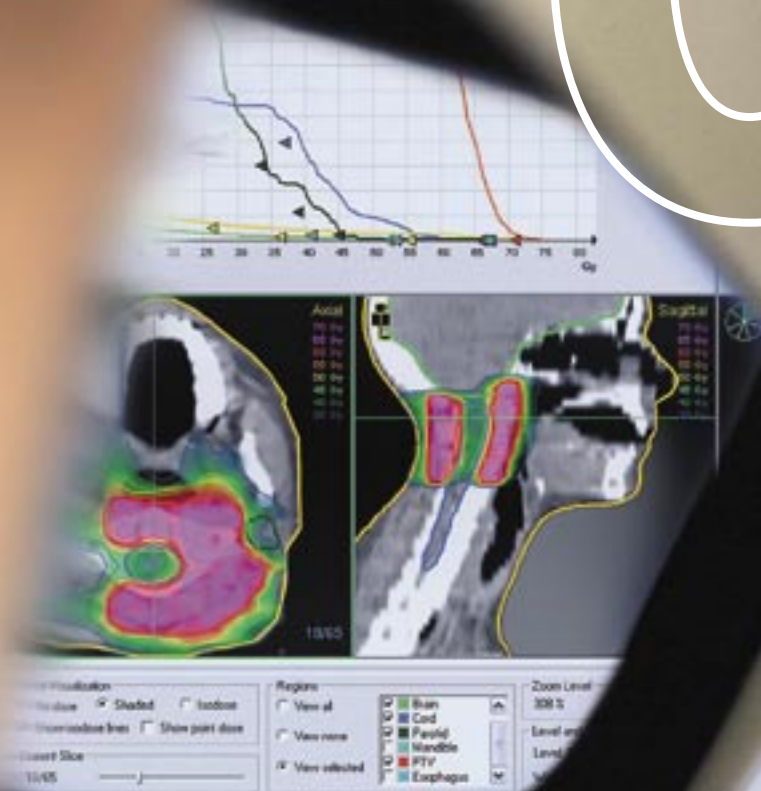


04

ANNUAL REPORT 2004



THE YEAR IN REVIEW

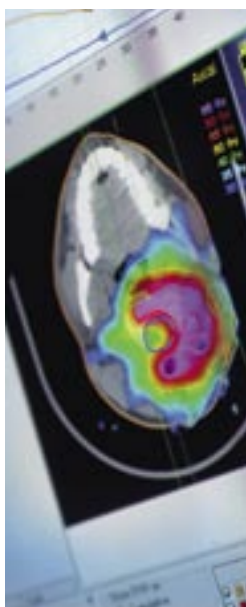
- Net sales amounted to SEK 39.5m (34.0) in 2004
- Net profit was SEK 12.9m (8.7) during the year
- Earnings per share after tax reached SEK 1.23 (0.83)
- Operating profit totaled SEK 14.8m (12.9)
- Investments in research and development increased by over 40 percent

RAYSEARCH IN BRIEF

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 conform 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, thereby improving the patient's chances for recovery from cancer without serious side effects.

Johan Löf, Erik Hedlund, Carl Filip Bergendal, Anders Brahme, Bengt Lind, Anders Liander, and Karolinska Institutet Holding formed RaySearch, a spin-off from Karolinska Institutet, in 2000. RaySearch has sold its first product, RayOptimizer, to over 800 hospitals around the world through a licensing agreement with Philips, enabling tens of thousands of patients to receive improved radiation therapy.

In November 2003, RaySearch was listed on the Stockholm Stock Exchange O-list and the company has just over 4,000 shareholders. Sales of the new products RayBiology and RayMachine began in 2004. The partnership with Philips continues and early in 2004, RaySearch signed a licensing agreement with Nucletron, making RaySearch's products accessible to twice as many clinics as before. The first product in the partnership with Nucletron, OM-Optimizer, will be delivered to clinics during spring 2005. RaySearch is based in Stockholm and currently has 26 employees.



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→ INFORMATION FOR SHAREHOLDERS

Annual General Meeting

The Annual General Meeting for RaySearch Laboratories AB (publ) will be held on Thursday May 19, 2005 at 5 pm at the Stockholm Concert Hall, Grönewaldsalen, Kungsgatan 43, Stockholm. Shareholders who wish to attend this meeting must be listed in the company's share register maintained by the Swedish Securities Register Centre (VPC AB) on May 9, 2005, and must notify the company of their intention to attend the meeting.

Shareholders may be entered in the share register either in their own name or through a trustee. Only shareholders registered in their own name are entitled to participate at the general meeting. Shareholders whose shares have been registered by a bank's trust department or by an individual trustee must have the shares registered in their own name in the share register. Such registration – which may be temporary – is made through the administrator and must be carried out by May 9, 2005. The administrator should be notified accordingly before this date.

Shareholders wishing to attend the Meeting must notify the Company in writing at RaySearch Laboratories AB, Sveavägen 25, SE-111 34 Stockholm, Sweden, or by fax +46 8 545 061 39, telephone +46 8 545 061 30, or e-mail: bolagsstamma2005@raysearchlabs.com no later than 4 pm on Monday, May 16, 2005. Upon registration, the shareholder shall state name, personal identification number or registration number, address, telephone number, and number of shares as shown in the share register. Documents such as power of attorney, registration certificates, etc., should be enclosed with the registration form.

RaySearch will publish the following financial reports

Interim Report January – March 2005 May 19, 2005

Interim Report, January – June 2005 in August 2005

Interim report January – September 2005 in October 2005

RaySearch's sales showed excellent growth during the year as the sharply upward trend continues, quarter after quarter. Sales for 2004 reached almost SEK 40 million, an increase of 16 percent year on year. If exchange rates had remained unchanged, sales in 2004 would have totaled about SEK 45 million, which would have corresponded with a 32 percent increase.

At yearend we had sold a total of 1,116 RayOptimizer licenses. The system, which is the leading system for intensity modulated radiation therapy (IMRT), accounted for about 60 percent of the company's sales. During the year we launched the new products RayMachine and RayBiology. Philips is handling sales, which are now in full swing, and the new systems are quickly increasing their share of sales.

Partnership with Nucletron

The most important event of the year occurred early on when we signed a partnership agreement related to IMRT with Nucletron. The agreement encompasses six products that will be integrated into Nucletron's treatment planning product, Oncentra Treatment Planning (OTP). The partnership will make RaySearch's products accessible to many new clinics worldwide, which will double the number of potential customers.

We have given high priority to developing these new systems during the year, including increasing our research and development investments by 40 percent. We are encouraged that our efforts quickly led to results. OM-Optimizer, our first product in this partnership, was demonstrated at several major international conferences. Customer response has been extremely enthusiastic and the first orders arrived during the autumn. We will start to deliver OM-Optimizer to clinics in spring 2005. Our development efforts within the framework of the partnership with Nucletron have been highly successful during the year, exceeding both Nucletron's and our own high expectations.

Clinical Advantages of IMRT

More and more clinical trials showing the clear benefits of IMRT compared with conventional radiation therapy are being published in scientific journals. These studies are

incredibly valuable for increasing acceptance of the use of IMRT as a treatment method. Studies from the Cleveland Clinic Foundation and Memorial Sloan Kettering Cancer Center show that IMRT protects normal tissue, such as rectal tissue, more than what is possible with conventional three-dimensional conformal radiation therapy (3D-CRT). Using IMRT makes it possible to deliver a higher dose to the tumor, thus increasing the patient's chance of survival.

A recently published German study shows that IMRT increases protection of the salivary glands with retained tumor control in cancer of the head and neck. Destroyed salivary glands greatly reduce the patient's quality of life. Yet another study of treatment of cancer of the throat, carried out at Washington University Medical Center in Missouri, USA, clearly shows reduction of the risk of damage in the salivary glands with retained tumor control if IMRT is used instead of conventional radiation therapy. In the United States there is a clear belief that IMRT has great clinical benefit. Reimbursement for IMRT from US insurance companies is three to four times higher than for conventional radiation therapy.

Market

There are approximately 5,500 clinics around the world that administer radiation therapy. Some 2,800 of these clinics have sophisticated treatment planning systems in which radiation dose calculations take into account the three-dimensional nature of patient anatomy. Clinics with advanced treatment planning systems are the primary target group of RaySearch's IMRT software solutions.

The market for treatment planning systems is experiencing an annual growth rate of between 7 and 8 percent. Through our partners, Philips and Nucletron, RaySearch reaches over 50 percent of the market. In the fastest growing segment, IMRT, RaySearch's partner Philips holds a 55 to 60 percent market share. IMRT is growing much faster than the treatment planning market as a whole.

In the United States and Canada, RaySearch's products are installed in about 30 percent of the 2,100 clinics. The IMRT market is growing faster in the United States than in the rest of the world. Moreover, it is likely that even the leading clinics

ADAPTIVE RADIATION THERAPY WILL BE THE MAJOR AREA OF DEVELOPMENT IN THE FUTURE



→ JOHAN LÖF, PRESIDENT AND CEO OF RAYSEARCH LABORATORIES AB

in Europe will begin to use IMRT to a greater extent. In Europe, RaySearch's partners have a total of about 30 percent of the installed basis and Nucletron accounts for the majority of these installations. Prospects are therefore promising for good growth of RaySearch's products in Europe.

Collaboration In Adaptive Radiation Therapy

Adaptive radiation therapy will be the major area of development in the future. Adaptive radiation therapy gives increased geometrical precision by taking changes in the patient's anatomy into account during the actual treatment. We are now participating in collaborations in adaptive radiation therapy on multiple fronts.

RaySearch and Philips intend to further develop their relationship in adaptive radiation therapy. We developed a prototype for adaptive radiation therapy that was presented at a major international conference last October. The plans are to install the system in several 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.

We have a long-term research collaboration with Princess Margaret Hospital in Toronto, which is also one of our largest customers. The hospital can provide us with valuable experience of how adaptive radiation therapy affects the workflow in clinical practice. In addition, the hospital has vast quantities of clinical data that are significant to the development of new adaptive systems.

Future Prospects

The partnership with Nucletron, which will double the customer base for our products, the introduction of new systems based on our software platforms, and our promising research and development in adaptive radiation therapy all mean that the prospects for the future are bright for RaySearch. In addition, we have a strong financial position and knowledgeable and devoted employees.

OBJECTIVES AND STRATEGIC FOCUS

Business Concept

RaySearch provides hospitals around the world with innovative methods and advanced software for more effective radiation therapy for cancer. Our goal is to improve health and quality of life by reducing the time it takes for new scientific achievements in radiation therapy to be accepted for clinical use.

Objectives

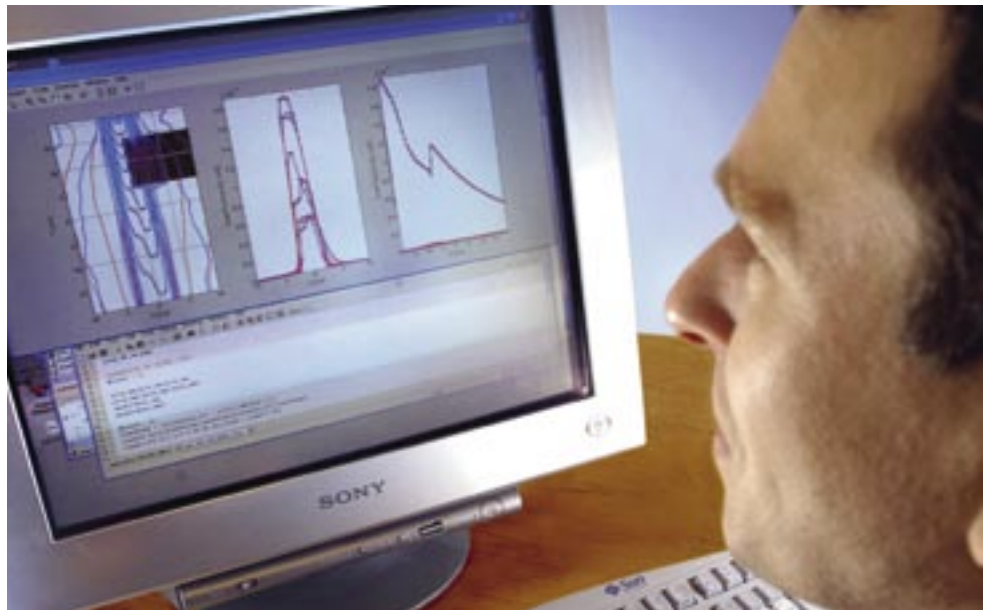
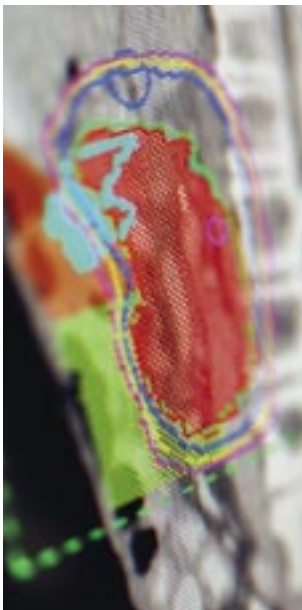
Right from the start, one of our most important objectives has been to expand the RaySearch product portfolio and we achieved this objective in the field of IMRT. The company is now focusing on developing additional IMRT-related products and new products for adaptive radiation therapy. Another central objective is to sign licensing agreements with more treatment planning system suppliers. Last year's agreement with Nucletron and the previous agreement with Philips have enabled RaySearch to partner with two world-leading players in treatment planning for radiation therapy.

Financial Targets

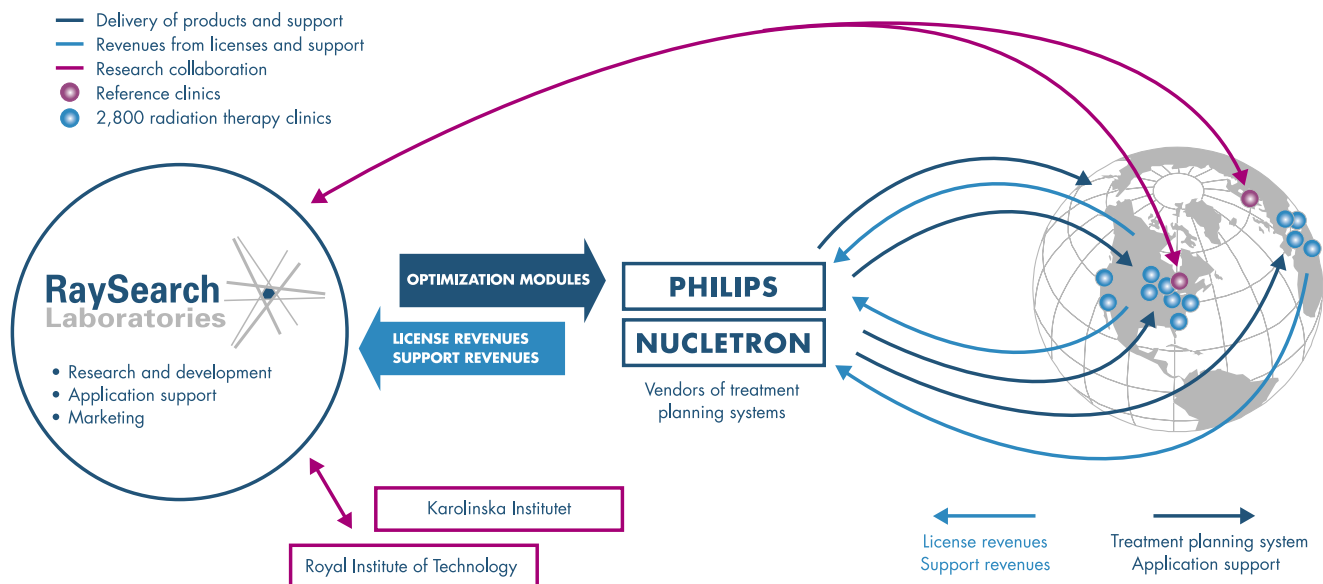
RaySearch aims to achieve an average organic sales growth of 20 percent per year over the next ten years. RaySearch may also expand through acquisitions. The Board of Directors set a target for the operating margin, which will be at least an average of 20 percent annually over the next ten years. In addition, the equity ratio will not be less than 40 percent.

Strategy

RaySearch's strategy is to develop technological solutions faster through focused research and development to achieve more effective radiation therapy for cancer treatment. All software development takes place according to proven processes and methods, using modern programming tools. An important element in the strategy is to develop solutions and products that are highly flexible and modular so they can be easily and effectively integrated into other companies' systems.



RAYSEARCH NOW HAS PARTNERSHIPS WITH TWO WORLD-LEADING PLAYERS IN RADIATION THERAPY TREATMENT PLANNING



→ RAYSEARCH'S BUSINESS MODEL

RaySearch's business model is based on working with leading suppliers of treatment planning systems and scientific institutions in order to offer innovative methods and advanced software to clinics around the world. Partnerships with leading commercial partners make it possible to make innovations and software developed by RaySearch available in the international market faster. The commercial partner is responsible for sales and service to the end customer, which means that RaySearch does not have to build up a global sales organization, but can focus on new research.

During RaySearch's first four years Philips was the sole distributor of RaySearch's software modules to the clinics. The agreement with Nucletron has significantly broadened marketing and sales of RaySearch products. RaySearch receives a fixed license fee for each module sold. After the purchase the customer can buy a support agreement, which includes software updates. By relying on commercial partners the business model becomes scalable, which means that the company can increase sales to hospitals without costs increasing to the same extent. The agreement with Nucletron means that RaySearch will receive income denominated in euros from Nucletron, which relatively speaking reduces the company's exposure to the US dollar.

Continuous product development

The goal is to establish strong software platforms from which more specific products and solutions can be developed. One advantage of this approach is the opportunity to reuse program code when developing new products. Consequently, RaySearch develops new products parallel to a further development of the platforms that serve as the basis for the applications. The current ORBIT platform, which is a general software platform for solving optimization problems in radiation therapy, serves as the basis of the four products RayOptimizer, RayMachine, RayBiology, and OM-Optimizer and will also be the basis of the five new products from the agreement with Nucletron.

The next generation platform is called ORBIT⁴ART. This update of ORBIT can also handle the changes in the patient that occur over time during radiation therapy. Since IMRT treatment makes it possible to adjust the radiation dose to the tumor's contours it will also be more sensitive to geometric uncertainties. If the patient's position on the treatment table is just a few millimeters off, the radiation dose will miss its target.

Nor are the internal organs stationary; they can change position and shape from day to day, which also results in less precise dose delivery. Solving these problems requires adaptive techniques; for example, checking the patient's position before each treatment and correcting any errors. Currently RaySearch is pursuing extensive research and development in the field of adaptive radiation therapy.

Strong Brands

Strong brands are extremely important for success in the field of medical devices. RaySearch's research department regularly publishes scientific articles, either on its own or together with leading clinics. This helps raise the scientific credibility of the products that eventually will become the result of the research project.

Geographic Expansion

RaySearch has a strong position in the United States through its partnership with Philips. Most of the licenses supplied to clinics through Philips were for installations in the United States. Thanks to the partnership with Nucletron, opportunities are growing for a breakthrough of the company's products in Europe, too. RaySearch has no plans to establish its own offices internationally, but intends instead to establish strategic partnerships with commercial partners in order to achieve improved international distribution.

Strategic Collaborations

Since its inception RaySearch has worked closely with ADAC Laboratories, an enterprise within Philips Medical Systems in which RaySearch delivers software modules based on the ORBIT platform. These modules have been integrated in Philips' Pinnacle treatment planning system. The agreement with Nucletron means that also Nucletron will market and sell optimization modules based on ORBIT, which is integrated in Nucletron's treatment planning product, Oncentra Treatment Planning (OTP)*. OTP is ultra modern and belongs to the Oncentra family of integrated products for computerized processing of information about cancer.

A prerequisite for maintaining its position on the cutting edge of radiation therapy research is close contact and frequent exchanges with leading scientific institutions. Currently RaySearch is working closely with Karolinska Institutet and the Royal Institute of Technology (KTH). RaySearch also

* OTP will change its name to Oncentra MasterPlan during 2005.

June 2000

RaySearch Laboratories forms as a spin-off from Karolinska Institutet.

August 2000

Exclusive licensing agreement with ADAC Laboratories.

September 2000

Affärsstrategerna becomes shareholder.

December 2000

Beta version of Pinnacle/RayOptimizer at over 30 test clinics worldwide. Philips buys ADAC.

June 2001

RayOptimizer begins to be delivered to clinics.

August 2001

Positive cash flow.

October 2002

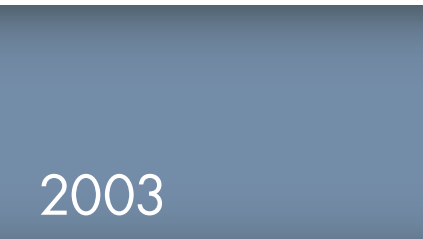
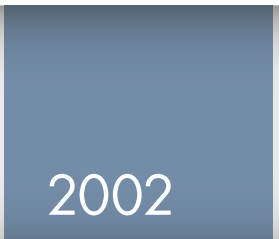
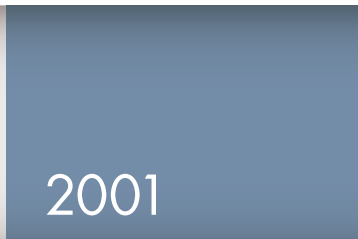
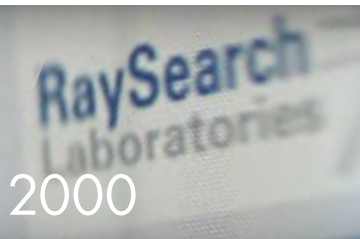
Second version of RayOptimizer launched.

August 2003

RayMachine and RayBiology demonstrated at AAPM.

November 2003

Company listed on the Stockholm Stock Exchange O-list.



works closely with several leading clinics in Europe in the field of IMRT and biological optimization.

RaySearch has a long-term research collaboration with Princess Margaret Hospital (PMH) in Toronto in Canada to develop the next generation adaptive radiation therapy system. PMH is one of the world's leading and largest hospitals in cancer care, which annually treats about 190,000 patients. This collaborative effort will provide valuable experience of how adaptive radiation therapy affects work flows in the clinical setting.

A prerequisite for maintaining its position on the cutting edge of radiation therapy research is close contact and frequent exchanges with leading scientific institutions.

January 2004

Licensing agreement with Nucletron.

July 2004

RaySearch and Nucletron demonstrate OM-Optimizer at AAPM.

August 2004

Philips no longer has exclusive agreement. The licensing agreement continues.

October 2004

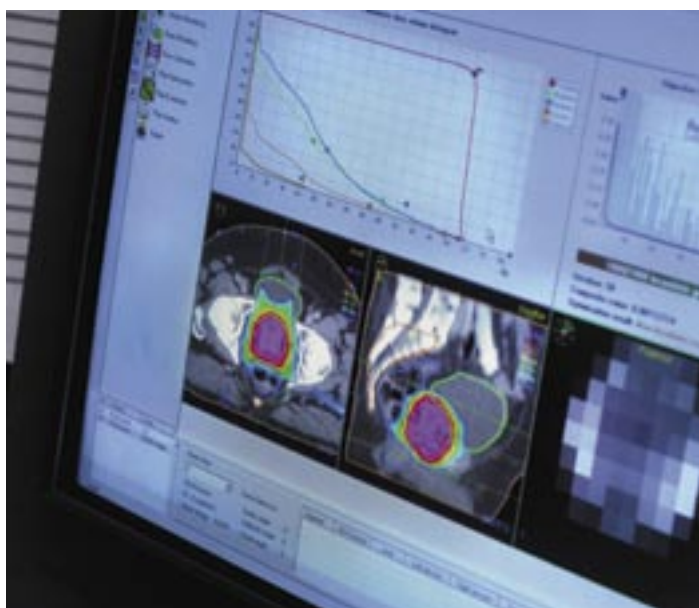
RaySearch and Philips demonstrate a prototype for an adaptive radiation therapy product at ASTRO.

Autumn 2004

Delivery of RayBiology and RayMachine to clinics begins.

Spring 2005

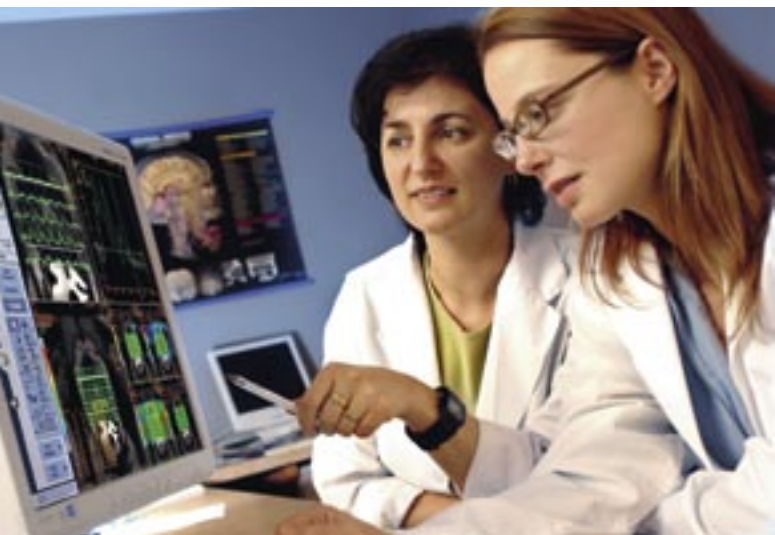
Plans to deliver OM-Optimizer to clinics.



2004

2005

2006



Cancer and radiation therapy

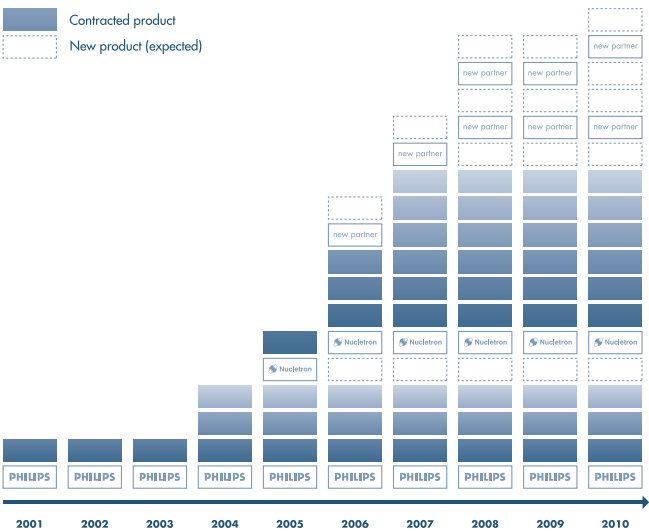
The number of new cancer cases in the world is constantly growing. Between 2000 and 2020, analysts expect a 50 percent increase for a total of about 15 million cases in 2020. Cancer accounted for about 12 percent of all 56 million deaths world-wide in 2000. Over 22 million people were treated for cancer in 2000, an increase of 19 percent since 1990.

It is encouraging that the percentage of patients who survive their disease for the long-term is increasing. This trend is mainly because doctors are diagnosing cancer earlier, but also because treatment techniques are improving.

Of the three main treatment modalities for cancer – surgery, radiation therapy and chemotherapy – radiation therapy has increased most as a curative treatment over the past twenty years, mainly because of clinical advantages and because radiation therapy is cost-effective.

There are approximately 5,500 clinics around the world today that provide radiation therapy. Of these, some 2,800 are considered advanced in the sense that calculation of the radiation dose takes into account the three-dimensional nature of the patient’s anatomy. These advanced clinics, the primary target group of RaySearch’s modern software solutions, have the following geographic distribution:

North America	1,800 clinics
Europe	700 clinics
Rest of the world	300 clinics



PRODUCTS AND PARTNERS

The graph shows the number of current and expected products covered by agreements with Philips and Nucletron, distributed by year. Additional partners and products are expected in the future. When RayBiology and RayMachine were first sold in 2004, Philips marketed a total of three products. OM-Optimizer, the first Nucletron product, will be added during 2005. When all six products are delivered to Nucletron, which is planned for 2007, RaySearch’s product portfolio will consist of a total of nine products with Philips and Nucletron’s collective installation base as potential customers.

Market for Treatment Planning and IMRT

The market for treatment planning systems is growing annually by 7 to 8 percent. Four companies worldwide – Philips, CMS, Varian and Nucletron – dominate the market with about 75 percent of global sales. RaySearch’s competitors are mainly the in-house development departments of potential commercial partners. Through its partners, Philips and Nucletron, RaySearch reaches over 50 percent of the market. In the fastest growing segment of the treatment planning market, IMRT, RaySearch’s partner Philips has a 55 to 60 percent market share.

RaySearch products are installed in about 30 percent of the 2,100 clinics in the United States and Canada. Through partnerships with Philips and Nucletron, RaySearch’s IMRT solutions will be included in 70 percent of all new sales of IMRT-based radiation treatment planning systems. Philips has long dominated the North American market and is expected to increase its installed base at the same rate as during earlier years. It will also sell RaySearch’s add-on modules RayMachine and RayBiology to existing customers.

Nucletron has many established customer contacts and a large installed base of its older products in the US market.

The market for IMRT is growing faster in the United States than in the rest of the world, in part because the reimbursement level from insurance companies is three to four times higher in the United States for IMRT treatment than for conventional radiation therapy.

Both Nucletron's and Philips radiation treatment planning systems are among the four most advanced in the market and have excellent reputations. At the same time the systems differ substantially. Philips' Pinnacle system is a mature, flexible and open system that runs on the UNIX operating system on Sun computers. Oncentra from Nucletron is a new Windows-based system that has integrated solutions with other applications used in the radiation therapy department. There is reason to believe that clinics that do not choose one of these systems would choose the other instead. One of RaySearch's partners is always under consideration in the choice of radiation treatment planning system.

In Europe, RaySearch's partners have a total of about 30 percent of the installed basis and Nucletron accounts for the majority of these installations. Sales of IMRT treatment planning systems have not yet gained momentum in Europe. It is highly likely that this will change during 2005 and 2006 for many reasons. Many clinics have already purchased new treatment equipment capable of offering IMRT and the clinics want to be able to use this capacity in operation. The scientific evidence of the clinical benefit of IMRT, which leading European clinics have been waiting for, is now appearing to a growing extent. Both Nucletron and Philips have a good chance of expanding their market share, especially in the Nordic countries, the United Kingdom, Germany, the Benelux countries, Italy, and Spain. RaySearch expects to capture a considerable share of sales of IMRT-based radiation treatment planning systems in these markets over the next few years.

In the rest of the world where advanced radiation therapy is carried out RaySearch expects that the company has great opportunities to capture a larger market, especially in Japan, China, Australia, and South Africa.

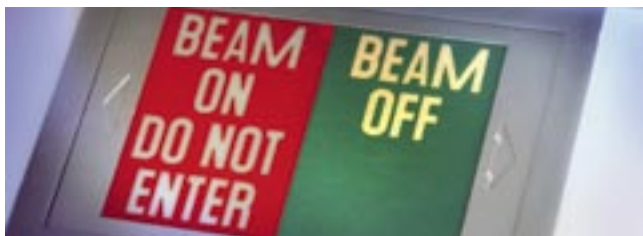
Adaptive Radiation Therapy

IMRT is a major breakthrough in radiation therapy, but problems still arise when tailoring the radiation dose to the tumor volume. Achieving successful treatment places great demands on geometric precision. Since people work with small margins in IMRT, any deviations may lead to the high-dose region missing some of the tumor. Demand is therefore increasing for solutions where the radiation treatment planning system and the accelerator can perceive deviations and correct for them during treatment. This is called adaptive radiation therapy.

Adaptive radiation therapy takes into account changes in the patient's anatomy that occur during the course of treatment and corrects any errors that may arise during treatment. RaySearch pursues extensive research and development in the field and interest is great from companies that sell radiation treatment planning systems.



IN THE UNITED STATES AND CANADA,
RAYSEARCH'S PRODUCTS ARE INSTALLED IN
ABOUT 30 PERCENT OF THE 2,100 CLINICS



Products

RaySearch develops software that improves the treatment planning systems currently used to plan radiation therapy for cancer. A treatment planning system can be viewed as a combination of a CAD tool, a simulator and a database. During planning you start with radiographs, mainly images from computed tomography, of the patient. Based on the information in the computed tomography images, the doctor defines the extent of the tumor in three dimensions and indicates where the radiation dose should be delivered to the tumor.

RaySearch's technology platform ORBIT is a general framework for solving optimization problems in radiation therapy and is the result of many years of research at Karolinska Institutet and RaySearch. Development was performed by using object-oriented technology and advanced methods for software design.

With its sophisticated architecture, ORBIT is a highly suitable platform for innovative products in radiation therapy, where new treatment methods, more precise biological models, and more effective calculation models are continually developed.

RaySearch has packaged ORBIT's function in four products: RayOptimizer, RayBiology, RayMachine, and OM-Optimizer. Until early 2004 only RayOptimizer was sold as a plugin module in Philips' Pinnacle treatment planning system. Now that RayBiology and RayMachine are on sale, Philips is marketing all three products. The new systems have been well received by customers.

OM-Optimizer, the first of a total of six products within the framework of the licensing agreement with Nucletron, will be launched in the market during spring 2005. 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.

RayOptimizer

RayOptimizer is a complete solution for advanced optimization of IMRT in which the user can specify the desired dose distribution to be delivered to the patient. The user has considerable freedom to define different goals and conditions for the treatment and can in such a way create an optimized treatment plan for each patient. RayOptimizer has been sold to over 800 hospitals worldwide and over 10,000 patients have received better radiation therapy thanks to this system.

In the middle of September 2004, RaySearch sold its 1,000th license for RayOptimizer software. Customers include many leading hospitals worldwide, including Princess Margaret Hospital in Canada and the M.D. Andersen Cancer Center in the United States, two of the world's largest hospitals for radiation therapy.

RayBiology

In conventional IMRT, the doctor, based on clinical experience, defines the dose to be delivered to the tumor and the highest permitted dose to the healthy organs. In contrast, in the radiobiological optimization carried out with RayBiology, you let the system find the optimal balance between dose to the tumor and dose to surrounding healthy tissue. Models showing how the tumor and healthy tissue respond to radiation enable the doctor to formulate the target of treatment directly in clinical terms; for example, the system should maximize the probability of tumor control or minimize the likelihood of radiation-induced complications.

RAYSEARCH'S TECHNOLOGY
PLATFORM ORBIT IS A GENERAL FRAMEWORK
FOR SOLVING OPTIMIZATION PROBLEMS
IN RADIATION THERAPY

RayMachine

One critical factor in modern radiation therapy is the decision some clinics have to make between administering treatment that is as accurate as possible and the time it takes for the accelerator to deliver treatment. It is also important, particularly for clinics with a staff shortage, to minimize the amount of time spent on planning for each patient.

RayMachine is a product that enables clinics to maintain or improve the quality of the treatment plan and reduce delivery time for treatments. RayMachine increases the user's opportunity to define during the initial phase of treatment planning those important parameters that determine final treatment time and quality. The process also consists of fewer steps compared with classic IMRT planning without RayMachine.

In addition, you get a clinically acceptable treatment plan that does not require a new planning session or adjustments later on and makes the planning process both time-effective and user-friendly.

OM-Optimizer

OM-Optimizer is the first product developed within the framework of the partnership with Nucletron. A total of six products based on RaySearch's ORBIT platform will be integrated in Nucletron's treatment planning product OTP, Oncentra Treatment Planning. 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 powerful systems.

OM-Optimizer was previewed for the first time in July at the AAPM (American Association of Physicists in Medicine) conference. Intensive development continued and a considerably improved version was demonstrated in October at the ASTRO (The American Society for Therapeutic Radiology and Oncology) conference. Somewhat later the product was demonstrated at the European equivalent, ESTRO. The reception from Nucletron's customers was very positive. Interest in the market is great and the first orders for the new system arrived last autumn. The delivery of OM-Optimizer to clinics is expected to begin in spring 2005.



RaySearch's commercial partners are companies that develop and sell treatment planning systems to hospitals that provide radiation therapy to cancer patients. We developed our current products to be integrated in treatment planning systems, but future products will contain functionality that spans a broader area of application.

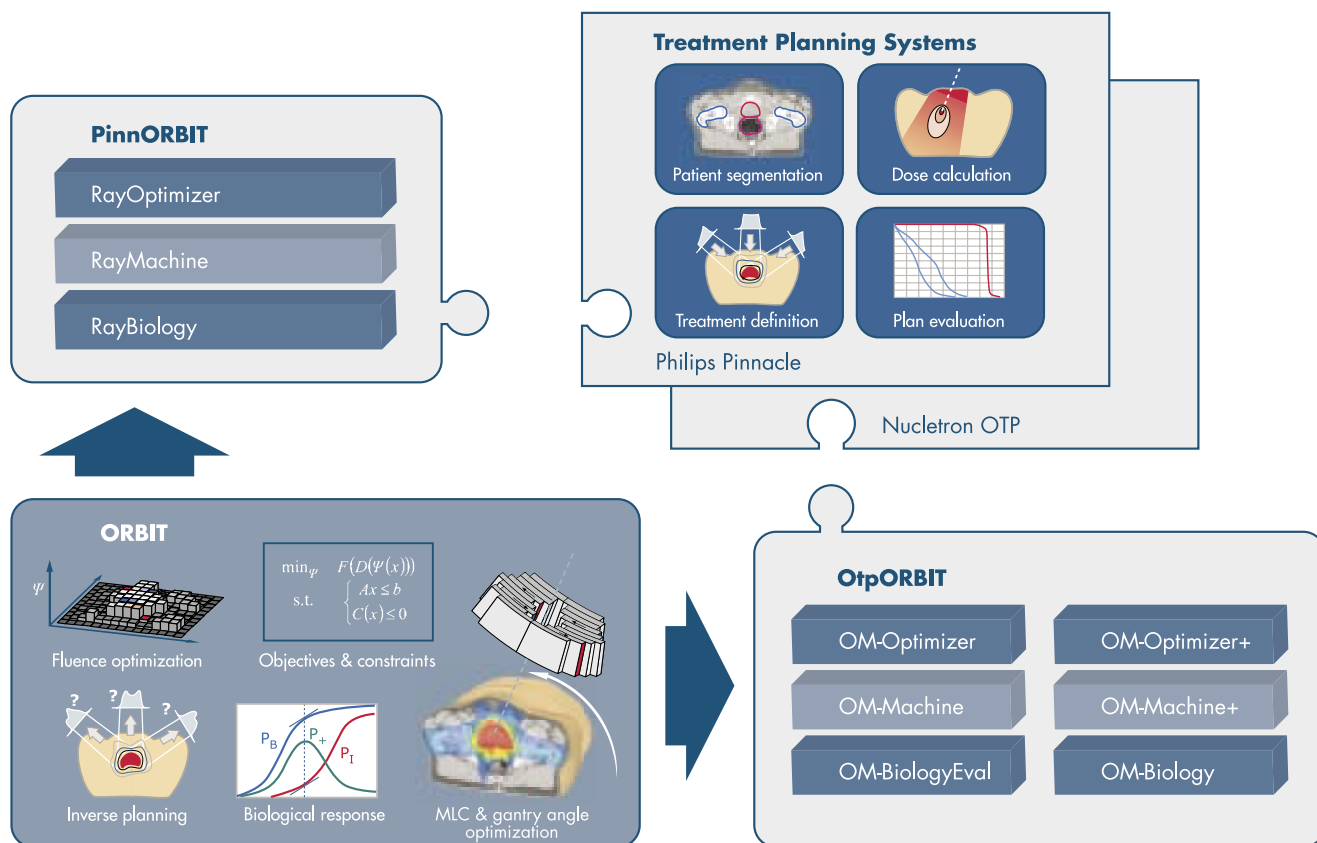


Philips

Philips Medical Systems has sales of about USD 6.8 billion and more than 22,000 employees in over 60 countries. For decades, Philips has been one of the world's leading providers of medical diagnostic equipment. Philips' product portfolio includes equipment for x-rays, ultrasound, magnetic resonance imaging (MRI), computed tomography (CT), nuclear medicine and positron emission tomography (PET), as well as patient monitoring, information processing, and defibrillation.

With the acquisition of ADAC Laboratories in 2000, Philips also gained access to one of the most advanced treatment planning systems in the market as well as a large base of installations. ADAC was incorporated in Philips and all of its products were placed in the radiation therapy division, Philips Radiation Oncology Systems. Philips has an agreement with RaySearch to sell RayOptimizer, RayBiology, and RayMachine. The exclusive nature of the contract was terminated in August 2004 but the companies have entered into the next phase of joint development. This change has expanded the partnership and the companies will collaborate to develop the next generation system for inverse treatment planning for intensity modulated radiation therapy. The partnership includes methods to actively monitor and correct the patient's treatment.

When the companies announced their extended collaboration in March 2004, Keith Tipton, general manager of Philips Radiation Oncology Systems, said. "This marks an important milestone for Philips' treatment planning customers. The relationship with RaySearch has enabled us to accelerate the deployment of our industry-leading IMRT solutions to the market. Through incorporation of both biological responses and treatment machine parameters within the optimization problem, we have demonstrated once again that Philips intends to continue to lead in this important clinical application area. The promise of the next phase of the relationship with RaySearch is in the realization of solutions that further improve both the utility and the clinical workflow of the Philips IMRT package by enabling active management of the biological and physiological changes to the patient over the entire course of treatment."



→ THE ORBIT FRAMEWORK

Nucletron

RaySearch and Nucletron are working together on the integration and licensing of ORBIT, the optimization software for IMRT that RaySearch develops. The companies signed a long-term licensing agreement in January 2004 enabling Nucletron to market and sell the optimization modules based on ORBIT, which is integrated in Nucletron's product for treatment planning, OTP. The licensing agreement will make RaySearch's products accessible to a large number of new clinics worldwide, thereby doubling the number of potential customers for the company.

When RaySearch and Nucletron signed the agreement in early 2004 Rudolf Scholte, CEO of Nucletron BV at that time, said.

"For an effective clinical IMRT program, clinicians need an advanced multi-modality imaging and contouring

environment with strong physics and optimization algorithms. The combination of the ORBIT modules and OTP will give an excellent integrated solution."

Nucletron specializes in the development, manufacture, sales, service and support of the world's most innovative products for cancer treatment, with particular expertise in brachytherapy, treatment planning, information management and simulation. Brachytherapy is a local radiation therapy method in which radioactive isotopes are placed directly on or in the patient. The company has 20 offices worldwide, including its corporate headquarters in the Netherlands. Nucletron BV is a subsidiary of Delft Instruments NV. Delft Instruments has about 1,200 employees. In 2003 Delft Instruments reported net earnings of EUR 11 million, after sales of EUR 237 million. Nucletron accounts for about half of its sales.

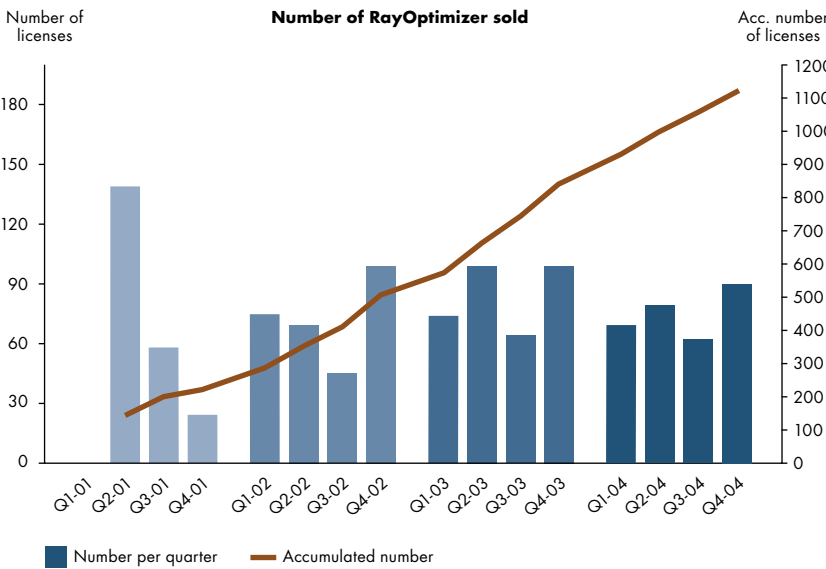
CUSTOMERS

RaySearch’s customers are hospitals that use radiation therapy to treat cancer. RaySearch’s users are doctors, nurses, and hospital physicists at such hospitals. All doctors endeavor to give their patients the best treatment possible.

Today each medical center specifies how many fields and which angles the beams will have for a given tumor type. Conventional treatment planning consists of choosing the standard field set-up, as defined by a treatment protocol, calculate dose, verifying that the desired dose level is achieved and making minor corrections of the field set up if necessary.

The RayOptimizer optimization tool tailors dose distribution to the target volume at the same time that it minimizes the dose level to healthy tissue. Instead of using on standard fields, the optimization problem is solved for each individual patient. The physician can adapt the treatment plan after a discussion with the patient of the risks and benefits associated with radiation-induced complications and the probability of tumor control. It is even possible to select one type of complication rather than another while retaining tumor control. Specially trained nurses carry out the actual treatment planning. After the doctor has defined the target volume, prescribed a certain dose level to the target, and defined the most critical healthy tissues, the nurse plans the treatment using the treatment planning system.

- Examples of leading radiation therapy centers that use RaySearch’s products:**
- Clinique de l’Europe, Brussels, Belgium
 - Galway Clinic, Ireland
 - San Bortolo Hospital, Venice, Italy
 - Matsushita Memorial Hospital, Japan
 - Princess Margaret Hospital, Toronto, Canada
 - Shanghai Hospital, China
 - Intermedic, Beirut, Lebanon
 - Centre François Baclesse, Luxembourg
 - Netherlands Cancer Institute NKI/AVL Hospital, Amsterdam, the Netherlands
 - University Medical Centre Nijmegen, the Netherlands
 - Mount Elisabeth Hospital, Singapore
 - Eresa Hospital, Madrid, Spain
 - Christie Hospital, Manchester, UK
 - Clatterbridge Centre for Oncology, Liverpool, UK
 - Royal Marsden NHS Trust, London, UK
 - Karolinska Hospital, Stockholm, Sweden,
 - Kangdong Sacred Heart Hospital, Seoul, South Korea
 - Universitätsklinikum Würzburg, Germany,
 - Johns Hopkins Hospital, Baltimore, USA,
 - Mayo Clinic of Jacksonville, USA
 - M.D. Anderson Cancer Center, Houston, USA
 - Swedish American Hospital, Rockford, USA
 - The Queen’s Medical Center, Honolulu, USA
 - William Beaumont Hospital, Royal Oak, USA
 - UCSF Medical Center – Mt. Zion, San Francisco, USA
 - University of Chicago Hospital, USA
 - University of Wisconsin, Madison, USA



RAYSEARCH’S CUSTOMERS ARE HOSPITALS THAT USE RADIATION THERAPY TO TREAT CANCER



CLINICAL TRIALS SHOW CLEAR BENEFIT WITH IMRT

Scientific journals are publishing a growing number of clinical trials showing the clear benefit of IMRT compared with conventional radiation therapy.

IMRT protects normal tissue, such as rectal tissue, more than what is possible with conventional three-dimensional conformal radiation therapy (3D-CRT). Using IMRT makes it possible to deliver a higher dose to the tumor. In a study from the Cleveland Clinic Foundation, Cleveland, OH, USA, doctors increased the radiation dose for prostate cancer per treatment from 2 Gy to 2.5 Gy¹. As a result, treatment that took 8 weeks with conventional 3D-CRT only takes 5.5 weeks with IMRT with retained tumor control. The study shows that 30 months after treatment, the risk of serious damage to the rectum decreased from 8 percent to 2 percent. A publication from Memorial Sloan Kettering Cancer Center, NY, USA, shows that with retained tumor control the risk of serious damage in the rectum is

reduced from 14 percent to 2 percent using IMRT instead of conventional three-dimensional conformal radiation therapy². The five year recurrence-free survival rate (after five years, patients had no sign of recurrence) for a group of patients with severe prostate cancer who received radiation doses between 64.8 Gy and 70.2 Gy was 21 percent, while survival for a similar group that received doses between 75.6 Gy and 86.4 Gy was 47 percent; in other words, more than twice the chance of survival. For patients with less severe prostate cancer, equivalent five-year survival figures were 77 percent and 90 percent for the respective dose levels.

A recently published German study also shows that IMRT increases protection of the salivary glands with retained tumor control in cancer of the head and neck³. Destroyed salivary glands greatly reduce the patient's quality of life. The damage is permanent and leads to speech difficulties and problems eating solid

food. In this study only 17 percent of patients sustained severely impaired saliva production. This can be compared with a study of conventional radiation therapy in which the same figure is 60–70 percent.

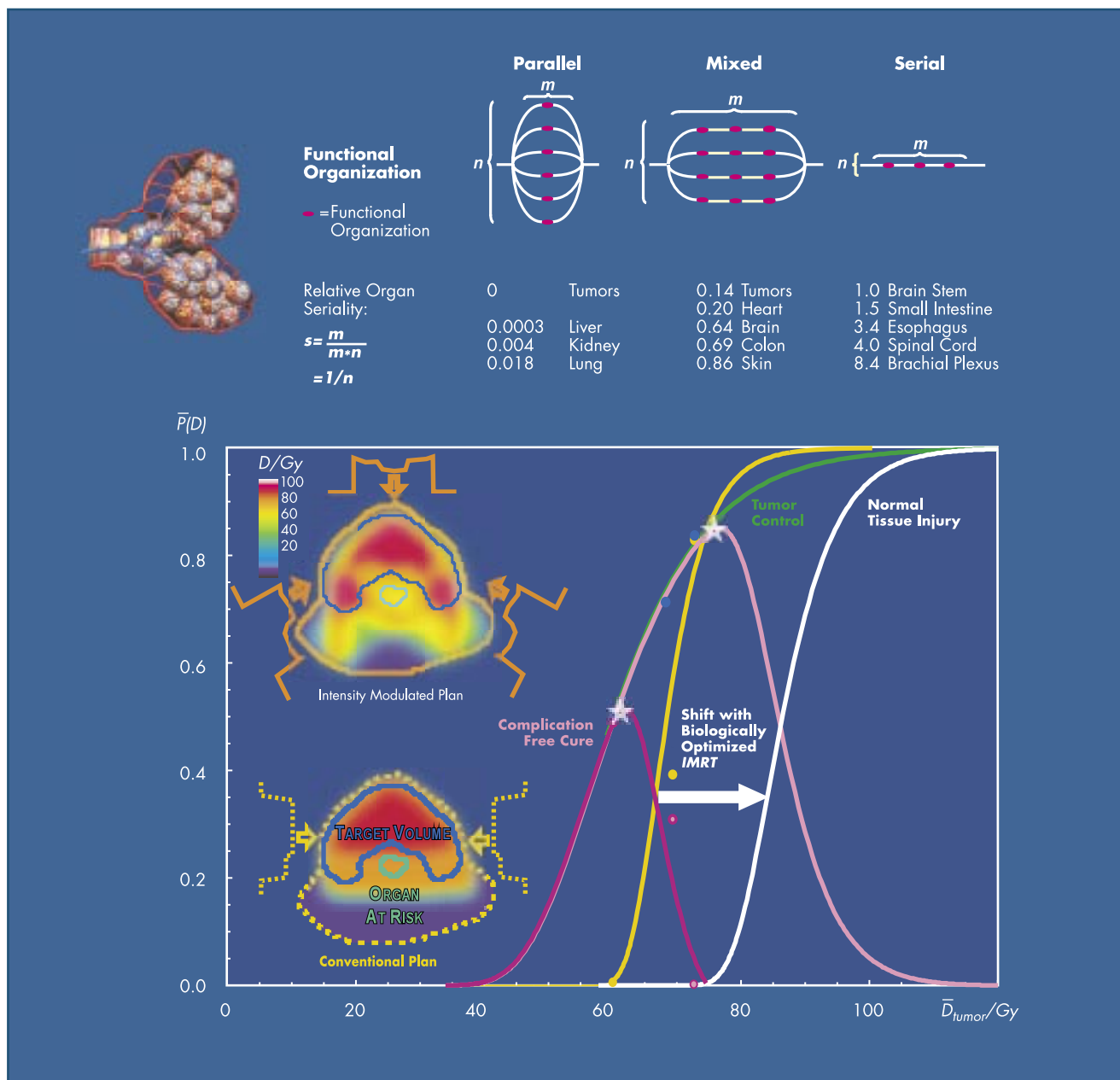
Yet another study of treatment of cancer of the throat, carried out at Washington University Medical Center in Missouri, USA, clearly shows reduction of the risk of damage in the salivary glands with retained tumor control if IMRT is used instead of conventional radiation therapy⁴. In this study, some patients first had surgery followed by radiation therapy, while others only had radiation therapy. In the groups that only had radiation therapy, the percentage of patients with impaired saliva production decreased from 80 percent to 30 percent if IMRT was used. In the groups that also had surgery, the reduction was from 75 percent to 17 percent.

1 Patrick A. Kupelian *et al.* Preliminary observations on biochemical relapse-free survival rates after short-course intensity modulated radiotherapy (70 Gy at 2.5 Gy/Fraction) for localized prostate cancer *Int. J. Radiation Oncology Biol. Phys.*, Vol. 53, No. 4, pp. 904–912, 2002.

2 Zelefsky MJ, Fuks Z, Hunt M, Lee HJ *et al.* High dose radiation delivered by intensity modulated conformal radiotherapy improves the outcome of localized prostate cancer *The Journal of Urology*. 2001; 166: 876–881.

3 Marc W. Münter *et al.* Evaluation of salivary gland function after treatment of head-and-neck tumors with intensity modulated radiotherapy by quantitative pertechnetate scintigraphy *Int. J. Radiation Oncology Biol. Phys.*, Vol. 58, No. 1, pp. 175–184, 2004.

4 Chao KSC, Majhail N, Huang CJ, Simpson JR, Perez CA, Haughey B, Spector G. Intensity modulated radiation therapy reduces late salivary toxicity without compromising tumor control in patients with oropharyngeal carcinoma: a comparison with conventional techniques. *Radiother Oncol.* 2001 Dec; 61(3): 275–80.



→ RAYBIOLOGY

Radiobiological optimization uses models that describe how tumor and normal tissue respond to the radiation. The models take the tissues' architecture into account. In tumors and organs such as the lungs and liver, each part works essentially independently of the others. This is called parallel architecture. Other organs, such as the spinal cord, are serially organized. If a small part of a serial organ is destroyed, the function of the entire organ can be lost. Other organs, such as the heart and brain, have both serial and parallel organization. The diagram shows examples of dose response curves that describe the probability of a

certain effect, tumor control, or normal tissue damage, depending on the radiation dose delivered. The yellow curve shows the risk of damage as a function of dose in conventional therapy, and the white curve shows the equivalent function for radiobiologically optimized intensity modulated treatment. The risk of damage decreases, and becomes much less than the probability of tumor control (green curve). Consequently, the probability of a positive treatment outcome (purple curves) also becomes significantly greater.

RaySearch has a long-term research collaboration with Princess Margaret Hospital (PMH) in Toronto in Canada to develop the next generation adaptive radiation therapy system. PMH is one of the world's leading and largest hospitals in cancer treatment, with about 190,000 patient admissions annually.

Adaptive radiation therapy considers changes in the patient's anatomy during the course of treatment, which provides the opportunity to correct deviations that could arise during treatment.

"Princess Margaret Hospital is one of the world's leading hospitals in cancer treatment and adaptive radiation therapy. The relationship with the hospital, which is one of our largest customers, is crucial for RaySearch. It can give us valuable experience on how adaptive radiation therapy affect work flows in clinical practice and in addition has vast quantities of clinical data that are significant in the development of new adaptive systems. From our side, we provide the latest software and algorithms for adaptive radiation therapy," says Johan Löf, CEO of RaySearch Laboratories AB.

"Through the cooperation with RaySearch and the expertise that the company can provide in terms of software and adaptive algorithms, I see great opportunities for developing new and more effective treatment methods. We have good experience of RaySearch's IMRT software, which is integrated in our treatment planning system from Philips. IMRT enables us to customize the high dose region to the tumor, but it also demands higher precision. Together with RaySearch and Philips we will develop new models of adaptation to efficiently correct and improve IMRT treatment plans based on the image information generated by our treatment machine with integrated computed tomography, as well as, ancillary imaging information accumulated as we monitor therapy response," says Dr. David Jaffray, Associate Professor, Head of the Radiation Physics Department at Princess Margaret Hospital, Toronto.



PRINCESS MARGARET HOSPITAL IS ONE OF THE WORLD'S LEADING HOSPITALS IN CANCER TREATMENT AND ADAPTIVE RADIATION THERAPY

→ PRINCESS MARGARET HOSPITAL



Princess Margaret Hospital is the largest radiation therapy center in Canada and one of the largest in the world. Because of its extensive research in the field of cancer, the hospital has an international reputation and is one of the leaders in the fight against cancer.

Princess Margaret Hospital is a teaching hospital at the University of Toronto, Canada, and together with its research institute, the Ontario Cancer Institute, it is a member of the University Health Network. This network also includes Toronto General Hospital and Toronto Western Hospital. Princess Margaret Hospital is the only facility in Canada that is completely dedicated to research, treatment and education in the field of oncology.

The 70,000 square meter building houses 220 beds, 14,000 square meters of research facilities and 17 linear accelerators. The hospital serves 10,000 new patients each year and over 500 patients per day.

Princess Margaret Hospital admits 190,000 patients annually for diagnosis, treatment and follow up of cancer. The most common types of cancer are

cancer in the prostate, head and neck, and breast cancer. The radiation medicine departments have a staff of over 150 experts who administer radiation therapy to about 8,000 patients annually for cancer. The hospital has about 110,000 patient visits annually and a total of 16 linear accelerators are used during treatment. The hospital has highly sophisticated equipment for computerized tomography (CT), positron emission tomography (PET) and magnetic resonance tomography (MRI).

The hospital uses equipment such as Elekta Synergy for radiation therapy. The system consists of a linear accelerator with integrated equipment for three-dimensional x-rays based on Cone Beam CT. The technology makes it possible to acquire three-dimensional images of the patient just before the treatment instance.

Thanks to the ability to visualize the patient's anatomy during each treatment session, you can see whether the tumor or vital organs have changed location or shape. If such changes have occurred you have the opportunity to compensate for them.



→ DR DAVID JAFFRAY

Cone Beam CT and adaptive radiation therapy.

Dr. David Jaffray at PMH is the inventor of the "Cone Beam CT", a complicated computerized tomography system used for image controlled radiation therapy for cancer treatment. The system got its name because cone shaped x-rays are used to create a complete three-dimensional image of the patient. In traditional computerized tomography, several individual slices are used, which are then built together in an image of the patient.

Cone Beam CT is faster and far more sophisticated than traditional computerized

tomography. RaySearch's software for adaptive radiation therapy can use the information about the patient's anatomy that is obtained from the Cone Beam CT system during treatment to calculate how the treatment plan should be changed to increase accuracy.

Adaptive radiation therapy takes into account changes in the patient's anatomy that take place during the course of treatment and corrects any errors that may occur during treatment, making it possible to further improve treatment outcome.

Operations

In addition to the chief executive officer, senior management at RaySearch consists of a director of research, a director of development, a director of marketing and a chief financial officer. The corporate functions include the research, development, marketing and sales units, as well as business and administration. Development efforts mainly involve the company's ORBIT-based products. A scientific council is also affiliated with RaySearch. The purpose of the scientific council is to maintain close contact with the academic world and observe global trends in radiation therapy.

Research

RaySearch is active in a highly competitive field. Skilled researchers and close collaboration with universities and colleges are important competitive advantages. To ensure that RaySearch is on the frontier of research, the company formed a separate research department in 2002. This department focuses on algorithm and theory development in medical radiation physics and the purpose is in part to generate ideas for new products and in part to continuously improve existing products.

The department publishes articles in leading scientific journals and presents the results at scientific conferences. This constitutes a central part of the company's marketing. The research department's work mainly targets the following areas.

- Algorithm development and modeling in adaptive radiation therapy.
- Research regarding development of algorithms for direct optimization of machine parameters.
- Development of advanced dose calculation algorithms.
- Optimization algorithms for radiation therapy.

The research department's activities are carried out in close collaboration with the Department of Medical Radiation Physics at Karolinska Institutet and the Department of Optimization and Systems Theory at the Royal Institute of Technology, including masters thesis projects and industrial graduate student projects.

Development

The task of the development department is to convert market demands, customer requests and research results into products by developing new products and by continuing to develop and support existing products. Great emphasis is placed on maintaining the high quality of the products and development. During 2004, the work mainly focused on developing OM-Optimizer, the first product based on the partnership

with Nucletron. The department also focused on developing the next version of RayOptimizer, RayBiology, and RayMachine. Development takes place in close collaboration with the research department, with Philips, and with Nucletron. A strong fortification of resources occurred in 2004 to develop commercial products in the partnership with Nucletron.

Marketing and Sales

The most important task of the Marketing Department is to establish new partnerships with players in the radiation therapy market, as well as to find new development projects that fall within the framework of RaySearch's business concept. Participation at international conferences and congresses has a key role.

The Marketing Department is also responsible for ensuring that RaySearch in its documentation, advertising, and web site is perceived as a professional and serious player with high technical expertise in products and solutions as well as a clear focus on quality. The Marketing Department is also responsible for holding application training sessions for partner's staff and end users.

Support

The agreement with Philips also includes support. Usually Philips handles the majority of support cases, but in more complicated cases, Philips contacts RaySearch to further investigate the problem. The support agreement includes software updates. The agreement with Nucletron also includes support. When the products that build on the partnership with Nucletron begin to be launched in spring 2005, support activities will also begin. It is designed similarly to the agreement with Philips.

Staff

RaySearch is a knowledge company and therefore recruitment and skills enhancement are crucial. RaySearch attracts people with cutting edge expertise by offering interesting work, large responsibility, good terms of employment, flexible working hours, and the opportunity to participate in the company's development through an incentive program.

On December 31, 2004, RaySearch had a total of 26 employees, including 8 women and 18 men. RaySearch employees have a consistently high level of education; 96 percent have a university education and 20 percent of them hold a PhD. Twenty-two people worked in research and development and four people in marketing, finance, and administration. The average age in 2004 was 32. Eight employees were between the ages of 21 and 30, 17 were aged 31 to 40 year, and 1 person was over the age of 40.



DEDICATED, HIGHLY SKILLED EMPLOYEES

Share capital

Share capital in RaySearch Laboratories AB on December 31, 2004, was SEK 15,769,591.50, equivalent to a total of 10,513,061 shares, distributed between 4,237,604 Class A shares and 6,275,457 Class B shares, each with a par value of SEK 1.50. All shares carry equal rights to a part of the company's assets and profit. Each Class A share carries ten votes and each Class B share carries one vote at the Annual General Meeting. Every person entitled to vote at the Annual General Meeting may vote for the full number of shares owned or represented by him or her, with no restrictions on voting rights. The term "Founders" in this section refers to Johan Löf, Erik Hedlund, Anders Brahme, Carl Filip Bergendal, Bengt K. Lind, Anders Liander, and Karolinska Institutet Holding AB. The extraordinary general meeting held on January 25, 2005 at RaySearch Laboratories AB, authorized a non-cash issue of a maximum of 914,530 Class B shares, which would increase the company's share capital of a maximum of SEK 1,371,795. These resolutions were approved as a key component in the option program that the Group has offered since 2001.

Statement from some of the principal shareholders

Principal shareholders Johan Löf, Erik Hedlund, and Anders Brahme intend to continue as long-term principal shareholders of RaySearch.

Shareholder agreements etc

As far as the Board of Directors of RaySearch know, there are no shareholder agreements for Class B shares. However, there is a shareholder agreement among the Founders for their Class A shares. This agreement stipulates the obligation to offer shares to existing shareholders prior to sales of shares to an outsider and the right for Founders in certain cases to acquire the shares of another Founder; for example if the latter should declare bankruptcy. This agreement has been

changed in such a way that Bengt Lind, Anders Liander, and Karolinska Institutet Holding AB are currently completely free to transfer their shares to an outsider without any restrictions at all. The percentage of total voting rights in RaySearch formally covered by this agreement is about 86.5 percent (about 40.0 percent of capital) since the aforementioned three Founders still formally remain as contracting parties, but the percentage of total voting rights covered by the limitations of transfer rights is, after the aforementioned change, about 70.3 percent (about 32.5 percent of capital). Shareholder agreements do not contain any provisions about exercising voting rights. When a Founder no longer holds Class A shares, the founder is no longer a party to the agreement.

The shareholder agreements also include an undertaking from the Founders in relation to Philips to retain Class A shares equivalent to at least 51 percent of the votes in RaySearch until December 31, 2007. Through the amendment of the agreement referred to above, Bengt Lind, Anders Liander and Karolinska Institutet Holding AB are no longer covered by this undertaking. The other four Founders are now solely responsible for this undertaking. Moreover, there is an undertaking from the Founders in relation to Philips; in the event of a public bid for RaySearch from another party, the Founders shall offer their Class A shares to Philips if Founders with a majority of Class A shares believe that the bid is reasonable and will be accepted.

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 shall remain in effect until January 2012 at the latest. Unlike their relationship to Philips, Johan Löf, Erik Hedlund, Anders Brahme and Carl Filip Bergendal do not have any obligation in relation to Nucletron to offer shares of RaySearch to existing shareholders in exchange for shares in RaySearch.

Changes in share capital

Year, Transaction	Par value	Change in number of shares	Increase in share capital	Number of Class A shares	Number of Class B shares	Total number of shares	Total Share capital
January 1, 2004 Opening balance	1.50	–	–	4,237,604	6,275,457	10,513,061	15,769,591.50
December 31, 2004 Closing balance	1.50	–	–	4,237,604	6,275,457	10,513,061	15,769,591.50
January 25, 2005 Non-cash issue	1.50	914,530	1,371,795	4,237,604	7,189,987	11,427,591	17,141,386.50

Largest Shareholders

Shareholders Dec. 31, 2004	Class A shares	Class B shares	Total shares	Capital in %	Votes in %
Johan Löf	2,081,028	1,173,813	3,254,841	31.0	45.2
Erik Hedlund	522,363	294,641	817,004	7.8	11.3
Anders Brahme	463,387	260,509	723,896	6.9	10.1
Bengt Lind	353,859	199,595	553,454	5.3	7.7
Carl Filip Bergendal	353,859	199,595	553,454	5.3	7.7
Anders Liander	353,859	199,595	553,454	5.3	7.7
Affärsstrategerna AB	–	1,059,600	1,059,600	10.1	2.2
Karolinska Institutet Holding AB	84,252	25,933	110,185	1.0	1.8
Lannebo fonder	–	250,000	250,000	2.4	0.5
Banco Fonder	–	195,000	195,000	1.9	0.4
RayIncentive AB	–	171,985	171,985	1.6	0.4
Eskil Johannesson	–	105,500	105,500	1.0	0.2
Länsförsäkringar Fonder	–	91,800	91,800	0.9	0.2
Morgan Stanley & Co	–	91,200	91,200	0.9	0.2
Others	24,997	1,956,691	1,981,688	18.6	4.4
Total	4,237,604	6,275,457	10,513,061	100.0	100.0

The extraordinary general meeting held on January 25, 2005 at RaySearch Laboratories AB, authorized a non-cash issue of a maximum of 914,530 Class B shares. Ownership of a considerable portion of these not yet registered shares was transferred in early March 2005. After that, if the newly issued but not yet registered shares were included, RaySearch's largest shareholders would be as shown below.

Shareholders March 3, 2005	Class A shares	Class B shares	Total shares	Capital in %	Votes in %
Johan Löf	2,081,028	1,022,569	3,103,597	27.2	44.0
Erik Hedlund	522,363	256,677	779,040	6.8	11.1
Anders Brahme	463,387	226,871	690,258	6.0	9.8
Anders Liander	353,859	204,035	557,894	4.9	7.6
Bengt Lind	353,859	173,877	527,736	4.6	7.5
Carl Filip Bergendal	353,859	173,877	527,736	4.6	7.5
Karolinska Institutet Holding AB	84,252	25,933	110,185	1.0	1.8
Fidelity	–	608,900	608,900	5.3	1.2
Affärsstrategerna AB	–	518,000	518,000	4.5	1.0
Banco Fonder	–	279,800	279,800	2.4	0.6
Lannebo fonder	–	250,000	250,000	2.2	0.5
RayIncentive AB	–	186,913	186,913	1.6	0.4
Eskil Johannesson	–	105,500	105,500	0.9	0.2
Länsförsäkringar Fonder	–	91,800	91,800	0.8	0.2
Others	24,997	3,065,235	3,090,232	27.2	6.6
Total	4,237,604	7,189,987	11,427,591	100.0	100.0

The following table shows shareholders distributed by size on December 31, 2004. RaySearch has 4,102 shareholders.

Distribution	Number of shareholders	Number of Securities	Holdings (%)
1 – 200	2,941	152,061	1.4
201 – 1,000	863	492,617	4.7
1,001 – 2,000	145	225,895	2.1
2,001 – 5,000	85	295,853	2.8
5,001 – 10,000	31	240,982	2.3
10,001 – 20,000	13	220,655	2.1
20,001 – 50,000	5	177,095	1.7
50,001 – 100,000	8	574,130	5.5
100,001 –	11	8,133,773	77.4
Total	4,102	10,513,061	100.0

Listing on the Stockholm Stock Exchange O-list

RaySearch's share has been listed on the Stockholm Stock Exchange O-list since November 13, 2003. One trading block consists of 200 shares.

Sales and Share Price Performance

During 2004, a total of 5,176,573 RaySearch shares were traded at a value of SEK 232.9 m, corresponding with an average price of SEK 45. The highest price paid during 2004 was SEK 63.50, recorded on May 21. The lowest price during the same period was recorded on February 5 at a price of SEK 26.20. On the last trading day of the year, December 30, the price per share was SEK 48.60. During 2004, the share price advanced a full 94 percent, while the SIX All-Share

Index climbed 18 percent in 2004. Between July 1, 2003 and December 30, 2004, the share price rose 204 percent. RaySearch's market value totaled SEK 511 m at the end of December 2004. In these calculations Class A shares, which are not listed on the stock exchange, were assigned the same value as the listed Class B shares.

Liquidity Guarantee

To increase the liquidity of its share, RaySearch signed an agreement for a liquidity guarantee. This means that the stockbroker (guarantor) undertakes to quote buy and sell prices for RaySearch's Class B shares with at least four trading blocks. The buy and sell prices that the guarantor asks on each occasion may vary with a maximum spread of 2 percent.

Share data*	December 31, 2004	December 31, 2003**
Number of shares before full dilution	10,513,061	10,513,061
Number of shares after full dilution	11,427,591	11,427,591
Adjusted equity per share, SEK	3.11	2.69
Earnings per share, SEK	1.23	0.83
Earnings per share after full dilution, SEK	1.13	0.77
Share price (Dec. 30, 2004), SEK	48.60	25.00
P/E-ratio before dilution	40	30
P/E-ratio after dilution	43	32
Dividend, SEK	–	–
Price/Adjusted equity per share, x	15.6	9.29

*) Definitions of key ratios, page 28

**) Pro forma

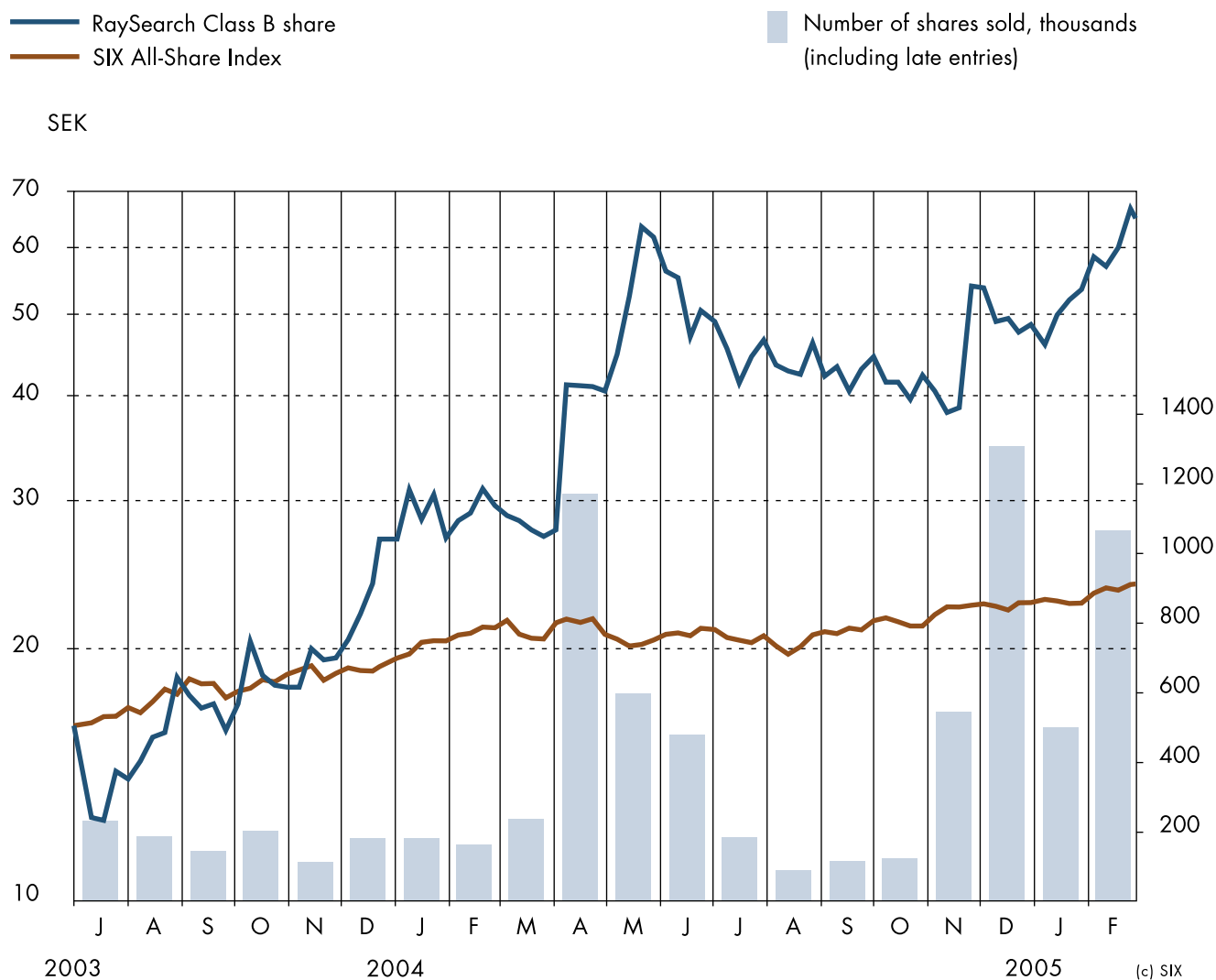
Dividend Policy

The Board of Directors' intention is to allow the Group to pay about 20 percent of profit after tax to shareholders on condition that a healthy capital structure is retained.

However, the company is in an expansion phase, so to retain a stable financial base, the Board recommends that no dividend be paid for 2004.

Share Price

The diagram below shows the share price for RaySearch from July 2003 to February 2005, as well as the number of shares traded per week.



KEY RATIOS AND FINANCIAL OVERVIEW

The summary shows how the core business developed between 2000 and 2004.

Pro forma data for 2003 and 2002 are included to provide a fair picture of the development over time.

Group**	2004	2003*	2002*	2001**	2000**
Net sales, SEK million	39.5	34.0	31.0	21.1	–
Growth in net sales, %	16.0	9.7	46.9	–	–
Operating profit/loss, SEK million	14.8	12.9	8.0	11.1	–1.3
Operating margin, %	37.5	37.8	25.9	52.8	–
Profit margin, %	37.9	38.5	26.8	53.1	–
Net profit/loss, SEK million	12.9	8.7	3.9	6.4	–1.3
Capital employed, SEK million	32.7	28.3	23.6	14.1	5.0
Interest bearing liabilities, SEK million	–	–	–	–	0.2
Total assets, SEK million	45.4	42.5	31.8	18.1	5.5
Equity/assets ratio	72.1	66.5	74.5	73.2	86.5
Share of risk-bearing capital, %	86.3	81.9	84.2	77.4	86.5
Return on capital employed, %	49.2	50.7	44.2	117.7	–
Return on total capital, %	34.2	35.5	33.5	94.1	–
Return on equity, %	42.3	33.7	21.3	71.5	–
Dividend, SEK/share	–	–	0.18	0.18	–
Number of FTEs, average	23	19	16	8	2

*) Pro forma, see accounting principles, page 42

***) Pertains to RaySearch Medical AB 2000 and 2001

Definitions of Key Data

Operating margin

Operating profit, expressed as a percentage of net sales.

Profit margin

Income after financial items expressed as a percentage of net sales.

Capital employed

Total assets less non-interest-bearing liabilities including deferred tax liability.

Equity/assets ratio

Equity as a percentage of total assets.

Share of risk-bearing capital

Equity plus deferred tax liabilities expressed as a percentage of total assets.

Return on capital employed

Operating profit plus financial income expressed as a percentage of average capital employed.

Return on total capital

Operating profit plus financial income expressed as a percentage of balance sheet total.

Return on equity

Net income after taxes expressed as a percentage of average shareholders' equity.

Adjusted equity per share

Adjusted equity divided by number of shares at end of year.

P/E-ratio

Share price divided by earnings per share, before and after dilution.

Price/Adjusted equity per share

Share price divided by adjusted equity per share at yearend.

Consolidated Income Statement

Amounts in SEK thousand	2004	2003*	2002*
Net sales	39,479	34,021	31,012
Cost of goods sold	-1,238	-1,493	-1,499
Gross profit	38,241	32,528	29,513
Research and development expenses	-10,803	-5,217	-3,471
Other operating expenses	-12,634	-14,458	-17,998
Operating profit	14,804	12,853	8,044
Result from financial items	158	259	284
Profit before tax	14,962	13,112	8,328
Tax on profit for the year	-2,059	-4,362	-4,409
Net profit for the year	12,903	8,750	3,919
Earnings per share before dilution	1.23	0.83	0.37
Earnings per share after full dilution**)	1.13	0.77	0.34
Dividend per share***)	none	none	0.18
Number of outstanding shares before full dilution	10,513,061	10,513,061	10,513,061
Number of outstanding shares after full dilution	11,427,591	11,427,591	11,427,591
Average number of outstanding shares before full dilution	10,513,061	10,513,061	10,513,061
Average number of outstanding shares after full dilution	11,427,591	11,427,591	11,427,591

*) Pro forma, see accounting principles, page 42

**) Earnings per share were calculated based on average number of shares according to RR 18

***) Recommended for 2004. Established for 2002/2003

KEY RATIOS AND FINANCIAL OVERVIEW

Consolidated Balance Sheets

Amounts in SEK thousand	Dec. 31, 2004	Dec. 31, 2003*	Dec. 31, 2002*
ASSETS			
Fixed assets			
Intangible assets	16,330	17,532	8,166
Other fixed assets	3,950	2,149	5,254
	20,280	19,681	13,420
Current assets	25,138	22,796	18,334
TOTAL ASSETS	45,418	42,477	31,754
EQUITY & LIABILITIES			
Shareholders' equity	32,724	28,260	23,651
Liabilities and provisions	12,694	14,217	8,103
TOTAL EQUITY & LIABILITIES	45,418	42,477	31,754

Consolidated Cash Flow Statement

Amounts in SEK thousand	2004	2003*	2002*
Cash flow from operating activities before changes in working capital	16,230	12,714	14,633
Cash flow from changes in working capital	-3,358	-596	2,199
Cash flow from operating activities	12,872	12,118	16,832
Cash flow from investing activities	-11,843	-9,768	-11,440
Cash flow from financing activities	-	-1,981	-1,395
Cash flow for the year	1,029	369	3,997
Cash and cash equivalents at the beginning of the year	11,496	11,278	7,281
Exchange rate differences in cash and cash equivalents	-231	-151	-
Cash and cash equivalents at the end of the year	12,294	11,496	11,278

*) Pro forma, see accounting principles, page 42

Operations

RaySearch develops and sells software for radiation therapy for cancer treatment. 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 the treatment has to be adapted to the anatomy of the individual patient.

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.

RaySearch develops software that improves treatment planning systems used to plan radiation therapy. 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 launched sales of the other modules in 2004.

RaySearch was listed on the Stockholm Stock Exchange O-list in November 2003. RaySearch is based in Stockholm and had 26 employees at yearend.

Highlights of the Year

Licensing agreement with Nucletron

In January 2004 RaySearch and Nucletron BV signed a licensing agreement in the field of IMRT. Nucletron will market and sell the optimization modules in ORBIT, which will be integrated in Nucletron's treatment planning product, Oncentra Treatment Planning. The licensing agreement will make RaySearch's products accessible to a large number of new clinics worldwide, thereby doubling the number of potential customers for the company. RaySearch will receive license revenues for the new products in euro, which will reduce the company's exposure to the US dollar.

The agreement with Nucletron covers six products based on the ORBIT platform and over the next few months the first

will be integrated in Nucletron's product Oncentra Treatment Planning (OTP). RaySearch has great expectations 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 modules based on ORBIT and image processing in OTP with organ contour and radiation dose algorithms will provide users with access to a powerful system.

Launch of New Products

RaySearch launched two new products in partnership with Philips – RayBiology and RayMachine – in 2004. With RayBiology, RaySearch offers the world's first commercial system for radiobiologically optimized radiation therapy. RayMachine also provides clear customer benefit since it reduces treatment time for complex IMRT treatments.

Pro Forma Accounting

In this report from the Board of Directors, the comparative figures in the income and cash flow statements for full year 2003 refer to previously prepared pro forma accounts, in order to achieve a fairer picture of how the business has developed. For more details please refer to the accounting principles on page 42.

Sales and Earnings

In 2004 total sales increased 16 percent to SEK 39.5 m (34.0). A total of 458 (331) licenses were sold during the year, including 303 (331) for RayOptimizer, 132 (0) for RayMachine, and 23 (0) for RayBiology. Revenue from the sold licenses increased 2 percent to SEK 31.5 m (30.8). Revenue for support services climbed from SEK 3.2 m to SEK 8.0 m. RaySearch's sales mainly consist of license revenues from RayOptimizer. In 2004 these accounted for about 61 (90) percent of total sales.

Operating profit reached SEK 14.8 m (12.9), which is equivalent to an operating margin of 37.5 (37.8) percent. Net profit was SEK 12.9 m (8.7).

Distribution of Sales

Most of RaySearch's end customers are located in the United States. Sales during 2004 were distributed as follows: North America 79 (84) percent, Asia 10 (8) percent, Europe and rest of the world 11 (8) percent.

Operating Costs

Operating costs increased during 2004 by SEK 3.8 m to SEK 23.4 m. 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 are allocated to research and development for existing and new products. Most of these costs are salaries. On December 31, 2004, 22 (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 of development costs reached SEK 21.2 m (14.8); the company expects these costs to continue to account for a substantial part of operating expenses in the future.

Capitalization of Development Costs

According to the Swedish Financial Accounting Standards Council recommendation about intangible fixed assets (RR 15), development costs are capitalized if a number of requirements are met. Capitalization has mainly involved staff costs and premises for the development project. This adjustment was made in the consolidated balance sheet and income statement. Principles for capitalization of development costs are reported on page 41.

Accumulated capitalized development costs on December 31, 2004, were SEK 16.0 m (5.6). In 2004 development costs amounting to SEK 11.9 m (9.6) were capitalized. Amortization during 2004 were SEK 1.5 m (–). Deferred taxes were taken into account.

Liquidity and Financial Situation

As of December 31, 2004, cash and bank balances and short-term investments totaled SEK 12.3 m, compared with SEK 11.5 m as of December 31, 2003. RaySearch has no interest-bearing liabilities. The equity/assets ratio was 72 (67 pro forma) percent.

Cash Flow

Cash flow from operating activities reached SEK 12.9 m (12.1). Cash flow from investing activities amounted to SEK -11.8 m (-9.8), mainly due to investments in product development. Total cash flow for the year amounted to SEK 1.0 m (0.4).

Currency Exposure

The company is exposed to the fluctuations of the US dollar since net sales are mainly denominated in USD. In 2004, RaySearch recognized revenue at an average exchange rate for the dollar of SEK 7.37, compared with SEK 8.39 in 2003. If the exchange rate had remained unchanged, sales in 2004 would have totaled about SEK 44.9 m, which would have meant a 32 percent increase compared with 2003. RaySearch did not take any hedging measures during the year. Net exchange rate losses totaled SEK -0.5 m (0.8). RaySearch's agreement with Nucletron BV will mean a decrease in the company's exposure to the US dollar, since the new products will be invoiced in euros.

Sensitivity analysis of currency exposure

The effect on operating profit for Jan–Dec of a change in the average exchange rate for the dollar with +/- 10 percent is +/- SEK 3.8 m (3.2), based on 2004 earnings.

Investments

Fixed assets mainly consist of capitalized development costs. The remainder mainly consists of computers and equipment. Investments in intangible fixed assets during 2004 totaled SEK 12.1 m (9.6) and in tangible fixed assets SEK 0.5 m (0.6).

Research and Development

Development work focused on converting market demands, customer requests, and research findings into products by developing new products and by improving and supporting existing products. Research and development at RaySearch focuses on: 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. Research is carried out in close collaboration with Karolinska Institutet in Solna and the Royal Institute of Technology in Stockholm.

One area to which the company has devoted substantial research resources is adaptive radiation therapy, which most likely will become the next major paradigm shift in radiation therapy after IMRT. RaySearch developed a prototype of an adaptive system and presented it at a major international conference in October 2004. Development during 2004 focused on designing the first product, OM-Optimizer, of a total of six products according to the agreement with Nucletron, and the products RayBiology and RayMachine according to the agreement with Philips, as well as updating RayOptimizer according to the agreement with Philips.

Staff

RaySearch had 26 (19) employees at yearend. The average number of employees during 2004 was 23 (19).

The Board

RaySearch's Board of Directors, which consists of five directors and a deputy, was elected by the shareholders at the Annual General Meeting on May 24, 2004. The company's Chief Executive Officer is a member of the Board.

The Board, which held ten meetings in 2004, carries out its work according to separate rules of procedure and instructions regulating the distribution of work between the board and the Chief Executive Officer. At each regular meeting the Board reviews information, reports, and decision points. The Board considers issues involving strategy, structure, and the organization, as well as research and development. The Board also addresses collaboration agreements, interim reports, annual financial statements, as well as audit- and budget-related issues. In addition to the Chief Executive Officer, who presides over the Board meetings, other company employees also participate when needed.

The Board approved the Chief Executive Officer's remuneration and benefits package for financial year 2004. Remuneration to other senior executives was approved by the Chief Executive Officer in consultation with the Chairman of the Board. The Board of Directors does not have a remuneration committee.

The Board of Directors is currently evaluating implementation of the new corporate governance code.

The company's auditors attend at least one Board meeting annually.

International Financial Reporting Standards (IFRS)

As of 2005, all listed companies are required to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS; previously, International Accounting Standards–IAS). The effects of the transition to IFRS are reported under Accounting Principles on page 43. RaySearch is affected by IAS 38, resulting in capitalization of development costs for the period between January 1, 2002 and May 28, 2003 for SEK 11.7 m. Earnings before tax will be affected negatively by SEK 2.3 m per year (after tax, SEK 1.7 m) between 2005 and 2008. Equity increased by SEK 8.4 m as of January 1, 2004. The above changes have no effect on cash flow. The transition to IFRS did not have any other impact on the company.

Parent Company, Primary Accounting

The parent company had no sales during 2004, but sales between September 1, 2002, and December 31, 2003 reached SEK 750,000. Earnings before tax amounted to SEK -1,030,000 (-1,012,000). Investments in tangible fixed assets in 2004 were SEK -(2,000). As of December 31, 2004 the parent company had cash and bank balances amounting to SEK -(2,000).

Significant Events After the End of the Financial Year

The extraordinary general meeting held on January 25, 2005 at RaySearch Laboratories AB, authorized a non-cash issue of a maximum of 914,530 Class B shares, which means an increase in the company's share capital of a maximum of SEK 1,371,795. These resolutions were approved as a key component in the option program that the Group has offered since 2001.

Option-holders in RaySearch Medical thereafter placed their shares in RaySearch Laboratories in exchange for newly issued shares in RaySearch Laboratories. This led to a dilution of the shareholders' holdings of 8.7 percent of capital and 1.9 percent of votes in RaySearch Laboratories.

Future Prospects

RaySearch continues to expand its relationship with Philips. The long-term agreement with Nucletron, signed in January 2004, makes RaySearch's products accessible to twice as many clinics worldwide. RaySearch is increasing its investments in research and development to quickly be able to bring new products to the market. All factors considered, this means great opportunities for RaySearch to continue building a world leading company in treatment planning for radiation therapy.

Proposal for the allocation of the Company's profit or loss

The Group's unrestricted equity totaled SEK 14,171,000.

The Board does not recommend that the Group make a transfer from unrestricted to restricted funds. The Group's earnings and financial position can be seen in the following income statements, balance sheets, and cash flow statements with associated notes to the financial statements.

The Board of Directors and the Chief Executive Officer recommend:

Amounts in SEK thousands	
Loss brought forward	-1,012
Profit of the year	1,080
	68
Balance carried forward	68

		Group Jan. 1, 2004 –Dec. 31, 2004 (12 month)	Group Sept. 1, 2002 –Dec. 31, 2003 (16 month)	Parent Company Jan. 1, 2004 –Dec. 31, 2004 (12 month)	Parent Company Sept. 1, 2002 –Dec. 31, 2003 (16 month)
Amounts in SEK thousand	Note				
Net sales	1, 2	39,479	22,145	–	750
Cost of goods sold		–1,238	–1,753	–	–871
Gross profit		38,241	20,392	–	–121
Selling expenses		–1,139	–918	–	–
Administrative expenses	6	–10,995	–8,915	–1,032	–2,196
Research and development expenses	6	–10,803	–3,302	–	–
Non-recurring costs for listing		–	–11,303	–	–912
Other operating income	4	212	1,837	–	1,692
Other operating expenses	5	–712	–889	–	–
Operating profit	3, 7	14,804	–3,098	–1,032	–1,537
Result from financial items					
Other interest income and similar profit items		238	799	2	527
Interest expenses and similar income statement items		–80	–48	–	–2
Profit before tax		14,962	–2,347	–1,030	–1,012
Tax on profit for the year	8	–2,059	–2,676	2,110	–
Net profit for the year		12,903	–5,023	1,080	–1,012
Earnings per share before dilution		1.23	–1.02		
Earnings per share after full dilution*)		1.13	–1.02		
Dividend per share**)		none	none		
Number of outstanding shares before full dilution		10,513,061	10,513,061		
Number of outstanding shares after full dilution		11,427,591	11,427,591		
Average number of outstanding shares before full dilution		10,513,061	4,918,882		
Average number of outstanding shares after full dilution		11,427,591	5,326,381		

*) Earnings per share were calculated based on average number of shares in compliance with RR 18.

The dilution effect was not considered when the company posted a loss

**) Recommended for 2004. Established for 2002/2003

BALANCE SHEETS

Amounts in SEK thousand	Note	Group Dec. 31, 2004	Group Dec. 31, 2003	Parent Company Dec. 31, 2004	Parent Company Dec. 31, 2003
ASSETS					
Fixed assets					
Intangible assets					
Capitalized development expenses	9	15,981	5,597	–	–
Software	10	349	214	–	–
		16,330	5,811	–	–
Tangible assets					
Equipment, tools, fixtures and fittings	11	1,722	1,967	–	–
		1,722	1,967	–	–
Financial assets					
Deferred tax	16	2,130	–	2,130	–
Participations in group companies		–	–	186,833	186,833
Other long-term receivables	13	98	182	–	–
		2,228	182	188,963	186,833
Total fixed assets		20,280	7,960	188,963	186,833
Current assets					
Current receivables					
Accounts receivable		8,998	7,421	–	–
Income taxes receivable		581	899	–	15
Other receivables		574	1,141	–	446
Prepaid expenses and accrued income	14	2,691	1,839	–	–
		12,844	11,300	–	461
Short-term investments	15	3,867	5,280	–	–
Cash and bank balances		8,427	6,216	–	2
Total current assets		25,138	22,796	–	463
TOTAL ASSETS		45,418	30,756	188,963	187,296

Amounts in SEK thousand	Note	Group Dec. 31, 2004	Group Dec. 31, 2003	Parent Company Dec. 31, 2004	Parent Company Dec. 31, 2003
SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES					
Shareholders' equity					
Restricted shareholders' equity					
Share capital		15,770	15,770	15,770	15,770
Restricted reserves		2,783	1,975	171,618	171,618
		18,553	17,745	187,388	187,388
Non-restricted equity					
Non-restricted reserves		1,268	7,099	-1,012	-
Net profit for the year		12,903	-5,023	1,080	-1,012
		14,171	2,076	68	-1,012
Total shareholders' equity		32,724	19,821	187,456	186,376
Provisions					
Provisions for deferred tax	16	6,461	3,239	-	-
		6,461	3,239	-	-
Current liabilities					
Accounts payable		2,102	2,785	-	-
Liabilities to affiliated companies		-	-	1,253	706
Other liabilities		476	465	-	-
Accrued expenses and prepaid income	17	3,655	4,446	254	214
		6,233	7,696	1,507	920
TOTAL EQUITY & LIABILITIES		45,418	30,756	188,963	187,296
PLEDGED ASSETS AND CONTINGENT LIABILITIES					
Pledged assets					
Liquid assets for rent guarantee		1,921	1,886	none	none
Contingent liabilities		none	none	none	none

SUMMARY OF CHANGES IN EQUITY

Group

Amounts in SEK thousand	Share capital	Restricted reserves	Non-restric.reserves	Total
At beginning of year Sept. 1, 2002	8,456	6,159	1,307	15,922
Bonus issue	7,526	-7,526	–	0
Adjustments between restricted and non-restricted equity	–	1,307	-1,307	0
Write-down of share capital	-15,475	15,475	–	0
Distribution	–	-15,368	–	-15,368
Capital infusion with reverse acquisition	7,264	–	–	7,264
Non-cash issue	4,845	5,082	9,240	19,167
Bonus issue	3,154	-3,154	–	0
Write-down shareholding in RayIncentive	–	–	-2,160	-2,160
Shareholder contributions	–	–	19	19
Net profit for the year	–	–	-5,023	-5,023
At beginning of year Jan. 1, 2004	15,770	1,975	2,076	19,821
Adjustments between restricted and non-restricted equity	–	808	-808	–
Net profit for the year	–	–	12,903	12,903
At yearend Dec. 31, 2004	15,770	2,783	14,171	32,724

Parent Company

Amounts in SEK thousand	Share capital	Restricted reserves	Profit brought forward	Total
At beginning of year Sept. 1, 2002	8,456	12,159	-2,893	17,722
Distribution of earnings	–	-2,893	2,893	0
Bonus issue	7,526	-7,526	–	0
Write-down of share capital	-15,475	15,475	–	0
Distribution	–	-17,167	–	-17,167
Non-cash issue	12,109	174,724	–	186,833
Bonus issue	3,154	-3,154	–	0
Net profit for the year	–	–	-1,012	-1,012
At beginning of year Jan. 1, 2004	15,770	171,618	-1,012	186,376
Net profit for the year	–	–	1 080	1 080
At yearend Dec. 31, 2004	15,770	171,618	68	187,456

The parent company's restricted reserves as of Dec. 31, 2004 refer to the statutory reserve of 48 and share premium reserve of 171,570. The number of shares is allocated between 4,237,604 Class A shares and 6,275,457 Class B shares. Par value is SEK 1.50 per share.

CASH FLOW STATEMENTS

	Group Jan. 1, 2004 –Dec. 31, 2004 Note	Group Sept. 1, 2002 –Dec. 31, 2003 (16 month)	Parent Company Jan. 1, 2004 –Dec. 31, 2004 (12 month)	Parent Company Sept. 1, 2002 –Dec. 31, 2003 (16 month)
Amounts in SEK thousand				
Operating activities				
Profit/loss after financial items	14,962	–2,347	–1,030	–1,012
Adjustments for items not included in cash flow, etc	2,230	8,328	–7	–1,692
Taxes paid	–962	–1,164	–	–
Cash flow from operating activities before changes in working capital	16,230	4,817	–1,037	–2,704
Cash flow from changes in operating capital				
Increase (–)/Decrease (+) in operating receivables	–1,890	–2,953	448	25
Increase (+)/Decrease (–) in operating liabilities	–1,468	5,108	587	786
Cash flow from operating activities	12,872	6,972	–2	–1,893
Investing activities				
Sale of business segment to Taurus Development	–	–	–	–14,462
Acquisition of intangible fixed assets	–11,418	–5,629	–	–
Acquisition of tangible fixed assets	–509	–69	–	–13
Acquisition of financial assets	–	–200	–	–
Sale of financial assets	84	–	–	–
Cash flow from investing activities	–11,843	–5,898	–	–14,475
Financing activities				
Shareholders' contributions received	–	19	–	–
Cash flow from financing activities	–	19	–	–
Cash flow for the year	1,029	1,093	–2	–16,368
Cash and cash equivalents at the beginning of the year	11,496	16,370	2	16,370
Cash and cash equivalents provided by RaySearch	–	9,552	–	–
Distribution to Taurus	–	–15,368	–	–
Exchange rate differences in cash and cash equivalents	–231	–151	–	–
Cash and cash equivalents at the end of the year	12,294	11,496	0	2

SUPPLEMENTARY DISCLOSURE TO CASH FLOW STATEMENT

	Group Jan. 1, 2004 –Dec. 31, 2004 Note	Group Sept. 1, 2002 –Dec. 31, 2003 (16 month)	Parent Company Jan. 1, 2004 –Dec. 31, 2004 (12 month)	Parent Company Sept. 1, 2002 –Dec. 31, 2003 (16 month)
Amounts in SEK thousand				
Interest paid and dividends received				
Interest received	238	685	–	11
Interest paid	–14	–4	–	–2
Adjustments for items not included in cash flow, etc.				
Depreciation and amortization of assets	1,969	874	7	–
Unrealized exchange rate differences	261	190	–	–
Capital gain at sale of assets and liabilities	–	–	–	–1,692
Write-down of goodwill	–	7,264	–	–
	2,230	8,328	7	–1,692
Sale of business segment				
Tangible fixed assets	–	20	–	–
Operating receivables	–	–13,621	–	–
Liquid assets	–	14,462	–	–
Total assets	–	861	–	–
Operating liabilities	–	–861	–	–
Deductible liquid assets in divested operations	–	–14,462	–	–
Impact on liquid assets	–	–14,462	–	–
Liquid assets				
Following sub-components comprise the liquid assets:				
Cash and bank balances	8,427	6,216	–	2
Short-term investments, equivalent to liquid assets	3,867	5,280	–	–
	12,294	11,496	–	2

The above items have been classified as liquid assets assuming that:

They are at an insignificant risk of value fluctuation.

They can easily be transformed into cash funds.

They have a maximum duration of three months from the acquisition date.

GENERAL ACCOUNTING PRINCIPLES, COMMENTS ON THE FINANCIAL STATEMENTS AND NOTES

General Accounting Principles

Amounts are in SEK thousand unless otherwise specified

The annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and the recommendations of the Swedish Financial Accounting Standards Council (RR), the Urgent Issues Task Force Statements and the Swedish Industry and Commerce Stock Exchange Committee's recommendations. The only new recommendation applied beginning in 2004 is RR 29 "Employee Remuneration," which has not had any impact on the Group's earnings and financial position since the Group's pension plans are fee-based. In all other regards, the accounting principles remain unchanged.

Company's domicile and corporate identification number

RaySearch pursues operations as a public limited company and has its registered office in Stockholm. Corporate headquarters are located at Sveavägen 25, SE-111 34 Stockholm, Sweden. RaySearch Laboratories AB's (publ) corporate identification number is 556322-6157.

Segment Reporting –

Business Segments and Geographic Areas

The Group's internal reporting system is based on follow up of income from the Group's products and therefore business segments are its primary segment reporting format. The company's revenue areas—licenses and support—are heavily interdependent and share the same customer base. They are exposed to similar risks and opportunities, which means that separate business segments cannot be identified for accounting purposes. The company therefore believes that the activity consists of one business segment.

Classification, etc.

Fixed assets, long-term liabilities, and provisions consist of amounts that the company expects to be covered or receive payment for more than twelve months after the balance sheet date. Current assets and current liabilities consist in every essential way only of amounts that the company expects to recover or receive payment for within twelve months, counted from the balance sheet date.

Shareholders' equity

Restricted funds

Restricted funds may not be decreased through dividends.

Statutory reserve

The purpose of the statutory reserve is to save part of the net profit that is not used to cover the loss brought forward.

Share premium reserve

When shares are issued at a premium (at a price greater than par value), the difference between the proceeds and the par value is transferred to the share premium reserve.

Non-restricted equity

Profits brought forward

Profit brought forward consists of the previous year's non-restricted equity after any dividends and allocation to the statutory reserve. Non-restricted shareholders' equity (funds available for distribution to shareholders) is the sum of profit brought forward and earnings for the year.

Valuation Principles

Assets, provisions, and liabilities are valued at acquisition value unless stated otherwise below.

Intangible assets

Costs for Research and Development

An intangible asset is only recognized when the asset is identifiable, the company exercises control over the asset, and future economic benefits are expected to flow to the company.

The Group's research costs are recognized as an expense in the period they are incurred. In the consolidated balance sheet, development costs are recognized at acquisition value less accumulated amortization and any impairment losses. Capitalization has mainly involved staff costs and premises for the development project. Deferred taxes have been taken into account.

Other intangible assets

Other intangible assets acquired by the company are reported at acquisition value less accumulated amortization and any write-downs.

Amortization principles for intangible assets

Amortization according to plan is based on the original acquisition value less any residual value. Amortization is reported as an expense in the income statement, using the straight-line method, over the estimated useful life of the asset.

The following amortization times are used:

Capitalized development costs	5 years
Software	3 – 5 years

Tangible assets

Tangible assets are booked at acquisition value after deductions for planned depreciation and write-downs, if any.

Depreciation principles for tangible fixed assets

Depreciation according to plan is based on the original acquisition value less any residual value. Depreciation is reported using the straight-line method, over the estimated useful life of the asset.

Computers	3 – 5 years
Equipment, tools, fixtures and fittings	5 years

Write-downs

The reported value of the Group's assets is examined on each balance sheet date to determine whether there is any indication that a write-down would be necessary. If any such indication is found, the recoverable amount of the asset is calculated as the higher of the useful value and the net realizable value. A write-down is taken if the recoverable value is less than the reported value.

Accounts receivable

Receivables are recorded at acquisition value less any write-downs.

Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currencies have been translated at the closing day exchange rate. Exchange rate differences on operating receivables and operating liabilities are included in operating profit.

Employee Remuneration

The Group only has fee-based pensions. The Group's obligation for each period consists of the amounts contributed for the relevant period. This obligation is calculated with no discount, except in such cases in which the premium is not due for payment in full within twelve months after the end of the period during which the employees carried out the related services.

In the company's option program, employees have paid the market-based price for the options on each occasion. Consequently, no share-related remuneration has been paid. Market price has been calculated according to the Black & Sholes model.

Taxes

Total tax consists of current tax and deferred tax.

Taxes are reported in the income statement except when the underlying transaction is reported directly against equity, in which case the associated tax effect is reported under equity. Current tax is tax that is paid or received for the current year. Adjustment of current tax attributable to previous periods is also reported here. Deferred taxes are calculated according to the balance sheet method, using temporary differences between reported and taxable values of assets and liabilities as a starting point. Amounts are calculated based on how temporary differences are expected to balance out, applying those tax rates and regulations approved or announced as of the balance sheet date. Temporary differences are not considered in differences attributable to shares in subsidiaries and associated companies that are not expected to be taxed in the near future. For legal entities, untaxed reserves are reported including deferred tax liabilities. However, untaxed reserves are broken down into deferred tax liabilities and shareholders' equity in the consolidated financial statements. Deferred tax receivables for deductible temporary differences and loss carryforwards are reported only insofar as they are likely to entail lower tax payments in the future.

Revenue

Revenue is recognized in the income statement when it is likely that future economic benefits will accrue to the company and that these advantages can be reliably calculated. Revenues are reported at the actual value of what was received or will be received with deduction for discounts granted. The Group enters its revenue from license sales when software is sold to the customer and the rights to use the software are transferred to the customer. Revenue from support sales is reported monthly, based on net sales.

Leasing

In the consolidated accounts, leases are classified as either finance leases or operating leases. A finance lease exists when the financial risks and benefits that are associated with ownership have essentially been transferred to the lessee; if this is not the case, then it is an operational lease. All of the Group's lease agreements are reported as operational leases in compliance with these regulations. Operational leasing means that the leasing charge is written off over the duration starting from the point at which utilization begins, which may differ from what has been paid de facto as the lease fee during the year.

Non-recurring costs

The income effects of specific events and transactions of material significance are reported separately. In 2003 these included the costs that arose in connection with listing the company on the stock market.

Group Information

The Group includes the Parent Company RaySearch Laboratories AB (publ), Corporate identification number. 556322-6157 and the subsidiary RaySearch Medical AB, Corporate identification number no. 556591-6862 (91.6 percent of capital and 98.1 percent of votes as of Dec. 31, 2004). In addition, RaySearch Medical AB owns 90.8 percent of capital and 49.7 percent of votes in RayIncentive AB, which has the sole function of owning those shares that are set aside to cover the outstanding employee option program. No minority interests have been

reported, since the minority holdings in RaySearch Medical are not considered a "true" minority. RayIncentive AB owns the minority interests. RayIncentive AB is not consolidated because the holdings are considered immaterial, since RaySearch Medical AB assessed the value of its holdings in RayIncentive AB at SEK 0 in compliance with the regulations in chapter 7 of the Companies Act about own shares. The write-down was made directly against equity. No purchases and no sales have taken place among group companies.

Consolidated Financial Statements

The consolidated financial statements have been prepared as though the subsidiary acquired the formal Parent Company; in other words, a reverse acquisition.

Subsidiary

A subsidiary is a company in which the Parent Company, either directly or indirectly, owns more than 50 percent of the voting rights or has a decisive influence over its operational and financial activities. Subsidiaries are normally accounted for in accordance with acquisition accounting.

Associated companies

An associated company is a company in which the Parent Company, either directly or indirectly, owns between 20 and 50 percent of the voting rights or has a decisive influence in some other way.

Elimination of transactions between group companies

Internal receivables and liabilities, and transactions between companies in the Group, along with unrealized gains associated with these, have been eliminated in their entirety.

Information about the reverse acquisition of Taurus

Background and main data related to the Taurus acquisition

In April 2003 Taurus Petroleum AB (Taurus) entered into a share transfer agreement with the owners of RaySearch Medical AB (RaySearch Medical) for the acquisition of shares in RaySearch Medical. This agreement mainly meant that Taurus acquired RaySearch Medical for payment in the form of newly issued shares in Taurus.

Non-cash issue

RaySearch Medical share were exchanged in kind with Taurus through an issue whereby RaySearch Medical's owner received 4,212,607 new Class A shares and 5,877,633 new Class B shares for Taurus. The property that Taurus acquired through the non-cash issue consisted of shares in RaySearch Medical.

Reverse acquisition

In formal terms, Taurus acquired RaySearch Medical through the implemented non-cash issue. In reality, however, RaySearch Medical acquired Taurus, since the non-cash issue meant that RaySearch Medical shareholders gained a controlling influence over Taurus. The transaction has been reported as a reverse acquisition. This means that RaySearch Medical is considered the actual purchaser with control over the new Group's assets and liabilities. For Taurus, as a result of the non-cash issue, RaySearch Medical shareholders became owners of 96 percent of Taurus and thus the new Group was formed.

Only 91.6 percent of RaySearch Medical shareholders formally transferred shares to Taurus, which is why the new Group has a minority of 8.4 percent. The minority's shares will be exchanged by the beginning of 2006 at the latest. It can be mentioned that the minority's shares were exchanged in early 2005.

Pro Forma Accounting

Pro forma accounting is based on the calendar year 2002 and 2003, using the annual reports for RaySearch Medical as the point of departure. Pro forma accounting was prepared as though the new Group had been established during calendar years 2002 and 2003, respectively. An adjustment was made in the balance sheet and income statement for capitalization of development costs, according to the Swedish Financial Accounting Standards Council recommendation on intangible fixed assets (RR 15). Capitalized development costs were calculated at SEK 11.7m as of May 28, 2003. No amortization was taken at that time because the project was not yet completed. Deferred taxes have been taken into account. For more information about pro forma accounting, please refer to the annual report for 2003.

Primary Accounting

Primary accounting covers the period from Jan. 1, 2004 to Dec. 31, 2004, with the comparative period Sept. 1, 2002 to Dec. 31, 2003. The consolidated income statement for the comparative period includes Taurus' exploration operations until the time of transfer to Taurus Development AB and RaySearch Medical's operation until May 28, 2003. Development costs were capitalized in the consolidated accounts from May 28, 2003.

Financial Risk Management

The Group is exposed to various types of financial risks through its operations. The term "financial risks" refers to fluctuations in the company's earnings and cash flow as a result of changes in exchange rates, interest rates, refinancing, and credit risks. The Board formulated the Group's financial risk management policy, which serves as a framework of guidelines and regulations in the form of a risk mandate and limits for financial activities.

Foreign Exchange Risk

Currency risk refers to the risk of fluctuations in the value of a financial instrument because of changes in exchange rates. Exchange rate risks are related to changes in expected and contracted cash flow (transaction exposure), receivables and liabilities in foreign currency (translation exposure), and financial exposure in the form of currency risk in cash flow and investments. To date, the Group has mainly had payments in US dollars, which means a foreign exchange risk. No hedging has been done. According to the agreement with Nucletron BV, revenues for the new products will be denominated in euro, which reduces the one-sided reliance on the US dollar.

Interest Rate Risk

Interest rate risk refers to the effect on earnings that a change in interest rates would cause. Since RaySearch does not have any interest-bearing loans, the interest risk is limited to short-term investments.

Financing Risk

Financing risk refers to the risk that the company would need to borrow funds in a strained credit market. The Group's operations are financed with equity and are currently not exposed to any financing risk.

Credit Risk

The Group's credit risk consists of credit risk for commercial receivables from Philips, which to date has been the only commercial partner. No loan losses have occurred to date, and the Group considers that its credit risk continues to be very low.

New Accounting Principles 2005

Consolidated Financial Statements

As of January 1, 2005, RayIncentive AB will be consolidated since this company's shareholdings in RaySearch Medical have been replaced by liquid assets because of redemption of the option program. Consequently, these holdings are no longer considered immaterial.

Reporting in compliance with IFRS

In accordance with the IAS ordinance adopted by the EU in 2002, as of 2005 all listed companies in the EU are required to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS; previously, International Accounting Standards – IAS). The standards, issued by the International Accounting Standards Board (IASB), will become mandatory for European companies as the EU Commission approves them.

IFRS 1 treats the transition to IFRS for those companies applying the regulations for the first time. The standard states that when making the transition from national accounting principles, first time IFRS adopters must present at least one year of comparative information according to IFRS principles. The company must also explain how the transition from the former accounting principles to the IFRS affects its financial situation, earnings and cash flow.

Accounting Principles - Essential Differences

IAS 38 Intangible Assets

The standard that substantially affects the company's earnings and financial position is IAS 38 Intangible Assets. The main rule about retroactive application applies in the transition to IAS 38. This means that internally generated intangible assets, such as development costs, which were previously recognized as expenses, but which as of January 1, 2004, meet the requirements for capitalization, will be recognized as assets in the opening balance sheet. For RaySearch, this means that development costs between Jan. 1, 2002 and May 28, 2003 have been capitalized for SEK 11.7m. The assessment is that there is not adequate supporting documentation to be able to capitalize development costs for earlier periods. The change will have a negative impact on earnings of SEK 2.3m per year (after tax, SEK 1.7m) between 2005 and 2008. Equity increased by SEK 8.4m as of January 1, 2004. The transition to IFRS did not have any other impact on the company.

IFRS 2 Share-based Payment

RaySearch's option programs are based on existing shares. Options have been acquired at market value.

IFRS 3 Business Combinations

According to the transition rule in IFRS 1, it is not necessary to recalculate the purchase price and therefore no comparative figures are provided.

IAS 19 Employee benefits

Pensions are premium-based and therefore have no effect on earnings.

Below are the accounts according to the recommended accounting principles of the Swedish Financial Accounting Standards Council (RR) and according to IFRS, as well as their effects on the financial statements.

KEY RATIOS

Amounts in SEK thousand	2004 According to RR principles	Effect of change to IFRS	2004 According to IFRS
Net sales	39,479	–	39,479
Operating profit	14,804	–2,344	12,460
Operating margin, %	37.5	–5.9	31.6
Profit margin, %	37.9	–5.9	32.0
Net profit	12,903	–1,688	11,215
Equity/assets ratio, %	72	–	72
Adjusted equity per share Dec. 31, 2004	3.11	0.64	3.75

CONSOLIDATED INCOME STATEMENTS

Amounts in SEK thousand	2004 According to RR principles	Effect of change to IFRS	2004 According to IFRS
Income statement			
Net sales	39,479	–	39,479
Cost of goods sold	–1,238	–	–1,238
Gross profit	38,241	–	38,241
Research and development expenses	–10,803	–2,344	–13,147
Other operating expenses	–12,634	–	–12,634
Operating profit	14,804	–2,344	12,460
Results from financial items	158	–	158
Profit before tax	14,962	–2,344	12,618
Taxes	–2,059	656	–1,403
NET PROFIT FOR THE YEAR	12,903	–1,688	11,215
Earnings per share before dilution	1.23	–0.16	1.07
Earnings per share after full dilution	1.13	–0.15	0.98

CONSOLIDATED CASH FLOW STATEMENT

Amounts in SEK thousand	2004 According to RR principles	Effect of change to IFRS	2004 According to IFRS
Cash Flow Statement (summary)			
Cash flow from operating activities before change in working capital	16,230	–	16,230
Cash flow from changes in working capital	–3,358	–	–3,358
Cash flow from operating activities	12,872	–	12,872
Cash flow from investing activities	–11,843	–	–11,843
Cash flow from financing activities	–	–	–
Cash flow for the fiscal year	1,029	–	1,029
Cash and cash equivalents at the beginning of the year	11,496	–	11,496
Exchange rate differences in cash and cash equivalents	–231	–	–231
Cash and cash equivalents at the end of the year	12,294	–	12,294

CONSOLIDATED BALANCE SHEETS

Amounts in SEK thousand	Jan. 1, 2004 According to RR principles	Effect of change to IFRS	Jan. 1, 2004 According to IFRS
ASSETS			
Fixed assets			
Intangible assets	5,811	11,721	17,532
Other fixed assets	2,149	–	2,149
	7,960	11,721	19,681
Current assets	22,796	–	22,796
TOTAL ASSETS	30,756	11,721	42,477
EQUITY & LIABILITIES			
Shareholders' equity	19,821	8,439	28,260
Liabilities and provisions	10,935	3,282	14,217
TOTAL EQUITY & LIABILITIES	30,756	11,721	42,477

Amounts in SEK thousand	Dec. 31, 2004 According to RR principles	Effect of change to IFRS	Dec. 31, 2004 According to IFRS
ASSETS			
Fixed assets			
Intangible assets	16,330	9,377	25,707
Other fixed assets	3,950	–	3,950
	20,280	9,377	29,657
Current assets	25,138	–	25,138
TOTAL ASSETS	45,418	9,377	54,795
EQUITY & LIABILITIES			
Shareholders' equity	32,724	6,751	39,475
Liabilities and provisions	12,694	2,626	15,320
TOTAL EQUITY & LIABILITIES	45,418	9,377	54,795

NOTE 1 Information about Segments*Business Segments*

The Group consists of one business segment. Business segments are the Group's primary basis of segment reporting.

Geographic areas

Geographic areas are the Group's secondary basis of segment reporting. The information presented related to segmented income refers to the geographic areas, based on location of end customers.

	North America		Asia		Rest of the world	
	2004	2003	2004	2003	2004	2003
Sales	79%	84%	10%	8%	11%	8%
Assets	–	–	–	–	100%	100%
Investments	–	–	–	–	100%	100%

NOTE 2 Income Distribution

	Jan. 1, 2004 –Dec. 31, 2004	Sept. 1, 2002 –Dec. 31, 2003
<i>Group</i>		
Income from licenses sold	31,440	18,801
Income from support services	8,039	2,570
Income from oil exploration operations, Taurus Petroleum AB	–	750
Other income	–	24
	39,479	22,145

NOTE 3 Employees, staff costs, and remuneration to the board of directors and auditors*Average number of employees*

The average number of employees in the Parent Company was 0 (1). The average number of employees in the subsidiaries was 23 (19), including 17 (14) men and 6 (5) women.

	Dec. 31, 2004 Percentage of women	Dec. 31, 2003 Percentage of women
<i>Gender distribution in management</i>		
<i>Parent Company</i>		
Board of Directors	0%	0%
Other Senior Executives	–	–
<i>Group</i>		
Board of Directors	0%	0%
Other Senior Executives	0%	25%

Absence due to sickness

The Parent Company has no employees and therefore no information about absence due to sickness is submitted.

Salaries, other remunerations and social security expenses

	Jan. 1, 2004 – Dec. 31, 2004		Sept. 1, 2002 – Dec. 31, 2003	
	Salaries and remuneration	Social security expenses	Salaries and remuneration	Social security expenses
Parent Company	–	–	776 ³⁾	209
Pension expenses		–		244 ¹⁾
Subsidiary	12,578	4,176	5,210 ⁴⁾	1,710
Pension expenses		2,073		691
Group total	12,578	4,176	5,986	1,919
Pension expenses total		2,073 ²⁾		935 ²⁾

1) Of the Parent Company's pension costs, SEK 0 (244) relate to the Group's CEO and Board of Directors

2) Of the Group's pension costs, SEK 221 (340) relate to the group's CEO and Board of Directors

3) Pertains to the period Sept. 1, 2002 – Dec. 31, 2003

4) Pertains to the period May 28, 2003 – Dec. 31, 2003

Wages, salaries and other remuneration distributed by country and among board members and other employees

	Jan. 1, 2004 – Dec. 31, 2004		Sept. 1, 2002 – Dec. 31, 2003	
	Board and CEO	Other employees	Board and CEO	Other employees
Parent Company	–	–	776	–
(of which incentive, etc)	(–)	(–)	(–)	(–)
Subsidiary	2,430	10,148	745	4,465
(of which incentive, etc)	(424)	(453)	(37)	(337)
Group total	2,430	10,148	1,521	4,465
(of which incentive, etc)	(424)	(453)	(37)	(337)

Salaries and remuneration only pertains to staff in Sweden.

Of the salaries and remuneration paid to other employees in the Group, SEK 2,230,000 (SEK 1,072,000) refers to senior executives other than the Board of Directors and CEO. The Board of Directors has not received any remuneration other than the directors' fee and reimbursement of expenses. Of the board of directors' remuneration, a total of SEK 445,000 (195,000), SEK 200,000 (90,000) pertains to compensation to the Chairman of the Board. The law firm Advokatfirma Lindhs DLA Nordic KB, of which deputy board member Thomas Pousette is a partner, received SEK 1,226,000 in legal fees.

Severance pay

If the Chief Executive Officer chooses to terminate employment, his term of notice is six months; if the employer terminates employment, the term of notice is twelve months. In either case, the CEO is not entitled to any special severance pay, but in both cases, the CEO receives pay during the term of notice. The company and the other senior executives have a mutual term of notice of three months. Members of the Board of Directors do not receive any severance pay.

Loans to senior executives

The company lent SEK 58,892 (98,154) to a senior executive. This loan is being paid off in annual installments over a five-year period. Interest is charged at the government loan rate at time of payment on the principal of the loan, plus one percentage point. The loan was issued on July 1, 2002.

Benefits paid to senior management

	Fixed remuneration	Variable remuneration	Other benefits	Pension expenses	Total
2004					
CEO	1,593	197	106	221	2,117
Other					
Senior Executives 4 people	2,153	102	2	401	2,658
Total	3,746	299	108	622	4,775
Pertains to 2003, RaySearch Medical AB					
CEO	963	100	87	96	1,246
Other					
Senior Executives 3 people	1,420	108	–	169	1,697
Total	2,383	208	87	265	2,943

Remuneration to the Chief Executive Officer and other senior executives is made up of base salary, variable remuneration, other benefits, and pensions. Variable remuneration to the CEO is based on the Group's earnings and amounts to 2.0 percent of earnings before tax, though it may not exceed three months' pay. Variable remuneration to other senior executives is based on outcome in relation to individual targets and amounts to a maximum of one month's pay. Other benefits to the CEO refers to a company car.

All pension plans are defined contribution. Retirement age for the CEO is 65 and the pension premium is equivalent to the ITP plan. According to the pension agreement, pension plans for other senior executives shall amount to 10 percent of pension-qualified income or equivalent to the ITP plan. Retirement age is 65 for all other senior executives.

The decision-making process is described in greater detail in the Directors' Report.

<i>Auditors' fee and compensation for expenses, KPMG</i>	Jan. 1, 2004 – Dec. 31, 2004	Sept. 1, 2002 – Dec. 31, 2003
<i>Group</i>		
Auditing fees	711	497
Fees for other consulting	124	220
<i>Parent Company</i>		
Auditing fees	117	74
Fees for other consulting	19	–

Option Program

RaySearch offers a number of option programs in order to more easily attract, motivate, and retain personnel. During 2002, the Founders and RaySearch Medical formed the company RayIncentive AB, which owns shares for issued option programs.

As of Dec. 31, 2004 there are options issued for 1,055 Class B shares of RayIncentive AB's 1,122 Class B shares for RaySearch Medical. The extraordinary general meeting on January 25, 2005, decided that RayIncentive AB would transfer 67 shares of RaySearch Medical in exchange for 54,611 shares of RaySearch Laboratories. After this, RayIncentive will own 226,596 shares of RaySearch Laboratories. In 2003 RayIncentive issued options for 76,720 and in 2004 115,500 of RayIncentive's Class B shares in RaySearch Laboratories, totaling 192,220. The options expire on December 31, 2005, and December 31, 2009, respectively.

The RaySearch Medical shares that are covered by the options will be acquired by the option-holders and then sold to RaySearch Laboratories. Any dividend from RayIncentive goes in its entirety to RaySearch Medical.

RaySearch Laboratories' acquisition of outstanding shares in RaySearch Medical, will have a dilution effect on the shareholders holdings. At the time of acquisition RaySearch Laboratories will issue a maximum of 914,530 Class B shares, which corresponds with a dilution effect of 8.7 percent of capital and 1.9 percent of votes in RaySearch Laboratories. It can be mentioned that the minority shareholders' shares were exchanged in kind.

Option Program	Redemption period	Shares included	Subscription price (SEK)
<i>RaySearch Medical</i>			
2001	31 dec 2004 – 31 dec 2005	266*	6,000.15
2002	31 dec 2004 – 31 dec 2005	789**	12,750.00
<i>RaySearch Laboratories</i>			
2003	31 dec 2004 – 31 dec 2005	76,720	21.15
2004	31 dec 2008 – 31 dec 2009	115,500	81.40

*) Corresponds with 216,813 shares of RaySearch Laboratories at a price of SEK 7.36

**) Corresponds with 643,106 shares of RaySearch Laboratories at a price of SEK 15.64

NOTE 4 Other Operating Income

<i>Group</i>	Jan. 1, 2004 – Dec. 31, 2004	Sept. 1, 2002 – Dec. 31, 2003
Exchange rate gains on operating receivables and liabilities	212	145
Capital gain from sale of Taurus' assets and liabilities	–	1,692
	212	1,837
<i>Parent Company</i>		
Capital gain from sale of Taurus' assets and liabilities	–	1,692
	–	1,692

NOTE 5 Other Operating Expenses

<i>Group</i>	Jan. 1, 2004 – Dec. 31, 2004	Sept. 1, 2002 – Dec. 31, 2003
Exchange rate losses on operating receivables and liabilities	-712	-889
	-712	-889

NOTE 6 Amortization and Depreciation of Tangible and Intangible Fixed Assets

	Jan. 1, 2004 – Dec. 31, 2004	Sept. 1, 2002 – Dec. 31, 2003
Intangible fixed assets		
<i>Group</i>		
Amortization according to plan and asset		
Capitalized development costs	-1,496	-
Software	-11	-
	-1,507	-

Amortization are reported as research and development expenses

Tangible fixed assets

Depreciation for the Group and Parent Company pertain to equipment and computers

<i>Group</i>		
Depreciation and according to plan and function		
Administrative expenses	-112	-46
Research and development	-34	-
	-146	-46

NOTE 7 Lease Fees for Operational Leasing

<i>Group</i>	Jan. 1, 2004 – Dec. 31, 2004	Sept. 1, 2002 – Dec. 31, 2003
Assets held through operational leasing agreements		
Rent	3,818	2,356
Other leasing	236	63
Total lease costs	4,054	2,419
Agreed future lease fees for leases that expire:		
Within one year	4,179	3,867
Later than one but within five years	6,283	1,924
Later than five years	-	-
	10,462	5,791
<i>Parent Company</i>		
Assets held through operational leasing agreements		
Rent	-	67
Other leasing	-	5
Total lease costs	-	72

The Parent Company does not have any future lease fees.

NOTE 8 Tax on Profit/Loss for the Year

<i>Group</i>	Jan. 1, 2004 – Dec. 31, 2004	Sept. 1, 2002 – Dec. 31, 2003
<i>Current tax liability</i>		
Tax liability for the period	-925	-897
Adjustment of tax attributable to previous year	246	-28
	-679	-925

<i>Deferred tax liability</i>		
Deferred tax for capitalized development costs	-2,908	-1,567
Deferred tax for loss carryforward	2,130	-
Increase of loss carryforward without equivalent capitalization of deferred tax	-288	-
Deferred tax for distribution of appropriations	-314	-184
	-1,380	-1,751

Total tax liability reported for Group	-2,059	-2,676
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<i>Reconciliation of tax expense</i>	Jan. 1, 2004 – Dec. 31, 2004		Sept. 1, 2002 – Dec. 31, 2003	
<i>Group</i>	Percent	Amount	Percent	Amount
Reported profit/loss before tax		14,962		-2,347
Swedish tax rate	-28.0%	-4,189	28.0%	657
Write-down goodwill	0.0%	-	-86.7%	-2,034
Other non-deductible costs, Parent Company	0.0%	-	-8.3%	-195
Other non-deductible costs, subsidiary	-0.4%	-54	-16.2%	-379
Tax-exempt income	0.0%	6	0.0%	-
Increase in loss carryforward without equivalent capitalization of deferred tax	-1.9%	-288	-3.8%	-88
Tax for January–May 2003	0.0%	-	-25.9%	-609
Tax pertaining to previous years	1.6%	246	-1.2%	-28
Capitalization of deferred tax on loss carryforward	14.2%	2 130	0.0%	-
Correction of accrual reserve, tax 2004	0.6%	90	0.0%	-
Reported effective tax	-13.9%	-2,059	-114.1%	-2,676

<i>Parent Company</i>	Jan. 1, 2004 – Dec. 31, 2004	Sept. 1, 2002 – Dec. 31, 2003
<i>Current tax liability</i>		
Tax liability for the period	288	-
Adjustment of tax attributable to previous year	-20	-
	268	-

<i>Deferred tax liability</i>		
Deferred tax for loss carryforward	2,130	-
Increase of loss carryforward without equivalent capitalization of deferred tax	-288	-
	1,842	-

Total tax liability reported for Parent Company	2,110	-
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<i>Reconciliation of tax expense</i>	Jan. 1, 2004 – Dec. 31, 2004		Sept. 1, 2002 – Dec. 31, 2003	
<i>Parent Company</i>	Percent	Amount	Percent	Amount
Reported profit/loss before tax		-1,030		-1,012
Swedish tax rate	28.0%	288	28.0%	283
Other non-deductible costs	0.0%	-	-19.3%	-195
Increase of loss carryforward without equivalent capitalization of deferred tax	28.0%	-288	-8.7%	-88
Tax pertaining to previous years	1.9%	-20	0.0%	-
Capitalization of deferred tax on loss carryforward	-206.8%	2,130	0.0%	-
Reported tax expense	-148.9%	2,110	0.0%	0

NOTE 9 Capitalized Development Expenditure

<i>Group</i>	Dec. 31, 2004	Dec. 31, 2003
<i>Accumulated acquisition value</i>		
At beginning of year	5,597	–
New acquisitions	11,880	5,597
	17,477	5,597
<i>Accumulated amortization according to plan</i>		
At beginning of year	–	–
Amortization for the year according to plan, based on acquisition value	–1,496	–
	–1,496	–
Reported value at yearend	15,981	5,597

Mainly pertains to internally generated costs.

NOTE 10 Computer Software

<i>Group</i>	Dec. 31, 2004	Dec. 31, 2003
<i>Acquired</i>		
<i>Accumulated acquisition value</i>		
At beginning of year	896	–
Operations exchanged in kind	–	869
New acquisitions	269	27
	1,165	896
<i>Accumulated amortization according to plan</i>		
At beginning of year	–682	–
Operations exchanged in kind	–	–523
Amortization for the year according to plan*	–134	–159
	–816	–682
Reported value at yearend	349	214

*) Of the Group's amortization for the year, SEK 123 (159) was capitalized

NOTE 11 Equipment, tools, fixtures and fittings

<i>Group</i>	Dec. 31, 2004	Dec. 31, 2003
<i>Accumulated acquisition value</i>		
At beginning of year	4,276	143
Distributed operations	–	–143
Operations exchanged in kind	–	4,254
New acquisitions	510	22
	4,786	4,276
<i>Accumulated depreciation according to plan</i>		
At beginning of year	–2,309	–136
Distributed operations	–	141
Operations exchanged in kind	–	–1,797
Depreciation for the year according to plan, based on acquisition value*	–755	–517
	–3,064	–2,309
Reported value at yearend	1,722	1,967

*) Of the Group's depreciation for the year, SEK 609 (471) was capitalized

<i>Parent Company</i>	Dec. 31, 2004	Dec. 31, 2003
<i>Accumulated acquisition value</i>		
At beginning of year	–	143
Distributed operations	–	–143
	–	–
<i>Accumulated depreciation according to plan</i>		
At beginning of year	–	–136
Distributed operations	–	141
Depreciation for the year according to plan, based on acquisition value	–	–5
	–	–
Reported value at yearend	–	–

NOTE 12 Participations in Group Companies

<i>Parent Company</i>	Dec. 31, 2004	Dec. 31, 2003
<i>Accumulated acquisition value</i>		
At beginning of year	186,833	169
Distributed operations	–	–169
Operations exchanged in kind	–	186,833
	186,833	186,833

List of Parent Company's holdings of participations in Group companies

<i>Subsidiary/Corporate ID no.</i>	No. of shares	Share in %	Dec. 31, 2004 Book value	Dec. 31, 2003 Reported value
<i>RaySearch Medical AB, 556591-6862</i>			186,833	186,833
Class A shares	5,000			
Class B share	7,211			
Share of equity		91.6		
Share of voting power		98.1		

NOTE 13 Other Long-Term Receivables

<i>Group</i>	Dec. 31, 2004	Dec. 31, 2003
<i>Accumulated acquisition value</i>		
At beginning of year	182	–
Operations exchanged in kind	–	232
Repayment of loan	–60	–
Other changes	–24	–50
	98	182

NOTE 14 Prepaid expenses and accrued income

<i>Group</i>	Dec. 31, 2004	Dec. 31, 2003
Prepaid rent	983	989
Prepaid insurance	99	343
Other prepaid costs	471	225
Accrued income	1,138	282
	2,691	1,839

NOTE 15 Short-Term Investments

<i>Group</i>	Dec. 31, 2004		Dec. 31, 2003	
	Market value or equivalent	Reported value	Market value or equivalent	Reported value
SEB Liquidity fund	3,867	3,867	5,280	5,280

NOTE 16 Provisions for Deferred Tax

<i>Group</i>	Dec. 31, 2004	Dec. 31, 2003
<i>Deferred tax liabilities for:</i>		
Intangible assets	4,475	1,567
Tax allocation reserve	1,986	1,672
	6,461	3,239

Group and Parent Company

<i>Deferred tax assets for:</i>		
Loss carryforward	2,130	–

Valuation based on nominal tax rate.

Deferred tax receivables, not disclosed

The tax-related loss carryforward amounts to SEK 40m (47) and is attributable to the Parent Company. The company's evaluation is that the loss carryforward will be able to be used against future benefits. In the current situation, deferred tax assets for the loss carryforward have not been capitalized, since the loss carryforward cannot be used within a five-year period due to the corporate grant limit that applies with corporate acquisitions.

NOTE 17 Accrued Expenses and Deferred Income

<i>Group</i>	Dec. 31, 2004	Dec. 31, 2003
Accrued social security contributions and vacation costs	836	609
Other accrued personnel-related costs	950	426
Accrued auditing expenses	267	603
Accrued legal expenses	55	430
Other accrued expenses	1,076	932
Deferred income	471	1,446
	3,655	4,446

Parent Company

Accrued auditing expenses	136	–
Accrued legal expenses	118	214
	254	214

Stockholm, April 4, 2005

Erik Hedlund
Chairman of the Board

Johan Löf
Chief Executive Officer

Carl Filip Bergendal

Claes-Göran Fridh

Hans Wigzell

My audit report was submitted on April 4, 2005

Anders Linér
Auktoriserad revisor

To the general meeting of the shareholders of RaySearch Laboratories AB
Corporate identity number 556322-6157

I have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of RaySearch Laboratories AB for the year 2004. These accounts and the administration of the company and the application of 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. My responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in Sweden. Those standards require that I plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director 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 my opinion concerning discharge from liability, I examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. I also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. I believe that my audit provides a reasonable basis for my opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the company's and the group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The director's report is consistent with the other parts of the annual accounts and the consolidated accounts.

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

Stockholm, April 4, 2005

Anders Linér
Authorized public accountant

Auditor and deputy auditor

Anders Linér
 b. 1952. Authorized public accountant KPMG Bohlins AB.
 Auditor for RaySearch Laboratories AB since May 2003.

Lena Krause
 b. 1961. Authorized public accountant KPMG Bohlins AB.
 Deputy auditor for RaySearch Laboratories AB since May 2003.



From left: Anders Liander, Henrik Reh binder, Johan Löf, Ola Enarson and Anders Murman.

Anders Liander

b. 1971, Director of Development

Anders Liander has an MS in electrical engineering from the Royal Institute of Technology with a focus on medical devices. He began at the Division of Medical Radiation Physics, Karolinska Institutet, in 1996 and was employed for two years as a doctoral student with the main task of developing ORBIT together with Johan Löf. After that he worked in product development at Elekta. He was employed by RaySearch Medical when the company was founded in 2000.

No. of shares: 353,859 Class A, 199,595 Class B.

Options: Options for 93 shares of RaySearch Medical, which can be exchanged for 75,803 shares of RaySearch Laboratories.

Henrik Reh binder

b. 1972, Director of Research

Henrik Reh binder has an MS in Engineering Physics and in 2001 he received his PhD in Optimization and Systems Theory from the Royal Institute of Technology. His PhD studies focused mainly on mathematical methods for autonomous robot systems and biomechanical models of the human body. He has been employed at RaySearch Medical since 2002.

No. of shares: 0.

Options: Options for 133 shares of RaySearch Medical, which can be exchanged for 108,407 shares of RaySearch Laboratories.

Johan Löf

b. 1969, CEO

Member of the Board of Directors at RaySearch Laboratories since 2003 and RaySearch Medical since 2000. Johan Löf has an MS in Engineering Physics from the Royal Institute of Technology and a PhD from the Department of Medical Radiation Physics at the Department of Oncology-Pathology, Karolinska Institutet. As a doctoral student he worked with mathematical models for optimization of radiation therapy and also developed the prototype for ORBIT.

Other directorships: RayIncentive AB.

No. of shares: 2,081,028 Class A and 1,173,813 Class B.

Ola Enarson

b. 1961, Chief Financial Officer

Employed by RaySearch Medical in 2004. Ola Enarson has an MBA from the Stockholm School of Economics. He has previously worked as an authorized public accountant at Öhrlings PricewaterhouseCoopers, Chief Financial Officer and controller at KF Fastigheter, Bombardier, and Cybercom.

No. of shares: 1,000 Class B.

Options: Options for 50,000 shares of RaySearch Laboratories.

Anders Murman

b. 1967, Director of Marketing

Employed by RaySearch Medical in 2004. Anders Murman has an MS in Engineering Physics from the School of Engineering at Uppsala University, with a focus on systems development and nuclear science. He has worked in radiation therapy throughout his professional career. He worked for twelve years at Helax, MDS Nordion, and Nucletron in a number of positions, including research, development, service, support, sales, marketing, and business development in both Uppsala and California. Most recently, before joining RaySearch, he worked as senior designer for Nucletron's product suite Oncentra Treatment Planning (OTP).

No. of shares: 0.

Options: Options for 20,000 shares of RaySearch Laboratories.

Holdings of shares and options refer to conditions as of Dec. 31, 2004.



Erik Hedlund

b. 1948. MS in Engineering and MBA. Chairman and member of the Board of Directors at RaySearch Laboratories since 2003 and RaySearch Medical since 2000. Other directorships: Chairman of the Board of ScandiDelux Belysning AB, RayTherapy Positioning AB, Kompetenscentrum för Strålningsfysik (Center of Excellence for Medical Radiation Physics) at Karolinska Institutet, and RayIncentive AB. Chief Executive Officer and board member of the companies Advanced Radiation Therapy ART AB, RayTherapy Imaging AB, RayTherapy, and NordSymton AB. No. of shares: 522,363 Class A and 294,641 Class B.



Johan Löf

b. 1969, CEO. Member of the Board of Directors at RaySearch Laboratories since 2003 and RaySearch Medical since 2000. Johan Löf has an MS in Engineering Physics from the Royal Institute of Technology and a PhD from the Department of Medical Radiation Physics at the Department of Oncology-Pathology, Karolinska Institutet. As a doctoral student he worked with mathematical models for optimization of radiation therapy and also developed the prototype for ORBIT. Other directorships: RayIncentive AB. No. of shares: 2,081,028 Class A and 1,173,813 Class B.



Claes-Göran Fridh

b. 1955. CEO Affärsstrategerna AB (publ). Member of the Board of Directors at RaySearch Laboratories since 2003 and RaySearch Medical since 2002. Other directorships: Chairman in Photometric AB, Widermind AB and Samba Sensors AB, board member of companies such as Affärsstrategerna AB, AlphaHelix Molecular Diagnostics AB, Naty AB and Webupdate AB. No. of shares: 0. Via Affärsstrategerna 1,059,600 Class B.



Carl Filip Bergendal

b. 1945. MS in Engineering and MBA. Lots coach® & Partner Lotscenter AB. Member of the Board of Directors at RaySearch Laboratories since 2003 and RaySearch Medical since 2000. Other directorships: Forte Visio Medica AB and RayIncentive AB. No. of shares: 353,859 Class A and 199,595 Class B.



Hans Wigzell

b. 1938. Professor at Karolinska Institutet in Solna and until December 31, 2003, Dean of Karolinska Institutet. Member of the Board of Directors of RaySearch Laboratories and RaySearch Medical since May 2004. Other directorships: Chairman of Karolinska Innovations AB, Karolinska Development, board member of Karolinska Institutet Holding AB and Biovitrum AB. No. of shares: 0. Options: Options for 10,000 shares of RaySearch Laboratories.



Thomas Pousette

b. 1964. Attorney and partner at Advokatfirma Lindhs DLA Nordic KB. Deputy, Board of Directors for RaySearch Laboratories AB since May 2004 and secretary of the Board of Directors since May 2003. Deputy, Board of Directors in RaySearch Medical since May 2004 and secretary of the Board of Directors since October 2000. Other directorships: Board member of Lauzon International Network AB and Swedish-Spanish Trade Forum. No. of shares: 4,000 Class B.

Holdings of shares and options refer to conditions as of Dec. 31, 2004.

Accelerator

Also sometimes referred to as linear accelerator or linac. The accelerator is used to create and shape the radiation beams used in radiation therapy. Usually there are one to ten accelerators per cancer clinic. Major manufacturers are Elekta, Siemens, and Varian.

Adaptive Radiation Therapy (ART)

Radiation therapy in which information extracted from images studies (CT, MRI or PET scans) acquired during the course of treatment is used to correct the treatment. This method reduces the effects of uncertainties and erroneous information during planning and improves treatment outcome.

Algorithms

A method of calculating something is called an algorithm.

Algorithms for direct optimization of machine parameters

The basis of RayMachine. Direct optimization of machine parameters means using a detailed model of the accelerator with its physical and technical limitations during optimization. This allows a number of factors to be taken into account, resulting in an improved and more efficient treatment plan than you would have had with fluence optimization, where these factors would have been considered during a post-processing step.

Algorithm development

The process of formulating algorithms. Algorithm development focuses on the method itself and not on programming, though programming accounts for a substantial element of algorithm development.

Biological optimization

See Radiobiological optimization.

Brachytherapy

Local radiation treatment using radioactive isotopes, usually radium, iridium or cobalt, placed directly on or in the patient.

Computed tomography (CT scan)

The usual diagnostic method for cancer today. A method that uses X-rays to produce a three-dimensional image of the internal density of the body.

Treatment planning

Using a computer to formulate one or more recommendations for radiation therapy of the tumor. Usually includes work with CT images, tumor and organs at risk delineation, application of radiation type and beam angle, optimization (manual or automatic) of dose results, as well as evaluation and approval of best recommendation (plan).

Dose calculation algorithms

Algorithms for calculating the radiation dose that the patient receives, given a specific machine setting.

IMRT

Intensity Modulated Radiation Therapy is a technique in which the intensity of the beam is varied spatially using a multi-leaf collimator. Traditional radiation therapy only uses homogeneous intensity.

Conventional three-dimensional conformal radiation therapy (3D-CRT)

The treatment method used today when IMRT is not used. Involves shaping the beams to conform to the contour of a tumor using an MLC, while the intensity of the beam remains constant.

Curative patients

Patients who have a type of cancer that doctors decide to treat in an effort to cure the cancer; in other words, completely eradicate the tumor. The opposite is palliative treatment, which is used when doctors cannot cure the disease, but only alleviate it or slow its progress.

Magnetic Resonance Imaging (MR)

An increasingly common diagnostic technique that can be used on the entire body, using the magnetic resonance of the body's molecules. A complication-free technique that can clarify where the tumor is located in relation to the rest of the patient's anatomy.

Software modules

A software package to solve a specific host system's needs for functionality.

MLC

The multileaf collimator is a device that shapes the radiation beam and is installed in the treatment head of a linear accelerator. Used to shape the beams to conform to the tumor instead of using a rectangular field. A prerequisite for IMRT.

Modularity

A property of software, which means that parts of the software can be reused in other contexts and products than the purpose for which they were initially developed.

Nuclear medicine and positron emission tomography (PET)

A newer diagnostic technique, in which tumor markers are labeled with radioactive isotopes that are injected in the blood. Markers move in the circulatory system to the intended position and radioactivity shows where a tumor is positioned.

Optimization algorithms for radiation therapy

Algorithms for calculating the radiation therapy that gives the best quality of treatment. Quality of treatment is defined by the doctor.

ORBIT

Optimization of Radiotherapy Beams by Iterative Techniques. The core of RaySearch's software, which works as a framework and a toolbox for the software products that RaySearch develops.

Organ contouring

The process of automatically finding the contour (closed curve) that defines the area in an image that corresponds to a specific organ.

OTP

Oncentra Treatment Planning. The name of Nucletron's treatment planning system.

Plugin module

Software that can be plugged into a larger software system and provide enhanced functionality.

Radiobiological optimization

Optimization of radiation therapy in which mathematical models of how tissue reacts to radiation are used in order to help the user to assess quality of treatment.

Radiation dose algorithms

See Dose calculation algorithms.



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