

RaySearch Laboratories AB (publ)
Interim Report, January 1–March 31, 2006

- Net sales for the period amounted to SEK 15.5 M (13.1)
- Profit after tax totaled SEK 5.3 M (4.5)
- Earnings per share amounted to SEK 0.47 (0.40)
- Operating profit amounted to SEK 7.3 M (6.2)
- Cash flow from operating activities amounted to SEK 12.2 M (6.7)

Johan Löf, President and CEO of RaySearch Laboratories AB, comments on the first three months of the year as follows:

“RaySearch continued to show growth. Sales for the first three months of the year amounted to SEK 15.5 M, an increase of 18 percent, compared with the same period in the preceding year. Operating profit also increased by 18 percent and amounted to SEK 7.3 M for the first three months of the year.

The number of licenses sold remained at a relatively stable level. Sales of OM-Optimizer were distinctly lower than expected. Nucletron took extensive operational measures to improve sales, but these measures are expected to impact on sales first in the second half of the year. Support revenues doubled, and their share of revenues amounted to about 20 percent. In that the installed base is constantly growing, the importance of support revenues is increasing. RaySearch has a strong financial position with favorable cash flow and very high liquidity.

During 2005, a letter of intent was signed with Philips to enter into a long-term development and licensing agreement in adaptive radiation treatment. Negotiations have taken longer than anticipated. RaySearch signed the final agreement on March 17, 2006, and the expectation was that Philips also would sign the agreement relatively quickly. Formal procedural issues within Philips, however, had the result that the agreement is not yet final. We wish to emphasize that RaySearch does not see any reason whatsoever to believe anything other than that the agreement will be signed by both parties in the near future.

Within the framework of the new license agreement signed between RaySearch and Scanditronix-Wellhöfer in February, the companies will create efficient and competitive systems for automated quality assurance of IMRT. Scanditronix-Wellhöfer is very advanced in detector technology and has a large installed base in a segment to which RaySearch did not have access previously. It is very positive that we can now begin collaboration with the leading player in the market for dosimetric measurement equipment and the agreement constitutes a natural and exciting expansion of our product portfolio. The goal is to develop three completely new products, of which the first two can be expected to reach the market in 2007. All clinics offering IMRT are potential customers.”

Summary of financial results

	2006	2005	2005
Amounts in SEK 000s	Jan–Mar	Jan–Mar	Jan–Dec
Net sales	15,549	13,122	69,855
Operating profit	7,308	6,202	39,607
Operating margin, %	47.0	47.3	56.7
Profit margin, %	48.4	47.5	57.3
Net profit	5,327	4,491	29,142
Equity/assets ratio, %	79.2	77.0	76.4
Adjusted equity per share in SEK	7.63	4.92	7.16
Share price in SEK at end of period	167.00	65.25	177.00

Sales and earnings

Total sales in the first three months of 2006 rose by 18 percent compared with the corresponding period in the preceding year and amounted to SEK 15.5 M (13.1). The number of licenses sold totaled 194 (201), of which 69 (84) pertained to RayOptimizer, 99 (108) to RayMachine, 18 (9) to RayBiology and 8 (0) to OM-Optimizer. License revenues for the first quarter of 2006 increased to SEK 12.5 M (11.5). Sales largely comprise license revenues from RayOptimizer and RayMachine as well as support revenues. Sales of OM-Optimizer were substantially lower than expected – however, Nucletron has implemented extensive operational measures to improve sales. Customer support revenues amounted to SEK 3.0 M (1.6).

The company is dependent on the development of the USD and the EUR against the Swedish krona, since invoicing to Philips is in USD and invoicing to Nucletron in EUR. During the first quarter of 2006, revenues from Philips were booked at an average USD rate of SEK 7.74, compared with SEK 7.00 for the corresponding period of 2005. During the first quarter of 2006, revenues from Nucletron were booked at an average EUR rate of SEK 9.37. A sensitivity analysis of the currency exposure shows that the effect on operating profit for the first quarter of 2006 of a change in the average exchange rate for the USD of ± 10 percent is \pm SEK 1.4 M and that the corresponding effect of a change in the average exchange rate for EUR of ± 10 percent gives a change of \pm SEK 0.1 M.

Operating profit amounted to SEK 7.3 M (6.2), which corresponds to an operating margin of 47.0 percent (47.3). During the first quarter of 2006, operating profit increased by 18 percent compared with the corresponding period in the preceding year.

Compared with the year-earlier period, operating expenses, excluding currency effects, increased by SEK 0.7 M to SEK 7.8 M, which is an increase of 10 percent. The increase was mainly attributable to an increased focus on research and development, primarily in adaptive radiation therapy, the development of the new products for Nucletron, and the development of a new website for RaySearch.

Effective March 31, 2006, 24 persons (22) worked with research and development. Research and development expenses include, among other items, costs for payroll, computer equipment and premises. Research and development costs before capitalization and amortization amounted to SEK 6.6 M (6.4) and are also expected to represent a considerable portion of costs in the future.

Amortization and depreciation in the first quarter of 2006 amounted to SEK 1.3 M (1.0) on intangible assets and SEK 0.0 M (0.1) on tangible fixed assets. Total amortization for the first quarter of 2006 amounted to SEK 1.3 M (1.1). Amortization and depreciation are mainly included in the research and development expenses.

Profit after tax for the first quarter in 2006 amounted to SEK 5.3 M (4.5), which means that earnings per share after tax amounted to SEK 0.47 (0.40).

Geographic distribution of sales

The majority of RaySearch's customers are in the US. Sales for the first quarter of 2006 were distributed as follows: North America 80 percent (83), Asia 9 percent (7), Europe and the rest of the world 11 percent (10).

Capitalization and amortization of development costs

During the first quarter of 2006, development costs amounting to SEK 3.5 M (3.6) were capitalized. Amortization for the first quarter of 2006 totaled SEK 1.3 M (1.0).

Liquidity and financing

Cash flow for the first quarter of 2006 totaled SEK 8.2 M (15.9). Cash flow from operating activities amounted to SEK 12.2 M (6.7).

At March 31, 2006, the value of cash and cash equivalents amounted to SEK 61.8 M, compared with SEK 29.5 M at March 31, 2005. At March 31, 2006, current receivables amounted to SEK 9.7 M, compared with SEK 11.6 M at March 31, 2005. RaySearch has no interest-bearing liabilities.

Investments

Fixed assets mainly comprise capitalized development costs. Investments in intangible fixed assets for the first quarter of 2006 amounted to SEK 3.7 M (3.6) and investments in tangible fixed assets amounted to SEK 0.2 M (0.0).

Employees

At the end of the first quarter, the number of employees at RaySearch amounted to 29 persons (26). The average number of employees from January to March 2006 amounted to 29 (26).

Parent Company

The Group's Parent Company is RaySearch Laboratories AB (publ). This company did not conduct any operating activities during the period.

The Parent Company's shares in the subsidiary RaySearch Medical AB are reported at SEK 233.7 M (233.7).

The Parent Company had no sales and made no investments in the first quarter of 2006. Pretax loss amounted to SEK 198,000 (loss: 313,000). At March 31, 2006, the Parent Company had cash and cash equivalents amounting to SEK 0 (0).

Annual General Meeting

On April 26, RaySearch published a press release announcing that the company's Annual General Meeting scheduled for May 10, 2006 was being postponed and that the new date for the Annual General Meeting would be June 29, 2006. The reason is that the Annual Report, which was already printed, in so far as references to the pending agreement with Philips pertaining to adaptive radiation therapy were concerned, unfortunately would contain incorrect information since it is assumed in the Annual Report that the agreement had been concluded. This is due in turn to the fact that Philips' signing of the agreement took considerably longer time than RaySearch had reason to anticipate. RaySearch signed the agreement already on March 17, 2006, and received at that time, and on later occasions, indications that signing by Philips would occur considerably faster than was the case.

At the same time, the Board of Directors wishes to emphasize that RaySearch does not see any reason whatsoever to believe anything other than that the agreement will be signed by both parties in the near future. Philips is a very large organization with long decision processes. In addition, according to information received, Philips recently introduced a new system for managing contracts that further delayed the process.

Key events in the first quarter of 2006

Final agreement with Scanditronix-Wellhöfer

In early February, RaySearch signed a final agreement on a partnership with Scanditronix-Wellhöfer regarding development of three products to more effectively quality assure IRMT.

Within the framework of this partnership, RaySearch will develop advanced software that supports and increases the efficiency of quality assurance for IMRT. Scanditronix-Wellhöfer will enhance its dosimeter platform to enable determination of the physical characteristics of radiation in a more refined manner and to obtain faster and more accurate measurements. RaySearch possesses substantial expertise with respect to algorithms for dose calculation and frameworks for visualization. Scanditronix-Wellhöfer, on the other hand, possesses significant expertise in dosimetry and innovative detector technology. Combining the two companies' expertise will create an effective and user-friendly tool for automated quality assurance for advanced radiation therapy.

Market

RaySearch is active in intensity modulated radiation therapy (IMRT), an advanced method of radiation therapy for cancer. IMRT makes it possible to treat tumors with higher dose than is possible with conventional methods, while reducing the risk of injury to surrounding healthy tissues. Planning IMRT requires advanced methods of optimization, since radiation treatment must be adapted to the anatomy of the individual patient.

Treatment planning and IMRT

Currently, there are an estimated 5,800 clinics worldwide that treat patients using radiation therapy. An estimated 2,800 of these are advanced facilities in the sense that their treatment planning systems are able to perform complete three dimensional dose calculations with high accuracy. It is these advanced clinics that are the target group for RaySearch's modern software solutions. The market for treatment planning systems is growing by 7–8 percent annually. Globally, there are four companies, Philips, CMS, Varian and Nucletron, that together account for about 75 percent of sales of treatment planning systems. In collaboration with its cooperation partners, Philips and Nucletron, RaySearch reaches a market share of 55-60. Through these partnerships, RaySearch's IMRT solutions are included in a full 95 percent of these partners' new sales of treatment planning systems.

In the US and Canada, RaySearch's products are installed in about 700 of the 1,800 advanced clinics. The market for IMRT is growing faster in the US than elsewhere in the world, which is due in part to the fact that compensation levels from insurance companies are three to four times higher for IMRT treatments than for conventional treatments. Sales of treatment planning systems for IMRT also began to gain momentum in Europe during 2005. Scientific evidence of the clinical benefits of IMRT, which the leading European clinics have been waiting for, is now being presented more widely. Clinics that have already purchased treatment equipment with IMRT capacity are beginning to use this functionality to an increasingly greater extent.

In the most rapidly growing segment – IMRT – Philips has the greatest global market share. The business partner Philips has long been dominant in the North American market and is expected to increase its installed base by 7-8 percent, which is the same rate as in previous years. In addition to this increase, RaySearch's supplementary modules RayMachine and RayBiology are also sold to existing customers who previously purchased the main product RayOptimizer. In Europe, RaySearch's partners together have about 30 percent of the installed base, with Nucletron accounting for the major share of this. Through its many established customer contacts and large installed base, Nucletron has a strong position in the European market. The partnership contributed to a tripling of RaySearch's sales in 2005, compared with the preceding year.

Adaptive radiation therapy

IMRT is a major breakthrough in radiation therapy. At present, to be sure that the radiation does not miss the tumor due to changes in the patient's geometry during the six weeks that the treatment normally takes, a technique is employed in which a treatment area is defined with a sufficiently large margin around the tumor. Another alternative is instead to track the change in the tumor's position and shape and use this information to adapt the treatment accordingly. This is why demand is increasing for treatment planning systems and accelerators that can detect deviations during treatment and correct for them. IGRT (image-guided radiation therapy) and the more refined method of adaptive radiation therapy are intended to handle these changes in the patient's anatomy that can occur during the treatment process. Last year a Letter of Intent to enter into a long-term license and development agreement regarding a suite of new products in adaptive radiation therapy was signed with Philips. A final agreement is expected in the near future.

Quality assurance of IMRT

Quality assurance is a matter of measurement and reducing the difference between the treatment plan and the dose actually administered to the patient. In this manner, assurance is obtained that deviations are within specified tolerance limits. This is currently a very costly and time-consuming task for

clinics. Since IMRT is a more complex treatment method than conventional radiation therapy and higher doses are administered, quality assurance also becomes more extensive. With RaySearch's technology, the quality assurance process can be made more effective. This was noted by the market-leading company Scanditronix-Wellhöfer, which signed a partnership agreement with RaySearch in February 2006. Scanditronix-Wellhöfer is the world leader in advanced dosimetry and quality assurance for clinical and industrial radiation solutions.

Commercial partners

RaySearch's commercial partners are leading medical-technology companies. Through these partnerships, the company's products become more rapidly available to clinics around the world. The commercial partner is responsible for sales and service to the end customer. RaySearch thus does not need to build up a global sales and support organization, but can instead retain its focus on advanced and innovative research and development.

A partnership agreement was signed with Philips in 2000. The agreement covers the three products RayOptimizer, RayMachine and RayBiology. A partnership agreement was signed with Nucletron during 2004 that includes six products. The first product through this partnership, OM-Optimizer, was launched in April 2005. Two products are planned for launch during the second half of 2006. The partnership agreement with Scanditronix-Wellhöfer was signed in February 2006. This agreement covers three products, of which the first two are planned for launch during 2007. Last year a Letter of Intent regarding adaptive therapy was signed with Philips. A final agreement is expected in the near future.

Products

RaySearch develops software that improves the treatment planning systems currently used in radiation therapy for cancer. RaySearch's ORBIT platform is a general framework for resolving optimization problems in radiation therapy and the result of many years of research by Karolinska Institutet and RaySearch. Development of the platform involved the use of object-oriented techniques and advanced software design methods. With its sophisticated architecture, ORBIT is a highly suitable platform for innovative products in radiation therapy, where new treatment methods, more exact biological models and more efficient calculation models are constantly being developed.

RayOptimizer – in partnership with Philips

RayOptimizer is a product that provides solutions for advanced optimization of IMRT that allow the user to specify the desired dose distribution to be administered to the patient. The user has very great freedom in defining various targets and conditions for treatment and can therefore create an optimal treatment plan for each individual patient. RayOptimizer has been sold to slightly more than 900 clinics all over the world, and more than 100,000 patients have received improved radiation therapy with this system. Many of the end customers are prominent radiation therapy clinics, such as Princess Margaret Hospital in Canada and the M.D. Anderson Cancer Center in the US.

RayBiology and RayMachine – in partnership with Philips

In conventional IMRT, it is the doctor who, based on clinical experience, determines the dose with which the tumor will be treated, as well as the highest permissible dose to which healthy tissue may be exposed. In radiobiological optimization with RayBiology, it is instead the system that identifies the optimal balance between the dose to the tumor and surrounding healthy tissue. Using models of how the tumor and the healthy tissue respond to radiation, the doctor is able to formulate the treatment goal directly in clinical terms. As an example, the probability for tumor control can be maximized or the risk for radiation-induced complications minimized.

A critical factor in modern radiation therapy is the trade off that clinics must make between administering as exact a treatment as possible and the time that it takes for the accelerator to administer the treatment. It is also important, particularly for clinics with a lack of staff, to minimize the planning time for each individual patient. RayMachine is a product that allows clinics to shorten the delivery time for their treatments with retained or improved quality of the treatment plan.

RayMachine increases the user's ability to define as early as in the treatment planning's initial phase the parameters that will determine final treatment time and quality. The process also consists of fewer steps than with classic IMRT planning. This fact, and the fact that a clinically acceptable treatment plan is obtained directly that does not need to be re-planned or adjusted later, makes the planning process both time-efficient and user-friendly.

OM-Optimizer – in partnership with Nucletron

OM-Optimizer is the first product developed as part of the partnership with Nucletron. A total of six products will be integrated into Nucletron's treatment planning product, Oncentra MasterPlan. The combination of IMRT optimization and image processing in Oncentra MasterPlan with organ contour calculation and radiation dose calculation gives the users access to an extremely powerful system. The reception among Nucletron's customers was positive, and 133 licenses had been sold by the end of the first quarter of 2006.

Accounting principles in accordance with IAS/IFRS

This interim report has been prepared in accordance with IAS 34, Interim Financial Reporting, which corresponds to the requirements contained in the Swedish Financial Accounting Standards Council's RR31 recommendation, Interim Reports for Groups. The accounting principles have not changed in relation to 2005. For a description of the accounting principles, see the year-end report for 2005 and the annual report for 2004.

Financial reporting in 2006

The Annual Report for 2005 is scheduled for publication in June. It will be mailed to all registered shareholders and will be available at the corporate office and website.

Annual General Meeting
Interim Report, April - June
Interim Report, July - September

June 29, 2006 at 6:00 p.m.
August 29, 2006
November 16, 2006

The Annual General Meeting will be held at:

Stockholm Concert Hall,
Grünwaldsalen,
Kungsgatan 43, Stockholm.

Stockholm, May 9, 2006

RaySearch Laboratories AB
Johan Löf, CEO

Review Report

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

Stockholm, May 9, 2006

Anders Linér
Authorized Public Accountant
KPMG

For further information, contact:

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

About RaySearch

RaySearch develops and markets software for radiation therapy of cancer. The products are specially designed to optimize radiation therapy with the aim of adapting the radiation dose to the contour of the tumor, which then allows high doses to be delivered to the tumor while minimizing the dose to surrounding healthy tissue.

RaySearch, a spin-off from Karolinska Institutet, was formed in 2000. The company has since sold its product, RayOptimizer, to more than 900 hospitals internationally through a licensing agreement with Philips, thus enabling more than 100,000 patients to receive improved radiation therapy.

Sales of the products RayBiology and RayMachine began in 2004. The partnership with Philips continues and RaySearch signed a licensing agreement with Nucletron at the beginning of 2004. The latter agreement made RaySearch's products available to a large number of additional clinics worldwide and, consequently, increased the number of potential end-customers sharply. Delivery to clinics of OM-Optimizer, the first product based on the partnership with Nucletron, began in April 2005. In 2005, RaySearch signed a Letter of Intent with Philips for the development of products within adaptive radiation therapy. A final agreement is expected in the near future. In February 2006 an agreement was signed with Scanditronix-Wellhöfer regarding development of products for improved quality assurance for IMRT.

RaySearch was listed on the Stockholm Stock Exchange's O-List in November 2003 and as of July 1, 2005, RaySearch is listed in the Attract40 segment. RaySearch is based in Stockholm and currently has 28 employees.

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

Consolidated income statement

Amounts in SEK 000s	2006 Jan-Mar	2005 Jan-Mar	2005 Jan-Dec
Net sales	15,549	13,122	69,855
Cost of goods sold	-267	-262	-1,121
Gross profit	15,282	12,860	68,734
Other operating income	297	675	1,956
Selling expenses	-461	-266	-1,415
Administrative expenses	-2,927	-2,985	-12,775
Research and development costs	-4,387	-3,849	-16,069
Other operating expenses	-496	-233	-824
Operating profit	7,308	6,202	39,607
Result from financial items	216	31	408
Profit before tax	7,524	6,233	40,015
Tax	-2,197	-1,742	-10,873
PROFIT FOR THE PERIOD	5,327	4,491	29,142
Earnings per share before full dilution (SEK)	0.47	0.40	2.56
Earnings per share after full dilution (SEK)	0.47	0.39	2.55
Number of shares outstanding before full dilution	11,427,591	11,427,591	11,427,591
Number of shares outstanding after full dilution	11,427,591	11,427,591	11,427,591
Average number of shares outstanding before full dilution	11,427,591	11,173,555	11,364,082
Average number of shares outstanding after full dilution	11,427,591	11,427,591	11,427,591

Consolidated balance sheet

Amounts in SEK 000s	Mar 31, 2006	Mar 31, 2005	Dec 31, 2005
ASSETS			
Intangible fixed assets	37,222	28,258	34,876
Tangible fixed assets	1,212	1,532	1,200
Financial fixed assets	136	34	151
Deferred tax assets	-	2,130	-
	38,570	31,954	36,227
Current assets			
Current receivables	9,667	11,610	17,343
Cash and bank balances	61,822	29,472	53,611
	71,489	41,082	70,954
TOTAL ASSETS	110,059	73,036	107,181
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	87,181	56,274	81,854
Accounts payable, trade	1,615	1,401	1,931
Other non-interest-bearing liabilities	21,263	15,361	23,396
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	110,059	73,036	107,181

Cash-flow statements, Group

Amounts in SEK 000s	2006 Jan–Mar	2005 Jan–Mar	2005 Jan–Dec
Cash flow from operating activities before changes in working capital	4,965	6,902	45,266
Cash flow from changes in working capital	7,213	-179	-3,873
Cash flow from operating activities	12,178	6,723	41 393
Cash flow from investing activities	-3,967	-3,326	-14,640
Cash flow from financing activities	-	12,496	13,279
Cash flow for the period	8,211	15,893	40,032
Cash and cash equivalents at the beginning of the period	53,611	12,294	12,294
Cash and cash equivalents added from RayIncentive	-	1,285	1,285
Cash and cash equivalents at the end of the period	61,822	29,472	53,611

Changes in consolidated shareholders' equity

Amounts in SEK 000s	2006 Jan–Mar	2005 Jan–Mar	2005 Jan–Dec
Opening balance in accordance with IFRS	81,854	39,475	39,475
Change of accounting principle, Consolidation of RayIncentive	-	-188	-188
Transfer of own shares	-	12,496	13,425
Result for the period	5,327	4,491	29,142
Closing balance	87,181	56,274	81,854

Changes in number of shares

	2006 Jan–Mar	2005 Jan–Mar	2005 Jan–Dec
Opening balance	11,427,591	10,513,061	10,513,061
Non-cash issue	-	914,530	914,530
Closing balance	11,427,591	11,427,591	11,427,591