

RaySearch Laboratories AB (publ)
Interim Report January 1 – June 30, 2004

- Net sales totaled SEK 20.5m (18.5) between January and June 2004
- Net profit was SEK 6.5m (7.2) during the period
- Earnings per share after tax reached SEK 0.62 (0.68)
- Operating profit totaled SEK 9.1m (10.2)
- Major initiatives in research and development
- Leading radiation therapy center in Europe orders 14 systems each of RayOptimizer, RayMachine, and RayBiology
- The partnership with Nucletron is making good progress; first product extremely well received during a preview at the most important industry meeting of the year
- Ola Enarson was appointed as new Chief Financial Officer in August

All numerical data for the 2003 income statement in this interim report are pro forma, unless stated otherwise.

In a commentary on the first six months of 2004, Johan Löf, CEO of RaySearch Laboratories, says:

“Sales growth was robust during the first six months of the year and sales climbed 11 percent. A worsening of the exchange rate for the dollar has had a restraining effect; if the exchange rate had remained unchanged, the increase would have been more than double, 26 percent. The introduction of the new products RayMachine and RayBiology is still in its infancy and will have full impact later during the year.

We have increased our investment in research and development pertaining to adaptive radiation therapy and new product areas by over 60 percent. These intentional initiatives will yield positive results in the future, but for now they mean added costs, which in turn affect earnings.

The new systems have been extremely well received by customers. It is encouraging that NKI (Nederlands Kanker Institute) in Amsterdam, a leading influential radiation therapy center in Europe, ordered 14 systems each of RayOptimizer, RayMachine, and RayBiology.

The partnership with Nucletron developed well. At the annual meeting of the American Association of Physicists in Medicine (AAPM), one of the industry's most important events of the year, a preview of OM-Optimizer, the first product to be delivered to Nucletron, received an overwhelmingly positive response from both Nucletron and its customers. OM-Optimizer is the first of six products for IMRT that will be integrated in Nucletron's treatment planning system Oncentra Treatment Planning.

Now that RayBiology and RayMachine are on sale, all three products are marketed by Philips. When all six products are delivered to Nucletron, RaySearch's product portfolio will consist of a total of nine products with Philips and Nucletron's collective installation base as potential customers. The prospects for strong expansion for RaySearch in the future are outstanding.”

Summary of Financial Performance

	2004	2003*	2004	2003*	2003*
	Jan-June	Jan-June	Apr.-June	Apr.-June	Jan-Dec
Amounts in SEK thousand	(6 months)	(6 months)	(3 months)	(3 months)	(12 months)
Net sales	20,486	18,512	10,406	11,198	34,021
Gross profit margin %	96.4%	95.7%	95.9%	95.9%	95.6%
Operating profit	9,113	10,248	3,603	6,349	12,853
Operating margin	44.5%	55.4%	34.6%	56.7%	37.8%
Net profit	6,500	7,168	2,592	4,352	8,750
Equity ratio	76%	72%	76%	72%	67%
Adjusted equity per share	2.50	2.50	2.50	2.50	2.69

*) Pro forma accounting, including key indicators, equivalent to initial RaySearch operation. For more information please see page 5.

This is a translation of the Swedish Interim Report.

Sales and Earnings

During the first six months of 2004 total sales increased 11 percent compared with the equivalent period last year to reach SEK 20.5m (18.5). A total of 234 (168) licenses were sold during the year, 150 (168) of which were for RayOptimizer, 70 (0) RayMachine, and 14 (0) RayBiology. In 2003 Raysearch sold a total of 331 licenses for RayOptimizer. Revenues from sold licenses during the first half of 2004 increased 4 percent to SEK 16.9m (16.3). Support revenues climbed from SEK 2.2m to SEK 3.6m.

The company is dependent on the development of the US dollar, since all net sales take place in dollars. During the first six months of 2004 revenues were booked at an average exchange rate for the dollar of SEK 7.66, compared with SEK 8.72 during the corresponding period in 2003. If the exchange rate had remained unchanged compared with the same period in 2003, total sales in 2004 would have reached SEK 23.4m, which would have meant an increase of 26 percent.

RaySearch's sales mainly consist of license revenues from RayOptimizer and during the first quarter of 2004 these accounted for about 61 (89) percent of total sales. Operating profit was SEK 9.1m (10.2), which corresponds with an operating margin of 44.5 (55.4) percent.

Costs have increased during the period, mainly because of the increased focus on research and development, primarily in adaptive radiation therapy, as well as the new products for Nucletron. Administrative costs have also increased as a result of the stock-exchange listing.

During the second quarter of 2004 compared with the same period last year sales decreased 7 percent to SEK 10.4m (11.2). If the exchange rate had remained unchanged compared with the same period in 2003, total sales in 2004 would have reached SEK 11.9m, which would have meant an increase of 6 percent.

Operating profit during this quarter reached SEK 3.6m (6.3), equivalent to an operating margin of 34.6 (56.7) percent. The relatively large number of new employees in research and development has pushed payroll expenses upward during the quarter.

Breakdown of Sales

The majority of RaySearch's end customers are located in the United States. Breakdown of sales for the first six months of the year: North America 89 (86) percent, Asia 3 (9) percent, Europe and the rest of the world 8 (5) percent.

Capitalization of Development Costs

During the first quarter of 2004 capitalization of development costs amounted to SEK 5.7m (5.4). With the completion of RayMachine and RayBiology, the company has started to amortize capitalized development costs for these products. Amortization during the first six months of 2004 amounted to SEK 0.7m (0). Deferred taxes were taken into account.

Operating costs

Operating costs increased during the first half of 2004 by SEK 3.2m to SEK 10.6m. This increase is mainly attributable to the increased investment in research and development for adaptive radiation therapy and the new products for Nucletron.

Each year a considerable part of RaySearch's operating costs go to research and development for existing and new products. Most of these costs are salaries. On June 30, 2004, 21 (15) people worked in research and development. Other expenses for research and development include costs for computer equipment and premises. Research and development costs before capitalization and amortization of development costs totaled about SEK 9.2m (5.7); the company expects these posts to continue to represent a substantial portion of operating expenses in the future.

Depreciation during the first six months of the year reached SEK 76,000 (72,000) for tangible fixed assets.

Liquidity and Financing

As at June 30, 2004, liquid assets and short-term investments were SEK 8.6m, compared with SEK 11.5m on December 31, 2003. As at June 30, 2004 short-term receivables amounted to SEK 13.3m compared with SEK 11.3m on December 31, 2003. RaySearch has no interest-bearing liabilities.

Investments

Fixed assets mainly consist of capitalized development costs, followed by computers and equipment. Investments in intangible fixed assets during the first half of the year totaled SEK 5.9m (5.4) and intangible fixed assets SEK 0.3m (0.7).

The Market

RaySearch is active in intensity modulated radiation therapy (IMRT), an advanced method of radiation therapy for cancer treatment. IMRT makes it possible to irradiate the tumor with higher radiation doses than what is possible with conventional therapy, at the same time that the risk of damage to surrounding healthy tissue decreases. IMRT planning requires advanced methods for optimization, since radiation therapy has to be adapted to the individual patient's anatomy.

RaySearch, a leading company in IMRT optimization, has developed the ORBIT software, a general platform for solving optimization problems in radiation therapy for the treatment of cancer. The market for systems in the field of IMRT has shown strong growth since 2000. IMRT is an established method in the United States, though the technology has not yet had the same breakthrough in Europe. To give an idea of the potential for IMRT, only about a percent of patients currently receive treatment with IMRT of the 5 million cancer patients who undergo radiation therapy annually.

Commercial partners

In connection with the formation of RaySearch a partnership was initiated with Philips through which Philips sells RaySearch's software modules to medical facilities. After signing the agreement with Nucletron in January, that company will also market RaySearch products. RaySearch receives a fixed license fee for each module sold. After the purchase the customer has the opportunity to buy a support contract, including software upgrades. By relying on commercial partners, RaySearch's business model becomes scalable, which means that the company can reach out to a large number of customers without costs increasing at the same rate. The business model is similar for the partnerships with both Nucletron and Philips. RaySearch will receive royalties from Nucletron for the new products in euro, which reduces the company's relative exposure to the US dollar. The license agreement with Nucletron means that RaySearch's products will become accessible to twice as many clinics as previously. The existing agreement with Philips continues and the partnership is becoming more extensive as the next generation of systems for inverse treatment planning for IMRT is developed.

Adaptive radiation therapy considers changes in the patient's anatomy during the course of treatment, which provides the opportunity to correct any errors or deviations that could arise during treatment. RaySearch pursues extensive research and development in the field and is working on a prototype for an adaptive radiation therapy module. This module will be integrated into Philips' Pinnacle treatment planning system as part of the collaboration with Philips. RaySearch intends to demonstrate an initial version of the new adaptive radiation therapy system together with Philips at the US ASTRO conference in October. After that the system will be installed in a number of radiation therapy clinics to learn more about how clinical workflow is affected by adaptive radiation therapy and to gain valuable opinions from doctors and hospital physicists.

Products

RaySearch develops software that improves treatment planning systems used to plan radiation therapy. The software ORBIT is a general platform for solving optimization problems in radiation therapy and is the result of many years of research at Karolinska Institutet and RaySearch. RaySearch has

packaged parts of ORBIT's functions in three products: RayOptimizer, RayBiology, and RayMachine. Philips has sold RayOptimizer as a plugin module in its Pinnacle treatment planning system since 2001 and sales of the other modules have begun.

The agreement with Nucletron covers six products based on the ORBIT platform and in about a year the first will be integrated in Nucletron's treatment planning product Oncentra Treatment Planning (OTP). RaySearch has great hopes for its partnership with Nucletron. The company is a leading player in the market for advanced treatment planning systems and an extremely competitive IMRT system can be created with RaySearch. The combination of IMRT optimization in ORBIT and image processing in OTP with organ contour and radiation dose algorithms will provide users with access to a very powerful system.

Research and Development

RaySearch is active in a highly competitive field and must therefore ensure that the company's products maintain an extremely high technological level. Research at RaySearch mainly focuses on the following areas: algorithm development and modeling in adaptive radiation therapy, generating algorithms for direct optimization of machine parameters, developing advanced dose calculation algorithms, and optimizing algorithms for radiation therapy.

Development work focuses on converting market demands, customer requests, and research findings into products by developing new products and by improving and supporting existing products. In recent times, this work has centered on developing the products RayBiology and RayMachine and updating RayOptimizer. Because of the intensified concentration on adaptive radiation therapy and the development of the new products to be sold via Nucletron, the company will now substantially increase the amount of resources devoted to research and development.

The number of employees in research and development will increase by almost 50 percent during 2004.

Shareholders' Agreement

RaySearch previously announced, including in the prospectus for listing on the stock exchange dated November 2003, that Johan Löf, Erik Hedlund, Anders Brahme, and Carl Filip Bergendal have undertaken, in relation to Philips, to retain control of the votes in RaySearch. This undertaking remains in effect until December 31, 2007. As a result of RaySearch's licensing agreement with Nucletron, Johan Löf, Erik Hedlund, Anders Brahme, and Carl Filip Bergendal have also undertaken, in relation to Nucletron, to retain voting control over RaySearch. This undertaking in relation to Nucletron is in effect until January 2012. Unlike the agreement with Philips, in the agreement with Nucletron Johan Löf, Erik Hedlund, Anders Brahme, and Carl Filip Bergendal do not have pre-emptive rights for shares in RaySearch.

Annual General Meeting 2004

The Annual General Meeting on May 24, 2004 for RaySearch Laboratories AB (publ) resolved following.

Johan Löf, Erik Hedlund, Carl Filip Bergendal and Claes-Göran Fridh were re-elected to the Board of Directors. Hans Wigzell was elected to the Board and Thomas Pousette was elected deputy. Hans Wigzell is a professor at Karolinska Institutet in Solna and until December 31, 2003, was dean of Karolinska Institutet. He is a board member of Karolinska Institutet Holding AB, Karolinska Innovations AB (chairman.) and Karolinska Development AB (chairman). Thomas Pousette is an attorney and partner of Advokatfirma Lindhs DLA Nordic KB and serves as secretary of the Board of Directors for RaySearch Laboratories. The previous board members Kjell Stenberg and Clas Regeheim retired from the board. Erik Hedlund is chairman of the board of RaySearch Laboratories AB.

In accordance with the recommendation of the Board of Director and the CEO, the general meeting resolved that the company's profit would be brought forward and no dividend would be paid. The Board of Directors and the CEO were discharged from liability for the 2002/2003 fiscal year.

Significant Events After the End of the Period

The Annual meeting of the American Association of Physicists in Medicine (AAPM) is one of the most important events of the year within the industry for radiation therapy. This year the meeting was held in late July in Pittsburgh, Pennsylvania. RaySearch arranged a preview for selected customer groups of OM-Optimizer, the first IMRT product sold via Nucletron as a plugin module in Nucletron's treatment planning system Oncentra Treatment Planning. OM-Optimizer is the first product of six that is included in the collaboration between RaySearch and Nucletron, which was presented earlier this year. Customer reaction was extremely favorable and Nucletron states that the new system will radically improve the planning process for IMRT. Optimization can take place faster and treatment times can be significantly reduced. After the meeting Nucletron issued a press release about the favorable response, which is available at www.nucletron.com

New Chief Financial Officer

Ola Enarson was appointed New Chief Financial Officer for RaySearch Laboratories. He took over his new position on August 19, 2004, and comes most recently from the Cybercom Group. Ola Enarson, 42, holds an MBA and has worked as an authorized public accountant at PricewaterhouseCoopers. He has also held positions as chief financial officer in property management companies and industrial enterprises.

Accounting Principles

The Group applies the Swedish Financial Accounting Standards Council's recommendations, which means it used the same accounting principles and methods of calculation as in the 2003 annual report. The new recommendation applied beginning in 2004 is RR 29 "Employee Remuneration," which has not had any effect on the amount of the Company's earnings and Financial Position since the Company's pension plans are fee-based.

This interim report has been drawn up in accordance with recommendation RR 20 of the Swedish Financial Accounting Standards Council concerning interim financial reporting.

During the second quarter of 2003 RaySearch carried out a reverse acquisition of Taurus Petroleum AB. For more information about the reverse acquisition, please see pages 36-37 in RaySearch Laboratories AB's 2002/2003 annual report, which also specifies the principles used for preparation of pro forma accounting for 2003. In this earnings report, the income statement's comparative figures for 2003 refer to the previously prepared pro forma accounting, since this comparison gives a more accurate picture of how the business developed.

The legal report covered the period September 1, 2002 to June 30, 2003 and only includes Taurus' exploration operations.

Employees

RaySearch had 24 employees at the end of the quarter. The average number of employees from January through June 2004 was 21.

Parent Company

The Group's parent company is RaySearch Laboratories AB, which did not carry out any operations during the quarter. Until April 30, 2003, the company carried out exploration operations, after which this operation was transferred to Taurus Development. Since then Taurus Development was allotted to Taurus' old shareholders.

The Parent Company's shares in the subsidiary RaySearch Medical AB are therefore recorded at SEK 186.8m in the Parent Company.

Parent Company sales amounted to SEK 0 (750,000) between September 1, 2002 and June 30 2003). Loss before tax amounted to SEK. -355,000 (-377,000). Investments in tangible assets during the period amounted to SEK 0 (2,000). As at June 30, 2004, the Parent Company had no liquid assets.

Future reporting dates

The third quarter interim report will be published on October 26, 2004.
The 2004 yearend report will be published in February 2005.

Stockholm, August 31, 2004

RaySearch Laboratories AB
CEO Johan Löf

Review report

I have reviewed this interim report in accordance with the recommendation issued by FAR. A review is considerably limited in scope in comparison with an audit. Nothing has come to my attention that causes me to believe that the interim report does not comply with the requirements of the Exchange and Clearing Operations Act and the Annual Accounts Act.

Stockholm, August 31, 2004

Anders Linér
Authorized public accountant
KPMG

For more information, please contact:

Johan Löf
CEO, RaySearch Laboratories AB
Phone: +46 (0)8-545 061 30
johan.lof@raysearchlabs.com

About RaySearch

RaySearch develops and sells software for radiation therapy for cancer treatment. The products are specially developed to optimize radiation therapy and the purpose is to adapt the radiation dose to the contours of the tumor, which allows high doses to be delivered to the tumor while minimizing the dose to surrounding healthy tissue.

RaySearch, a spin-off from Karolinska Institutet, was formed during 2000. Raysearch sold its first product, RayOptimizer, to almost 700 hospitals around the world through a licensing agreement with Philips, enabling tens of thousands of patients to receive improved radiation therapy.

RaySearch was listed on the Stockholm Stock Exchange O-list in November 2003. Sales of the new products RayBiology and RayMachine have begun. The partnership with Philips continues and RaySearch signed a licensing agreement with Nucletron. The latter agreement makes RaySearch's products more accessible at twice as many clinics as before. RaySearch is based in Stockholm and currently has 26 employees.

RaySearch Laboratories AB (publ)
Sveavägen 25
111 34 Stockholm
Phone: +46 (0)8 – 545 061 30
Company website: www.raysearchlabs.com

Consolidated income statements

Amounts in SEK thousand	2004 Jan-June (6 months)	2003 Jan-June (6 months) pro forma	2004 Apr-June (3 months)	2003 Apr-June (3 months) pro forma	2002/2003 Sept-June (10 months)	2003 Jan-Dec (12 months) pro forma
Income statement						
Net sales	20,486	18,512	10,406	11,198	5,908	34,021
Cost of goods sold	-729	-797	-423	-461	-1,057	-1,493
Gross profit	19,757	17,715	9,983	10,737	4,851	32,528
Selling expenses	-518	-724	-238	-395	-140	-1,666
Administrative expenses	-5,223	-3,721	-3,310	-2,116	-2,576	-10,072
Research and development costs	-4,864	-1,972	-2,719	-934	-320	-5,217
Other operating income	162	17	22	124	1,839	320
Other operating expenses	-201	-	-135	-	-	-999
Non-recurring costs for listing	-	-1,067	-	-1,067	-10,331	-2,041
Operating profit	9,113	10,248	3,603	6,349	-6,677	12,853
Profit from financial items	76	133	64	118	650	259
Profit/loss before tax	9,189	10,381	3,667	6,467	-6,027	13,112
Taxes	-2,689	-3,213	-1,075	-2,115	-1,456	-4,362
PROFIT/LOSS FOR THE YEAR	6,500	7,168	2,592	4,352	-7,483	8,750
Earnings per share before dilution	0.62	0.68	0.25	0.41	-4.92	0.83
Profit/loss per share after full dilution 1)	0.57	0.63	0.23	0.38	-4.92	0.77
Number of outstanding shares before full dilution	10,513,061	10,513,061	10,513,061	10,513,061	10,513,061	10,513,061
Number of outstanding shares after full dilution	11,427,595	11,427,595	11,427,595	11,427,595	11,427,595	11,427,595
Average number of outstanding shares before full dilution	10,513,061	10,513,061	10,513,061	10,513,061	1,521,757	10,513,061
Average number of outstanding shares after full dilution	11,427,595	11,427,595	11,427,595	11,427,595	1,621,360	11,427,595

1) Earnings per share were calculated based on average number of shares in compliance with RR18. The dilution effect was not considered when the company posted a loss.

Consolidated balance sheets

Amounts in SEK thousand	June 30, 2004	Dec. 31, 2003
ASSETS		
Fixed assets		
Intangible fixed assets	10,947	5,811
Tangible assets	1,698	1,967
Financial assets	170	182
	12,815	7,960
Current assets		
Current receivables	13,336	11,300
Cash and bank balances	8,605	11,496
	21,941	22,796
TOTAL ASSETS	34,756	30,756
EQUITY & LIABILITIES		
Shareholders' equity	26,322	19,821
Accounts payable	1,589	2,785
Other non-interest-bearing liabilities	6,845	8,150
TOTAL EQUITY & LIABILITIES	34,756	30,756

Consolidated cash flow statement

Amounts in SEK thousand	2004 Jan-June (6 months)	2003 Jan-June (6 months) Pro forma	2002/2003 Sept-June (10 months)
Cash Flow Statement (summary)			
Cash flow from operating activities before change in working capital	8,923	9,156	1,533
Cash flow from changes in operating capital	-6,199	-3,397	-1,212
Cash flow from operating activities	2,724	5,759	321
Cash flow from investing activities	-5,644	-5,173	-1,011
Cash flow from financing activities	-	-2,000	-
Distribution to Taurus	-	-	-15,368
Cash flow for the fiscal year	-2,920	-1,414	-16,058
Liquid assets at beginning of year	11,496	11,278	16,370
Liquid assets provided by RaySearch	-	-	9,552
Exchange rate differences in liquid assets	29	-	-
Liquid assets at end of year	8,605	9,864	9,864

Changes in shareholders' equity, Group

Amounts in SEK thousand

	2004	2002/2003
	Jan-June	Sept-June
	(6 months)	(10 months)
Opening balance	19,822	15,922
Distribution from subsidiary	-	-15,368
Issue in kind in RaySearch	-	7,264
Shareholders' equity in RaySearch Medical AB May 28	-	19,167
Write-down of own shares	-	-2,000
Profit/loss for the year	6,500	-7,483
Closing balance	26,322	17,502

Changes in no. of shares

	2004	2002/2003
	Jan-June	Sept-June
	(6 months)	(10 months)
Opening balance	10,513,061	8,456,403
New share issue	-	17
Consolidation of shares ("reverse split") 20:1	-	-8,033,599
New share issue	-	10,090,240
Closing balance	10,513,061	10,513,061