</b>		<b>63 918</b>	<b>72 972</b>
<b>Current liabilities</b>			
Advances from customers		2 041	10 935
Accounts payable		23 741	26 183
Current tax liability		12 211	630
Other current liabilities	20, 21	32 050	27 087
Accrued expenses and deferred income	22	205 113	131 263
<b>Total current liabilities</b>		<b>275 156</b>	<b>196 098</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>825 569</b>	<b>699 725</b>

## Changes in Group equity

Amounts in SEK thousands	Equity	Other contributed capital	Reserves, translation-reserve	Retained earnings	Equity attributable to: Parent Company's shareholders	Minority	Total equity
<b>Equity as of May 1, 2004</b>	<b>35 852</b>	<b>271 507</b>		<b>85 674</b>	<b>393 033</b>	<b>-2 561</b>	<b>390 472</b>
New issues of shares	677	6 229			6 906		6 906
Transfer/Adjustment		35 506		-35 506			0
Reclassification <sup>1</sup>				-4 866	-4 866		-4 866
Exchange rate differences			-459		-459		-459
Change in minority interest						2 874	2 874
Present value difference		66			66		66
Dividend				-18 196	-18 196		-18 196
Adjustments of OB according to IFRS 2				1 314	1 314		1 314
Net earnings for the year				52 857	52 857	-313	52 544
<b>Equity as of April 30, 2005</b>	<b>36 529</b>	<b>313 308</b>	<b>-459</b>	<b>81 277</b>	<b>430 655</b>	<b>0</b>	<b>430 655</b>
New issues of shares	218	12 899			13 117		13 117
Transfer/Adjustment		-31 494		31 494			0
Exchange rate differences			675		675		675
Present value difference		-38			-38		-38
Dividend				-18 264	-18 264		-18 264
Net profit for the year				60 350	60 350		60 350
<b>Equity as of April 30, 2006</b>	<b>36 747</b>	<b>294 675</b>	<b>216</b>	<b>154 857</b>	<b>486 495</b>	<b>0</b>	<b>486 495</b>

<sup>1</sup> Pertains to reclassification in foreign subsidiaries

# Parent Company

## Income statements

Amounts in SEK thousands	Note	05/06	04/05
<b>Operating income</b>	1		
Net sales		67 570	57 328
<b>Operating expenses</b>			
Goods for resale		-80	-41
Personnel expenses	2	-10 483	-9 895
Other external costs		-16 595	-11 789
Depreciation according to plan	11	-907	-1 141
<b>Operating profit</b>		<b>39 505</b>	<b>34 462</b>
<b>Result from financial investments</b>			
Income from participations in Group companies	5	98 624	97 499
Interest income and similar profit/loss items	6	4 760	5 032
Interest expenses and similar expense items	7	-2 501	-1 431
<b>Profit after financial items</b>		<b>140 388</b>	<b>135 562</b>
Appropriations	8	-10 521	1 868
<b>Profit before tax</b>		<b>129 867</b>	<b>137 430</b>
Tax on income for the year	9	-36 833	-37 541
<b>Net profit for the year</b>		<b>93 034</b>	<b>99 889</b>

## Cash-flow statements

Amounts in SEK thousands	Note	05/06	04/05
<b>CURRENT OPERATIONS</b>			
Operating profit		39 505	34 462
Adjustment for items not included in cash flow	24	1 012	835
Interest received		6 995	6 709
Interest paid		-3 920	-1 046
Income tax paid		-22 517	-27 605
<b>Cash flow from current operations before changes in working capital</b>		<b>21 075</b>	<b>13 355</b>
<b>Changes in working capital</b>			
Change in receivables		8 559	22 133
Change in current liabilities		12 850	40 507
<b>Cash flow from current operations</b>		<b>42 848</b>	<b>75 995</b>
<b>INVESTMENT ACTIVITY</b>			
Acquisitions of fixed assets		-135	-413
Sales of equipment		-	1 951
<b>Cash flow from investment activity</b>		<b>-135</b>	<b>1 538</b>
<b>FINANCING ACTIVITY</b>			
Sales of shares		13 117	4 039
Change in convertibles		630	-6 220
Change in long-term receivables		442	-11 601
Change in long-term liabilities		33 167	-27 133
Dividend to shareholders		-18 264	-18 196
Received Group contributions		10 900	-33 500
<b>Cash flow from financing activity</b>		<b>39 992</b>	<b>-92 611</b>
<b>Cash flow for the year</b>		<b>82 342</b>	<b>-15 078</b>
Cash and cash equivalents at start of year		261 321	276 399
Cash and cash equivalents at year-end		343 663	261 321
Unutilized credit facilities		15 000	15 000



## Balance sheets

Amounts in SEK thousands	Note	060430	050430
<b>ASSETS</b>			
<b>Fixed assets</b>			
Machinery and equipment	11	2 075	2 955
Participations in Group companies	12	23 978	56 845
Investments held as fixed assets		11 339	11 639
<b>Total fixed assets</b>		<b>37 392</b>	<b>71 439</b>
<b>Current assets</b>			
Accounts receivable		-	310
Accounts receivable from Group companies		183 527	202 452
Current tax assets		13 906	4 421
Other receivables		156	4
Prepaid expenses and accrued income	15	2 758	2 135
Short-term securities	16	11 600	-
Cash and cash equivalents	16	343 663	261 321
<b>Total current assets</b>		<b>555 610</b>	<b>470 643</b>
<b>TOTAL ASSETS</b>		<b>593 002</b>	<b>542 082</b>
<b>Pledged assets and contingent liabilities</b>			
Pledged assets		11 000	11 000
Bank balances		10 000	10 000
<b>Total pledged assets</b>		<b>21 000</b>	<b>21 000</b>
Line of credit		-	-
<b>Total contingent liabilities</b>		<b>-</b>	<b>-</b>

Amounts in SEK thousands	Note	060430	050430
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
<i>Restricted equity</i>			
Share capital		36 747	36 529
Share premium reserve		-	215 488
Reserves		228 499	150
<b>Total restricted equity</b>		<b>265 246</b>	<b>252 167</b>
<i>Unrestricted equity</i>			
Retained earnings		26 206	5 782
Profit for the year		93 034	99 889
<b>Total unrestricted equity</b>		<b>119 240</b>	<b>105 671</b>
<b>Total shareholders' equity</b>		<b>384 486</b>	<b>357 838</b>
Untaxed reserves	17	82 836	72 315
<b>Long-term liabilities</b>			
Debts to financial institutions	19	9 384	8 941
Other long-term liabilities	20	23 089	31 930
<b>Total long-term liabilities</b>		<b>32 473</b>	<b>40 871</b>
<b>Current liabilities</b>			
Accounts payable		1 285	1 116
Liabilities to Group companies		61 748	45 881
Current tax liability		-	-
Other current liabilities	20	20 924	14 428
Accrued expenses and deferred income	22	9 250	9 633
<b>Total current liabilities</b>		<b>93 207</b>	<b>71 058</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>593 002</b>	<b>542 082</b>

## Changes in Parent Company equity

Amounts in SEK thousands	Share capital	Share premium reserve	Statutory reserve	Unrestricted equity	Total equity
<b>Equity as of May 1, 2004</b>	<b>35 852</b>	<b>209 192</b>	<b>150</b>	<b>117 219</b>	<b>362 413</b>
New issues of shares	677	6 229			6 906
Group contributions paid				-129 500	-129 500
Tax effect				36 260	36 260
Present value difference		67			67
Dividend				-18 196	-18 196
Net profit for the year				99 889	99 889
<b>Equity as of April 30, 2005</b>	<b>36 529</b>	<b>215 487</b>	<b>150</b>	<b>105 672</b>	<b>357 839</b>
New issues of shares	218	12 899			13 117
Group contributions paid				-85 000	-85 000
Tax effect				23 800	23 800
Present value difference		-38			-38
Dividend				-18 266	-18 264
Transfer from share premium reserve to statutory reserve		-228 349	228 349		0
Net earnings for the year				93 034	93 034
<b>Equity as of April 30, 2006</b>	<b>36 747</b>	<b>0</b>	<b>228 499</b>	<b>119 240</b>	<b>384 486</b>

# Accounting principles

## General accounting principles

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), which have been approved by the European Commission for application within the EU. This financial report is the first complete financial report to have been prepared in accordance with IFRS. The transition to IFRS is reported in accordance with IFRS 1, “First-time Adoption of International Financial Reporting,” with May 1, 2004 as the transition date, which means that the comparative figures for fiscal year 2004/2005 have been retroactively restated. Note 26 presents how the transition to IFRS has affected the Sectra Group’s position and the comparative figures for fiscal year 2004/2005.

The Parent Company applies the same accounting principles as the Group, as well as Swedish law and the Swedish Financial Accounting Standards Council’s Recommendation 32, “Reporting for legal entities.” This means that the EU-approved IFRS rules and pronouncements are applied as far as possible within the framework of the Annual Accounts Act and Swedish taxation practice. The rules for valuation and clarification follow IFRS and are the same as those applied in the Group, except that the arrangement follows the Annual Accounts Act and may thus deviate from IFRS in certain cases. Untaxed reserves and appropriations are also reported in the Parent Company in accordance with Swedish law.

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

## Basis for preparation of the reports

Assets, provisions and liabilities are valued at their cost or at their historical face value unless stated otherwise in the notes that follow. The preparation of financial reports in accordance with IFRS requires that the Group use accounting assumptions and estimates for the future. The most important estimates and judgments are presented in Note 25.

## Consolidated Financial Statements

The Consolidated Financial Statements have been prepared using the acquisition method, and cover those companies in which the Parent Company, directly or through subsidiaries, exerts a determining influence. A determining influence normally applies when more than 50% of the vote-carrying shares in a subsidiary have been acquired. When acquisitions are made, the acquired companies are absorbed into the Group as

of their acquisition date. The acquisition value of the subsidiary’s shares is determined by means of an acquisition analysis conducted at the time of the acquisition. The acquisition value for the Group comprises the purchase price and transaction costs directly attributable to the acquisition. The difference between the acquisition cost for the subsidiary’s shares and the estimated fair value of the acquired net assets at the time of the acquisition is reported as Group goodwill. The Group’s internal receivables and liabilities, revenues and expenses, and unrealized gains or losses arising from transactions between Group companies have been eliminated in their entirety during preparation of the consolidated financial statements.

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

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

## Translation of foreign subsidiaries

### *Functional currency*

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

### *Transactions and balance-sheet items*

Transactions in foreign currencies are reported initially in the functional currency at the currency rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate prevailing on the closing date (year-end rate). Currency differences arising in payment of transactions in foreign currencies and in translation of monetary assets and liabilities at the year-end rate are reported in the income statement.

### *Group companies*

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

### **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, since 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.

### **Revenues**

The Group's revenues mainly derive from fixed-price projects, sales of products and licenses, and consulting work. Project-based income is reported based on the project's degree of completion at the balance sheet date. The degree of completion is calculated as the ratio between the expenses paid at the balance sheet date and the estimated total expenses. In cases where a loss is expected to occur on an uncompleted project, the entire anticipated loss is applied against earnings for the year. Revenues from sales of products and licenses are taken up as income at the time of delivery unless significant risks or obligations remain after delivery. Ongoing consulting services are taken up as income as the work is executed.

### **Pensions and remuneration to employees**

The Sectra Group has defined-contribution pensions only, which means that the Group makes payments to various pension institutions on an ongoing basis. These pension payments are expensed currently and constitute the Group's pension costs for the year, which are reported under Personnel Costs. Sectra has no other pension obligations and is not responsible for any value changes in the paid-in premiums. This means that Sectra does not bear the risk when pensions are paid, and no pension obligations are taken up as liabilities in the balance sheet.

### **Intangible fixed assets**

Intangible fixed assets are reported at their historical cost, less depre-

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

### *Capitalized development costs*

Sectra develops proprietary software and equipment in the fields of medical equipment and secure communications. All research costs are expensed directly, and customer-related development costs are included in project costs, which are expensed at the time of revenue recognition. Internal development costs for standard products are capitalized and reported as intangible fixed assets to the extent that they are expected to generate financial benefits in the future. Additional requirements for capitalization are that project costs can be reliably estimated, that it is technically possible to complete the project, and that the Group has the necessary resources to complete development. Capitalized development costs are subject to straight-line amortization over the period of use per individual asset, although the maximum amortization period is 10 years.

### *Patents*

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

### *Trademarks and customer relations*

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

### *Goodwill*

Group-level goodwill arises when the historical cost of a subsidiary's shares exceeds the fair value of the Group's participations in the

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

#### **Tangible fixed assets**

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

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

#### **Leasing**

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

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

#### **Borrowing costs**

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

#### **Inventories**

Inventories are reported at the lower of historical cost according to the FIFO method or fair market value. Estimated obsolescence has thus been taken into account. Costs for internally manufactured semifinished and finished goods consist of direct production costs plus a reasonable surcharge for indirect production costs.

#### **Receivables**

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

#### **Reporting of tax**

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

#### **Financial instruments**

The company classifies its financial assets and liabilities in the following categories: Financial assets or liabilities at fair value via income statement, Investments held to maturity, Accounts receivable and loan receivables and Other financial liabilities.

#### *Financial assets*

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

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

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

*Accounts receivable and loan receivables* are reported at accrued historical cost. Any impairments are reported in the income statement.

#### *Financial liabilities*

Financial liabilities are recognized in the balance sheet when the invoice is received or when the company in another manner becomes party to the contractual obligations. A financial liability is removed from the balance sheet when obligation specified is discharged and all liability expires. Loan debts are initially reported at par value after subtracting transaction costs. Adjustments are subsequently made for any over/undervaluation with interest accrued over the term of the loan. Interest expenses are reported directly in the income statement.

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

*Other financial liabilities* are valued at historical cost and pertain to liabilities incurred for trading in and issued convertible debentures. Convertible debentures are reported as a combined financial instrument divided into a loan and an equity portion. The loan portion of convertible debenture loans is valued at fair value discounting future cash flows at the market interest rate. The equity portion is calculated as the difference between the nominal value and the fair value of the loan.

#### *Derivative instruments*

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

#### **Financial risks**

The Sectra Group is exposed to financial risks pertaining to currency, interest, financing and liquidity risks. These financial risks are managed in accordance with the financial policy set by the Board of Directors. The purpose of the financial operations is to support the Group's business activities by identifying and limiting the Group's financial risks, providing

cost-efficient financing of Group companies and managing cash and cash equivalents on market terms. The financial operations within the Sectra Group are carried out by the financial function of the Parent Company.

#### *Currency exchange risks*

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

#### *Interest-rate risks*

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

#### *Credit risks*

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

#### *Liquidity risks*

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

# Notes

## Note 1 Segment reporting

### Primary segments – operations

	Medical systems		Secure communications		Other operations <sup>1</sup>		Eliminations <sup>2</sup>		Total	
	05/06	04/05	05/06	04/05	05/06	04/05	05/06	04/05	05/06	04/05
Net sales	498 788	392 118	65 839	63 382	65 808	57 910	-66 053	-57 548	564 382	455 862
Depreciation	18 317	13 119	377	599	907	1 162	1 156	3 153	20 757	18 033
Operating profit	43 942	58 982	-5 937	-15 487	39 505	31 157	-1 752	-3 238	75 758	71 414
Assets	456 815	377 350	39 955	49 928	603 640	561 310	-274 841	-288 863	825 569	699 725
Liabilities	410 200	356 580	25 563	35 628	152 322	124 069	-249 011	-247 207	339 074	269 070
Investments	34 456	36 480	519	176	117	7 956	-	-	35 092	44 612

### Secondary segments – geographic areas

	Sweden		Rest of Europe		North America		Rest of world		Total	
	05/06	04/05	05/06	04/05	05/06	04/05	05/06	04/05	05/06	04/05
Net sales	197 488	157 619	198 950	204 439	144 750	82 018	23 194	11 786	564 382	455 862
Assets	679 278	604 128	88 755	80 954	52 161	14 251	5 375	392	825 569	699 725
Investments	31 166	42 487	3 491	1 899	207	-	228	226	35 092	44 612

<sup>1</sup> Other operations pertain to 99.7 % the Parent Company's billing of internal services, capital management and right of use of brands, patents and other intangible assets.

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

## Note 2 Employees and personnel costs

### Average number of employees and percentage of women

	05/06		04/05	
	Total	of whom women	Total	of whom women
<b>Parent Company</b>				
Sweden	16	9	17	10
<b>The Group</b>				
Australia	6	1	3	1
Denmark	10	2	10	1
Germany	11	3	10	3
Italy	2	1	1	0
New Zealand	0	0	0	0
Norway	9	2	10	2
Spain	1	0	0	0
Sweden	288	70	277	69
UK	11	1	13	1
USA	35	5	26	4
<b>Group total</b>	<b>373</b>	<b>85</b>	<b>350</b>	<b>81</b>

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

### Salaries and other remuneration

	05/06		04/05	
	Board of Directors and President	Other employees	Board of Directors and President	Other employees
<b>Parent Company</b>				
Sweden	1 340	5 047	1 329	5 145
<b>Wholly owned subsidiaries</b>				
Australia	844	2 618	757	1 181
Denmark	576	5 803	2 253	4 694
Germany	787	5 256	717	4 148
Italy	843	468	324	133
New Zealand	-	121	-	-
Norway	871	5 352	853	5 124
Spain	94	24	-	-
Sweden	4 282	113 778	4 218	107 637
UK	1 613	5 619	1 815	5 592
USA	1 932	30 572	2 673	17 201
<b>Group total</b>	<b>11 842</b>	<b>169 611</b>	<b>13 610</b>	<b>145 710</b>



## Social costs

	05/06				04/05			
	Board and President	Of which, pension costs	Other employees	Of which, pension costs	Board and President	Of which, pension costs	Other employees	Of which, pension costs
<b>Parent Company</b>								
Sweden	741	243	2 185	433	738	380	2 049	894
<b>Wholly owned subsidiaries</b>								
Australia	75	75	248	248	69	69	117	117
Denmark	68	68	519	519	100	83	758	279
Germany	103	56	1 049	450	100	54	726	381
Italy	468	403	206	206	229	-	59	-
Norway	181	45	992	171	193	59	1 454	595
Spain	21	9	-	-	-	-	-	-
Sweden	2 409	811	51 648	11 434	2 359	1 219	48 379	21 530
UK	301	96	779	191	318	93	861	199
USA	216	-	4 111	-	206	-	2 466	-
<b>Group total</b>	<b>3 842</b>	<b>1 563</b>	<b>59 552</b>	<b>13 219</b>	<b>3 574</b>	<b>1 577</b>	<b>54 820</b>	<b>23 101</b>

## Absenteeism due to illness

% of regular work hours	Group		Parent Company	
	05/06	04/05	05/06	04/05
<b>Total</b>				
All employees	1.1	1.7	2.7	2.0
Of which, proportion of absences lasting 60 days or longer	19.8	41.1	6.9	40.2
<b>Per category</b>				
Women	1.7	3.6	2.6	1.7
Men	0.8	1.0	2.8	2.3
Employees 29 years and younger	1.0	1.2	1.8	2.2
Employees 30 – 49 years	1.1	1.9	2.3	1.0
Employees 50 years and older	1.5	1.4	6.0	5.0

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

Salaries and compensation					
	Board remuneration	Base salary	Adjustable compensation	Pension premiums	Total
Chairman of the Board	119	-	-	-	119
Board members	238	-	-	-	238
President	-	983	-	243	1 226
Senior executives	-	2 769	8	537	3 314
<b>Total</b>	<b>357</b>	<b>3 752</b>	<b>8</b>	<b>780</b>	<b>4 897</b>

## Preparation and decision-making process

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

### Principles

The remuneration paid to the members of the Board in 2005/2006 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 2006 equals SEK 39,700.

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

### Terms of notice and severance pay

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

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

### Share-related payments

During the fiscal year share-related payments were expensed in the amount of SEK 1 890 thousand (1 314), of which SEK 490 thousand (261) relates to senior executives, including the CEO. Convertible debentures and options are marked to market using the Black & Scholes method.

### Note 3 Fees to auditors

	Group	
	05/06	04/05
Audits	786	724
Consultation	479	455
<b>Total</b>	<b>1265</b>	<b>1 179</b>

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

Annual leasing fees paid for operating leases totaled SEK 2 412 thousand (546). Agreed future leasing fees for operating leases are payable as shown below:

	Group			
	06/07	07/08	08/09	09/10
Cars	163	101	62	11
Other	486	393	191	-
Subleased objects	1 763	1 763	1 763	1 763
<b>Total</b>	<b>2 412</b>	<b>2 257</b>	<b>2 016</b>	<b>1 774</b>

Total future leasing fees pertaining to non-terminable agreements for subleased objects amounted to SEK 5 290 thousand. Revenues in the financial year pertaining to leasing items leased further amount to SEK 1 593 thousand.

Exchange-rate losses included in operating profit amounted to SEK 1 497 thousand in the 2005/2006 fiscal year.

### Note 5 Income from participations in Group companies

	Parent Company	
	05/06	04/05
Group contributions	95 900	96 000
Interest income	3 934	2 465
Interest expenses	-1 210	-966
<b>Total</b>	<b>98 624</b>	<b>97 499</b>

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

	Group		Parent Company	
	05/06	04/05	05/06	04/05
Other interest income	7 565	9 903	4 633	5 026
Dividend	9	6	9	6
Earnings from sales of securities	118	-	118	-
<b>Total</b>	<b>7 692</b>	<b>9 909</b>	<b>4 760</b>	<b>5 032</b>

### Note 7 Interest expenses and similar expense items

	Group		Parent Company	
	05/06	04/05	05/06	04/05
Interest portion of annual costs for financial leases	55	113	-	-
Other interest expenses	2 085	2 345	1 992	2 232
Exchange difference	564	-1 550	509	-801
<b>Total</b>	<b>2 704</b>	<b>908</b>	<b>2 501</b>	<b>1 431</b>

### Note 8 Appropriations

	Parent Company	
	05/06	04/05
Change in accrual fund	-11 116	1 511
Change in excess depreciation	595	357
<b>Total</b>	<b>-10 521</b>	<b>1 868</b>

### Note 9 Tax on net profit for the year

	Group		Parent Company	
	05/06	04/05	05/06	04/05
Tax expenses				
Current tax expense	-17 607	-6 763	-13 032	-1 281
Deferred tax on temporary differences	-15 262	-6 341	-23 800	-36 260
Deferred tax for untaxed reserves	12 473	-14 767	-	-
<b>Total tax expense</b>	<b>-20 396</b>	<b>-27 871</b>	<b>-36 832</b>	<b>-37 541</b>

Relationship between Group tax and reported tax

per applicable tax rate				
Earnings before tax	80 746	80 415	129 867	137 430
Tax per applicable tax rate	-22 609	-22 885	-36 362	-38 480
Adjustment of tax for previous year	-	-2 363	-	104
Tax effect of nondeductible expenses	-805	-1 422	-470	-4
Tax effect of nondeductible income	5 361	4 705	-	839
Change in temporary differences	-1 981	-5 803	-	-
Adjustment for tax in foreign subsidiaries	-362	-103	-	-
<b>Tax on net profit for the year</b>	<b>-20 396</b>	<b>-27 871</b>	<b>-36 832</b>	<b>-37 541</b>

Temporary differences in Sectra Group

Deferred tax liability on untaxed reserves	23 611	36 526
Deferred tax liability on current assets	-	4 328
Deferred tax receivable on unused loss carryforward	-	-15 262
<b>Net deferred tax liability</b>	<b>23 611</b>	<b>25 592</b>

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

The unutilized loss carryforward amounted to SEK 0 at April 30, 2006.

## Note 10 Intangible assets

Group	Capitalized development	Patents	Customer relations	Brand	Total
Historical cost at start of year	142 295	25 021	10 000	4 762	182 078
Investments for the year	24 220	-	-	-	24 220
Cumulative historical cost at April 30, 2005	166 515	25 021	10 000	4 762	206 298
Incoming depreciation	70 936	930	5 000	2 381	79 247
Amortization and write-down for the year	7 232	2 536	1 000	476	11 245
Cumulative amortization at April 30, 2005	78 168	3 466	6 000	2 857	90 491
<b>Closing residual value at April 30, 2005</b>	<b>88 347</b>	<b>21 555</b>	<b>4 000</b>	<b>1 905</b>	<b>115 807</b>
Historical cost at start of year	166 515	25 021	10 000	4 762	206 298
Translation differences	-	72	-	-	72
Investments for the year	25 572	-	-	-	25 572
Cumulative historical cost at April 30, 2006	192 087	25 093	10 000	4 762	231 942
Incoming amortization	78 168	3 466	6 000	2 857	90 491
Translation differences	-	68	-	-	68
Amortization and write-down for the year	8 587	3 514	1 000	476	13 577
Cumulative amortization at April 30, 2006	86 755	7 048	7 000	3 333	104 136
<b>Closing residual value at April 30, 2006</b>	<b>105 332</b>	<b>18 041</b>	<b>3 000</b>	<b>1 429</b>	<b>127 806</b>

Capitalized development pertains to internally generated intangible assets. Other intangible assets are acquired.

### Parent Company

The Parent Company held no intangible assets at April 30, 2006.

## Note 11 Machinery and equipment

	Group		Parent Company	
	060430	050430	060430	050430
Historical cost at start of year	39 810	29 687	12 135	13 961
Investments for the year	6 759	16 930	117	413
Sales/Disposals for the year	-2 239	-6 807	-208	-2 240
Cumulative historical cost at year-end	44 330	39 810	12 044	12 134
Depreciation at start of year	21 116	19 148	9 179	8 639
Sales/Disposals	-1 477	-4 821	-135	-601
Depreciation for the year	5 956	6 789	925	1 141
Cumulative depreciation at year-end	25 595	21 116	9 969	9 179
<b>Residual value according to plan</b>	<b>18 735</b>	<b>18 694</b>	<b>2 075</b>	<b>2 955</b>
Equipment held under financial lease agreements:				
Historical cost	7 304	6 512	-	-
Cumulative depreciation	-1 902	-1 506	-	-
<b>Total book value</b>	<b>24 137</b>	<b>23 700</b>	<b>2 075</b>	<b>2 955</b>

Financial leasing agreements pertain to leasing vehicles that have a maturity date within three years. Leasing agreement with a maturity date within one year amount to SEK 825 thousand and with maturity dates within two-three years SEK 4 477 thousand. SEK 1 211 thousand in expensed leasing fees was charged against profit for the year.

## Note 12 Participations in Group companies

	Organisation no.	Reg. office	No. of shares	Share of capital, %	Par value	060430 Reported value	050430 Reported value
<b>Parent Company</b>							
Sectra Imtec AB	556250-8241	Linköping, SE	300 000	100%	3 000	2 883	2 883
Sectra Communications AB	556291-3300	Linköping, SE	3 000 000	100%	3 000	13 000	13 000
Sectra Wireless Technologies AB	556570-9325	Linköping, SE	3 000 000	100%	3 000	8 000	8 000
Sectra Secure Transmission AB	556247-1283	Linköping, SE	100 000	100%	100	95	95
<b>Total book value</b>						<b>23 978</b>	<b>23 978</b>
<b>Sectra Imtec AB</b>							
Sectra Skandinavien AB	556483-9479	Linköping, SE	40 350	100%	100	21 016	21 016
Paxlink AB	556572-3292	Linköping, SE	700	100%	100	0	0
Sectra Norge AS	975 353 265	Oslo, NO	5 000	100%	NOK 500	283	283
Sectra NA, Inc.		Shelton, US	500	100%	USD 50	384	384
Sectra GmbH		Aachen, DE	500	100%	EUR 26	219	219
Sectra Italia S.r.l.	03185950965	Milano, IT	500	100%	EUR 50	453	453
Sectra A/S	26121361	Herlev, DK	5 000	100%	DKK 100	639	639
Sectra Ltd	4571654	London, UK	1	100%	£0,001	0	0
Sectra Pty Ltd.	105 376 190	Sydney, AU	1	100%	AUD 0,1	0	0
Sectra New Zealand Ltd	1539744	Auckland, NZ	1	100%	NZD 0,1	0	0
Sectra Medical Systems SL	B84352749	Madrid, ES	500	100%	EUR 3	28	0
Sectra Mamea AB <sup>1</sup>	556570-7022	Stockholm, SE	105 260	100%	179	38 867	38 867
<b>Total book value</b>						<b>61 889</b>	<b>61 861</b>
<b>Sectra Communications AB</b>							
Sectra Communications Ltd.	4884887	Cheltenham, UK	1	100%	£0,001	0	0
Sectra Communications BV		The Hague, NL	1 800	100%	EUR 18	164	164
<b>Total book value</b>						<b>164</b>	<b>164</b>
<b>Sectra A/S</b>							
Sectra Pronosco A/S	26591856	Herlev, DK	5 000	100%	DKK 500	DKK 500	DKK 500
<b>Total book value</b>						<b>DKK 500</b>	<b>DKK 500</b>

<sup>1</sup>The purchase surcharge for acquisition of Sectra Mamea AB (formerly Mamea Imaging AB) is difficult to calculate reliably and is therefore not included in the acquisition analysis and the above reported values.

### Note 13 Participations in associated companies

	Corp. reg. no.	Reg.	No. of shares	Share of capital, %	Par value	060430 Carrying amount	050430 Carrying amount
ImaXperts BV	39069257	Almere, NL	100	20%	EUR 4,5	2 363	0
<b>Total book value</b>						<b>2 363</b>	<b>0</b>

During the year, 20% of the shares in the Dutch company Imaxperts BV were acquired. The net assets of associated company amounted to SEK 957 thousand at April 30, 2006 and the result for the year after the acquisition dates amounted to a loss of SEK 2 390 thousand. The carrying amount of the investment includes a participation in the associated company's earnings in an amount of SEK -478 thousands.

### Note 14 Inventories

	Group		Parent Company	
	060430	050430	060430	050430
Component stocks	19 453	16 652	-	-
Products in progress	12 824	8 159	-	-
Finished products	12 474	9 053	-	-
<b>Total book value</b>	<b>44 751</b>	<b>33 864</b>	<b>-</b>	<b>-</b>

A write-down in an amount of SEK 3 273 thousand was reported in the income statement for 2005/2006.

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

### Note 15 Prepaid expenses and accrued income

	Group		Parent Company	
	060430	050430	060430	050430
Prepaid rent	2 195	1 872	1 098	1 094
Accrued interest income	911	782	802	660
Prepaid support agreements	3 901	1 695	109	167
Other items	8 510	6 968	749	214
Uninvoiced works in progress	17 059	26 888	-	-
<b>Total</b>	<b>32 576</b>	<b>38 205</b>	<b>2 758</b>	<b>2 135</b>

## Note 16 Financial assets and liabilities

### Financial assets and liabilities

Group	060430		050430	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets valued at fair value via income statement				
Liquid assets in SEK	204 866	204 866	73 687	73 687
Liquid assets in foreign currencies	63 338	63 338	66 713	66 713
Short-term investments	146 093	146 093	179 776	179 776
<b>Total</b>	<b>414 297</b>	<b>414 297</b>	<b>320 176</b>	<b>320 176</b>
Held-to-maturity investments				
Investments in securities	22 900	22 900	11 600	11 600
Other shares and participations	1 942	1 942	1 954	1 954
<b>Total</b>	<b>24 842</b>	<b>24 842</b>	<b>13 554</b>	<b>13 554</b>
Of which, short-term portion	11 600	-	11 600	-
Accounts receivable and loan receivables				
Accounts receivable	127 548	127 548	144 446	144 446
<b>Total</b>	<b>127 548</b>	<b>127 548</b>	<b>144 446</b>	<b>144 446</b>
Other financial liabilities				
Convertible debenture loans	43 715	43 715	43 046	43 046
Financial leasing agreements	4 576	4 576	4 885	4 885
Debts to financial institutions	9 313	9 313	8 987	8 987
Other interest-bearing debts	113	113	113	113
Accounts payable	23 741	23 741	26 183	26 183
<b>Total</b>	<b>81 458</b>	<b>81 458</b>	<b>83 214</b>	<b>83 214</b>

Revaluation of accounts receivable via the income statement amounted to SEK 1 299 thousands for fiscal year 2005/2006. The maximum credit risk for accounts receivable and loan receivables corresponds to the reported fair value.

Convertible loans has a fixed interest rate of 4%. All other credits are at floating rates, which varied during the fiscal year between 2-4%. Financial leasing agreements and convertible debenture loans has a duration of 0-3 years. Liabilities to credit institutions are carried at the same terms until further notice.

### Bank overdraft facilities

	Group		Parent Company	
	060430	050430	060430	050430
Credit limit granted	15 000	15 000	15 000	15 000
Unutilized portion	-15 000	-15 000	-15 000	-15 000
<b>Utilized credit amount</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Note 17 Untaxed reserves

	Parent Company	
	060430	050430
Tax allocation reserves:		
Allocated to taxes 01	-	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	1 649
Allocated to taxes 07	15 515	-
Excess depreciation	1 213	1 807
<b>Total</b>	<b>82 836</b>	<b>72 315</b>

Of total untaxed reserves, SEK 23,194 thousands (20,248) is reported as deferred Group tax.

## Note 18 Appropriations

	Group	
	060430	050430
Deferred tax liabilities/receivables referable to:		
Untaxed reserves	23 611	36 526
Current assets	-	4 328
Unused loss carryforwards	-	-15 262
Other appropriations	1 326	1 465
<b>Total</b>	<b>24 937</b>	<b>27 057</b>



**Note 19 Other debts to financial institutions**

	Group		Parent Company	
	060430	050430	060430	050430
Due 0-5 years				
from fiscal year-end	6 395	4 999	-	68
(of which, referable				
to financial leases)	(4 577)	(4 885)	-	-
Due more than 5 years				
from fiscal year-end	9 384	8 873	9 384	8 873
<b>Total</b>	<b>15 779</b>	<b>13 872</b>	<b>9 384</b>	<b>8 941</b>

**Note 20 Other long-term liabilities**

	Group		Parent Company	
	060430	050430	060430	050430
Convertible debentures 02/05	-	11 116	-	11 116
Convertible debentures 03/06 <sup>1</sup>	20 608	20 505	20 608	20 505
Convertible debentures 04/07	11 482	11 425	11 482	11 425
Convertible debentures 05/08	11 624	-	11 624	-
Other liabilities	113	113	-	-
<b>Total</b>	<b>43 827</b>	<b>43 159</b>	<b>43 714</b>	<b>43 046</b>

<sup>1</sup> Because convertible debenture loan 03/06 will fall due for payment within one year, it has been posted to the balance sheet for 2005/2006 as a current liability.

**Conditions**

All convertible debentures run at 4% interest. Debentures 2003/2006 will mature on June 30, 2006. Conversion to series B shares can occur from May 16-June 14, 2006. Debentures 2004/2007 will mature on September 30, 2007. Conversion to series B shares can occur from September 10-14, 2007. Debentures 2005/2008 will mature on June 15, 2008. Conversion to series B shares can occur from May 26-30, 2008. Full conversion of the issued convertibles programs will increase the number of series B shares by 650,000, which corresponds to 1.8% of the share capital and 1.1% of the number of votes.

**Present value difference**

The present value difference is calculated as the difference between interest on convertible debentures 2003/2006, 2004/2007 and 2005/2008, 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 at April 30, 2006, SEK 789 thousand (0) is referable to financial leases.

**Note 22 Accrued expenses and deferred income**

	Group		Parent Company	
	060430	050430	060430	050430
Accrued social security contributions	17 988	16 933	942	916
Accrued vacation pay	22 985	21 893	1 042	1 101
Prepaid support agreements	59 380	34 863	-	-
Accrued accounts payable	4 518	2 992	504	85
Advances received	40 535	15 419	-	-
Accrued royalties	3 891	3 872	1 081	1 081
Other items	55 816	35 291	5 681	6 450
<b>Total</b>	<b>205 113</b>	<b>131 263</b>	<b>9 250</b>	<b>9 633</b>

The item accrued expenses and deferred income includes SEK 29.241 thousand for expected expenditures in conjunction with the discontinuation of certain distribution relations. Since the outcome of this ongoing activity is uncertain, information cannot be provided in detail because it would affect the outcome adversely. The provision has been made based on the information available on the closing date and taking into account the information that became known prior to the release of the annual report.

**Note 23 Pledged assets and contingent liabilities**

	Group		Parent Company	
	060430	050430	060430	050430
Pledged assets	36 250	36 250	11 000	11 000
Bank accounts	10 000	10 000	10 000	10 000
<b>Total pledged assets</b>	<b>46 250</b>	<b>46 250</b>	<b>21 000</b>	<b>21 000</b>
Line of credit	-	-	-	-
<b>Total contingent liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Note 24 Cash flow

	Group		Parent Company	
	05/06	04/05	05/06	04/05
Adjustment for items not included in cash flow				
Depreciation/amortization	19 602	17 043	907	1 141
Gain/loss of securities	118	6	118	6
Sale of fixed assets	-17	-648	-13	-312
Provision for personnel costs	1 890	1 314	-	-
Share in earnings of associated companies	478	-	-	-
<b>Total</b>	<b>22 071</b>	<b>17 715</b>	<b>1 012</b>	<b>835</b>

## Note 25 Important estimates and judgements

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

*Impairment test requirements relating to intangible assets* are assessed on an ongoing basis, based on the calculated recoverable amount per cash-generating unit. The recoverable amount is based on the unit's value in use, which consists of calculated future cash flows. The calculations are based on budgeted long-term targets and anticipated growth. In the calculations, a discount rate of 12 percent is applied and growth is set at a level consistent with the market trend.

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

## Note 26 Effects to the transition to IFRS

The most significant differences between Sectra's previous accounting practices and IFRS pertain to the valuation of goodwill (IFRS3) and share-based payments (IFRS2). Other recommendations introduced through the transition to IFRS have had little or no effect on the Sectra Group's income statement and balance sheet. The table below shows the changes affecting the Sectra Group's consolidated income statement for the comparative year 2004/2005, and the effect on equity at the opening and close of 2004/2005. The comparison figures for 2004/2005 have been converted as shown below.

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
<b>Operating profit</b>	<b>72 728</b>	<b>- 1 314</b>	<b>71 414</b>
Financial items, net	9 001	-	9 001
Tax and minority interests	-27 558	-	-27 558
<b>Net earnings for the year</b>	<b>54 171</b>	<b>-1 314</b>	<b>52 857</b>

### 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
<b>Total fixed assets</b>	<b>153 061</b>	<b>0</b>	<b>153 061</b>
Current assets	546 664	-	546 664
<b>Total assets</b>	<b>699 725</b>	<b>0</b>	<b>699 725</b>
Restricted equity	349 377	1 314	350 691
Unrestricted equity	81 278	-1 314	79 964
<b>Total equity</b>	<b>430 655</b>	<b>0</b>	<b>430 655</b>
Provisions and long-term liabilities	72 972	-	72 972
Current liabilities	196 098	-	196 098
<b>Total equity and liabilities</b>	<b>699 725</b>	<b>0</b>	<b>699 725</b>

### Share-based payments, IFRS 2

IFRS 2, Share-Based Payments, is being applied in accordance with 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 a negative 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 relations, agreements, order stocks, licenses, trademarks, etc. must be amortized 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 impairment tests to determine whether the need for an impairment exists.

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

### Note 27 Board's pronouncement concerning proposed dividend

The Board of Directors proposes that a dividend amounting to SEK 0.50 per share, corresponding to a total amount of SEK 18.4 million, be distributed. The proposed dividend amounts to 4.2% of the Parent Company's equity and 3.8% of Group equity. At the close of fiscal year 2005/2006, unrestricted equity in the Parent Company amounted to SEK 119.2 million, and retained earnings to SEK 154.9 million.

The Annual Report states that the Group's equity/assets ratio is 58.9%. The proposed dividend does not jeopardize the implementation of the investments that are deemed necessary. The Company's financial position does not give rise to any other conclusion than that the Company can continue its operations and can be expected to fulfill its obligations in the short and long term.

In the opinion of the Board of Directors, the amount of shareholders' equity is in reasonable proportion to the scope of the Company's operations and the risks associated with conducting operations in consideration of the dividend now proposed.

With reference to the above, and other information that has come to the knowledge of the Board of Directors, the Board considers that a general assessment of the Company's and the Group's financial position leads to the conclusion that the proposed dividend is defensible in terms of the provisions stated in the Swedish Companies Act, Chapter 17, Section 3, concerning the requirements that the nature, scope and risks of the enterprise impose on the amount of the Company's and Group's equity and on the Company's and Group's need to strengthen the balance sheet, their liquidity and their financial position in other respects.

## Note 28 Definition of key ratios

**Added value:**

Operating profit plus labor costs.

**Added value per employee:**

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

**Adjusted equity:**

Reported equity plus 72% of untaxed reserves.

**Capital employed:**

Total assets reduced by non-interest-bearing debts.

**Cash flow per share:**

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

**Debt ratio:**

Interest-bearing debts divided by equity.

**Earnings per share:**

Profit after tax divided by average number of shares.

**Equity:**

includes 72% of untaxed reserves.

**Equity per share:**

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

**Equity ratio:**

Equity as a percentage of total assets.

**Gross margin:**

Operating profit before depreciation as a percentage of sales.

**Liquidity ratio:**

Current assets divided by current liabilities.

**Operating margin:**

Operating profit after depreciation as a percentage of sales.

**P/E:**

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

**Profit margin:**

Profit after net financial items as a percentage of sales.

**Return on equity:**

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

**Return on total capital:**

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

**Return on capital employed:**

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

**Yield:**

Dividend as a percent of share price.

# Auditor's report

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

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Sectra AB (publ) for the financial year May 1, 2005 – April 30, 2006. These accounts and the administration of the company and the application of the International Financial Reporting Standards IFRS endorsed by the EU and the Annual Accounts Act when preparing the annual accounts and the consolidated accounts are the responsibility of the board of directors and the managing director. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

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

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

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

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

Linköping, June 2, 2006  
Lindebergs Grant Thornton AB  
Ivar Verner  
Authorised Public Accountant

# Five year summary

Comparative figures for fiscal year 2004/2005 have been recalculated in accordance with IFRS.

Amounts in SEK thousands unless otherwise stated	05/06	04/05	03/04	02/03	01/02
<b>Consolidated Income Statements</b>					
Net sales	564 382	455 862	495 336	503 418	409 969
Capitalized work for own use	25 572	24 221	-	-	-
Operating expenses	-492 961	-390 636	-398 753	-419 849	-342 980
Depreciation	-20 757	-18 033	-6 052	-6 849	-6 841
Income from participations in Group companies	-478	-	-	-	-
Items affecting comparability	-	-	-70 936	-	-
<b>Operating profit</b>	<b>75 758</b>	<b>71 414</b>	<b>19 595</b>	<b>76 720</b>	<b>60 148</b>
Net financial items	4 988	9 001	8 046	2 202	1 253
<b>Profit after financial items</b>	<b>80 746</b>	<b>80 415</b>	<b>27 641</b>	<b>78 922</b>	<b>61 401</b>
Income tax	-20 396	-27 871	-10 199	-25 703	-21 113
<b>Net earnings for the year</b>	<b>60 350</b>	<b>52 544</b>	<b>17 442</b>	<b>53 219</b>	<b>40 288</b>
Profit attributable to equity holders of the:					
Parent Company	60 350	52 857	20 989	53 315	40 430
Minority interest	-	-313	-3 547	-96	-142
<b>Consolidated Balance Sheets</b>					
<b>Assets</b>					
Intangible assets	127 806	115 807	97 110	11 202	11 033
Tangible assets	39 741	37 254	16 681	97 692	54 236
Financial assets	414 297	320 176	332 342	170 479	130 439
Other current assets	243 725	226 488	190 896	193 155	165 760
<b>Total assets</b>	<b>825 569</b>	<b>699 725</b>	<b>637 029</b>	<b>472 528</b>	<b>361 468</b>
<b>Equity and liabilities</b>					
Equity	486 495	430 655	393 033	206 030	164 660
Provisions	24 937	27 057	891	15 389	11 610
Minority interests	-	-	-2 561	42	-112
Long-term liabilities	38 981	45 915	71 615	57 626	68 031
Current liabilities	275 156	196 098	174 051	193 441	117 279
<b>Total equity and liabilities</b>	<b>825 569</b>	<b>699 725</b>	<b>637 029</b>	<b>472 528</b>	<b>361 468</b>



Key figures <sup>1)</sup>	05/06	04/05	03/04	02/03	01/02
<b>Financial</b>					
Working capital, SEK million	546.1	488.0	480.5	291.0	237.9
Liquidity ratio	2.4	2.9	3.1	2.0	2.6
Solvency, %	58.9	61.5	61.7	43.6	45.6
Debt ratio	0.13	0.13	0.22	0.41	0.45
Investments, SEK million	35.1	44.6	37.9	5.1	8.8
<b>Profitability</b>					
Gross margin, %	17.1	19.6	19.5	16.6	16.4
Operating margin, %	13.4	15.7	4.0	15.2	14.7
Profit margin, %	14.3	17.6	5.6	15.7	15.0
Return on total capital, %	10.9	12.6	6.1	20.6	21.2
Return on working capital, %	16.0	17.1	8.8	32.5	30.0
Return on equity, %	13.2	12.8	5.8	28.7	26.9
Value added, SEK million	335.8	301.9	206.9	239.6	188.1
<b>Employees</b>					
No. of employees, average	373	350	296	262	221
No. of employees at fiscal year-end	383	370	347	274	250
Sales per employee, SEK million	1.5	1.3	1.7	1.9	1.9
Value added per employee, SEK million	0.9	0.9	0.7	0.9	0.9
<b>Data per share</b>					
No. of shares at fiscal year-end <sup>2</sup>	36 746 521	36 528 638	35 851 511	33 076 511	32 760 945
Average number of shares	36 733 188	36 415 995	33 326 511	32 918 728	32 760 945
Equity per share, SEK	13.24	11.79	10.96	6.23	5.03
Equity per share after full dilution <sup>3</sup> , SEK	12.97	11.54	10.52	6.09	4.91
Cash flow per share, SEK	2.01	1.81	2.41	1.92	1.53
Cash flow per share after dilution <sup>3</sup> , SEK	1.97	1.77	2.31	1.88	1.50
Earnings per share, SEK	1.65	1.45	0.63	1.62	1.23
Earnings per share after dilution <sup>3</sup> , SEK	1.61	1.42	0.61	1.57	1.20
Dividend per share <sup>4</sup> , SEK	0.50	0.50	0.50	0.50	0.40
Dividend yield, %	0.9	0.7	0.9	1.3	0.7
P/E ratio, times	35.7	49.7	92.9	23.6	50.0
Share price at fiscal year-end, SEK	58.75	74.00	58.50	38.00	62.00

<sup>1)</sup> Definition of key figures, see note 28.

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

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

<sup>4)</sup> Dividend proposed by the Board of Directors for 2005/2006.

# Corporate governance

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

## Nomination Committee

The Nomination Committee is appointed by the Annual General Meeting (AGM) and has the task of preparing and submitting proposals to the AGM prior to elections of the meeting chairman, Board chairman and other members of the Board of Directors, and with regard to compensation of the Board. The Nomination Committee is also responsible, when applicable, for proposing the names of auditors and the fees to be paid to auditors.

The 2005 AGM appointed Viiveke Fåk (founder and major shareholder in Sectra), Thomas Ericson (Chairman of the Board and major shareholder in Sectra) and Bengt Bengtsson (owner representative) as members of the Nominating Committee. The Nominating Committee's proposals to the 2006 AGM will be submitted in conjunction with the issuance of the notice of meeting.

## Sectra's Board of Directors

Sectra's Board of Directors consists of five members elected by the AGM, plus two employee representatives with two deputies appointed by the employee organizations.

As proposed by the Nominating Committee, the 2005 AGM re-elected Board members Thomas Ericson, Torbjörn Kronander, Gündor Rentsch, Carl-Erik Ridderstråle and Anders Persson. Thomas Ericson was re-elected as Chairman of the Board at a statutory Board meeting in conjunction with the AGM. The employee organizations appointed Karin Partain and Claes Lundström as ordinary employee representatives, with Patrik Preimer and Mats Björnemo as deputies.

## Activities of the Board of Directors

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

The Board of Directors makes decisions regarding the Group's overall strategy, major investments, acquisitions and divestments, and adopts the Group's budget, year-end accounts and framework for its financial

reporting. The Board also sets the policies and guidelines governing the management and investment of the Group's financial assets. Sectra's financial performance and strategic business issues are reviewed and discussed regularly by the Board.

During the 2005/2006 fiscal year, the Board of Directors held 14 minuted meetings. Four of the meetings were coordinated with financial reporting. The Company's President and CFO regularly participate in Board meetings. Other executives take part in the Board meetings as needed. The Company's auditor participated in the meeting at which the year-end accounts were presented, and provided the Board with views and observations from the audit he had conducted.

## Chairman of the Board

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

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

#### **Group management**

The President leads the activities of Group management and makes decisions based on consultation with its members. Group management comprises a total of six members who meet once a month and whenever else the need arises.

#### **Internal control and risk management**

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

These systems are designed to ensure the efficiency of the operations and compliance with laws and regulations. Sectra uses various methods to continuously monitor and control the risks associated with its operations. Identification and assessment of the most serious risks associated with the Group's operations are conducted on an ongoing basis. See the Accounting Principles on page 37 for information about the Group's financial risks.

#### **External audits**

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

#### **Swedish Code of Corporate Governance**

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

# Board of Directors, Group Executive Board and Auditor



Gündör Rentsch



Carl-Erik Ridderstråle



Karin Partain



Claes Lundström

## Board of Directors

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

Sectra holdings: 196,329 A shares, 1,249,044 B shares and convertible debentures corresponding to 18,200 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, et al. 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 86,000 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 and National Supercomputer Centre in Sweden.

Sectra holdings: 2,470 B shares and convertible debentures corresponding to 2,600 B shares.

**Gündör 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, Edstrand Group AB and DIAB AB. Board member of KMT AB and Seco Tools AB.

Sectra holdings: 16,500 B shares and convertible debentures corresponding to 62,600 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 Visualization.

Sectra holdings: 3,412 B shares and convertible debentures corresponding to 6,200 B shares.

**Mats Björnemo**, MSc. Born 1976. Deputy employee representative since 2005. Sales support engineer Sectra Imtec AB.

Sectra holdings: 260 B shares.

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

Sectra holdings: 1,621 B shares and convertible debentures corresponding to 3,000 B shares.



Thomas Ericson



Simo Pykälistö



Jan-Olof Brüer



Helena Johansson



Erik Persson

## Group Executive Board

**Jan-Olof Brüer** PhD. Born 1951. President and Group CEO Sectra AB since 1985. Acting President Sectra Communications AB since May 1, 2006.

Sectra holdings: 673,059 A shares, 3,444,904 B shares and convertible debentures corresponding to 86,000 B shares.

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

**Simo Pykälistö** Born 1972. CFO Sectra AB, employee since 2003.

Sectra holdings: 400 B shares and convertible debentures corresponding to 37,600 B shares.

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

Sectra holdings: 9,239 B shares and convertible debentures corresponding to 2,400 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.



Anders Persson, Torbjörn Kronander



# 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 sensitive communications.

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

*"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.

## Consulting work to product development

Jan-Olof Brüer earned his doctorate in information theory in the early 1980s, with Professor Ingemarsson as his advisor. Dr. Brüer was asked if he wanted to begin working for Sectra and subsequently proposed new ideas about how to transform Sectra into a "proper" company.

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

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

*"We founders were academics and researchers. 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 most stringent requirements of all in terms of security.

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

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

## Medical technology

Dr. Torbjörn Kronander came to the Linköping Institute of Technology to earn his doctorate in the mid-1980s, bringing with him a strong interest in medical technology and a vision of digital radiology. He was 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 operations.

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

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

## 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 and which 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 office outside Sweden was opened in Norway in 1995. Sectra has since then opened offices in nine more countries as part of the company’s commitment to international growth.

### 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 paved the way for 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 2005, when Sectra bought 20% of

ImaXperts BV, a Dutch company that distributes medical systems in the Netherlands, Belgium and Luxembourg.

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

### Cutting-edge technology

Since its inception, Sectra has maintained close ties with the world of research and has helped to push forward the boundaries in relevant fields of technology. One example of this is Sectra’s digital mammography system, Sectra MicroDose Mammography, which was conceived at a meeting between Sectra and Associate Professor Mats Danielsson and his research team at the Royal Swedish Institute of Technology in the late 1990s. Professor Danielsson and his team had developed a revolutionary 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.

The most recent example of Sectra’s contributions to revolutionary technical advances is a new image-processing method that enables extremely large volumes of medical images to be displayed 100 times

Sectra has been active in the area of security ever since the company was started. Since the mid-1990s, Sectra has been the market leader in advanced encryption equipment for the Swedish Defense Department and today the company’s products are used by civil authorities and defense forces in several European countries.

faster than with traditional methods. The new method is based on research conducted at the Center for Medical Image Science and Visualization at Linköping University, Sweden.

### Key to continued success

Sectra focuses on high-technology niche markets with long-term growth potential. Operations are conducted by highly committed and skilled employees working in a stimulating internal social climate. Close long-term cooperation with customers results in products that represent good value and contribute to favorable profitability. These attributes are the key to Sectra’s success and provide an excellent foundation upon which to build for the future.

# Glossary

## **Algorithm**

A systematic procedure for performing a calculation or solving a problem using a limited number of steps.

## **Crypto**

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

## **Mammography screening**

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

## **Orthopedics**

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

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

A system for managing and archiving digital radiology images.

# Where to find Sectra

## Headquarter

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[www.sectra.com](http://www.sectra.com)

## Medical systems

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#### **Sectra Imtec AB**

#### **Sectra Skandinavien AB**

#### **Sectra Mamea AB**

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