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RAYSEARCH ANNUAL REPORT 2005
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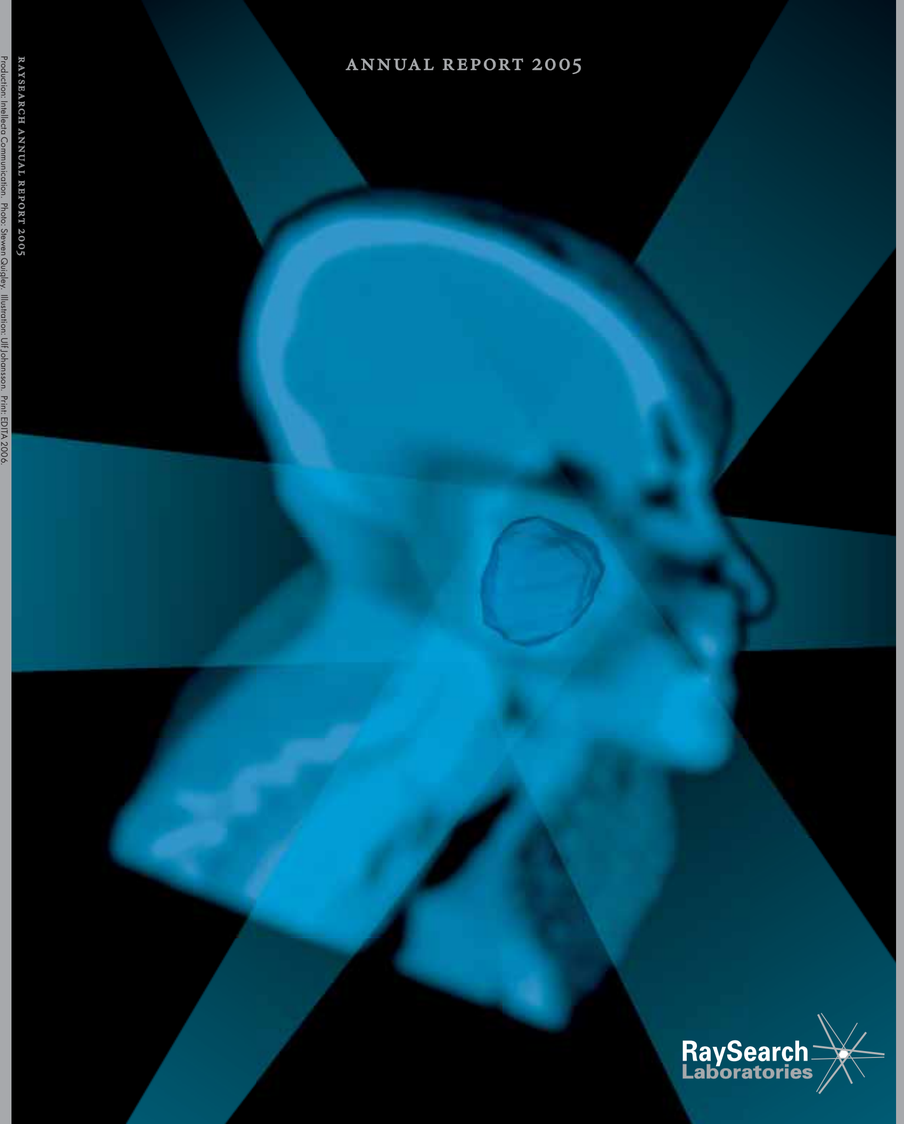
ANNUAL REPORT 2005



RaySearch Laboratories

Contents

ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders in RaySearch Laboratories AB (publ) will be held on Thursday, June 29, 2006, at 6:00 p.m. in the Grünewald Hall of the Stockholm Concert Hall, Kungsgatan 43, Stockholm. Shareholders wishing to participate in the Meeting must be registered in the company's share register on Thursday, June 22, 2006, and must also notify the company of their intention to participate.

The company's share register is maintained by Värdepappercentralen VPC AB. Shareholders are registered in the share register either in their own name or through a nominee. Only shareholders registered under their own name are entitled to participate in the meeting. Shareholders who have nominee registered their shares via the trust department of a bank or an individual nominee must have their shares registered under their own name through VPC. Such registration, which may be temporary, is requested from the share nominee. Reregistration must be carried out not later than Thursday, June 22, 2006. The nominee should be informed well in advance of this date.

Registration to participate in the Annual General Meeting may be made in writing to RaySearch Laboratories AB at Sveavägen 25, SEK-111 34 Stockholm, Sweden, by fax to Fax No. +46-8-545 061 39, by telephone to Tel. No. +46-8-545 061 30, or by e-mail to: bolagsstamma2006@raysearchlabs.com, not later than 4:00 p.m. on Monday, June 26, 2006. Registration must include the shareholder's name, civic registration number or corporate registration number, address and telephone number, as well as the registered number of shares held. Eligibility documents such as proxies, registration certificates, etc., should be enclosed with the registration.

A printed version of the annual report is sent to all registered shareholders who have not actively declined receipt of the annual report.

RaySearch will publish the following financial reports in 2006:

Interim Report for January–June 2006:
August 29, 2006
Interim Report for January–September 2006:
November 16, 2006

This is a translation of the Swedish Annual Report

Where do we come from?

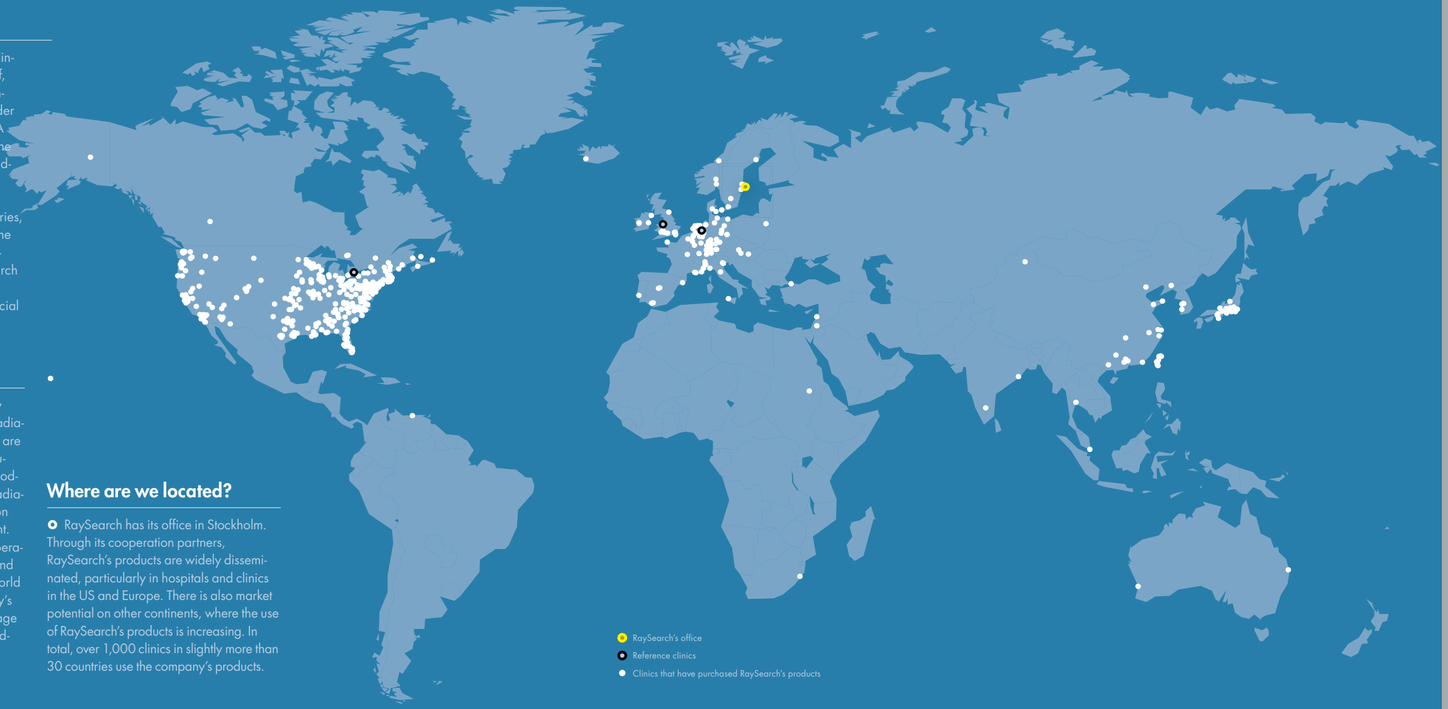
RaySearch was spun off from Karolinska institutet and founded by Johan Löf, Erik Hedlund, Carl Filip Bergendal, Anders Brahme, Bengt Lind, Anders Liander and Karolinska Institutet Holding AB. A business plan competition confirmed the market potential, which led to the founding of the company in 2000. The first license agreement was signed in the summer of 2000 with ADAC Laboratories, which was later acquired by Philips. The Affärsstrategerna venture capital company became a part-owner of RaySearch in 2000. Five years after its founding, RaySearch has launched four commercial products and more are on the way.

What do we do?

RaySearch is a medical technology company that develops software for radiation therapy of cancer. The operations are predicated on the desire to improve human health and life. The company's products are used to enhance efficacy of radiation therapy by optimizing the radiation dose for each individual cancer patient. License agreements with leading cooperation partners facilitate the marketing and sales of RaySearch's products in the world market. Read more about the company's business concept and objectives on page 4, its strategies on page 6, and its products on page 12.

Where are we going?

An increasing number of studies have demonstrated the clinical benefit of intensity-modulated radiation therapy (IMRT) as a form of treatment, which increases demand for RaySearch's products. We are currently endeavoring to broaden our operations and are seeking new opportunities to develop treatment planning in IMRT. We also try to diversify the product portfolio into new areas such as adaptive radiation therapy, quality assurance and radiation therapy using light ions. Read more about research on page 22 and product development on page 24.



Where are we located?

RaySearch has its office in Stockholm. Through its cooperation partners, RaySearch's products are widely disseminated, particularly in hospitals and clinics in the US and Europe. There is also market potential on other continents, where the use of RaySearch's products is increasing. In total, over 1,000 clinics in slightly more than 30 countries use the company's products.

How large are we?

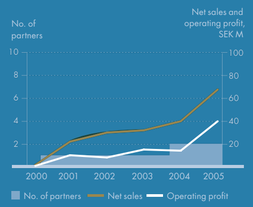
With 28 full-time employees and net sales of SEK 70 M in 2005, RaySearch has achieved rapid growth since its founding in 2000. With the help of its three cooperation partners, RaySearch has reached more than 1,000 advanced cancer clinics that administer radiation therapy to patients. RaySearch's world market share in treatment planning for IMRT is estimated at 55–60%.

Who are our owners?

The largest owners of RaySearch are its founders, Robur Funds, Lannebo Funds and several foreign owners. The company has been publicly listed since 2003 and at year-end 2005, the number of shareholders amounted to 4,400. The foreign ownership amounts to 28%. Read more about the ownership structure and shares on page 28.

How are we developing?

Since its founding in 2000, RaySearch has signed three license agreements with three cooperation partners. These cooperations encompass a total of 12 commercial products, of which four have been launched to date. The company's financial development has been highly favorable – in 2005, net sales increased 77% and operating profit increased three-fold over 2004. Read more about our financial development on page 32.



As a result of the company's business model – whereby its partners are responsible for sales and marketing – sales and profits can increase, during expansion, more than costs. Because of this focused business model, RaySearch can maintain favorable margins and manage rapid growth. Read more about RaySearch's business model on page 4. At year-end 2005, RaySearch's share price was quoted at SEK 177. Its listing price was SEK 16.

A brief look at 2005

FINANCES

- Net sales rose 77 percent, from SEK 39.5 M to SEK 69.9 M. The increase was primarily attributable to a three-fold increase in sales of RayMachine and the introduction of OM-Optimizer, the first product to emerge from the company's cooperation with Nucletron. The operating margin during the year amounted to 56.7 percent. Read more on page 32.
- Operating profit increased three-fold from SEK 12.5 M to SEK 39.6 M, which is higher than RaySearch's net sales in 2004. Earnings per share amounted to SEK 2.56.
- Cash flow from ongoing operations was strengthened, amounting to SEK 41.4 M (12.9).

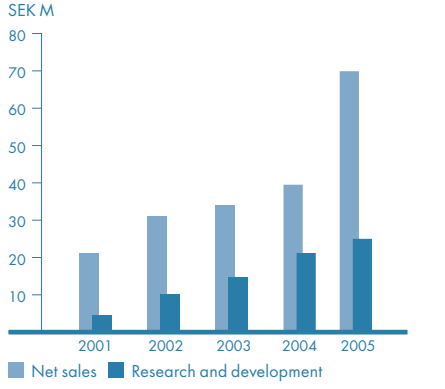
COOPERATION

- A Letter of Intent was signed with Scanditronix-Wellhöfer in November 2005. The intention is to develop three products to provide more efficient quality assurance of IMRT. In February 2006, a final agreement was reached. Read more on page 17.
- In 2005, RaySearch and Philips signed a Letter of Intent regarding a long-term development and license agreement to jointly develop and market a product portfolio in adaptive radiation therapy. Negotiations regarding the agreement with Philips are still under way.

PRODUCT DEVELOPMENT

- The sales of OM-Optimizer, the first product of the cooperation with Nucletron began to be sold in April 2005. The license agreement with Nucletron encompasses a total of six IMRT products, of which two will be launched in 2006. Read more on page 15.
- Under the new license agreement with Scanditronix-Wellhöfer, RaySearch will develop three products that will improve quality assurance of IMRT, of which two are to be launched in 2007. Read more on page 17.
- RaySearch has conducted research and development in adaptive radiation therapy since 2002. This has resulted in a prototype of a system for adaptive radiation therapy that was developed jointly with Philips. Read more on page 24.
- RaySearch is working to develop a prototype of a treatment planning system for therapy with light ions, such as protons and carbon ions. Read more on page 24.

Strong focus on research and development



Greater scope of operations creates highly favorable future prospects

RaySearch's performance in 2005 is highly favorable. Net sales amounted to SEK 70 M, which is an increase of 77 percent compared with the preceding year. Operating profit tripled, amounting to SEK 40 M, which was even higher than RaySearch's net sales in 2004.

In 2005, the company sold 847 licenses – an increase of almost 400 licenses compared with 2004. Sales of RayMachine increased three-fold. RayOptimizer stayed at a stable level of approximately 300 licenses. Sales of OM-Optimizer, which was introduced during the year, amounted to 125 licenses. It is encouraging that RayMachine performed so well and that the product was so highly appreciated by customers. Almost three-quarter of our customers are in the US. In Europe, sales during the year rose three-fold, while the proportion of sales conducted in Europe amounted to approximately 20 percent.

We have great hopes regarding our cooperation with Nucletron, which has been expressed in many contexts. The cooperation involves a total of six products, and the number of potential customers is doubled compared with of the original cooperation with Philips. Sales of OM-Optimizer in 2005 were significantly lower than expected. However, Nucletron has taken several operational measures to improve sales.

"Strong increase in sales. Cooperation with three major partners."

In 2005, stock-market interest in RaySearch was so strong that as of July 1, 2005, the company has been included in the Attract40 segment of the "O List" of the Stockholm Stock Exchange.

COOPERATIVE ARRANGEMENTS WITH SIGNIFICANT POTENTIAL

Scanditronix-Wellhöfer

RaySearch and Scanditronix-Wellhöfer will be able to create efficient, competitive systems for automated quality assurance of IMRT. Scanditronix-Wellhöfer is extremely advanced in detector technology and has a large installed base in the segment, to which RaySearch has not previously had access. We are very pleased that we can now begin cooperating with the leading player in the market for dosimetric measurement equipment. Scanditronix-Wellhöfer is a highly suitable partner for us, and the agreement implies a natural and exciting expansion of our product portfolio.

There is a great need in clinics for new solutions in this area, since the quality assurance step requires considerable personnel resources. The aim is to develop three completely new products, of which the first two can be expected to be introduced on the market in 2007 and all clinics that provide therapy based on IMRT represent potential customers.

Philips

We have had an established cooperation within IMRT with Philips for the past five years and hope to soon conclude negotiations regarding a long-term development and license agreement within adaptive radiation therapy. The goal is to jointly develop a suite of advanced products within adaptive radiation therapy. A prototype of the system for adaptive radiation therapy has been developed and exhibited at major medical international congresses.

Adaptive radiation therapy will be the primary area of development in the future. This new technology increases geometric precision by taking into consideration changes in the patient's anatomy during the course of treatment. As a result the therapy becomes even more effective and safe. Both RaySearch and Philips want to be the leading players in the area of adaptive radiation therapy.

RESEARCH AND DEVELOPMENT BREEDS SUCCESS

A precondition of RaySearch's commercial success is to consistently be in the front line in research and development in radiation therapy. In our quest to ensure that we do so, our most important resource is of course our highly qualified employees. Through conscientious recruitment and ongoing skills development, we have succeeded in forging a team of outstanding innovative power. We also have close contact and frequent exchanges with leading scientific institutions. At present, RaySearch cooperates closely with Karolinska Institutet and the Royal Institute of Technology in Stockholm. RaySearch also cooperates closely with several leading clinics in Europe and the North America.

Research

Unlike most other companies in medical technology, we have our own independent research department. RaySearch's research is

long-term in nature and based on a results perspective of two to five years. It is conducted in commercially attractive areas. The applicable research results generated attract commercial partners and provide a foundation for product development. RaySearch devotes a very large part of its resources, and focuses commercially, on research, which is one of the key factors in the company's success. Development work begins when RaySearch concludes a cooperation agreement with a partner.

Development

Based on research results, proven methods and the functionality of the ORBIT platform, the task of our development department is to produce a commercial product that corresponds to our partner's requirements. Development includes the creation of new products as well as the further development and maintenance of existing products.

The aim is to create a product that is unique for the partner through the application of research results and adaptation of existing platforms. Development work is steered primarily toward well-defined product goals and functionality requirements defined in our cooperation agreements. Proven methods, development processes and high quality requirements help us create a commercial product in the shortest possible time.

Most development projects take from one to three years, plus subsequent further functionality development. As with the research department, the development department has a well-defined role and its own management, even though these two competencies benefit to a considerable extent from each other.

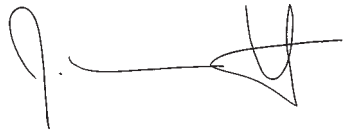
WE ENTER A NEW PHASE

In 2005, we devoted extensive effort to preparing for the agreement with Scanditronix-Wellhöfer within quality assurance, which was finalized in the beginning of 2006. Negotiations with Philips within adaptive radiation therapy, which are still not concluded, were prioritized during the year. These cooperation agreements will contribute to an expansion of our product portfolio. Added to this is our cooperation with Nucletron. We are not as dependent on individual products any more, since we now cooperate with three partners in several product areas. In 2006, we will have six products on the market, while in 2007, the number will increase to about ten.

Adaptive radiation therapy will be a key growth area and the conditions are favorable. There are already approximately 300 linear accelerators with integrated image acquisition systems installed in clinics, particularly in the US. These systems are currently used for image-guided radiation therapy (IGRT), in which the treatment table is moved until the tumor is located correctly relative to the beams. Given the proper software, these accelerators are well suited for full adaptation of the treatment beams, in which the entire treatment plan is gradually redesigned to take into account changes and movements in the patient's anatomy. To put it simply, the ground is ready for our products in adaptive radiation therapy – an area for which we have high hopes.

I would like to stress that future prospects are highly favorable for RaySearch, given the breadth built into our operations. We have license and development agreements with three major players in the radiation therapy market. We have a strong financial position, solid profitability and full line-up of new products.

Stockholm, May 2006



JOHAN LÖF
President and CEO, RaySearch Laboratories AB

One of RaySearch's strengths is the scalability of its business model. Through licensing and cooperation with strong commercial partners, sales to hospitals and clinics can increase without costs increasing to the same extent.

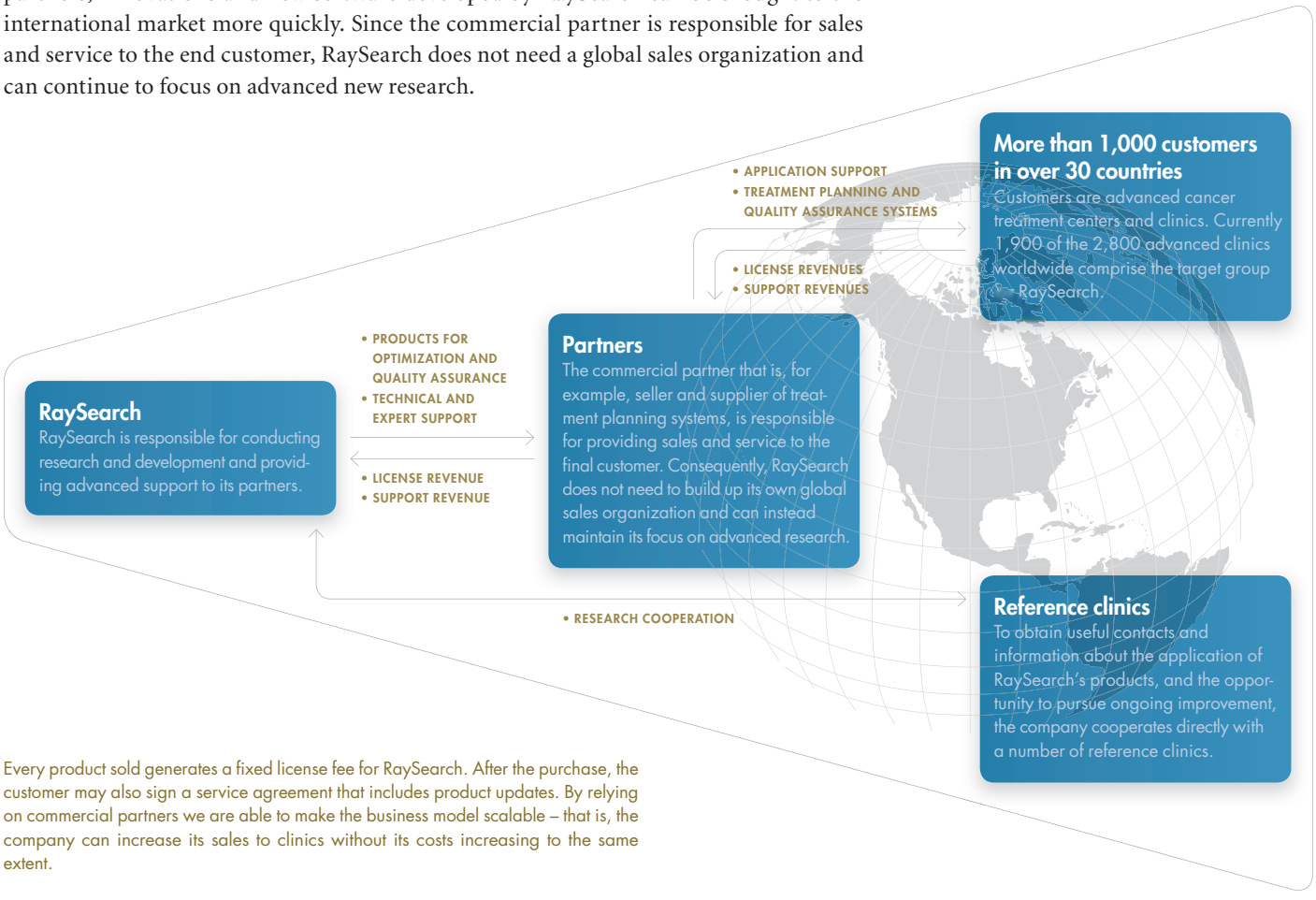
Business model creates leverage and low financial risk

RaySearch's business concept is to provide innovative software that creates more effective radiation therapy of cancer. The operations are predicated on the aim of improving people's health and lives by shortening the time required for new scientific achievements in radiation therapy to be implemented in clinical use.

The overall aim is to make RaySearch the leading supplier of advanced software in radiation therapy.

RAYSEARCH'S BUSINESS MODEL: GLOBAL RANGE WITHOUT HIGH OVERHEAD

In order to offer innovative methods and advanced software to clinics worldwide, RaySearch's model is based on cooperation with leading medical technology providers and scientific institutions. As a result of RaySearch's collaboration with leading commercial partners, innovations and new software developed by RaySearch can be brought to the international market more quickly. Since the commercial partner is responsible for sales and service to the end customer, RaySearch does not need a global sales organization and can continue to focus on advanced new research.



Every product sold generates a fixed license fee for RaySearch. After the purchase, the customer may also sign a service agreement that includes product updates. By relying on commercial partners we are able to make the business model scalable – that is, the company can increase its sales to clinics without its costs increasing to the same extent.

BROAD, DIVERSIFIED PRODUCT PORTFOLIO

One of RaySearch's most important goals has been, since its founding, to broaden its product portfolio. During the company's first five years of operation, it focused on developing products in IMRT. As it develops more and more IMRT-based products, RaySearch plans to simultaneously enter other product areas such as adaptive radiation therapy, IMRT quality assurance and treatment planning for radiation therapy with light ions.

Goal fulfillment

- RaySearch currently sells four IMRT-based products – three of them through Philips and one through Nucletron.
- The license agreement with Nucletron encompasses a total of six IMRT products, of which two will be launched in 2006.
- Under the new license agreement with Scanditronix-Wellhöfer, RaySearch will develop three products for improved quality assurance of IMRT, of which two are slated for launch in 2007.
- RaySearch has conducted research and development in adaptive radiation therapy since 2002, which has resulted in a prototype of a system for adaptive radiation therapy.
- RaySearch and Philips have signed a Letter of Intent and expect to sign a final development and license agreement to jointly develop and market a product portfolio within adaptive radiation therapy. Hopefully, the first product of this cooperation will be launched in 2007.
- RaySearch has launched a project to develop a prototype of a system for treatment planning and optimization of radiation therapy with light ions such as protons and carbon ions.

MORE LICENSE AGREEMENTS AND COMMERCIAL PARTNERS

RaySearch's aim is to sign more license agreements with leading medical technology providers that in turn are successful in sales. RaySearch actively supports its partners in marketing and sales.

Goal fulfillment

- RaySearch currently has three license and development agreements with three commercial partners.
- Joint sales of IMRT products with Philips, begun in June 2001, have been highly successful. Up to the end of 2005, approximately 2,000 licenses were sold to over 800 radiation therapy clinics.
- Sales of the first IMRT product via Nucletron were launched in April 2005 and 125 licenses were sold during the year. These sales were clearly less than expected and Nucletron is taking a number of measures to improve its sales result.
- RaySearch supports its partners in marketing and sales in many ways. At all major exhibitions and trade fairs, RaySearch sends personnel to demonstrate and present new products. Technical presentations are given to the sales staff of the relevant partner to create better understanding of the competitive advantages of the products. In major procurements by strategically important clinics, RaySearch also participates in the sales process by giving the partner technical sales support.
- Discussions and negotiations on cooperation involving new products in radiation therapy are conducted regularly with both current and potential partners.

BROAD BASE OF SATISFIED, LOYAL CUSTOMERS

By providing innovative, high-quality solutions for radiation therapy of cancer, RaySearch's products are to be the first choice of radiation therapy clinics worldwide. RaySearch's products shall significantly improve the quality of radiation therapy of cancer and help promote development in the field.

Goal fulfillment

- Today, RaySearch is clearly market leading in software solutions for IMRT optimization. RaySearch's systems are by far the most used in the world for planning IMRT treatments.
- By cooperating with leading research institutions and conducting efficient product development, the time from scientific publication to clinical use is shortened.
- The quality of RaySearch's products is ensured through a rigorous development process. No serious errors have been reported to date for any of RaySearch's products.
- A broad installed base and loyal customers are achieved by ensuring that RaySearch's products meet and exceed clinic requirements of user-friendliness, robustness and clinically relevant functionality.

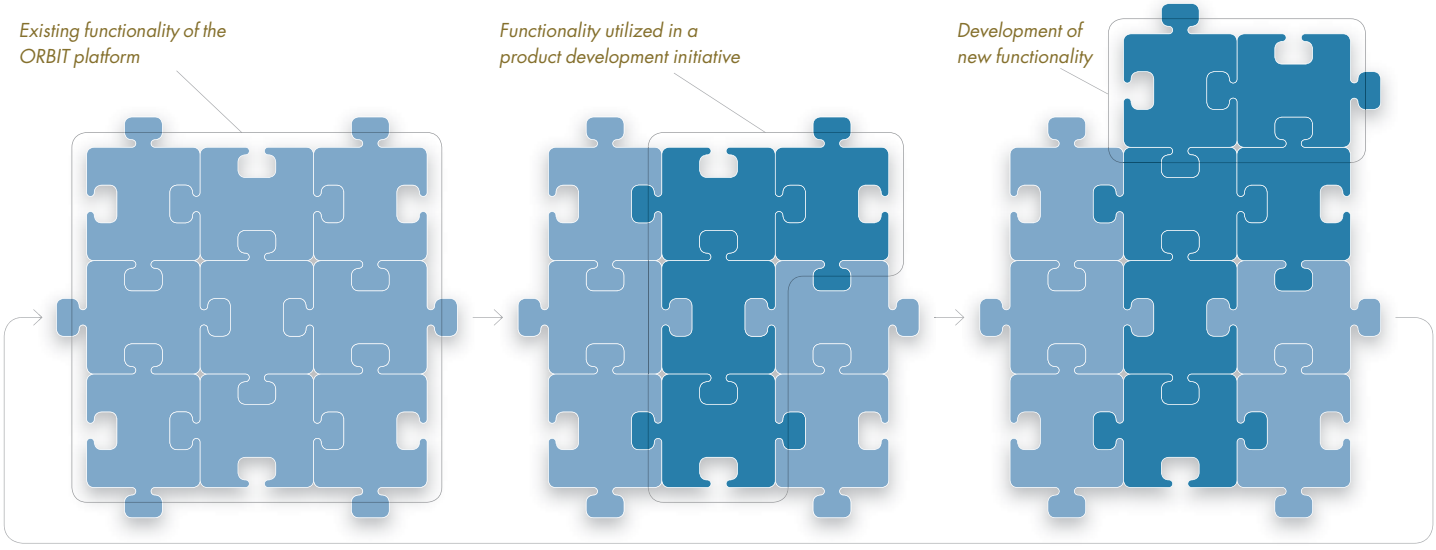
The desire to improve human life and health is the foundation of RaySearch's operations. A strategy focusing on research and development enables the company to deliver continuously improved technical solutions for more effective radiation therapy of cancer.

World-leading developer of advanced radiation therapy solutions

RaySearch provides clinics around the world with innovative methods and advanced software for more effective radiation therapy of cancer. To ensure a leading position, RaySearch works continuously in accordance with four strategic directions (see opposite page). Ongoing product development and the resulting broadening of the product portfolio represent the most central strategic direction. At RaySearch, 24 of the company's 28 employees are involved in research and development.

All software development takes place in accordance with proven processes and methods involving the use of modern programming tools. A key part of the strategy is that the solutions and products developed have a high degree of flexibility and modularity. This means they can easily and efficiently be further developed and integrated with other companies' systems. All development that takes place in the company is systematic and is used within the framework of the basic product platform ORBIT (see following figure).

THE ORBIT PLATFORM DEVELOPS FURTHER IN EVERY COOPERATION



Existing functionality
The ORBIT platform and its functionality form the basis of all of our commercial cooperations. The functionalities of the platform (illustrated above as puzzle pieces) represent RaySearch's comprehensive knowledge. ORBIT's functionality attracts commercial partners as it enables rapid development of new products that provide cutting-edge functionality that is market-leading.

Selection of functionality
The particular ORBIT functionality desired by the partner, to use as a basis for new initiatives or improvements to existing products, is specified in the contract. In reality, ORBIT's functionality becomes a resource for the commercial partner under the terms of a license agreement. Often not all ORBIT functionality is required – this depends on the area of application involved in the partner's project. RaySearch owns all the rights to the ORBIT platform.

Development of functionality
New functionality is adapted and developed, based on the specific hitherto not identified preferences and requirements of the parties. The basic functionality of the ORBIT platform grows as new cooperations are established. In this way, RaySearch ensures its development is efficient and customer-driven and represents low business risk, while systematically building value into RaySearch's basic technology.

CONTINUOUS PRODUCT DEVELOPMENT

The goal is to continuously develop new, unique products within IMRT and other areas from the ORBIT software platform. One advantage of this approach is the opportunity to reuse program code when developing new products. Consequently, RaySearch develops new products in parallel with 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 a basis for future products.

Execution

- To date, the ORBIT platform has generated four products: RayOptimizer, RayMachine, RayBiology and the OM-Optimizer (further information on page 12).
- New products will be developed within the next few years through RaySearch's cooperation with its three partners (further information on page 17).
- RaySearch creates new applications and methods of quality assurance, adaptive radiation therapy and radiation therapy using light ions (further information on page 24).
- The next generation platform will be further developed based on ORBIT. The purpose is to handle changes in the patient during ongoing radiation therapy (more on adaptive radiation therapy on page 11).

STRATEGIC COMMERCIAL PARTNERSHIPS

RaySearch's commercial partners are leading medical technology providers. These collaborations make it possible to bring the products developed by RaySearch to the international market faster. The commercial partners are responsible for sales and services to the end user, which means that RaySearch does not have to build up a global sales organization, but can focus on advanced and pioneering research. Read more about the company's business model on page 4.

Execution

- A cooperative agreement was signed with Philips in 2000. The agreement includes the three products RayOptimizer, RayMachine and RayBiology.
- A cooperative agreement was signed with Nucletron in 2004. The agreement involves six products. The first product developed under this cooperation, the OM-Optimizer, was launched in April 2005. Two products are planned to be launched during the second half of 2006.
- A cooperative agreement with Scanditronix-Wellhöfer was signed in February 2006. The agreement involves three products, of which the first two are to be launched in 2007.
- A Letter of Intent pertaining to adaptive radiation therapy was signed with Philips in 2005. Negotiations regarding the agreement with Philips are still under way.

DEVELOPMENT OF STRONG BRANDS

Strong brands are highly important for success in the field of medical technology. Positioning RaySearch as the leading supplier of advanced applications in radiation therapy increases its chances of attracting additional commercial partners for new cooperations.

Execution

- RaySearch's research department regularly publishes scientific articles – either alone or jointly with leading clinics. This results in enhanced scientific credibility of the products that subsequently result from every research project.
- The major international congress ASTRO was held in October in 2005. At one of the plenary sessions, which was attended by 5,000 people, Dr. Michael Sharpe of the Princess Margaret Hospital in Toronto presented the results of a successful research study carried out using RaySearch's system for adaptive radiation therapy.

CLOSE CONTACT WITH LEADING PLAYERS IN RADIATION THERAPY RESEARCH

A prerequisite for maintaining its position on the cutting edge of radiation therapy research is close contact and frequent exchanges with leading scientific institutions. Exchange and feedback on our existing products is an essential precondition of continuous improvement.

Execution

- RaySearch cooperates closely with Karolinska institutet and the Royal Institute of Technology in Stockholm.
- RaySearch also cooperates with several leading clinics in Europe within the areas of IMRT and biological optimization. The company is also involved in a long-term research cooperation with the Princess Margaret Hospital in Toronto, Canada, in adaptive radiation therapy.

The market for technically advanced radiation therapy is developing in pace with the number of diagnosed cancer cases in industrial countries, the insurance systems' approval of these treatment methods and in pace with the clinical value of the new treatment methods being demonstrated.

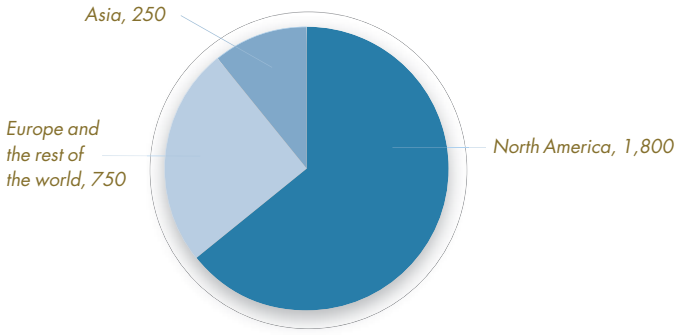
The battle against cancer demands more effective techniques in radiation therapy

Cancer accounted for about 12 percent of all 56 million deaths worldwide in 2000. According to current estimates, cancer causes one in every four deaths in industrialized countries.

The number of cancer cases worldwide that are treated and cured has risen substantially over the past few decades as a result of increased knowledge of the disease. Earlier diagnosis of cancer and improved treatment techniques have resulted in a higher proportion of patients who survive their disease for the long-term. At the same time, because of the increased knowledge and more advanced equipment, more cases of cancer are diagnosed. Moreover, the actual number of cancer cases is increasing at a pace with the higher average age of the population.

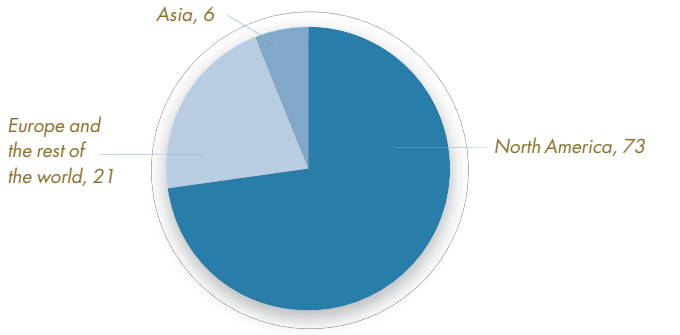
Over 22 million people were treated for cancer in 2000, which is an increase of 19 percent since 1990. According to an estimate, almost 2.9 million new cancer cases were diagnosed in Europe in 2004 and more than 1.7 million deaths were registered[1]. The upward trend in the number of cancer cases is clear in both the US and Europe. In the US, the annual number of cases of the illness is expected to rise to 1.6 million in 2010, which is 23 percent higher compared with the number of cases in 2000[2]. The ongoing development naturally implies that more resources are allocated to the battle against cancer and that demand for better treatment techniques is increasing.

Geographic distribution of advanced radiation therapy clinics, number



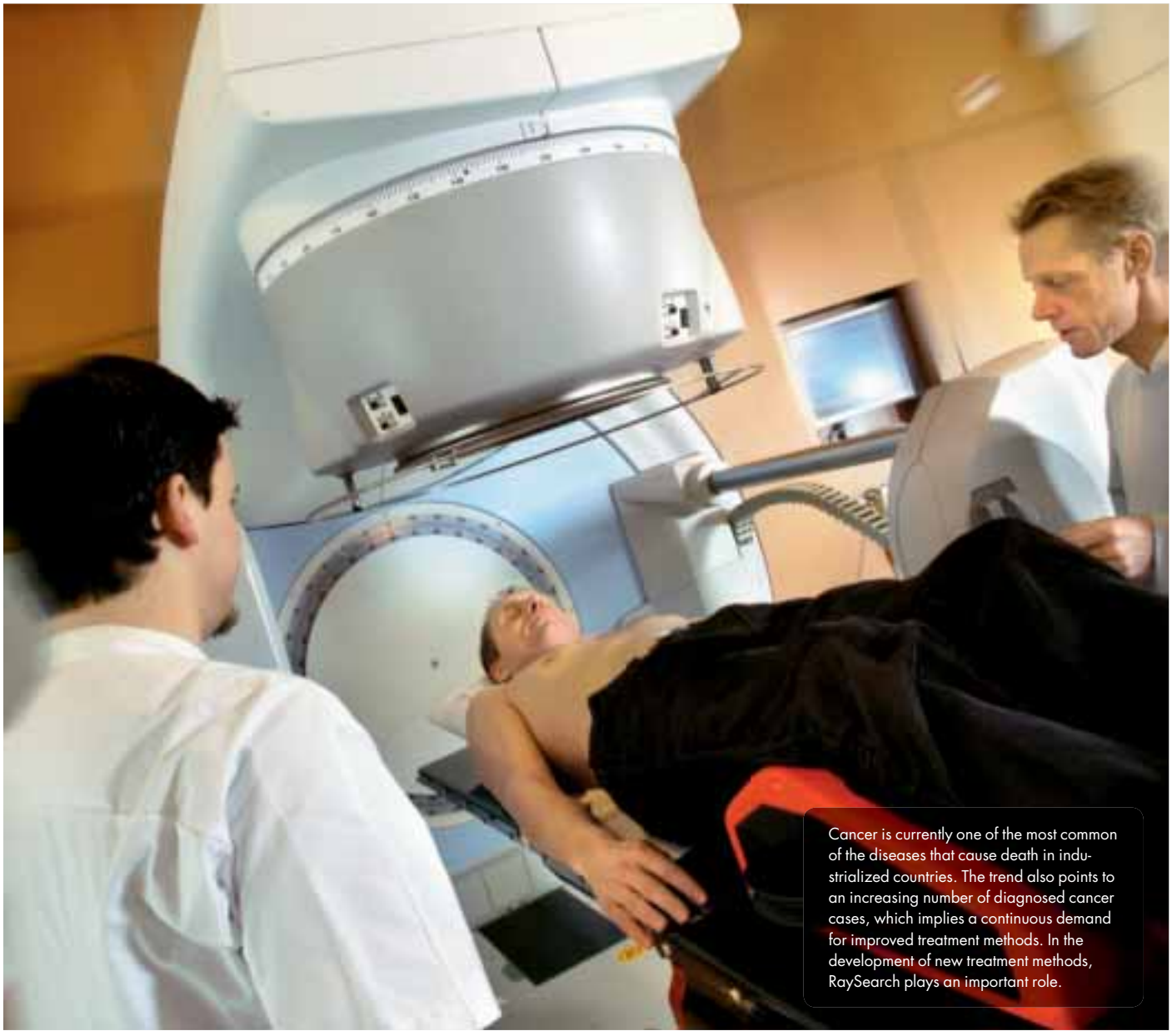
There are approximately 5,800 clinics worldwide that provide radiation therapy to cancer patients. Of these clinics, about 2,800 are advanced, in the sense that their treatment planning systems have the capacity to perform complete three-dimensional radiation dose calculations of high precision. It is these advanced clinics that comprise the target group for RaySearch's modern software solutions.

Geographic distribution of RaySearch's net sales in 2005, %



RaySearch currently has about 1,000 customers who have integrated one or more of the company's solutions in their products. In treatment planning for IMRT, RaySearch is market-leading and has, in combination with its partners, approximately 55–60 percent of the market. As a result of its cooperation with Nucletron, launched in 2004, and Philips' successful initiatives, RaySearch increased its market share in Europe from 10 percent in 2003 to 26 percent in 2005.

[1] Annuals of Oncology, February 2005. [2] US National Cancer Institute.



Cancer is currently one of the most common of the diseases that cause death in industrialized countries. The trend also points to an increasing number of diagnosed cancer cases, which implies a continuous demand for improved treatment methods. In the development of new treatment methods, RaySearch plays an important role.

Of the three main branches of cancer therapy – surgery, radiation therapy and chemotherapy – it is radiation therapy that has increased the most for patient groups undergoing curative care over the past twenty years. The advantages of radiation therapy are its clinical benefits and cost-effectiveness.

Nowadays, about half of all cancer patients are treated during some stage of their disease with radiation therapy, provided that radiation is available. The importance of radiation as a therapeutic method is increasing as new and more precise methods are developed. RaySearch is a market driver in this development.

COMPETITORS

RaySearch's competitors are primarily the internal development departments of its potential commercial partners, such as Varian or Siemens. These large medical technology companies always have the option of building software within their own organization or outsourcing the development work. The more advanced the solutions that RaySearch produces, the more likely the large companies are to refrain from internal software development and instead place the assignment with RaySearch.

MARKET FOR TREATMENT PLANNING AND IMRT CONTINUES TO GROW

The market for treatment planning systems is growing by 7–8 percent annually. In a global perspective, there are four companies – Philips, CMS, Varian and Nucletron – that combined account for about 75 percent of sales of treatment planning systems. With the help of its cooperation partners Philips and Nucletron, RaySearch can access 55–60 percent of the market. Through these cooperation agreements, RaySearch's IMRT solutions are incorporated in fully 95 percent of these partners' new sales of treatment planning systems.

In the US and Canada, RaySearch's products are installed at about 700 of the 1,800 advanced clinics. The market for IMRT is growing faster in the US than in the rest of the world, in part because the reimbursement level from insurance companies is three to four times higher in the US for IMRT treatment than for conventional radiation therapy. In 2005, sales of treatment planning systems for IMRT accelerated in Europe as well. The scientific evidence of the clinical value of IMRT, for which leading European clinics have waited, is now presented in greater quantity. The clinics that have already procured therapeutic equipment with IMRT capacity are now beginning to utilize the functionality to an increasing degree.

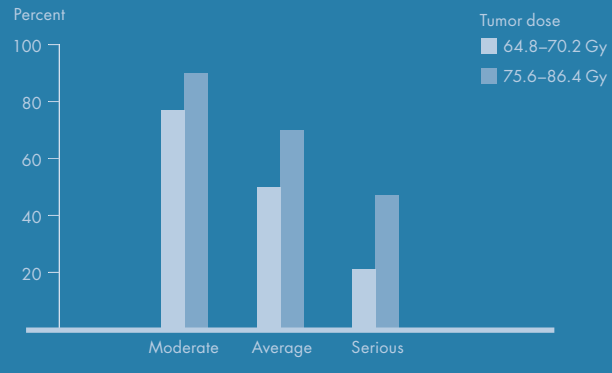
In the fastest growing segment of treatment planning, IMRT, RaySearch's cooperation partner Philips has the largest share of the global market. Philips has been the dominant player in the North American market and is expected to increase its installed base by 7–8 percent, which is the same rate as in previous years. Apart from this increase, RaySearch's additional modules RayMachine and RayBiology are also sold to current customers that have previously purchased the main product, RayOptimizer.

Market driving forces

- Demand for RaySearch's products is affected by the development of the number of diagnosed cancer patients in the world.
- How medical insurance systems, particular in the US, allocate their resources is extremely important for the chances of commercializing RaySearch's products. When a new treatment is approved within the insurance system, the treatment technique has great impact. Adaptive radiation therapy is an example of a therapeutic technique that is about to be approved. If adaptive radiation therapy is approved by the American insurance system, RaySearch will benefit from the approval.
- The proven clinical value drives the desire and the demand to develop and use new techniques for radiation therapy of cancer.
- Agreements with the right commercial partners are critical in RaySearch's pursuit of market success and increased market share. Read the presentation of the plan for new cooperation agreements and product introductions on page 17.

IMRT HAS PROVEN CLINICAL VALUE

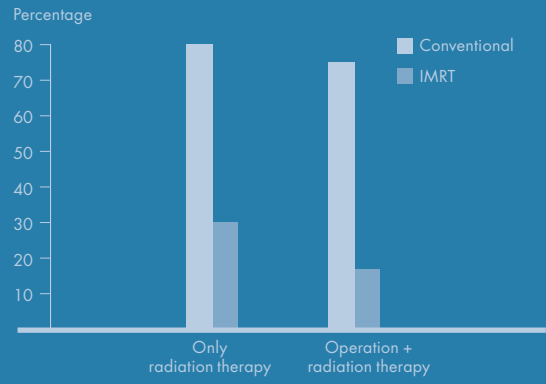
Relapse-free survival rate among three groups of patients with prostate cancer (five years without relapse)



Examples of proof of increased effectiveness:

- Promising results for treatment of prostate cancer published by the Memorial Sloan Kettering Cancer Center, New York, US. The relapse-free survival rate among three groups of patients with different grades of prostate cancer was compared.
- Strong correlation between increased dose delivered to the tumor and the improved probability of survival.
- IMRT reduces the risk of late rectal complications compared with 3D-CRT from 14% to 2% in treatment of prostate that provides comparable tumor control.
- Increased dose can be achieved through IMRT since the treatment technique better protects surrounding tissue.

Percentage of patients with serious damage to the salivary glands (reduced saliva production)



Evidence of decreased side effects:

- An investigation carried out by Washington University Medical Center, Missouri, US, shows clear improvements in the treatment of cancer of the throat (oropharynx).
- IMRT reduces the risk of damage to the salivary glands in treatment that provides equal tumor control. Damage to the salivary glands has significant impact on the patient's quality of life.
- In a study carried out at Ghent University Hospital, Belgium, a comparison of the occurrence of radiation-induced blindness in treatment of cancer in the nasal region was carried out. For conventional and 3D-CRT treatments, the frequency was 10%, whereas for IMRT it was 0%.

In Europe, RaySearch's partners together have about 30 percent of the installed base and Nucletron represents the largest part of this proportion. Nucletron, through its many established customer contacts and large installed base has a strong position in the European market. The cooperation has contributed to a three-fold increase in RaySearch's sales in Europe during 2005, compared with the preceding year. In the American market, there are a number of older Nucletron products slated for imminent renewal, which signals new business opportunities for RaySearch through the Nucletron cooperation.

Philips' and Nucletron's radiation therapy planning systems are among the four most advanced in the market and have excellent reputations. Philips' Pinnacle system is a mature, flexible and open system that runs on the UNIX operating system on Sun computers. Oncentra MasterPlan from Nucletron is a new Windows-based system that has integrated solutions with other applications used in the radiation therapy department. This enables customers to gain access to RaySearch's technology on both Unix and Windows.

RaySearch expects to capture a considerable share of sales of IMRT-based radiation therapy planning systems in a number of markets over the next few years. Both Nucletron and Philips have a good chance of expanding their market share, especially in the Nordic countries, the UK, Germany, the Benelux countries, Italy and Spain. 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.

THE MARKET FOR ADAPTIVE RADIATION THERAPY IS ON THE VERGE OF EXPANSION

IMRT is a major breakthrough in radiation therapy. Nowadays, in order not to miss the tumor because of changes in the patient's anatomy during the six weeks in which treatment usually takes place, the technique used involves defining the region to be treated with a sufficiently large margin around the tumor. An alternative is to instead track shifts in the position and shape of the tumor and use this information to determine subsequent changes in treatment. Demand is therefore increasing for solutions in which the radiation treatment planning system and the accelerator can perceive deviations during treatment and correct for them. The purpose of IGRT (Image Guided Radiation Therapy) and the more advanced method adaptive radiation therapy is to manage these changes in the patient's anatomy during the course of treatment and to correct potential errors during the treatment. RaySearch signed a Letter of Intent in 2005 with Philips to reach a long-term development and license agreement for a suite of products in adaptive radiation therapy. Negotiations regarding the agreement are still under way.

Treatment advantages of adaptive radiation therapy:

- Increased precision in dose delivery through monitoring changes in patient geometry and correcting for them.
- Reduced tumor margins can reduce side effects.

QUALITY ASSURANCE OF IMRT IS A NEW LARGE MARKET

Quality assurance involves measuring and reducing the discrepancies between the treatment plan and the dose of radiation that is actually delivered to the patient. This ensures that such discrepancies are restricted to established tolerance levels. This is currently an extremely expensive and time-consuming task for clinics. Since IMRT is a more complex treatment method than conventional radiation therapy and higher doses are delivered, the quality assurance for the technology is more extensive.

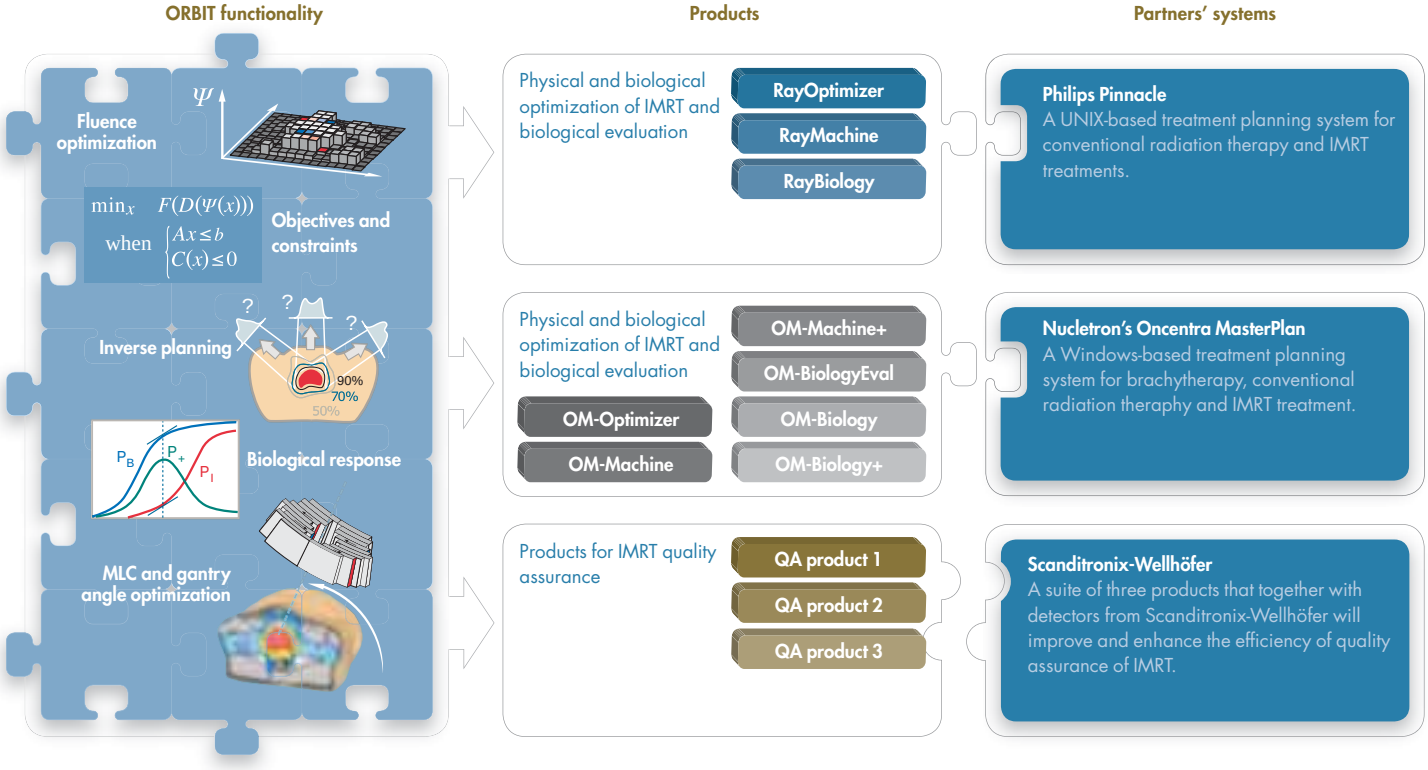
RaySearch's technology can make the quality assurance process more efficient. This potential was seen by Scanditronix-Wellhöfer, which signed a cooperation agreement with RaySearch in February 2006. Scanditronix-Wellhöfer is world-leading within advanced dosimetry and quality assurance for clinical and industrial radiation solutions.

RaySearch develops software that improves the treatment planning systems currently used to plan radiation therapy of cancer.

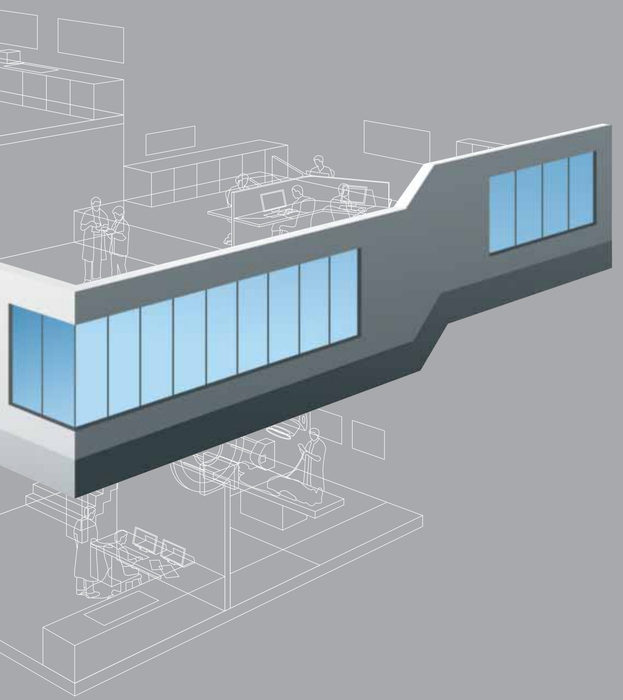
Established products integrated in partners' systems

A treatment planning system can be viewed as a combination of a CAD tool, a simulator and a database. The planning stage starts with radiographs, mainly images from computed tomography, of the patient. Based on the information in the computed tomography images, the physician defines the extent of the tumor in three dimensions and indicates where the radiation dose should be delivered to the tumor. The products developed by RaySearch optimize various stages in the treatment process.

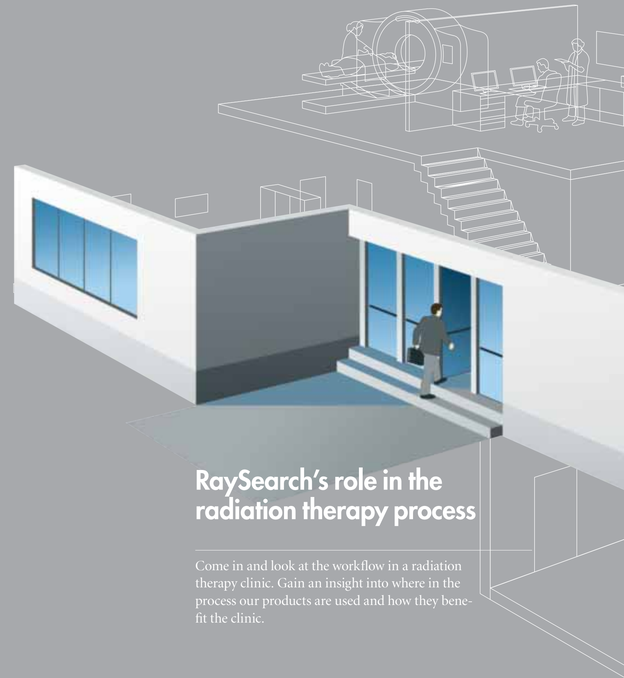
Since its founding in 2000, RaySearch has developed four products that are used in clinics and hospitals worldwide. RayOptimizer and the supplementary products RayBiology and RayMachine, which are integrated in the Philips treatment planning system, are the largest product family in terms of sales. To meet the customers' demands within adaptive radiation



RaySearch's technology platform, ORBIT, is the result of many years of research in cooperation with Karolinska institutet. The platform serves as a general framework for resolving optimization problems in radiation therapy. The development of ORBIT and its derivative products has involved object-oriented techniques and advanced methods of software design. The platform is therefore a highly appropriate point of departure from which to develop innovative products in radiation therapy that demand new treatment methods, more precise biological models and more effective calculation models. Parts of ORBIT functionality are packaged and adapted to products that can be integrated with the systems products by RaySearch's partners. When RaySearch's partners request additional functionality, it is developed within the framework of the commercial cooperation. Read more about the strategy behind ORBIT and the development of the platform on page 6.



Our challenge is to support radiation therapy clinics so that they can deliver better treatment, to more patients, and with even greater precision.



RaySearch's role in the radiation therapy process

Come in and look at the workflow in a radiation therapy clinic. Gain an insight into where in the process our products are used and how they benefit the clinic.

1 Diagnostics

The treatment method for a patient with cancer is determined based on a thorough analysis to establish the nature, origin and spread of the tumor. The analysis may involve checking tissue samples, clinical examination, endoscopy or the use of various imaging methods, such as computer tomography, also known by its initials, CT.

A CT examination takes a few minutes and is performed with the patient in the treatment position. Normally, a few small dots are tattooed onto the patient's skin to help medical staff to place the patient in the same position in each subsequent treatments.

2 Prescription

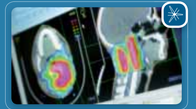
Radiation therapy is one of the most common methods used to treat cancer. The treatment is often combined with other treatment methods, such as surgery and chemotherapy.

A radiation therapy prescription contains information from the physician about which areas should be treated, what total dose is needed to treat the tumor, how many fractions (treatment sessions) this dose should be divided into and which healthy organs it is particularly important to avoid.

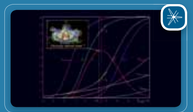
3 Treatment planning and optimization

The patient's volume is imaged by means of CT slices through the relevant part of the body. The physician outlines the tumor areas and organs at risk in the imaged volume of the patient. Nurses and radiation physicists then use the physician's prescription to create a treatment plan that meets the physician's requirements. A treatment planning system is used for this purpose.

The treatment planning system can be described in simple terms as a simulator. Radiation sessions are simulated, then transferred to the treatment machine that will treat the patient. Conventional treatments are usually planned manually by iteratively changing such parameters as beam shapes and beam weights before calculating the resulting dose to the tumor and organs at risk. The preparation of complex plans, such as IMRT plans, requires optimization using advanced software. The user specifies the desired dose to the tumor and risk organs, and the system prepares a plan that fulfills these objectives.



Products for advanced optimization of IMRT
RayOptimizer (Philips) and OM-Optimizer (Nucletron) are products that provide solutions for advanced optimization of IMRT plans. The products give the user considerable freedom to define different therapeutic objectives and conditions and use these to arrive at the desired dose distribution in the patient. The products make it easy to create an optimal treatment plan for each patient.



Radiobiological evaluation
RayBiology (Philips) and OM-Biology (Nucletron) are products that use radiobiological models of how tumors and healthy tissue react to radiation to enable radiobiological evaluations to be made. After further development, the products will also incorporate biological optimization, which enables the physician to formulate the prescription directly in clinical terms (desired probability of tumor control and the maximum permitted probability of radiation-induced complications), rather than in terms of physical doses to different volumes. The physician seeks the right balance between maximizing the probability of entirely destroying the tumor and minimizing the risk of radiationinduced complications, and the system finds the optimal balance between the dose to the tumor and the dose to surrounding healthy tissue.

Shorter treatment times without compromising quality
RayMachine (Philips) and OM-Machine (Nucletron) are products that enable clinics to shorten delivery times for their treatments while maintaining or improving the quality of the treatment plan.

Both products enhance the user's ability to define – as early as the initial phase of treatment planning – the parameters that determine the final treatment time and quality. The process also comprises fewer stages than classic IMRT planning. This, combined with the fact that a clinically acceptable treatment plan is directly obtained that does not need any subsequent replanning or adjustment, makes the planning process both time-efficient and user-friendly.

4 Simulation

When treatment planning and optimization are complete, the treatment plan is checked before being transferred to the treatment device. The check can be carried out using a simulator or, in certain cases, directly in the CT room using the CT machine.

Proton and carbon-ion therapy

Treatments using proton or carbon-ion radiation show even better clinical characteristics than today's IMRT using photon radiation and are set to become important radiation therapy techniques in the future. There is a strongly growing need for advanced software solutions in this field.

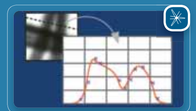
Conventional radiation therapy normally uses photons, which are produced by accelerating electrons. Protons and carbon ions are significantly heavier particles than electrons, which is why acceleration of these particles requires far more expensive and space-demanding equipment than conventional radiation therapy. It is generally the case that investment in proton and carbon-ion accelerators requires the construction of an entire new hospital, with all that this entails in terms of high start-up costs and healthcare policy decisions.

5 Treatment

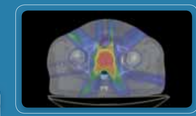
Prior to every IMRT session, a medical physicist performs a quality-assurance process to check that the calculated dose corresponds with the real dose that will be delivered by the treatment machine. The treatment plan is transferred to a simplified model of a patient – a phantom – containing measuring instruments. The phantom is irradiated, and the dose is registered at certain points within the phantom and compared with the corresponding dose in the treatment plan. If the values agree, the plan is approved and the patient can be treated. If they do not agree, a new treatment plan must be produced.

The therapy is divided into fractions. Prior to each fraction (normally one per day, five days per week), the patient is placed on the treatment table, using immobilization devices if necessary, in the same position as when the imaging was performed. The patient's position must be identical during each treatment session, and this is checked meticulously using laser beams and other aids. Portal images are used for this purpose in certain cases. During the actual irradiation, which takes from ten to twenty minutes, the patient is alone in the room but has voice contact with the medical staff, who can see the patient via a monitor.

Adaptive radiation therapy primarily refers to techniques that involve making repeated measurements of patient geometry during the course of the treatment and using these measurements to change the treatment so that a more patient-specific therapy can be applied. Today, radiation therapy is based on the patient's anatomy as registered in the planning CT image. Both the patient's external contours and his or her internal organs actually change position and shape from day to day during the treatment. Adaptive radiation therapy is designed to handle these geometric variations.



Quality-assurance products
The routine checks that is performed today to ensure a high quality of treatment is time-consuming and are one of the bottlenecks in clinical operations. RaySearch's collaboration with Scanditronix-Wellhöfer will lead to modernization and automation of the quality-assurance process.



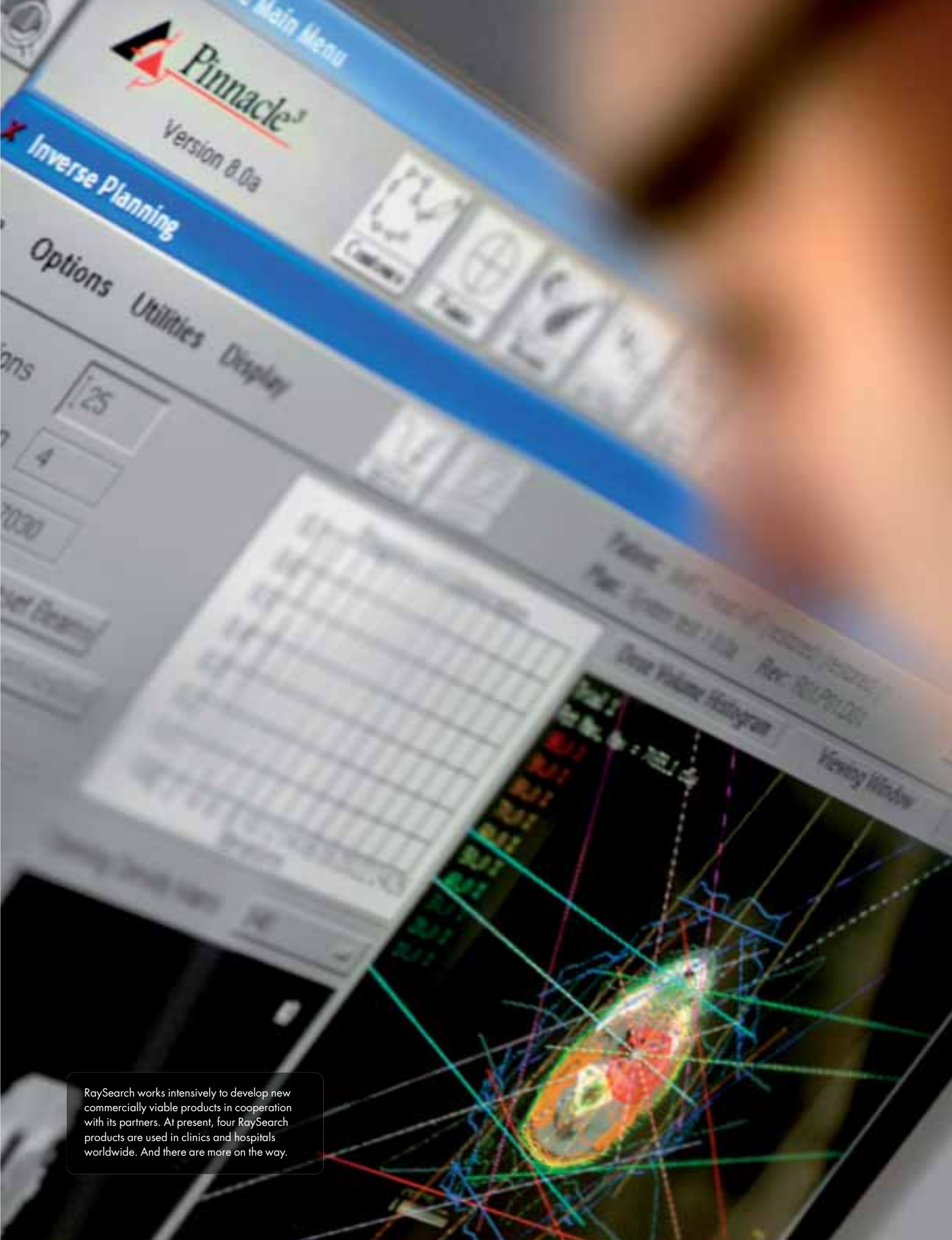
Products for adaptive radiation therapy
RaySearch and Philips are planning to jointly develop products for adaptive radiation therapy. The products will support monitoring of how treatment quality is affected by variations in patient geometry, and incorporate tools to modify the treatment in such a way that errors resulting from geometric variations can be prevented or managed.

6 Follow-up, documentation and analysis

After treatment has been completed, it is important to follow up the patient's treatment results in a structured manner. Radiation reactions can occur long after the completion of treatment and may require medical attention.

Long-term treatment results over periods of five or ten years are of interest, since it takes a long time to rule out metastasis and give the patient a clean bill of health. Planning and implementation of radiation therapy are meticulously documented, so that the clinic can evaluate and thereby improve its own treatment techniques, as well as to enable experience to be exchanged with other clinics and partners.

Future functionality
Within the framework of research into radiobiological models, methods are being developed to adapt the models to large numbers of clinical outcomes.



RaySearch works intensively to develop new commercially viable products in cooperation with its partners. At present, four RaySearch products are used in clinics and hospitals worldwide. And there are more on the way.

therapy, the goal is to launch new products in this area jointly with Philips. Hopefully, a first product will reach the market in 2007. Another treatment planning product, OM-Optimizer, is the first product developed for integration in the Nucletron treatment planning system. In its new area of operation, quality assurance of IMRT treatment, RaySearch signed an agreement with Scanditronix-Wellhöfer in 2006. The first products are to be launched in 2007. All products launched with Philips and Nucletron have been well received and are currently established on the market. Read more about the projected development of our cooperation and planned product launches on page 17.

RAYOPTIMIZER – IN COOPERATION WITH PHILIPS

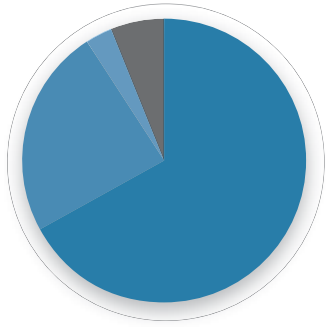
RayOptimizer is a complete solution for advanced optimization of IMRT in which the user can specify the desired dose distribution to be delivered to the patient. The user has considerable freedom to define different goals and conditions for the treatment and can in such a way create an optimized treatment plan for each patient. RayOptimizer has been sold to over 800 clinics worldwide and over 100,000 patients have received better radiation therapy thanks to this system.

Customers include many leading hospitals worldwide, including Princess Margaret Hospital in Canada and the M.D. Andersen Cancer Center in the US.

RAYBIOLOGY AND RAYMACHINE

In conventional IMRT, the physician, 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 physician to formulate the goal of the treatment directly in clinical terms – for example, the system should maximize the probability of tumor control or minimize the likelihood of radiation-induced complications.

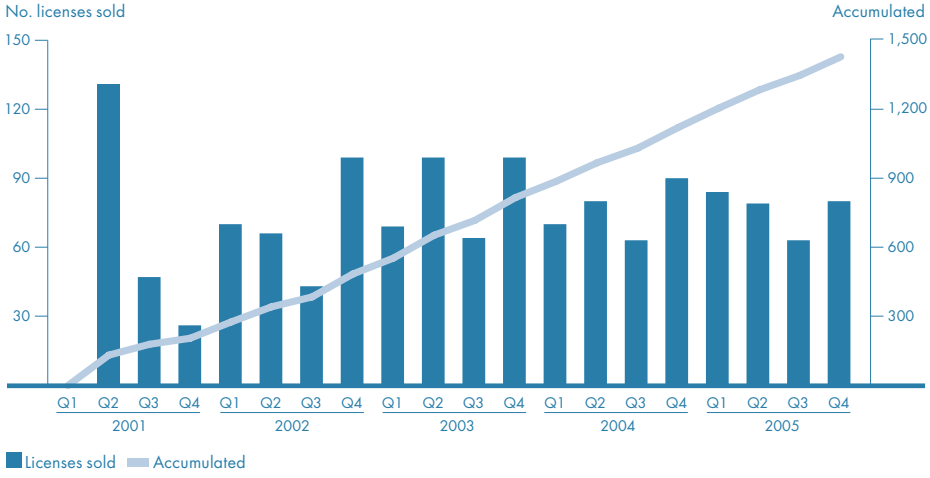
Total license sales distributed by product – number/ percentage



- RayOptimizer – Number 1,422 (67.2%)
- RayMachine – Number 505 (23.8%)
- RayBiology – Number 66 (3.1%)
- OM-Optimizer – Number 125 (5.9%)

Of the four products that RaySearch has launched to date, RayOptimizer, developed jointly with Philips, is by far the largest in terms of sales. OM-Optimizer, developed jointly with Nucletron, is the first of six products. It was introduced on the market in 2005.

Number of RayOptimizer licenses sold



RayOptimizer is RaySearch's first product launched in 2001 in cooperation with Philips. Since then, 1,422 licenses have been sold to clinics and hospitals worldwide.

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 – IN COOPERATION WITH NUCLETRON

OM-Optimizer is the first product developed within the framwork 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 Oncentra MasterPlan. The combination of IMRT optimization in ORBIT and image processing in Oncentra MasterPlan with contouring and dose calculation algorithms will give users access to a powerful system. OM-Optimizer was previewed for the first time in July 2004 at the AAPM (American Association of Physicists in Medicine) conference. The reception from Nucletron's customers was very positive, and by year-end 2005, 125 licenses had been sold.

All of RaySearch's products are developed in close cooperation with the company's partners. The specially tailored products are then distributed to hospitals and clinics as integrated components of the systems provided by RaySearch's various commercial partners.

RaySearch's commercial partners are companies that develop and sell treatment planning systems to hospitals that provide radiation therapy to cancer patients. RaySearch's solutions are integrated in its partners' systems, which they then sell and distribute to clinics and hospitals worldwide.

Key partnerships

PHILIPS – A WORLD-LEADER WITH BREADTH

Philips Medical Systems is one of the world's leading providers of medical diagnostic equipment. Its product portfolio includes equipment for x-rays, ultrasound, magnetic resonance imaging (MRI), computer tomography (CT), nuclear medicine and positron emission tomography (PET), a well as patient monitoring, information processing, and defibrillation. With the acquisition of ADAC Laboratories, Philips also gained access to advanced treatment planning systems. It is this branch of its operations – Philips Radiation Oncology Systems – that currently cooperates with RaySearch in radiation therapy.

Philips is RaySearch's first commercial partner. The first agreement between the two partners involved the sale of the RayOptimizer product and its associated products, RayBiology and RayMachine. The exclusive nature of the contract terminated in 2004 – however, the companies have subsequently deepened their joint development operations to create functionality over a broader range of applications. Currently, RaySearch and Philips are in negotiations pertaining to a long-term development cooperation within adaptive radiation therapy to develop methods to actively monitor and correct patient treatment. Hopefully, the first product in this area will be introduced in 2007, which is when a system of reimbursements for adaptive radiation therapy is expected to be introduced in the US.

NUCLETRON – AN ATTRACTIVE OFFER IN RADIATION THERAPY

Nucletron is a wholly owned subsidiary of Delft Instruments. In addition to its Head Office, which is in Amsterdam, the company has around 20 other offices worldwide. 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.

In January 2004, RaySearch and Nucletron signed a license agreement in IMRT. The agreement enables Nucletron to market and sell the optimization modules based on ORBIT, which are integrated in Nucletron's product for treatment planning, Oncentra MasterPlan. OM-Optimizer, launched in 2005, is the first of a total of six products. To date, it has been delivered to 125 clinics, primarily in northern Europe. The remaining five products that will be introduced have great potential to generate new revenues for RaySearch. Through its license agreement with Nucletron, RaySearch has doubled the number of its potential customers.

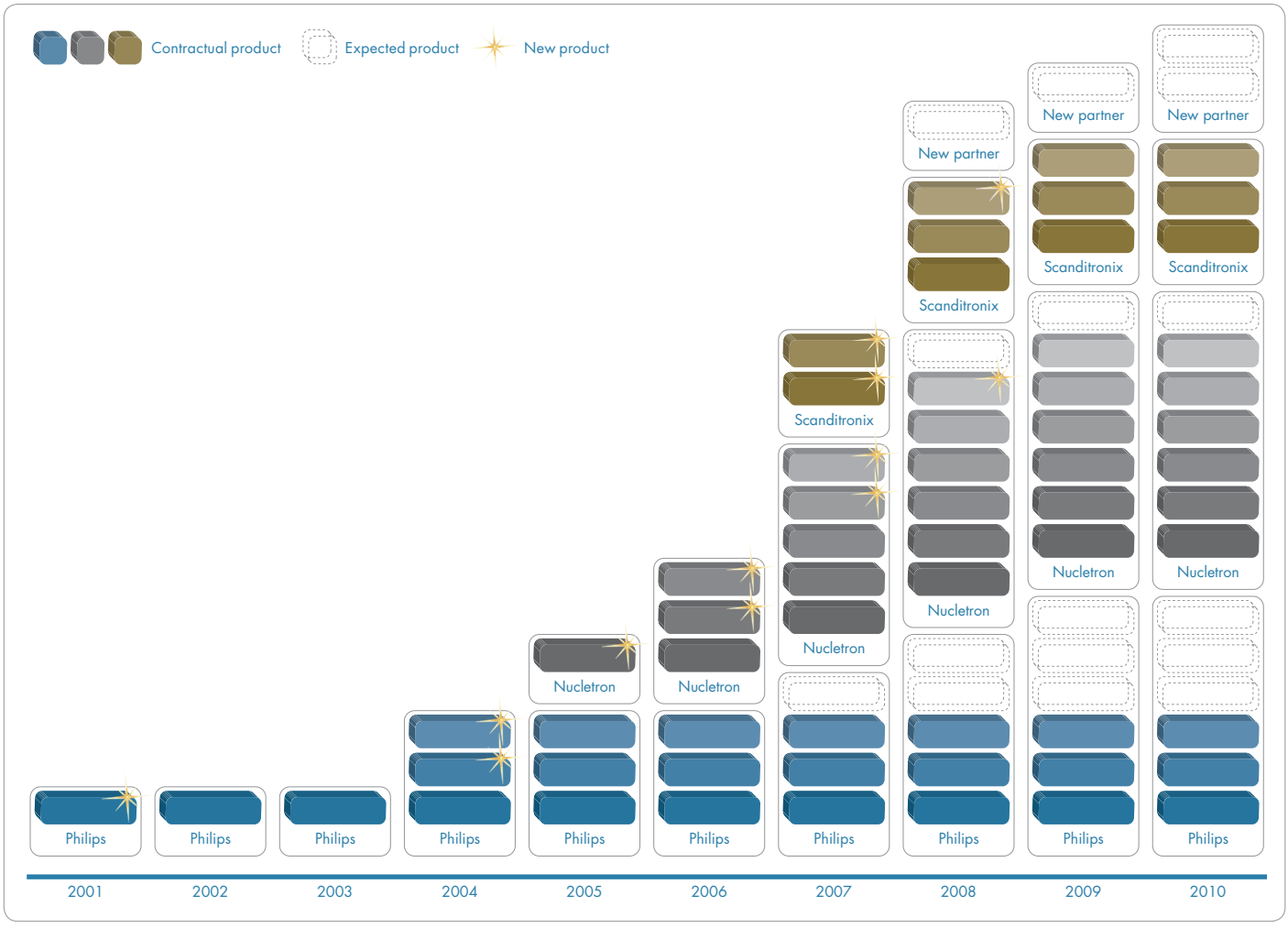
SCANDITRONIX-WELLHÖFER – LEADER IN QUALITY CONTROL

The German–Swedish company Scanditronix-Wellhöfer is a leading player in the market for advanced dosimetry and quality assurance solutions for clinical and industrial applications of radiation physics. Scanditronix-Wellhöfer is a wholly owned subsidiary of the Belgian IBA Group. IBA (Ion Beam Applications) provides efficient, reliable solutions in cancer diagnostics and cancer treatment.

In February 2006, an agreement on IMRT quality assurance was signed with Scanditronix-Wellhöfer. It is a long-term development and license agreement for automated quality-assurance products for intensity-modulated radiation therapy (IMRT). RaySearch will develop advanced software that enhances the efficiency of and supports IMRT quality assurance. The agreement implies an expansion of RaySearch's product portfolio, and the company is expecting the cooperation to start generating revenue in 2007.

Scanditronix-Wellhöfer has a large installed base within this market segment, to which RaySearch has previously not had access.

Contractual and expected products



The above illustration shows the number of contractual and expected products to be produced jointly with RaySearch's current and potential future cooperation partners. Since 2000, RaySearch has developed four products that are currently used in clinics and hospitals worldwide. The first product, RayOptimizer, which was developed jointly with Philips, appeared in 2001. Three years later, in 2004, a further two products – Ray- Biology and RayMachine – were launched. Negotiations are under way regarding another license agreement with Philips covering three new products within adaptive radiation therapy. It is expected that the first of these products will reach the market in 2007.

In 2005, OM-Optimizer was introduced into Nucletron's treatment planning system. The current cooperation with Nucletron will generate a total of six products, all of which are expected to be available on the market not later than 2008.

In the beginning of 2006, RaySearch signed its third cooperation agreement. Working with Scanditronix-Wellhöfer in the field of quality assurance for IMRT treatments, RaySearch is to develop three products. The first two of the products are expected to reach the market in 2007.

Over and above the current and contractual products, RaySearch believes that additional partners and products may be taken on.

RaySearch's customers are hospitals that use radiation therapy to treat cancer. RaySearch's users are physicians, nurses, and hospital physicists, all of whom endeavor to give their patients the best treatment possible. RaySearch's task is to help the users of the equipment improve the results and efficacy of the radiation therapy in both the short and the long term.

Shared aim of giving patients more effective treatment

RaySearch has slightly more than 1,000 customers in over 30 countries, all of which offer their patients advanced radiation treatment. The customers share a common desire to give patients the best possible treatment. The physicians, medical physicists and nurses in the clinics want to optimize the radiation therapy they provide, enhance the efficiency of the treatment flow and restrict the side effects. Our customers want to deploy new efficiency-enhancing solutions to treat more patients and simultaneously devote more time to each individual patient.

The patient has a range of treatment options available, and increasingly often makes a deliberate choice. For the clinics, it is a competitive advantage to be able to offer the latest treatment planning technology. Of the numerous examples of the value of technical improvements, increased precision, resulting simultaneously in better positioning for tumor control and reduced side-effects, is one of the most important. The safety of the patient depends on the provision of the latest and most effective treatment methods – which drives clinics' development.

At the clinics, several categories of employees influence decisions on what treatment tools should be purchased. The physician is often the primary decision-maker, both as regards what treatment will be given and what equipment and technology the hospital will utilize. It is the physician who presents the available treatment options and plans to the patient, and is ultimately responsible for the treatment.

Hospital physicists play a critical role in the treatment chain. They develop treatment plans and ensure, as part of quality assurance, that the radiation therapy is delivered in the manner prescribed by the plan. Consequently, hospitals selecting treatment planning systems and quality assurance systems often rely heavily on the opinions of hospital physicists.

Oncology nurses administer radiation therapy and also plan treatments, once they have become routine. Their role is to care for the patient and ensure that the treatment proceeds quickly and efficiently according to plan. These oncology nurses place a premium on reliability and efficiency.

The clinics' technical support departments are another key target group, since their specifications impose indirect requirements on RaySearch's products.

In addition to the operational employees, hospital management, who carry the responsibility for the financial results and accounting, also participate in decision-making. These employees evaluate the financial and practical implications of investments in new technology. RaySearch's products increase the efficacy of radiation therapy and of the entire treatment process, which strengthens RaySearch's cooperation partners in their sales of equipment to the clinics.

North America

The development of radiation therapy is led from North America, where the US and Canada have advanced the furthest in their implementation of IMRT.

Examples of leading radiation therapy centers that use RaySearch's products:

- Princess Margaret Hospital, Toronto, Canada
- Johns Hopkins Hospital, Baltimore, US
- The Mayo Clinic, Jacksonville, US
- The Mayo Clinic, Scottsdale, US
- M.D. Anderson Cancer Center, Houston, US
- The Swedish American Hospital, Rockford, US
- The Queen's Medical Center, Honolulu, US
- William Beaumont Hospital, Royal Oak, US
- UCSF Medical Center – Mt. Zion, San Francisco, US
- University of Chicago Hospital, US
- University of Wisconsin, Madison, US

Europe

In Europe, the rate of development in radiation therapy centers varies greatly between clinics. A number of clinics have been conducting IMRT treatments for some time, while others still need to further improve their methodology to be capable of offering this treatment form.

Examples of leading radiation therapy centers that use RaySearch's products:

- Amtssygehuset Herlev, Copenhagen, Denmark
- Centre Antoine Lacassagne, Nice, France
- St. Luke's Hospital, Dublin, Ireland
- Ospedale Civile – San Giovanni, Venice, Italy
- Centre Francois Baclesse, Luxembourg
- Netherlands Cancer Institute NKI/AVL Hospital, Amsterdam, Netherlands
- University Medical Centre Nijmegen, Netherlands
- Det Norske Radiumhospital, Oslo, Norway
- Eresa Hospital, Madrid, Spain
- Christie Hospital, Manchester, UK
- Clatterbridge Centre for Oncology, Liverpool, UK
- Royal Marsden NHS Trust, London, UK
- Akademiska Sjukhuset, Uppsala, Sweden
- Klinikum rechts der Isar, Munich, Germany
- Universitätsklinikum Berlin Charité, Germany

Rest of the world

Radiation treatment in Asia, South America and the Middle East is making strong progress on the hardware side, which will undoubtedly boost demand for advanced software in the next few years.

Examples of leading radiation therapy centers that use RaySearch's products:

- Matsushita Memorial Hospital, Japan
- Shanghai Hospital, China
- Yonsei Cancer Center, Korea
- Intermedic, Beirut, Lebanon
- Mount Elisabeth Hospital, Singapore
- Kangdong Sacred Heart Hospital, Seoul, South Korea

Princess Margaret Hospital is the largest radiation therapy center in Canada and one of the largest in the world. The hospital is internationally renowned in the battle against cancer, on account of its extensive, top-level research.

NKI, the Netherlands Cancer Institute, is one of the largest and most research-intensive oncological centers in Europe. NKI has fourteen workstations at which RaySearch's Philips-based products are installed.

The Yonsei Cancer Center in Seoul, Korea, boasts one of the relatively few installations in Asia of the RayOptimizer product. Interest in IMRT, however, is rising sharply in Asia.

RaySearch has an independent department that conducts research in radiation therapy. The department pursues its own research as well as cooperative undertakings with various partners. Research results that lend themselves to commercialization form the basis of future product development. Journal publications and presentations at international conferences help project the image of RaySearch as a cooperation partner on the forefront of research.

Successful research that attracts partners

RESEARCH ATTRACTS PARTNERS

The primary task of the research department is to prepare future product development. The development department is supplied with research data and ideas for new products and improvements to existing products. The research department presents its results at leading international conferences and in the scientific press. In a marketing perspective, this involvement is crucial for RaySearch since it helps attract new partners and prepare the market for new treatment techniques. RaySearch's research department, a separate organization from its development department, is a creative environment that allows for long-term study of new methods and techniques in radiation treatment. One of the key factors in RaySearch's success is that the company invests a large portion of its resources in research.

RESEARCH LAYS THE FOUNDATION FOR PRODUCT DEVELOPMENT

RaySearch's research operations are characterized by high-level research expertise and close cooperation with reference clinics, universities and other academic institutions. The company's research projects often involve conceptual studies of algorithms or development of prototype software to develop new treatment techniques. One of the key tasks of the department is to monitor scientific development, in order to minimize the time from scientific publication to finished clinical product. RaySearch's research is long-term, based on a results perspective of two to five years, and is conducted in the areas that company management identifies as attractive from a commercial and technical point of view. When a commercial partner is interested in RaySearch, research results are often used in the product development phase. Personnel from the research department then shift to product development. This makes the process of developing finished products from research results more efficient.

RESEARCH FOCUS

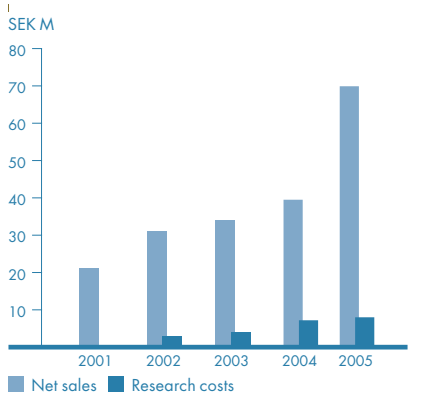
IMRT is currently a relatively mature treatment technique. It is entirely possible, however to develop solutions that do not simply optimize every individual treatment. The idea then would be to find the best treatments and the shortest treatment period, given the entire clinic's total limited resources. Other developments of IMRT optimization studies include new mathematical methods of weighing various contradictory treatment aims against each other.

The research department devotes a large part of its operation to adaptive radiation therapy. This refers primarily to techniques of making repeated measurements of patient geometry during the course of treatment and using them to change the treatment so that more patient-specific treatment can be given. The research department has built software tools to study adaptive radiation therapy and conducts simulation studies of the use of this technology. This is an ongoing effort. Other methods of delivering more advanced adaptive radiation therapy that have been studied to date include the utilization of, for example, measurements from PET cameras (positron emission tomography) and the use of informa-

Research cooperation

- *Karolinska Institutet:* The Department of Medical Radiation Physics at Karolinska institutet in Stockholm is RaySearch's oldest research partner. This cooperation focuses on radiobiological models and is made possible through cooperation agreements, EU projects and Ph.D. projects.
- *Royal Institute of Technology:* RaySearch cooperates on research with the Optimization and Systems Theory Division of the Department of Mathematics at the Royal Institute of Technology in Stockholm, in the form of a Ph.D. project on high-level optimization of radiation therapy.
- *Princess Margaret Hospital:* Princess Margaret Hospital, considered one of the world's foremost cancer clinics, cooperates with RaySearch in adaptive radiation therapy. The clinic has access to major resources for measuring the changes in patient geometry that underlie adaptive radiation therapy.
- *University Medical Centre Nijmegen:* Cooperation on evaluation of RaySearch's IMRT products, radiobiological optimization and alternative methods of IMRT optimization.
- *Clatterbridge Centre for Oncology.* Cooperation on evaluation of RaySearch's IMRT products and radiobiological optimization.

Net sales and research costs



IMRT, adaptive radiation therapy and radiobiological models are strategically important areas of research for RaySearch.

tion on tumor response to decide on corrections to the treatment. Unlike methods based on measurements of purely geometrical changes in the patient, PET makes it possible to adjust for the patient's own level of radiation sensitivity.

Radiobiological models refers to mathematical models of how different organs and tumors respond to radiation. These models can be used to evaluate and optimize radiation therapy plans. The research department endeavors constantly to prepare for additional radiobiological methods and improve existing functionality. Operations focus on alternative and augmented radiobiological models for both photons and ions, methods of biological optimization, and tools for estimating tissue-specific biological parameters based on clinical results.

Development begins when RaySearch signs a development and license agreement with a new partner. The aim is to create a product that is unique for the partner, through the application of research results and adaptation of existing software platforms. Proven methods, development processes and high quality standards combine to create a commercial product in the shortest time.

Rapid development of commercial products using the ORBIT platform

Based on research results, proven methods and the functionality of the ORBIT platform, the task of the development department is to develop a commercial product that matches the partner's requirements. New functionality is developed as far as possible inside the ORBIT platform so that it becomes a common base for other products. The development work includes the creation of new products as well as the improvement and maintenance of existing products.

The development of the ORBIT platform takes place in an environment that is independent of the operating system. Consequently, it can be run on both Windows and Unix. The platform is also independent of the host system, simplifying its integration with multiple radiation therapy planning systems. Use of the ORBIT platform means that most of the development material can be reused for many products, using a code base that is well tested and proven.

Development is steered primarily toward product objectives and functionality requirements defined in the cooperation agreement. Additional development focuses on methodology and products in preparation for future development projects. The aim is to shorten the time between research discovery, cooperation agreement and the launching of a commercially viable and clinically workable product.

In 2006, development activities will focus on improvements to existing IMRT products, adaptive radiation therapy and quality assurance for IMRT. Feasibility studies of protons and ions will also be carried out.

SYSTEMATIC DEVELOPMENT IN THE INTERESTS OF QUALITY AND SPEED

Most development projects take place over the course of one to three years. While research and development do share a great deal with each other, the product development department, like the research department, has a well-defined role and its own management staff.

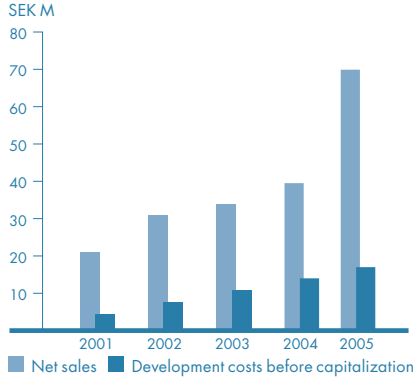
The focus of this department on achieving the product objectives and functionality requirements established jointly with the partner is subject to strict time constraints and stringent quality standards. Development projects are divided into subprojects that are then assigned to development teams possessing the relevant expertise for the particular task. The functionality developed in the subproject is then evaluated and further developed in an iterative process. The group dynamics of the development team, which includes a mix of skills, combined with the common platform development and systematic development methodology, are the primary factors in successful product development.

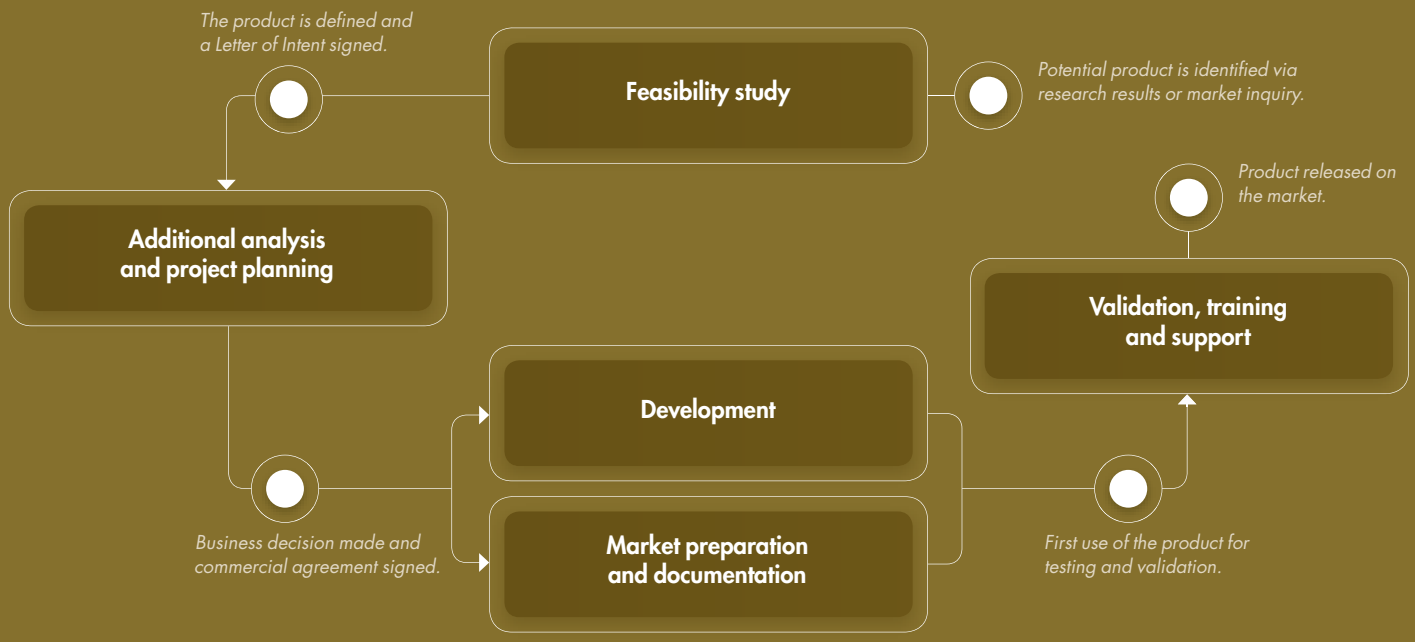
Since product development is RaySearch's most business-critical process and forms the largest part of the company's operating activities, the company has put in place an established development process, to which company management strictly adheres.

Areas of focus for product development at RaySearch:

- *Development of IMRT functionality:* Under the agreements with Nucletron and Philips, additional functionalities in existing IMRT products are being developed. This will result, for example, in a new conversion technique (sliding windows), better support for handling organ movements, improved optimization engine and performance enhancements. A complete overhaul is under way in the area of biological optimization.
- *Development of the first generation of products in adaptive radiation therapy:* RaySearch expects to develop three new products within adaptive radiation therapy jointly with Philips. The first product is a tool for image-guided radiation therapy based on purely geometric information about the patient's anatomy. The second product facilitates advanced adaptations of treatment by weighing in dosimetric aspects, while the third product can handle full adaptive radiation therapy in which all available degrees of freedom are utilized to best adapt the treatment to changes in patient geometry.
- *Development of the first generation of products in quality assurance for IMRT:* Under RaySearch's cooperation with Scanditronix-Wellhöfer, products are developed to enhance the efficiency of and improve the process that clinics follow to ensure the precision of IMRT treatments.
- *Protons and carbon ions:* The work on a feasibility study on radiation therapy planning for radiation therapy involving protons and carbon ions has started

Product development in relation to net sales





The above is a schematic illustration of RaySearch's development process, which consists of several stages at which project goals are met and evaluated before product development proceeds. Decisions on milestone achievements and further development are made by management.

The idea is to ensure that each development project emanates in a unique product for the cooperation partner that becomes commercially viable in the shortest possible time.

Daily operations at RaySearch often take place in project teams, which facilitates the sharing of knowledge and promotes social **interaction.**

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, favorable employment terms and the opportunity to participate in the company's development through an incentive program.

Efficient organization with cutting-edge expertise

RaySearch's operations are highly specialized and each individual employee's expertise is an important asset. Cutting-edge expertise is critical to the company's development. Most of its operational activity – developing products – is organized in specialized teams that are responsible for well-defined subprojects. The subprojects are led by project managers who report to the management team. Team spirit, group dynamics and a sense of responsibility characterize the company's working style.

A creative environment and opportunities for specialization are the key factors in RaySearch's ability to attract top-level expertise. The operations are in a development stage that involves a long-term requirement of expertise. The company is always interested in new top-level expertise and for RaySearch the expertise market is global.

RaySearch endeavors to create the best possible work environment. Stimulating tasks, reasonable working hours, wellness and healthcare benefits, the opportunity to participate in business planning and a bonus based on individual objectives are the incentives that characterize a favorable work situation. It is the company's aim to conduct individual performance reviews twice a year to follow up on established goals, to continuously develop employees' skills and abilities. Personnel turnover and absence due to illness are low. In 2005, absence due to sickness was 1.4 percent, which is below the average for Swedish industry.

Skills development takes place primarily through exchange between employees and our cooperation partners and reference clinics. Cooperation with institutions such as Karolinska institutet and the Royal Institute of Technology also facilitate the sharing of knowledge. Where less specialized tasks are concerned, such as project management, skills development is provided when the need arises.

Senior management
RaySearch's management consists of the President and CEO, the Director of Research, the Director of Development, the Director of Marketing and the CFO.

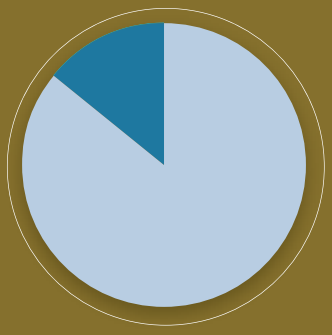
Finance and administration
Finance and administration are responsible for accounting, treasury, and for preparing quarterly reports, annual reports and press releases.

Scientific advisory board
RaySearch has also established a scientific advisory board, the purpose of which is to maintain close contact with the academic world and be alert to global trends in radiation therapy.

Research
The research department focuses on algorithm and theory development in medical radiation physics, to generate new product ideas and improve existing products. The department publishes articles in leading scientific journals, and presents its results at scientific conferences, both of which form a key part of RaySearch's marketing.

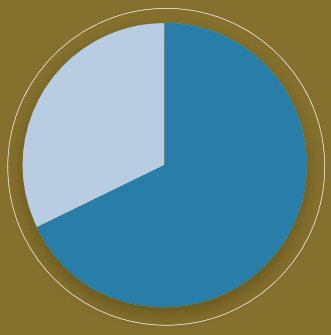
Marketing and sales
The most important task of the marketing department is to establish new cooperations with players in the radiation therapy market and find new development projects compatible with RaySearch's business concept. Participation in international conferences and congresses constitutes a key activity.

Development
The task of the development department is to translate market requirements, customer preferences and research results into commercial products. This is done via the development of new products and the further development and maintenance of existing products. Our partners are responsible for providing direct support to the clinics. For complicated support issues, the development department provides support to RaySearch's cooperation partners.



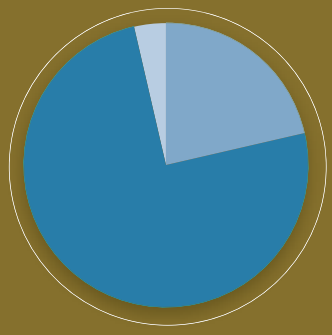
Employee distribution
Of 28 employees, 24 work in research and development.

- Research and development (86%)
- Marketing, finance and administration (14%)



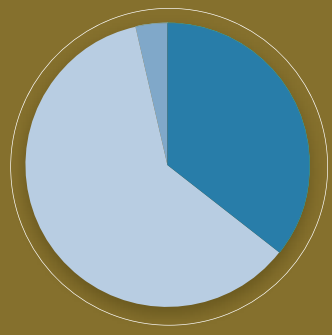
Gender distribution
At year-end 2005, RaySearch had a total of 28 employees of whom 19 were men and 9 women.

- Men (68%)
- Women (32%)



Level of education
RaySearch's employees are generally very highly educated – 96% are university-educated and of them, 21% have a Ph.D.

- Ph.D. (21%)
- University (75%)
- Other (4%)



Age distribution
Of the total workforce, 10 employees are 21–30 years old, 17 are 31–40 years old and 1 person is over 40. The average age in 2005 was 33.

- 21–30 yrs. (10 pers.)
- 31–40 yrs. (17 pers.)
- Over 40 yrs. (1 pers.)

Shares and ownership

SHARE CAPITAL

The share capital in RaySearch Laboratories AB was SEK 17,141,386.50, equivalent to a total of 11,427,591 shares, distributed among 4,213,008 Class A shares and 7,214,583 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 Lind, Anders Liander, and Karolinska Institutet Holding AB.

CHANGES IN SHARE CAPITAL OF RAYSEARCH YEAR

Year	Transaction	Par value (SEK)	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 (SEK)
2004	Opening balance	1.50	–	–	4,237,604	6,275,457	10,513,061	15,769,591.50
2005	Opening balance	1.50	–	–	4,237,604	6,275,457	10,513,061	15,769,591.50
	Non-cash issue (B)		914,530	1,371,795	4,237,604	7,189,987	11,427,591	17,141,386.50
	Reclassification				–24,596	24,596		
2005	Closing balance	1.50	–	–	4,213,008	7,214,583	11,427,591	17,141,386.50

LARGEST SHAREHOLDERS

The table below shows the ownership structure according to the largest shareholders in RaySearch as of December 31, 2005.

Shareholder	Class A shares	Class B shares	Total shares	Capital in %	Votes in %
Johan Löf	2,081,028	779,464	2,860,492	25.0	43.8
Erik Hedlund	522,363	201,320	723,683	6.3	11.0
Anders Brahme	463,387	177,764	641,151	5.6	9.8
Goldman Sachs	–	592,352	592,352	5.2	1.2
Robur fonder	–	572,645	572,645	5.0	1.2
State Street Bank	–	561,625	561,625	4.9	1.1
Anders Liander	353,859	166,535	520,394	4.6	7.5
Carl Filip Bergendal	353,859	136,377	490,236	4.3	7.4
Bengt Lind	353,859	73,877	427,736	3.7	7.3
Client Omnibus	–	190,000	190,000	1.7	0.4
Sis Segaintersettle	–	187,280	187,280	1.6	0.4
Lannebo fonder	–	180,800	180,800	1.6	0.4
RayIncentive AB	–	149,876	149,876	1.3	0.3
Dresdner Bank	–	132,500	132,500	1.2	0.3
Dekabank Luxembourg	–	127,000	127,000	1.1	0.3
Karolinska Institutet Holding AB	84,252	25,933	110,185	1.0	1.8
Other	401	2,959,235	2,959,636	25.9	5.8
Total	**4,213,008**	**7,214,583**	**11,427,591**	**100.0**	**100.0**

The following table shows shareholders distributed by size on December 31, 2005. RaySearch has 4,387 shareholders.

Distribution	Number of shareholders	Number of Securities	Holdings (%)
1–200	3,284	190,113	1.7
201–1,000	837	462,023	4.0
1,001–2,000	114	173,631	1.5
2,001–5,000	63	206,732	1.8
5,001–10,000	22	150,332	1.3
10,001–20,000	13	201,026	1.8
20,001–50,000	23	678,732	5.9
50,001–100,000	7	503,591	4.4
100,001–	24	8,861,411	77.6
Total	**4,387**	**11,427,591**	**100.0**

The following table shows RaySearch's shareholder's distributed by ownership categories on December 31, 2005

Category	Capital in %	Votes in %
Foreign shareholders	27.8	6.4
Swedish shareholders	72.2	93.6
of which: institutions	1.1	0.3
mutual funds	7.2	1.7
individuals	63.9	91.6

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. Bengt Lind, Anders Liander and Karolinska Institutet Holding AB are completely free to transfer their shares to an outsider without any restrictions. The percentage of total voting rights in RaySearch formally covered by this agreement is about 69.3 percent (about 29.9 percent of capital). The shareholder agreement does 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 includes 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. 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, through their class A shares 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.

LISTING ON THE STOCKHOLM STOCK EXCHANGE O-LIST

RaySearch's share has been listed on the Stockholm Stock Exchange O-list since November, 2003 and has been included in the Attract40 segment since July 1, 2005. One trading block consists of 50 shares.

SALES AND SHARE PRICE PERFORMANCE

During 2005, a total of 10,020,855 (5,176,573) RaySearch shares were traded at a value of SEK 1,083.7 M (232.9), corresponding with an average price of SEK 108.14 (45.00). The highest price paid during 2005 was SEK 210.00, recorded on October 5. The lowest price during the same period was recorded on January 7 at a price of SEK 45.00. On the last trading day of the year, December 30, the price per share was SEK 177.00 (48.60). During 2005, the share price advanced a full 264 (94) percent for RaySearch's shares, while OMXS showed an increase of 33 (18) percent for 2005. Between July 1, 2003 and December 30, 2005, the share price rose 1,006 percent. RaySearch's market value totaled SEK 2,023 M (511) at the end of December 2005. 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

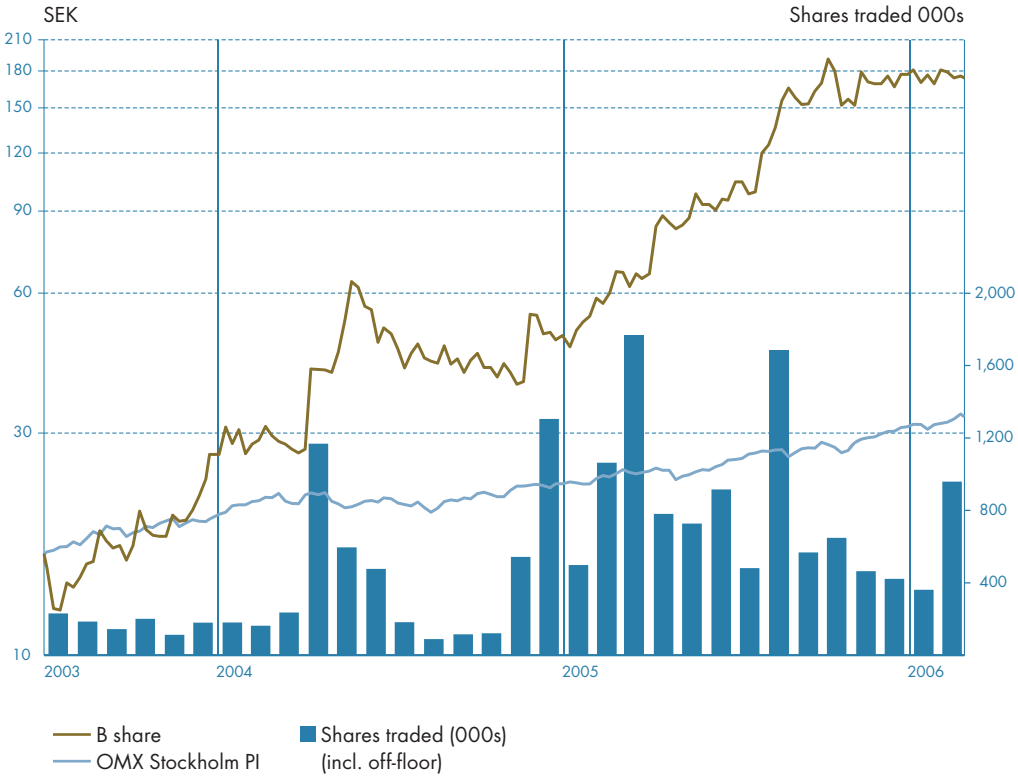
To increase the liquidity of its share, RaySearch signed an agreement with Remium Securities for a liquidity guarantee. This means that Remium Securities undertakes to quote buy and sell prices on the Stockholm Stock Exchange for RaySearch's Class B shares with at least six trading blocks on the buy and sell sides. The liquidity guarantee is intended to ensure that the difference between the buy and sell prices for RaySearch shares does not exceed 2 percent.

OPTIONS PROGRAM

In order to make it easier for RaySearch to attract, motivate and retain people, the company has created an options program. See page 49.

Key ratios[1]	December 31, 2005	December 31, 2004
Number of shares before full dilution	11,427,591	10,513,061
Equity per share, SEK	7.16	3.75
Earnings per share, SEK	2.56	1.07
Earnings per share after full dilution, SEK	2.55	0.98
Share price, SEK	177.00	48.60
P/E-ratio before dilution	69	45
P/E-ratio after dilution	69	50
Dividend, SEK	–	–
Price/Adjusted equity per share, x	24.7	13.0

1) Definitions of key ratios, page 32



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.

SHARE PRICE

The diagram shows the share price for RaySearch from July 2003 to February 2006, as well as the number of shares traded per month. The highest closing price during this period was noted on October 6, 2005 at SEK 199.50. Index: OMXS

Corporate Governance Report

GENERAL

On July 1, 2005, the Stockholm Stock Exchange began implementation of the Swedish Code of Corporate Governance ("the Code") for all companies on the exchange's A-List and all companies on the O-List with a market capitalization exceeding SEK 3 billion. The purpose of the Code is to improve management of Swedish companies, especially to ensure that companies are operated in accordance with the interests of their owners. Good corporate governance, in turn, increases confidence in the company in the capital markets and the general public. Companies that are not obligated to apply the Code can choose to do so voluntarily. The process of "applying" the Code involves a company taking an active position as to how the company will relate to the various regulations in the Code. To the extent that companies choose to depart from the rules of the Code, this shall be reported in accordance with the principle of "comply or explain."

RaySearch is not obligated to apply the Code but the Board has nevertheless decided the company shall do so since the Board believes it is important for the capital market and the public to have confidence in the company. At the end of 2005, the Board took a final position on which of the Code's regulations would not be applied. Since this occurred late during the year, actual application has only just started. It should be emphasized, however, that the company, already has been acting in accordance with the Code's regulations to a large extent. This corporate governance report has not been subject to external audit.

INTENDED APPLICATION OF THE CODE

In summary, the position the Board has taken primarily means that no nominating committee, audit committee or remuneration committee shall be appointed, nor should any report be created regarding RaySearch's internal controls. In addition to the regulations that, in whole or in part, are not applied due to the fact that they relate to the above-mentioned situation, there are only a few other regulations that the Board has decided RaySearch should not apply.

The reason that no nominating committee will be appointed is that the ownership structure at RaySearch is such that a nominating committee would lack real function and only incur costs. The reason that no audit or remuneration committees have been formed is that the size of the Board and the company does not warrant the expenses related to such committees. Even the fact that no report over internal controls shall be established is due to the fact that the Board feels the costs of such a report are not motivated for a company the size of RaySearch.

The Board will continuously consider whether its decisions regarding deviations from the Code need to be changed. In the corporate governance report for fiscal year 2006, the company will, in accordance with the Code, account for how the Code has been implemented and which deviations have occurred.

ENSURING THE QUALITY OF THE FINANCIAL REPORTING, ETC.

The Board is responsible for ensuring that there are effective systems for internal controls and risk management. The Board has delegated to the President the task of working on these issues. Responsibility and authority is defined in policies, including the financial policy and authorization manual. The company's auditor attends at least one Board meeting annually.

WORK OF THE BOARD DURING 2005

The Board held eight meetings during the year. Erik Hedlund, Johan Löf and Claes-Göran Fridh participated on all occasions. Hans Wigzell participated on seven occasions and Carl Filip Bergendal, four. Deputy Thomas Pousette participated in all meetings.

Considering the size of the Board, it has not been considered necessary to implement any special division of labor within the Board. Nor have any committees been established.

Stockholm, May 10, 2006

The Board of Directors

Key Ratios and Financial Overview

The summary shows how the core business developed between 2000 and 2005. The years 2004 and 2005 were prepared in accordance with IFRS. Figures in the income statement, balance sheet and cash-flow statement for the full-year figures 2003 and 2002 refer to the previously prepared pro forma accounting, since this comparison provides a more accurate picture of how operations have developed.

Additional information regarding the pro forma accounting can be found in the Annual Report for 2003.

Group	2005	2004	2003[1]	2002[1]	2001[2]	2000[2]
Net sales, SEK M	69.9	39.5	34.0	31.0	21.1	–
Growth in net sales, %	77.0	16.0	9.7	46.9	–	–
Operating profit/loss, SEK M	39.6	12.5	12.9	8.0	11.1	–1.3
Operating margin, %	56.7	31.6	37.8	25.9	52.8	–
Profit margin, %	57.3	32.0	38.5	26.8	53.1	–
Net profit/loss, SEK M	29.1	11.2	8.7	3.9	6.4	–1.3
Earnings per share, SEK	2.56	1.07	0.83	0.37	0.61	–0.12
Cash flow per share, SEK	3.64	1.22	1.15	1.60	0.68	–0.29
Dividend per share, SEK	–	–	–	0.18	0.18	–
Capital employed, SEK M	81.9	39.4	28.3	23.6	14.1	5.0
Interest-bearing liabilities, SEK M	–	–	–	–	–	0.2
Total assets, SEK M	107.2	54.8	42.5	31.8	18.1	5.5
Equity per share, SEK	7.16	3.75	2.69	2.25	1.07	0.46
Equity/assets ratio	76.4	72.0	66.5	74.5	73.2	86.5
Share of risk-bearing capital, %	89.3	88.6	81.9	84.2	77.4	86.5
Return on capital employed, %	66.1	37.5	50.7	44.2	117.7	–
Return on total capital, %	49.5	26.1	35.5	33.5	94.1	–
Return on equity, %	48.0	33.1	33.7	21.3	71.5	–
Share price at year-end, SEK	177.00	48.60	25.00	–	–	–
Average number of employees	27	23	19	16	8	2

1) Pro forma in accordance with Swedish Financial Accounting Standards Council Recommendations, see Annual Report for 2003
2) Pertains to RaySearch Medical AB 2000 and 2001 in accordance with the general directives of the Swedish Accounting Standards Board

DEFINITIONS OF KEY DATA

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

Cash flow per share
Cash flow from current operations divided by average number of shares during the year.

Dividend per share, SEK
Dividend divided by number of shares at year-end.

Earnings per share
Net earnings divided by average number of shares during year.

Equity/assets ratio
Equity as a percentage of total assets.

Equity per share
Equity divided by number of shares at end of year.

Operating margin
Operating profit, expressed as a percentage of net sales.

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 year-end.

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

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

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

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

Share of risk-bearing capital
Equity plus deferred tax liabilities expressed as a percentage of total assets.

There are no minority interests within the Group.

CONSOLIDATED INCOME STATEMENTS

Amounts in SEK 000s	2005	2004	2003[1]	2002[1]
Net sales	69,855	39,479	34,021	31,012
Cost of goods sold	–1,121	–1,238	–1,493	–1,499
Gross profit	**68,734**	**38,241**	**32,528**	**29,513**
Research and development costs	–16,069	–13,147	–5,217	–3,471
Other operating expenses	–13,058	–12,634	–14,458	–17,998
Operating profit	**39,607**	**12,460**	**12,853**	**8,044**
Result from financial items	408	158	259	284
Profit before tax	**40,015**	**12,618**	**13,112**	**8,328**
Tax	–10,873	–1,403	–4,362	–4,409
Profit for the year	**29,142**	**11,215**	**8,750**	**3,919**
Earnings per share before full dilution (SEK)	2.56	1.07	0.83	0.37
Earnings per share after full dilution (SEK)	2.55	0.98	0.77	0.34

CONSOLIDATED BALANCE SHEETS

Amounts in SEK 000s	Dec.31, 2005	Dec.31, 2004	Dec.31, 2003[1]	Dec.31, 2002[1]
ASSETS				
Intangible fixed assets	34,876	25,707	17,532	8,166
Other fixed assets	1,351	3,950	2,149	5,254
Total fixed assets	**36,227**	**29,657**	**19,681**	**13,420**
Total current assets	**70,954**	**25,138**	**22,796**	**18,334**
TOTAL ASSETS	**107,181**	**54,795**	**42,477**	**31,754**
EGET KAPITAL OCH SKULDER				
Shareholders' equity attributable to Parent Company's shareholders	81,854	39,475	28,260	23,651
Liabilities	25,327	15,320	14,217	8,103
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**107,181**	**54,795**	**42,477**	**31,754**

CONSOLIDATED CASH-FLOW STATEMENT

Amounts in SEK 000s	2005	2004	2003[1]	2002[1]
Cash flow from operating activities	41,393	12,872	12,118	16,832
Cash flow from investing activities	–14,640	–11,843	–9,768	–11,440
Cash flow from financing activities	13,279	–	–1,981	–1,395
Cash flow for the year	**40,032**	**1,029**	**369**	**3,997**

1) Pro forma in accordance with Swedish Financial Accounting Standards Council Recommendations, see Annual Report for 2003.

Board of Directors' and President's Report

The Board of Directors and President of RaySearch Laboratories AB (publ), Corporate Identity Number 556322-6157, submit herewith the annual report and consolidated accounts for fiscal year 2005.

OPERATIONS

RaySearch develops and sells software for radiation therapy of cancer. RaySearch is active in intensity modulated radiation therapy (IMRT), an advanced method of radiation therapy of cancer. 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 of cancer.

RaySearch develops software that improves treatment planning systems used to plan radiation therapy. ORBIT software provides the general framework for solving the optimization problem in radiation therapy and is the result of many years of research at Karolinska Institutet and RaySearch. RaySearch has packaged parts of ORBIT's functions in four products: RayOptimizer, RayBiology, RayMachine and OM-Optimizer.

Philips has sold RayOptimizer as a plug-in module in its Pinnacle treatment planning system since 2001, while RayMachine and RayBiology have been sold since 2004.

To date one product, OM-Optimizer, has been marketed in collaboration with Nucletron. It is integrated into Nucletron's Oncentra MasterPlan product for treatment planning. OM-Optimizer has been sold since April 2005. The contract with Nucletron includes six products based on the ORBIT platform. Nucletron is a leading player in the market for advanced treatment planning systems and, together with RaySearch, offers very competitive IMRT systems. The combination of IMRT optimization in ORBIT and image processing in Oncentra MasterPlan, with contouring and dose calculation algorithms will give users access to a powerful system.

RaySearch was listed on the Stockholm Stock Exchange's O-list in November 2003 and has been part of the Attract40 segment since July 1, 2005.

HIGHLIGHTS OF THE YEAR

Philips and RaySearch sign letter of intent regarding adaptive radiation therapy

RaySearch announced in May 2005 that a letter of intent had been signed with Philips regarding a long-term development and licensing agreement regarding new adaptive radiation therapy products, which is considered to be the next major paradigm shift in radiation therapy. Using adaptive radiation therapy increases the geometric precision by taking into account changes to the patient's anatomy during the actual treatment, providing even more effective and safe treatments.

ASTRO 2005

The large international ASTRO meeting 2005 (American Society for Therapeutic Radiology and Oncology) was held in October in Denver, Colorado in the US. At one of the plenary sessions, which was attended by 5,000 people, Dr. Michael Sharpe of the Princess Margaret Hospital in Toronto, presented results from a successful research study that was carried out using RaySearch's adaptive radiation therapy system. This kind of plenary sessions is extremely valuable for RaySearch and the response was highly enthusiastic.

Letter of Intent with Scanditronix-Wellhöfer

In November 2005, RaySearch announced the signing of a Letter of Intent with Scanditronix-Wellhöfer to enter into a long-term development and licensing agreement. The final agreement was signed in February 2006.

ISO certification

In July, 2005, RaySearch's quality system received ISO certification. The quality system received certification under SS-EN ISO 9001:2000 and under SS-EN ISO 13485:2003 for medical devices. Certification is extremely important, since it facilitates the integration of RaySearch's products with a partner's system. Certification also enables RaySearch to apply the CE label itself on its own products in the future.

Extraordinary General Meeting, non-cash issues and reclassification of shares

An Extraordinary General Meeting of shareholders in RaySearch Laboratories held in January 2005, approved non-cash issues involving a total of 914,530 Class B shares, resulting in an increase of the company's share capital by SEK 1,371,795 and of the share premium reserve by SEK 45,497,918. The non-cash issues resulted in RaySearch Laboratories acquiring shares in RaySearch Medical from those individuals who redeemed their options in accordance with an earlier options program. In exchange, newly issued shares in RaySearch Laboratories were given. With this transaction, RaySearch Medical has become a wholly owned subsidiary of RaySearch Laboratories. The decisions were made as part of the company's employee stock option program, which has existed since 2001.

During 2005, 24,596 Class A shares were reclassified as Class B shares. Following the reclassification, the number of Class A shares totaled 4,213,008 and the number of Class B shares was 7,214,583. The total number of shares remains unchanged at 11,427,591.

RayIncentive's holding of shares in RaySearch Laboratories amounted to 149,876 shares at December 31, 2005. RayIncentive has issued options on 115,500 of these shares, mainly to people employed at RaySearch Medical. The consolidated book value of these 149,876 shares in RaySearch Laboratories is SEK 0. The quotient value for these shares is SEK 1.50 per share. During 2005, 76,720 shares in RaySearch Laboratories were transferred due to exercised options. During 2005, option holders of RaySearch Medical utilized options to purchase 914,530 newly issued shares in RaySearch Laboratories.

SALES AND EARNINGS

Total sales in 2005 rose by 77 percent compared with the corresponding period in 2004 and amounted to SEK 69.9 M (39.5). The number of licenses sold totaled 847 (458), of which 306 (303) pertained to RayOptimizer, 373 (132) to RayMachine, 43 (23) to RayBiology and 125 (0) to OM-Optimizer. License revenues for 2005 increased to SEK 60.4 M (31.5). Sales largely comprise license revenues from RayOptimizer, RayMachine and OM-Optimizer. In 2005, these products represented 33 percent (61), 28 percent (17) and 23 percent (0) of total sales, respectively. Customer support revenues amounted to SEK 9.5 M (8.0).

Operating profit reached SEK 39.6 M (12.5), which corresponds to an operating margin of 56.7 percent (31.6). During 2005 operating profit increased by 218 percent compared with 2004. Profit after tax for 2005 totaled SEK 29.1 M (11.2), which is equivalent to after tax earnings per share of SEK 2.56 (1.07).

OPERATING EXPENSES

Compared with 2004, operating expenses, excluding currency effects, increased by SEK 5.0 M to SEK 30.3 M in 2005, which is an increase of 20 percent. The increase was mainly attributable to an increased focus on research and development, primarily in adaptive radiation therapy, and the development of the new products for Nucletron.

Effective December 31, 2005, 24 persons (22) worked with research and development. Research and development expenses also include costs for salaries, computer equipment and premises. Research and development costs before capitalization and amortization amounted to SEK 25.0 M (21.2) and are also expected to represent a considerable portion of costs in the future.

CAPITALIZATION OF DEVELOPMENT COSTS

Capitalized development costs at December 31, 2005 amounted to SEK 34.3 M (25.4). During 2005, development costs amounting to SEK 13.9 M (11.9) were capitalized. Depreciation during 2005 amounted to SEK 5.0 M (3.8) on the capitalized development costs.

LIQUIDITY AND FINANCIAL POSITION

At December 31, 2005, the value of cash and cash equivalents amounted to SEK 53.6 M, compared with SEK 12.3 M at December 31, 2004. Current receivables as of December 31, 2005 were SEK 17.3 M, compared with SEK 12.8 M at December 31, 2004. RaySearch has no interest-bearing liabilities.

CASH FLOW

Cash flow during 2005 amounted to SEK 40.0 M (1.0). Cash flow from operating activities reached SEK 41.4 M (12.9). Of total cash flow, SEK 13.3 M (0.0) was related to the sale of shares in RaySearch Medical and RaySearch Laboratories, which were owned by RayIncentive. The sale was made to option holders. Shares in RaySearch Medical were thereafter transferred in kind to RaySearch Laboratories at a value of SEK 46.9 M.

CURRENCY EXPOSURE

The company is exposed to the fluctuations of the US dollar and the euro against the Swedish krona since invoicing to Philips occurs in US dollar and invoicing to Nucletron occurs in euro. In 2005, recorded revenue from Philips was at an average exchange rate for the dollar of SEK 7.52, compared with SEK 7.37 in 2004. With the start of invoicing of Nucletron during the second quarter of 2005, recorded revenue was at an average exchange rate for the euro of SEK 9.27. See sensitivity analysis on page 56.

INVESTMENTS

Fixed assets mainly comprise capitalized development costs. Investments in intangible fixed assets during 2005 totaled SEK 14.3 M (12.1) and investments in tangible fixed assets amounted to SEK 0.4 M (0.5).

RESEARCH AND DEVELOPMENT

Research at RaySearch focuses primarily on the following areas: algorithm development and modeling related to adaptive radiation therapy, the biological effects of radiation treatment, optimization methods and medical image processing. Research activities are carried out in close collaboration with Karolinska Institutet in Solna, the Royal Institute of Technology in Stockholm and Princess Margaret Hospital in Toronto.

Development focuses on translating market demand, customer preferences and research results into products. This occurs through the creation of new products and the further development and maintenance of existing products. In 2005, research and development have focused on adaptive radiation treatment, where there is a great need for new, innovative tools and algorithms, and on the creation and further development of the products involved in the company's ongoing cooperative relationships with Philips and Nucletron. Adaptive radiation therapy increases geometric precision by taking into account changes in the patient's anatomy during the actual treatment. RaySearch is involved in cooperative ventures on several fronts in adaptive radiation treatment.

EMPLOYEES

RaySearch had 28 employees (26) at year-end. The average number of employees during 2005 was 27 (23). RaySearch has an equal opportunity plan.

THE WORK OF 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 19, 2005. The company's President is a member of the Board. The Board held eight meetings in 2004.

The Board carries out its work according to separate rules of procedure and instructions regulating the distribution of work between the board and the President. 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. Among the key decisions during the year was that the Board decided on a Letter of Intent between Philips and RaySearch regarding adaptive radiation therapy, a Letter of Intent with Scanditronix-Wellhöfer pertaining to quality assurance and, following the conclusion of the fiscal year, the final agreement with Scanditronix-Wellhöfer. In addition to the President, who is the person reporting during the Board meetings, other company employees also participate when needed.

The Board approved the President's remuneration and benefits package for financial year 2005. Remuneration to other senior executives was approved by the President in consultation with the Chairman of the Board. The Board of Directors does not have a remuneration committee or nomination committee.

The company's auditor attends at least one Board meeting annually.

While RaySearch is not obligated to apply the Swedish Code for Corporate Governance, the Board has nevertheless decided that the company shall do so since the Board considers it important that the capital market and public have confidence in the company.

ACCOUNTING PRINCIPLES IN ACCORDANCE WITH IFRS

As of January 1, 2005, RaySearch prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). Figures for comparative year 2004 have been restated. For a description of the changes and effects resulting from this transition, see Note 26.

PARENT COMPANY

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

The Parent Company's shares in the subsidiary RaySearch Medical AB are reported at SEK 233.7 M (186.8).

The Parent Company had no sales and no investments during 2005. Earnings before tax amounted to a loss of SEK 1,381,000 (loss: 1,030,000). As of December 31, 2005 the Parent Company had cash and bank balances amounting to SEK 0 (0).

SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

Final agreement with Scanditronix-Wellhöfer

Following the signing of a Letter of Intent with Scanditronix-Wellhöfer in November 2005, the process to reach a final contract has been ongoing. In February 2006, RaySearch announced that a final contract has been reached.

RaySearch will, within the framework of the collaboration, develop advanced software that supports and streamlines quality assurance in IMRT. Scanditronix-Wellhöfer will also refine its dosimetry platform in order to more accurately determine the radiation's physical properties and to achieve more rapid and more accurate measurements. By combining the companies' expertise, a more efficient, user-friendly tool for automated quality assurance of advanced radiation therapy is created.

Negotiations with Philips regarding adaptive radiation therapy

Following signing of the Letter of Intent with Philips regarding adaptive radiation therapy in May 2005, the process of concluding a final agreement has been ongoing. However, Philips' signing of this agreement has taken longer than RaySearch had reason to expect. This caused a delay of the annual report and accordingly a postponement of the Company's Annual General Meeting from May 10, 2006 to June 29, 2006.

Negotiations regarding the agreement are still under way. The final agreement that RaySearch expects to sign with Philips means that the parties enter a new product-oriented phase of cooperation. The agreement pertains to a suite of advanced products within adaptive radiation therapy, while at the same time joint research continues.

The goal is that the companies can jointly create the next generation platform for treatment management and adaptive radiation therapy and that the first of three planned products can be launched in 2007.

FUTURE PROSPECTS

RaySearch's products perform very strongly. The agreement with Scanditronix-Wellhöfer means cooperation with a third partner. RaySearch continues to expand its relationships with Philips and Nucletron. 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 of radiation therapy.

PROPOSAL FOR THE ALLOCATION OF THE COMPANY'S PROFIT OR LOSS

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.

Amounts in SEK 000s	
The Board of Directors and the President recommend:	
Profit brought forward	7,776
Loss for the year	–513
	7,263
Balance carried forward	7,263

Income Statements

GROUP

Amounts in SEK 000's	Note	2005	2004
Net sales	2, 3	69,855	39,479
Cost of goods sold		–1,121	–1,238
Gross profit		**68,734**	**38,241**
Other operating income	8	1,956	212
Selling expenses		–1,415	–1,139
Administrative expenses	10	–12,775	–10,995
Research and development costs	10	–16,069	–13,147
Other operating expenses	9	–824	–712
Operating profit	4, 5, 6, 7, 11	**39,607**	**12,460**
Financial income		474	238
Financial expenses		–66	–80
Net financial income		**408**	**158**
Profit before tax		**40,015**	**12,618**
Tax	12	–10,873	–1,403
Profit/loss for the year[1]		**29,142**	**11,215**
Earnings per share before full dilution (SEK)		2.56	1.07
Earnings per share after full dilution (SEK)		2.55	0.98

1) 100 percent attributable to the Parent Company's shareholders

PARENT COMPANY

Amounts in SEK 000's	Note	2005	2004
Administrative expenses	4, 5, 11	–1,381	–1,032
Operating loss		**–1,381**	**–1,032**
Other interest income and similar income statement items		–	2
Loss before tax		**–1,381**	**–1,030**
Tax	12	868	2,110
Loss for the year		**–513**	**1,080**

Balance sheets

GROUP

Amounts in SEK 000's	Note	Dec. 31, 2005	Dec. 31, 2004
ASSETS			
Intangible assets	13	34,876	25,707
Fixed assets	14	1,200	1,722
Long-term receivables	16	151	98
Deferred tax receivables	19	–	2,130
Total fixed assets		**36,227**	**29,657**
Tax receivables		–	581
Accounts receivable		15,364	8,998
Prepaid expenses and accrued income	17	1,969	2,691
Other receivables		10	574
Cash and bank balances	18	53,611	12,294
Total current assets		**70,954**	**25,138**
TOTAL ASSETS		**107,181**	**54,795**
SHAREHOLDERS' EQUITY			
Share capital		17,141	15,770
Other contributed capital		1,975	1,975
Retained earnings including net profit for the year		62,738	21,730
Shareholders' equity attributable to the Parent Company's shareholders		**81,854**	**39,475**
Total shareholders' equity	21	**81,854**	**39,475**
LIABILITIES			
Deferred tax liabilities	19	13,894	9,087
Other long-term liabilities	20	967	–
Total long-term liabilities		**14,861**	**9,087**
Accounts payable		1,931	2,102
Tax libilities		2,887	–
Other liabilities		661	476
Accrued expenses and deferred income	22	4,987	3,655
Total current liabilities		**10,466**	**6,233**
Total liabilities		**25,327**	**15,320**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**107,181**	**54,795**
Pledged assets	24		
Chattel mortgage		5,000	–
Liquid assets for lease guarantee		–	1,921
Contingent liabilities	24	**none**	**none**

Balance sheets

PARENT COMPANY

Amounts in SEK 000's	Note	Dec. 31, 2005	Dec. 31, 2004
ASSETS			
Fixed assets			
Financial assets			
Participations in Group companies	15	233,703	186,833
Deferred tax receivables	19	–	2,130
Total fixed assets		**233,703**	**188,963**
Current assets			
Receivables from Group companies		7,994	–
Total current assets		**7,994**	**–**
TOTAL ASSETS		**241,697**	**188,963**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders equity			
Restricted equity			
Share capital (4,213,008 A shares, 7,214,583 B shares)		17,141	15,770
Share premium reserve		–	171,570
Statutory reserve		217,116	48
		234,257	**187,388**
Unrestricted shareholders' equity			
Retained earnings		7,776	–1,012
Net profit/loss for the year		–513	1,080
		7,263	**68**
Total shareholders' equity	21	**241,520**	**187,456**
Current liabilities			
Liabilities to Group companies		–	1,253
Accrued expenses and deferred income	22	177	254
Total current liabilities		**177**	**1,507**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**241,697**	**188,963**
Pledged assets		**none**	**none**
Contingent liabilities		**none**	**none**

Summary of changes in shareholders' equity

GROUP

Amounts in SEK 000's	Share capital	Other contributed capital	Retained earnings incl. net profit/loss for year	Total
Opening equity January 1, 2004	15,770	1,975	2,076	19,821
Adjustments for changes in accounting principles		–	8,439	8,439
Adjusted equity January 1, 2004	15,770	1,975	10,515	28,260
Net profit for the year			11,215	11,215
Closing equity December 31, 2004	15,770	1,975	21,730	39,475
Adjustments for changes in accounting principles		–	–188	–188
Adjusted equity January 1, 2005	15,770	1,975	21,542	39,287
Assignation of own shares	1,371	–	12,054	13,425
Net profit for the year			29,142	29,142
Closing equity December 31, 2005	17,141	1,975	62,738	81,854

PARENT COMPANY

Amounts in SEK 000's	Share capital	Share premium reserve	Statutory reserve	Accumulated profit/loss	Total
Opening equity January 1, 2004	15,770	171,570	48	–1,012	186,376
Net profit for the year				1,080	1,080
Closing equity December 31, 2004	15,770	171,570	48	68	187,456
Non-cash issue	1,371	45,498			46,869
Transfer of Share premium reserve to Statutory reserve		–217,068	217,068		–
Group contribution received				10,705	10,705
Tax effect of Group contribution received				–2,997	–2,997
Net profit/loss for the year				–513	–513
Closing equity December 31, 2005	17,141	–	217,116	7,263	241,520

The Extraordinary General Meeting of shareholders in RaySearch Laboratories held in January 2005, approved non-cash issues involving a total of 914,530 Class B shares, resulting in an increase of the company's share capital by SEK 1,371,795 and of the share premium reserve by SEK 45,497,918. The non-cash issues resulted in RaySearch Laboratories acquiring shares in RaySearch Medical from those individuals who redeemed their options in accordance with an earlier options program. In exchange, newly issued shares in RaySearch Laboratories were given.

With this transaction, RaySearch Medical has become a wholly owned subsidiary of RaySearch Laboratories. The decisions were made as part of the company's employee stock option program, which has existed since 2001. RayIncentive's holding of shares in RaySearch Laboratories amounted to 149,876 shares at December 31, 2005. RayIncentive issued options on 115,500 of these shares, mainly to people employed at RaySearch Medical. The consolidated book value of these 149,876 shares in RaySearch Laboratories is SEK 0.

Cash-flow statements

GROUP

Amounts in SEK 000's	2005	2004
Operating activities		
Profit before tax	40,015	12,618
Adjustments for items not included in cash flow, etc	6,030	4,574
Taxes paid	–779	–962
Cash flow from operating activities before changes in working capital	**45,266**	**16,230**
Cash flow from changes in working capital		
Increase (–)/Decrease (+) in operating receivables	–5,169	–1,890
Increase (+)/Decrease (–) in operating liabilities	1,296	–1,468
Cash flow from operating activities	**41,393**	**12,872**
Investing activities		
Capitalized development expenditure	–14,147	–11,418
Acquisition of tangible fixed assets	–440	–509
Acquisition of financial assets	–53	–
Sale of financial assets	–	84
Cash flow from investing activities	**–14,640**	**–11,843**
Financing activities		
Shareholders' contributions received	13,279	–
Cash flow from financing activities	**13,279**	**–**
Cash flow for the year	**40,032**	**1,029**
Cash and cash equivalents at the beginning of the year	**12,294**	**11,496**
Cash and cash equivalents provided by RayIncentive	1,285	–
Exchange rate differences in cash and cash equivalents	–	–231
Cash and cash equivalents at the end of the year	**53,611**	**12,294**

PARENT COMPANY

Amounts in SEK 000's	2005	2004
Operating activities		
Profit/loss after financial items	–1,381	–1,030
Adjustments for items not included in cash flow, etc	–	–7
Cash flow from operating activities before changes in working capital	**–1,381**	**–1,037**
Cash flow from changes in working capital		
Increase (–)/Decrease (+) in operating receivables	–	448
Increase (+)/Decrease (–) in operating liabilities	1,381	587
Cash flow from operating activities	**0**	**–2**
Cash flow from investing activities	**–**	**–**
Cash flow from financing activities	**–**	**–**
Cash flow for the year	**0**	**–2**
Cash and cash equivalents at the beginning of the year	**0**	**2**
Cash and cash equivalents at the end of the year	**0**	**0**
Transactions not affected by cash flow		
Transactions that have not resulted in payments:		
Non-cash issues	46,870	–
Group contributions	10,705	–

Notes

NOTE 1 / GENERAL ACCOUNTING PRINCIPLES

AGREEMENT WITH STANDARDS AND LAWS

The annual accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretation rulings issued by the International Financial Reporting Interpretations Committee (IFRIC) that have been approved by the EU Commission for application within the EU. This financial report is the first complete financial report presented in accordance with IFRS. In conjunction with the transition from previously applied accounting principles to accounting in accordance with IFRS, the Group has implemented IFRS 1, which is the standard that describes how the transition to IFRS shall be accounted for. Additionally, the Swedish Financial Accounting Standards Council (RR) recommendation RR 30 Supplementary Rules for Consolidated Financial Statements, has been applied.

The Parent Company implements the same accounting principles as the Group except in those instances specified below under the section "Parent Company's accounting principles." The differences that exist between the Parent Company's and the Group's principles result from limitations in the ability to implement IFRS at the Parent Company due to the Swedish Annual Accounts Act and the Law on safeguarding of pension commitments and, in certain instances, for tax reasons.

On page 57 there is a summary with explanations as to how the transition to IFRS has affected the Group's financial earnings and position, along with reported cash flow.

ASSUMPTIONS WHEN PREPARING THE PARENT COMPANY'S AND THE GROUP'S FINANCIAL REPORTS

The Parent Company's functional currency is the Swedish krona, which also serves as the reporting currency for the Parent Company and for the Group. This means that financial reports are presented in SEK. All amounts, unless otherwise specified, are rounded off to the nearest thousand. Assets and liabilities are reported at their historical acquisition value, except for certain financial assets and liabilities that are valued at actual value. Financial assets and liabilities valued at actual value consist of assets classified as financial assets valued at actual value in the income statement.

Preparing financial reports in accordance with IFRS requires that company management make assessments and estimates as well as assumptions that impact the application of the accounting principles and the reported amounts of assets, liabilities, revenues and expenses. Estimates and assumptions are based on historical experience and a number of other factors that, under existing circumstances, appear to be reasonable. The result of these estimates and assumptions is then used to estimate the accounted values of assets and liabilities that would otherwise not clearly appear from other sources. Actual results can vary from these estimates and assumptions.

Estimates and assumptions are regularly reviewed. Changes to estimates are reported in the period the change is made and in the current period and future periods if the change affects both the current period and future periods.

Estimates made by company management when implementing IFRS, which have a significant impact on the financial reports and estimates made that could involve significant adjustments to subsequent years' financial reports, are described in greater detail on page 46.

The accounting principles specified below for the Group have been applied in a consistent manner during all periods presented in the Group's financial reports, unless otherwise stated, and upon the creation of the Group's opening balance sheet in accordance with IFRS as of January 1, 2004, which explains the transition from earlier applied accounting principles to accounting principles in accordance with IFRS. The Group's accounting principles have been applied consistently in regards to reporting and consolidation of the Parent Company and the subsidiary company.

REVISED ACCOUNTING PRINCIPLES

The transition to reporting in accordance with IFRS has, for the Group, been reported as IFRS 1 (First-time Adoption of International Financial Reporting Standards) and described on page 57. In accordance with voluntary exceptions in IFRS 1, the following are applied not to comparative figures for 2004 but rather forward looking as of January 1, 2005: IAS 39 (Financial Instruments), IFRS 4 (Insurance Contracts) and IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations). None of these have had any impact on the income statement, balance sheet or cash flow.

SEGMENT REPORTING

A segment is an identifiable part of a Group, for accounting purposes, that either offers products or services (business segment), or goods or services within a certain economic area (geographic area), that is exposed to risks and opportunities that differ from other segments. Segment information is submitted in accordance with IAS 14, for the Group only.

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, consist of amounts that the Parent Company or Group expects to be covered or receive payment for more than twelve months after the balance sheet date. Current assets and current liabilities in the Parent Company and Group 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.

CONSOLIDATION PRINCIPLES

Subsidiaries

Subsidiaries are companies that are under a controlling influence from RaySearch Laboratories AB. Controlling influence means, directly or indirectly, a right to formulate a company's financial and operational strategies for the purpose of achieving economic benefits. When determining whether controlling influence exists, other securities than shares, that immediately can be used to obtain shares, shall also be considered.

The Group includes Parent Company RaySearch Laboratories AB (publ), corporate identity number 556322-6157 and subsidiary RaySearch Medical AB, corporate identity number 556591-6862 (100 percent of capital and 100 percent of votes). In addition, RaySearch Medical AB owns 90.8 percent of capital and 49.7 percent of the votes in RayIncentive AB, whose only function is to own the shares that are set aside to cover the outstanding employee options program.

Information about the reverse acquisition of Taurus

Background and main data related to the Taurus acquisition

Taurus was an oil prospecting company, which was listed on the Stockholm Stock Exchange O-List.

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 shares 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. In conjunction with the non-cash issue, Taurus changed its name to RaySearch Laboratories.

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.

Only 91.6 percent of the shares in RaySearch Medical were formally transferred to Taurus, which is why the new Group had a minority of 8.4 percent. The minority's shares were exchanged in early 2005 through a non-cash issue.

For additional information about this reverse acquisition, see RaySearch Laboratories' annual report for 2003.

The subsidiary's financial reports are included in the consolidated accounts from the time of acquisition until such date that controlling influence ends.

Consolidation of special purpose entity
Special purpose entities (SPE) are included in the consolidated accounts when the economic consequences of business connections between a group company and a SPE indicate that the group company is exerting a controlling influence over a SPE. When determining whether a SPE exerts a controlling influence, consideration is given to whether operations in the SPE are conducted in a predetermined manner. RaySearch Medical owns 90.8 percent of the capital and 49.7 percent of the votes in RayIncentive. The Group has control over the company and no minority stakes are reported. Any eventual dividend from RayIncentive shall, in its entirely, go to RaySearch Medical. These circumstances mean that RayIncentive is considered to be a SPE.

RayIncentive, whose sole function is to own shares in RaySearch Laboratories, on which options have been placed, was consolidated as a subsidiary on January 1, 2005 since RayIncentive's shareholdings in RaySearch Medical have been replaced by cash equivalents due to redemption of the options program. As a result, that holding is no longer considered immaterial. The reason the company was not consolidated earlier is that the company owned shares in RaySearch Laboratories, which were accounted for as SEK 0. RayIncentive is accounted for in accordance with the acquisition method. The method means that acquisition of a subsidiary is viewed as a transaction through which the Group indirectly acquires the subsidiary's assets and assumes its liabilities and contingencies. The consolidated acquisition value is determined through an acquisition analysis in conjunction with the acquisition of the operation. In the analysis, the acquisition value is determined for the shares or operation, as well as the actual value of the acquired identifiable assets and assumed liabilities and contingencies. The difference between acquisition value for subsidiary shares and the actual value of acquired assets, assumed liabilities and contingencies constitutes consolidated goodwill, or negative goodwill.

Elimination of transactions between Group companies
Internal receivables and liabilities, and revenues and costs between companies in the Group, along with unrealized gains associated with these, have been eliminated in their entirety in the consolidated accounts.

FOREIGN CURRENCY

Transactions using foreign currency
Transactions using foreign currency are translated to the functional currency at the exchange rate in force on the transaction day. Monetary assets and liabilities in foreign currency are recalculated to the functional currency at the exchange rate on the closing day. Exchange rate differences arising during translations are reported in the income statement. Non-monetary assets and liabilities that are reported at historic acquisition value are translated at the exchange rate in effect at the time of the transaction. Non-monetary assets and liabilities accounted for at their actual value are translated to the functional currency at the exchange rate that is in effect at the time of valuation at actual value. Exchange rate differences are accounted for in the same manner as other value changes related to assets or liabilities.

REVENUE

License sales and support sales
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.

OPERATING EXPENSES AND FINANCIAL INCOME AND EXPENSES

PAYMENTS RELATING TO OPERATIONAL LEASES
Payments relating to operational leasing agreements are accounted for in the income statement straight-line over the leasing period. Benefits received in conjunction with signing a contract are reported as a part of the total leasing cost in the income statement.

Financial income and expenses
Financial income and expenses consists of interest income on bank balances and receivables and interest-bearing securities, interest expenses on loans, dividend income, exchange rate differences, unrealized and realized gains on financial investments.

Interest income on receivables and interest expenses on liabilities are calculated by applying the effective interest method. Effective interest is the interest that makes the current value of all future deposits and payments during the fixed interest term the same as the reported value of the receivable or liability. The Group and the Parent Company do not activate the interest in the assets acquisition value.

FINANCIAL INSTRUMENTS

Financial instruments are valued and accounted for in the Group in accordance with the regulations in IAS 39.

Financial instruments accounted for in the balance sheet include, on the assets side, cash and cash equivalents, accounts receivable and loan receivables. Among liabilities and shareholders' equity are accounts payable, issued debt and equity instrument, loan liabilities and derivatives.

Financial instruments are reported initially at the acquisition value corresponding to the instrument's fair value with addition of transaction costs for all financial instruments except in the respect that they are part of the category financial assets that are reported at fair value in the income statement excluding transaction costs. Reporting thereafter is how they are classified as below.

The financial asset or financial liability shall be recognized in the balance sheet when the company is bound by the instrument's terms. Accounts receivable are recognized in the balance sheet when the invoice is sent. Liabilities are recognized when the counterparty has performed and there is a contractual obligation to pay, even though the invoice has not yet been received Accounts payable are recognized when the invoice is received.

A financial asset is derecognized from the balance sheet when the rights of the contract are realized, expire or the company loses control over them. The same applies for components of a financial asset. A financial liability is dere-

cognized from the balance sheet when the obligation in the contract is fulfilled or in some other manner is extinguished. The same applies for components of a financial liability.

The fair value of listed financial assets correspond to the listed bid price on the closing date.

At each reporting date, the company tests to determine if there is any objective indication that a financial asset or a group of financial assets may be impaired.

IAS 39 classifies financial instruments in categories. The classification depends on the intention of the acquisition of the financial instrument. Company management determines the classification at the original time of acquisition. The following categories are held by the company:

Loan receivables and accounts receivable
"Loan receivables and accounts receivable" are financial assets that are not derivatives with fixed payments or payments that can be determined and which are not listed on an active market. The receivables arise when the company provides money, goods and services directly to the debtor without the intent to be sold immediately or in the short term. The category also includes acquired receivables.

Held-to-maturity investments
"Held-to-maturity investments" are financial assets with fixed or determinable payments and fixed maturities that the company has the expressed intention of holding to maturity. Assets in this category are valued at accrued acquisition value. Accrued acquisition value is determined based on the effective interest rate, which is calculated at the time of acquisition. This means that surplus and deficit values as well as direct transaction costs are distributed over the instrument's term.

Cash and cash equivalents
Cash and cash equivalents comprise cash funds and balances at banks and comparable institutions that are immediately available as well as short-term liquid investments with a duration from the date of acquisition of less than three months, which are subject to only a negligible risk of value fluctuations.

Changes in value are reported in net financial items.

Long-term receivables and other receivables
Long-term receivables and other receivables arise when the company provides money without the intention of trading in receivables rights. If the expected duration of holding is longer than one year, they are long-term receivables, and if it is shorter they are other receivables. These receivables are in the category loan receivables and accounts receivable.

Accounts receivables
Accounts receivables are in the category loan receivables and accounts receivable. Accounts receivable are reported at the amount expected to be received after deduction for doubtful receivables that are assessed individually. The expected duration of accounts receivables is short, therefore the value is reported at nominal amount without discounting. Impairment of accounts receivables is reported in operating expenses.

Liabilities
Liabilities are classified as other financial liabilities, which means that they are initially reported at the amount received after deduction for transaction costs. After the date of acquisition, the loan is valued at accrued acquisition value in accordance with the effective interest method. Long-term liabilities have an expected duration of more than one year, while current liabilities have a duration of less than one year.

Option premiums received are recognized as liabilities until the options are exercised.

Accounts payable
Accounts payable are classified in the category other financial liabilities. Accounts payable have short expected duration and are valued without discounting at the nominal amount.

TANGIBLE FIXED ASSETS

Owned assets
Tangible fixed assets are reported as assets in the balance sheet if it is probable that the future economic benefits will flow to the company and that the acquisition value can be calculated in a reliable manner.

Tangible fixed assets are reported in the consolidated accounts at acquisition value after deduction for accumulated depreciation and any impairments. The acquisition value includes the purchase price and costs directly attributable to the asset to deliver it in place and in condition to be used as intended in the acquisition. The accounting principles for impairment are presented below.

Tangible fixed assets comprising components with varying useful lives are treated as separate components of tangible fixed assets.

The reported value of a tangible fixed asset is derecognized from the balance sheet at scrappage or divestment or when no future economic benefit is expected from use or scrappage/divesting of the asset. The gain or loss arising from the retirement or disposal of an asset is the difference between the selling price and the asset's reported value less direct selling costs. Gains and losses are reported as other operating income/expenses.

Leased assets
IAS 17 is applied for leased assets. Leasing is classified in the consolidated accounts as financial or operating leasing. A financial lease is a lease that transfers substantially all the risks and rewards incident of ownership to an asset to the lessee. If this is not the case, it is operational leasing.

Operational leasing means that the leasing fee is expensed over the term based on use, which can differ from what is paid de facto as leasing fee during the year.

In accordance with these rules, all leasing in the Group is reported as operational leasing.

Depreciation principles
Depreciation is based on the original acquisition value less any residual value.

Depreciation is straightline over the estimated useful life of the asset

Calculated useful lives:	
– computers	3–5 years
– equipment, tools, fixtures and fittings	5 years

The residual value and useful life is assessed annually.

INTANGIBLE FIXED ASSETS

Costs for Research and Development
Expenditure for research activities that relate to the obtaining of new scientific or technical knowledge is charged to income as incurred.

Expenditures for development activities, whereby the research results or other knowledge is applied to accomplish new or improved products or processes, are reported as an intangible asset in the balance sheet, provided the product or process is technically and commercially feasible and the company has sufficient resources to complete development, and is subsequently able to use or sell the intangible asset. The reported value includes direct and indirect expenses, personnel costs and premises costs. Other expenses for development are charged to income as incurred. In the balance sheet, capitalized development expenditure is stated at cost less accumulated amortization and any impairment losses. Deferred taxes were taken into account.

Other intangible assets
Other intangible assets acquired by the company are reported at acquisition value less accumulated amortization and any impairment losses.

Expenditure for internally generated goodwill and brands is reported in the income statement when the cost is incurred.

Amortization
Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Immaterial assets, that is capitalized development expenditures on which amortization has not begun, are tested for impairment annually or as soon as there is an indication that the asset may be impaired. Intangible assets are amortized as from the date the asset is available for use. The following amortization periods are used:

– Capitalized development costs	5 years
– Software	3–5 years

Impairments
The reported value of the Group's assets is tested on each balance sheet date to determine whether there is any indication that impairment 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. An impairment loss is recognized if the recoverable value is less than the reported value. The recoverable value is determined based on discounting the estimated future cash low from the cash-generating units.

SHARE CAPITAL
Treasury stock
Holdings of own shares (treasury stock) and other equity instruments are reported as a reduction of shareholders' equity. Acquisition of such instruments is reported as a deduction from shareholders' equity. Proceeds from the divestment of equity instruments are reported as an increase in shareholders' equity. Any transaction costs are charged directly against shareholders' equity.

Dividends
Dividends are recognized as a liability after approval of the dividend by the Annual General Meeting.

EMPLOYEE BENEFITS
Defined-contribution plans
Obligations for contributions to defined-contribution plans are recognized as an expense in the income statement as incurred.

The Group has only defined-contribution pensions. The Group's obligation for each period is the amount that the Group shall contribute for the specific period.

Provisions for terminations
A provision is recognized relating to termination of employees only when the company is committed to terminate the employment before the normal time.

Share-based payments
With regard to the company's options program, on each occasion a market price for the options was paid by each employee. Accordingly, no share-based payments were made. The market price was determined in accordance with the Black & Scholes model.

TAXES
Income tax comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences relating to investments in subsidiaries and associated companies are not taken into account to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the reported value of assets and liabilities. Deferred tax is computed using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset relating to deductible temporary differences and net operating losses is recognized only to the extent that it is probable that future taxable profits will be available, against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Any additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend arise in the distributing company.

CONTINGENT LIABILITIES
A contingent liability is reported when there is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events or when there is a present obligation that can not be reported as a liability because it is not probable that an outflow of resources will be required.

PARENT COMPANY'S ACCOUNTING PRINCIPLES
The Parent Company has prepared its annual report in accordance with the Annual Accounts Act (1995:1554) and the standard, RR 32 Reporting by a legal entity, issued by the Swedish Financial Accounting Standards Council. Under RR 32, the Parent Company in its annual report shall apply all the IFRS and interpretations approved by the EU to the extent possible within the framework of the Annual Accounts Act, also considering the relation between financial reporting and taxation. The recommendation stated which exceptions from and additions to IFRS that should be made. The differences between the accounting policies applied in the consolidated financial statements and those applied by the Parent Company are presented below.

The accounting principles presented below for the Parent Company have been applied consistently in all periods presented in the Parent Company financial statements.

Revenues
Dividends
Dividend revenues are recognized when the right to receive the payment is deemed certain.

Taxes
Untaxed reserves in the Parent Company are reported including deferred tax liabilities. In the consolidated accounting, untaxed reserves are divided into deferred tax liabilities and shareholders' equity.

Group contributions and shareholders' contributions in legal entity accounts
The company reports Group contributions and shareholders' contributions in accordance with the pronouncement of the Swedish Financial Accounting Standard Council's Emerging Issues Task Force. Shareholders' contributions are reported directly in the recipient's equity whereas the contributor capitalizes the contribution with shares and participations, to the extent that the recognition of an impairment loss is not required. Group contributions are reported in accordance with their financial substance. This means that Group contributions paid to minimize the Group's overall income tax burden are reported directly in retained earnings net of the related tax effect.
Group contributions that are equivalent to a dividend are reported as dividends. This means that Group contributions received and their actual tax effect are reported in the income statement. Group contributions paid and the actual tax effect is reported directly in retained earnings.

Group contributions that are equivalent to shareholder contributions are reported, taking into account the current tax effect, at the recipient against retained earnings. The contributor reports Group contributions and its current tax effect as investments in participations in Group companies, to the extent that the recognition of an impairment loss is not required.

RISKS AND RISK MANAGEMENT

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 has 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 USD and EUR, which means a foreign exchange risk. No hedging has been done.

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 with short fixed interest periods.

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 and Nucletron, which to date are the company's two commercial partners. No loan losses have occurred to date, and the Group considers that its credit risk will continue to be very low. See Note 23 for description of the significance of financial risks.

Operational risks
As a result of its operations, the Group is exposed to various operational risks, including the following:

Dependence on key personnel
RaySearch's future progress is partly dependent on the continuation in the organization of a number of key personnel with specific skills. The loss of one or a number of these key people could result in an adverse impact on the Group operations. A large number of personnel have participated in incentive programs and currently hold shares in RaySearch or options in RaySearch.

Competition
RaySearch's competitors are primarily the in-house development departments at potential commercial partners, such as Varian or Siemens. These large medical-technology companies have always elected to develop software within their own organization or outsource development work. The more advanced the solutions achieved by RaySearch, the greater the probability that major companies will refrain from proprietary development and instead outsource the task to RaySearch.

Strategic cooperation
RaySearch currently pursues cooperation with its business partners Philips and Nucletron and, as of February 2006, also with Scanditronix-Wellhöfer. RaySearch also has a number of cooperative research projects. If RaySearch were to lose one or a number of business partners, it could have a major effect on corporate sales, earnings and financial position. Intensive efforts are in progress to broaden the company's customer base.

Fair value
Fair value and reported value are synonymous in the Group.

Critical estimates and assessments
Executive management has discussed developments, selection and information regarding the Group's critical accounting principles and estimates, as well as the applications of these principles and estimates.

Critical assessments in the application of the Group's accounting principles
Certain critical estimates for accounting purposes made in the application of the Group's accounting principles are described below.

Significant sources of uncertainty in estimates
Capitalized development expenses
In calculating the cash-generating units' value for the assessment of any impairment requirements for capitalized development expenses, certain assumptions regarding future circumstances and parameter estimates have been made, as presented in Note 13.

Exposure to foreign currencies
Movements in exchange rates may have a relatively large impact on the company in general. Note 23 provides a detailed analysis of the exposure to foreign currencies and the risks associated with changes in exchange rates.

Income recognition
The distribution of license sales and support sales is crucial for income recognition and that distribution is done in a uniform manner over time.

Information concerning the Parent Company
RaySearch Laboratories AB (publ) is a Swedish-registered limited liability company with its registered office in Stockholm. The Parent Company's shares are listed on the O-List of the Stockholm Stock Exchange and are included in the Attract 40 segment. The address of the head office is Sveavägen 25, SE-111 34 Stockholm.

NOTE 2 / SEGMENT REPORTING

Operating segments
The Group's operations comprise a single operating segment. Operating segments represent the Group's primary basis for subdivision.

Geographic areas
Geographic areas represent the Group's secondary basis of subdivision. The information presented regarding the segment's revenue pertains to the geographic areas grouped on the basis of the location of the end customers.

	North America		Asia		Europe and rest of the world	
	2005	2004	2005	2004	2005	2004
Sales	73	79	6	10	21	11
Assets	–	–	–	–	100	100
Investments	–	–	–	–	100	100

NOTE 3/ INCOME DISTRIBUTION

	2005	2004
Group		
Revenue from licenses sold	60,312	31,440
Revenue from support services	9,543	8,039
	69,855	39,479

NOTE 4 / EMPLOYEES AND STAFF COSTS

Average number of employees
The Parent Company has no employees and thus no payroll expenses have been incurred. The average number of employees in the subsidiaries was 27 (23), of whom 18 (17) men and 9 (6) were women.

Gender distribution in management

%	Dec. 31, 2005 Percentage of women	Dec. 31, 2004 Percentage of women
Parent Company		
Board of Directors	0	0
Other senior executives	0	0
Group total		
Board of Directors	0	0
Other senior executives	0	0

Salaries, other remunerations and social security expenses

	2005		2004	
	Salaries and remuneration	Social security expenses	Salaries and remuneration	Social security expenses
Subsidiaries	15,661	5,199	12,578	4,176
Pension expenses		*2,626*		*2,073*
Group total	15,661	5,199	12,578	4,176
Pension expenses total		*2,626*[1)]		*2,073*[1)]

1) Of the Group's pension costs, SEK 254 (221) relate to the Group's CEO and Board of Directors

Salaries and other remuneration distributed among Board members and other employees

	2005		2004	
	Board	Other employees	Board	Other employees
Subsidiaries	3,203	12,458	2,430	10,148
(of which bonus, etc)	(885)	(614)	(424)	(453)
Group total	3,203	12,458	2,430	10,148
(of which bonus, etc)	*(885)*	*(614)*	*(424)*	*(453)*

Salaries and remuneration pertains only to staff in Sweden.

Of the salaries and remuneration paid to other employees in the Group, SEK 2,995,000 (2,230,000) pertains to senior executives other than the Board of Directors and CEO. The Board of Directors has not received any remuneration other than directors' fees and reimbursement of expenses. Of the Board of Directors' remuneration totaling SEK 452,000 (445,000), SEK 250,000 (200,000) pertains to remuneration of 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 1,612,000 (1,226,000) in legal fees.

Remuneration to the President and other senior executives is made up of basic salary, variable remuneration, other benefits, and pensions. Variable remuneration paid to the President is based on the Group's earnings and amounts to 2.0 percent of earnings before tax, though it may not exceed 6 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 President refer to a company car.

Pensions
All pension undertakings are defined-contribution plans. Retirement age for the President is 65 and the pension premium is equivalent to the ITP plan. According to the pension agreement, the pension undertaking for other senior executives is to amount to 10 percent of the pension-qualified salary or equivalent ITP plan. The pension age is 65 for all other senior executives.

Severance pay
If the President 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 President is not entitled to any special severance pay, but in both cases, the President 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 to a senior executive in the preceding year. The final repayment installment was made in 2005.

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

The decision-making process
The decision-making process regarding remuneration and benefits is described in greater detail on page 36.

NOTE 5 / AUDITORS' FEES AND COMPENSATION FOR EXPENSES

	2005	2004	2003
Group			
KPMG			
Auditing fees	850	711	497
Fees for other consulting	132	124	220
Parent Company			
KPMG			
Auditing fees	485	117	74
Fees for other consulting	23	19	–

Auditing assignments refer to the examination of the annual report and accounting as well as the administration by the Board and President as well as other working tasks that are the responsibility of the company's auditors to conduct or other matters arising from observations during such examination or implementation of such other working tasks. Everything else is other assignments.

NOTE 6 / EMPLOYEE REMUNERATION

Share-based payments

RaySearch offers a number of option programs to more easily attract, motivate, and retain personnel. The subsidiary RayIncentive AB owns shares in RaySearch Laboratories to cover options issued and future options programs. RayIncentive's shareholding in RaySearch Laboratories at Dec. 31, 2005 was 149,876. Of these, 115,500 pertain to current options programs.

The options are owned by people who are employed in RaySearch and by a Board member in RaySearch. When these people acquired options in RaySearch, it was done at a market price calculated according to the Black and Scholes model. Since the options are based on existing shares, there will be no dilution effects on shareholders' holdings.

Options Program, RaySearch Laboratories	Exercise period	Shares include	Exercise price (SEK)
2004:1	Dec 31, 2008–Dec 31, 2009	115,500	81.40

Changes during 2005

Number of options outstanding at Dec. 31, 2004	192,220
Options utilized during 2005	–76,720
Number of options outstanding at Dec. 31, 2005	115,500

In 2005, the holders of options in RaySearch Medical utilized options to buy 914,530 newly issued shares in RaySearch Laboratories. Refer to the Board of Directors' Report on page 34. No options were allotted during 2005 and no options matured.

Benefits paid to the Board and senior executives

2005	Fixed Remuneration	Variable remuneration	Other benefits	Pension expenses	Total
Chairman of the Board and other Board members	537	–	–	–	537
President	1,952	303	137	254	2,646
Other senior executives (4 people)	2,767	138	2	566	3,473
Total	5,256	441	139	820	6,656

2004	Fixed Remuneration	Variable remuneration	Other benefits	Pension expenses	Total
Chairman of the Board and other Board members	445	–	–	–	445
President	1,593	197	106	221	2,117
Other senior executives (4 people)	2,153	102	2	401	2,658
Total	4,191	299	108	622	5,220

NOTE 7 / OPERATING EXPENSES DISTRIBUTED BY TYPE OF COSTS

	2005	2004
Group		
Costs of goods sold	–1,121	–1,238
Personnel expenses	–12,828	–11,274
Depreciation	–5,209	–3,997
Exchange-rate losses	–824	–712
Other operating expenses	–12,222	–10,010
	–32,204	–27,231

NOTE 8 / OTHER OPERATING INCOME

	2005	2004
Group		
Exchange-rate gains on operating receivables and liabilities	1,956	212
	1,956	212

NOTE 9 / OTHER OPERATING EXPENSES

	2005	2004
Group		
Exchange rate losses on operating receivables and liabilities	–824	–712
	–824	–712

NOTE 10 / DEPRECIATION AND AMORTIZATION OF TANGIBLE AND INTANGIBLE FIXED ASSETS

	2005	2004
Intangible fixed assets		
Group		
Amortization according to according to plan and function		
Research and development	–4,978	–3,851
	–4,978	–3,851
Tangible fixed assets		
Group		
Depreciation and according to plan and function		
Administrative expenses	–192	–112
Research and development	–39	–34
	–231	–146
Total amortization and depreciation	–5,209	–3,997

NOTE 11 / OPERATIONAL LEASING

	2005	2004
Group		
Leasing agreements in which the company is the lessee		
Rent on premises	3,944	3,818
Other leasing	350	236
Total lease costs	4,294	4,054
Contractual future lease fees for leases that expire:		
Within one year	4,447	4,179
Later than one but within five years	6,301	6,283
Later than five years	–	–
	10,748	10,462

None of the leasing fees are variable. The Parent Company does not have any operational leasing agreements.

NOTE 12 / TAX

Group

Current tax income/expense	2005	2004
Tax liability for the period	–3,942	–925
Adjustment of tax attributable to previous year	6	246
	–3,936	–679
Deferred tax liability		
Deferred tax for temporary differences		
capitalized development costs	–2,506	–2,252
loss carry-forwards	–2,130	2,130
changes in appropriations	–2,301	–314
Increase of loss carry-forwards without equivalent capitalization of deferred tax	–	–288
	–6,937	–724
Total tax expense reported for Group	–10,873	–1,403

Reconciliation of effective tax	2005		2004	
Group	Percent	Amount	Percent	Amount
Reported profit/loss before tax		40,015		12,618
Swedish tax rate	–28.0	–11,204	–28.0	–3,533
Other non-deductible costs, subsidiaries	–0.3	–101	–0.4	–54
Tax-exempt income	–	2	0.0	6
Tax-free interest on tax allocation reserve	–0.1	–57	0.0	–
Increase in loss carry-forwards without equivalent capitalization of deferred tax	–	–	–2.3	–288
Utilization of previous, unutilized loss carry-forwards	1.2	481	–	–
Tax pertaining to previous years	–	6	1.9	246
Capitalization of deferred tax on loss carry-forwards	–	–	16.9	2,130
Correction of tax allocation reserve, 2004	–	–	0.8	90
Reported effective tax	–27.2	–10,873	–11.1	–1,403

Parent Company

Current tax liability	2005	2004
Tax income/expense for the period	387	288
Adjustment of tax attributable to previous years	–	–20
	387	268
Deferred tax income/expense		
Utilization of previous, unutilized loss carry-forwards	481	–
Deferred tax for loss carry-forwards	–	2,130
Increase of loss carry-forwards without equivalent capitalization of deferred tax	–	–288
	481	1,842
Total tax income/expense reported for Parent Company	868	2,110
Tax items reported directly against shareholders' equity		
Current tax in Group contributions received	2,997	–

Reconciliation of effective tax	2005		2004	
Parent Company	Percent	Amount	Percent	Amount
Reported profit/loss before tax		–1,381		–1,030
Swedish tax rate	28.0	387	28.0	288
Utilization of previous, non-capitalized loss carry-forwards	34.9	481	–	–
Increase in loss carry-forwards without equivalent capitalization of deferred tax	–	–	–28.0	–288
Tax pertaining to previous years	–	–	–1.9	–20
Capitalization of deferred tax on loss carry-forwards	–	–	206.8	2,130
Reported effective tax	62.9	868	204.9	2,110

NOTE 13 / INTANGIBLE FIXED ASSETS

Group	Dec. 31, 2005	Dec. 31, 2004
Capitalized costs brought forward		
Accumulated acquisition value		
Opening balance	29,198	17,318
Assets developed internally	13,916	11,880
Closing balance	43,114	29,198
Accumulated amortization		
Opening balance	–3,840	–
Amortization[1)]	–4,967	–3,840
Closing balance	–8,807	–3,840
Reported value	34,307	25,358

The assessment of the balance sheet item's value is done on the basis of the cash-generating units' useful value. The future cash flows have been taken from the company's business plan and the present value is calculated using a percentage of 9 percent after tax, which is deemed to be the company's weighted average cost of capital (WACC). The value in use of all products exceeds the reported value. The risk-free rate of interest is calculated as being 3 percent. Even in the event of substantial changes in the variables, no impairment requirement would arise.

Computer Software

Group	Dec. 31, 2005	Dec. 31, 2004
Acquired		
Accumulated acquisition value		
Opening balance	1,165	896
New acquisitions	405	269
Closing balance	1,570	1,165
Accumulated amortization		
Opening balance	–816	–682
Amortization[1)]	–185	–134
Closing balance	–1,001	–816
Reported value	569	349

[1)] Of the Group's amortization for the year, SEK 174 (123) was capitalized.

Intangible fixed assets		
Reported value	34,876	25,707

NOTE 14 / TANGIBLE FIXED ASSETS

Equipment, tools, fixtures and fittings

Group	Dec. 31, 2005	Dec. 31, 2004
Accumulated acquisition value		
Opening balance	4,786	4,276
New acquisitions	440	510
Closing balance	5,226	4,786
Accumulated depreciation		
Opening balance	–3,064	–2,309
Depreciation[1]	–962	–755
Closing balance	–4,026	–3,064
Reported value	1,200	1,722

1) Of the Group's amortization for the year, SEK 731 (609) was capitalized.

NOTE 15 / PARTICIPATIONS IN GROUP COMPANIES

Parent Company	Dec. 31, 2005	Dec. 31, 2004
Accumulated acquisition value		
Opening balance	186,833	186,833
Non-cash issue	46,870	–
Closing balance	233,703	186,833
Reported value	233,703	186,833

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

Subsidiary/Corp. reg. no. /Reg. office	Number of shares	Percentage share	Dec. 31, 2005 Book value	Dec. 31, 2004 Reported value
RaySearch Medical AB, 556591-6862			233,703	186,833
Class A shares	5,000			
Class B shares	8,333			
Share of equity		100.0		
Share of voting rights		100.0		
			233,703	186,833

NOTE 16 / LONG-TERM RECEIVABLES

Group	Dec. 31, 2005	Dec. 31, 2004
Accumulated acquisition value		
Opening balance	98	182
Repayment of loan	–59	–60
Other changes	112	–24
Reported value	151	98

NOTE 17 / PREPAID EXPENSES AND ACCRUED INCOME

	Dec. 31, 2005	Dec. 31, 2004
Group		
Prepaid rent	1,005	983
Prepaid insurance	327	99
Other prepaid costs	637	471
Accrued income	–	1,138
	1,969	2,691

NOTE 18 / CASH AND CASH EQUIVALENTS

	Dec. 31, 2005	Dec. 31, 2004
Interest paid and dividends received		
Interest received	467	238
Interest paid	–59	–14
Cash and cash equivalents		
The following components are included in cash:		
Cash and bank balances	6,715	8,427
Current investments equivalent to cash	46,896	3,867
	53,611	12,294

The above items have been classified as cash and cash equivalents based because:
– They represent insignificant risk for changes in value
– They are easily transformed into cash
– They have a lifetime of a maximum 3 months from the acquisition date

NOTE 19 / DEFERRED TAX RECEIVABLES AND TAX LIABILITIES

Group	Dec. 31, 2005	Dec. 31, 2004
Deferred tax liabilities for:		
Intangible assets		
Opening balance	7,101	4,849
Change during the year	2,506	2,252
Closing balance	9,607	7,101
Untaxed reserves		
Opening balance	1,986	1,672
Change during the year	2,301	314
Closing balance	4,287	1,986
Reported value	13,894	9,087

Group and Parent Company	Dec. 31, 2005	Dec. 31, 2004
Deferred tax assets in respect of loss carry-forwards		
Opening balance	2,130	–
Change during the year	–2,130	2,130
Closing balance	–	2,130

Valuation is based on the nominal tax rate.

Deferred tax receivables, not disclosed
The tax-related loss carry-forwards amounted to SEK 40 M (40) and are attributable to the Parent Company.

The company believes that it should prove possible to use the loss carry-forwards to offset future profits. In the current situation, deferred tax receivable for the loss carry-forwards have not been capitalized, since the loss carry-forwards cannot be used within a five-year period due to the limit on group contributions that applies in conjunction with corporate acquisitions.

NOTE 20 / OTHER LONG-TERM LIABILITIES

	Dec. 31, 2005	Dec. 31, 2004
Group		
Opening balance	–	–
Change during the year	967	–
Closing balance	967	–

The amount of SEK 967 above pertains to the premiums for the options in RayIncentive and which are booked as a liability, which has been consolidated of Jan. 1, 2005.

NOTE 21 / DIVIDEND PER SHARE AND NUMBER OF SHARES OUTSTANDING

	Dec. 31, 2005	Dec. 31, 2004
Dividend per share[1]	none	none
Number of shares outstanding before full dilution	11,427,591	10,513,061
Number of shares outstanding after full dilution	11,427,591	11,427,591
Average number of shares outstanding before full dilution	11,364,082	10,513,061
Average number of shares outstanding after full dilution	11,427,591	11,427,591

1) Proposed for 2005. Approved for 2004.

NOTE 22 / ACCRUED EXPENSES AND DEFERRED INCOME

	Dec. 31, 2005	Dec. 31, 2004
Group		
Accrued social security contributions and vacation costs	1,011	836
Other accrued personnel-related costs	1,321	545
Accrued auditing expenses	288	267
Accrued legal expenses	110	55
Accrued expenses for the annual report	1,129	547
Other accrued expenses	1,033	934
Deferred income	95	471
Closing balance	4,987	3,655
Parent Company		
Accrued auditing expenses	164	136
Accrued legal expenses	13	118
Closing balance	177	254

NOTE 23 / INTEREST- AND EXCHANGE-RATE RISKS

Effective rate of interest and maturity structure
RaySearch's cash and cash equivalents consist of all cash in bank with an effective rate of interest of 1.0 percent and Swedish Treasury Bills that mature on February 15, 2006 and carry an effective rate of interest of 1.6 percent.

Transaction exposure
Translated to SEK the Group's transaction expose is distributed among the following currencies.

Group

	2005		2004	
Currency	Amount	%	Amount	%
EUR	16,159	23	–	–
USD	52,575	77	–	100
	68,734		38,241	

In the consolidated income statement, exchange rate gains and losses are reported in the amounted of SEK 1,132 (-500) I the income statement and in the amount of SEK 0 (0) in net financial items. Transaction exposure is not hedged.

Translation exposure
Foreign net assets translated to SEK are distributed in the Group among the following currencies:

Group

	2005		2004	
Currency	Amount	%	Amount	%
EUR	2,294	15	–	–
USD	13,070	85	8,998	100
	15,364		8,998	

Sensitivity analysis
The company is dependent on the trends for the USD and EUR against SEK, since invoicing to Philips is in USD and invoicing to Nucleton is in EUR. During 2005, revenue from Philips was booked at an average USD/SEK exchange rate of SEK 7.52, compared with SEK 7.37 in 2004. Beginning with the invoicing of Nucletron during the second quarter of 2005, revenue was booked at a average EUR /SEK exchange rate of EK 9.27. A sensitivity analysis of currency exposure shows that the effect on operating profit during 2005 of a change in the average USD exchange rate of +/– 10 percent per year results in SEK +/– 5.3 M. The sensitivity analysis shows the effect of a change in the average EUR exchange rate of +/– 10 percent annually results in SEK +/– 1.6 M.
At December 31, 2005, a general rise in interest rates of 1 percent would increase the Group's profit before tax by approximately SEK 500,000 (300,000).

NOTE 24 / PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Dec. 31, 2005	Dec. 31, 2004
Pledge assets		
Chattel mortgages	5,000	–
Cash for rental sureties	–	1,921
Total	5,000	1,921

The company has a credit limit on its overdraft facilities of SEK 5,000, which was not utilized in 2005.

Contingent liabilities	none	none

NOTE 25 / TRANSACTIONS WITH CLOSELY RELATED PARTIES AND INTRA-GROUP

Refer to Note 4 for a description of transactions with parties in senior positions. Otherwise, there are no transactions with closely related parties. There were no intra-Group sales or purchases.

NOTE 26 / COMMENTS REGARDING THE TRANSITION TO IFRS

This consolidated financial report is the first to have been drawn up using IFRS, as stated in Note 1.

The accounting principles outlined in Note 1 have been applied in preparing the consolidated financial reports for the 2005 financial year and for comparisons with 2004, as well as for the Group's opening balances as of January 1, 2004, apart from IAS 32, 39 and IFRS 4, which, pursuant the exceptions in IFRS 1 are applied only in 2005.

In preparing the opening balances, the amounts reported in accordance with previous accounting principles have been adjusted according to IFRS. The following tables and explanations show how the transition from previous accounting principles to IFRS have affected the Group's financial position, financial results and cash flow.

Accounting principles – significant differences

IAS 38 Intangible assets

The standard that significantly affects the company's earnings and financial position is IAS 38, Intangible Assets. The primary rule governing retroactive application applies in the transition to IAS 38. This means that internally developed intangible assets, such as development expenses, that were previously charged as a cost, but which as of January 1, 2004, fulfilled the requirements for capitalization, should be reported as an asset in the opening balance sheet. For RaySearch's part, this involves development expenses for the period Jan. 1, 2002 – May 28, 2003 totaling SEK 11.7 M. For previous periods, it was concluded that there were not sufficient underlying amounts to capitalize development expenses. Profit before tax is adversely affected by SEK 2.3 M annually (after tax of SEK 1.7 M) during the period 2005-2008. Shareholders' equity rose SEK 8.4 M as of January 1, 2004.

IFRS 2 Share-based payments

The options programs in progress at RaySearch are based on existing shares. The acquisition of options was done at market value.

IFRS 3 Business Combinations

No restatement has been made of the acquisition balance sheet for the reverse acquisition in 2003, since the transition rules in IFRS permit this. Consequently, the comparative figures have not been restated.

IAS 19 Employee benefits

As regards pensions, these are premium based and thus no effects arise.

The presentation below shows the current accounting principles according to the recommendations of the Swedish Financial Accounting Standards Board (RR) and IFRS and the effects on the accounts.

Cash flow is not affected by IFRS, but there is a redistribution among two lines in the cash flow statement. These lines are "Profit before tax " and "Adjustments for items not included in cash flow".

CONSOLIDATED INCOME STATEMENTS

Amounts in SEK 000s	2004 According to RR	Effect from the switch to IFRS	2004 According to IFRS
Net sales	39,479	–	39,479
Cost of goods sold	–1,238	–	–1,238
Gross profit	**38,241**	**–**	**38,241**
Research and development costs	–10,803	–2,344	–13,147
Other operating expenses	–12,634	–	–12,634
Operating profit	**14,804**	**–2,344**	**12,460**
Result from financial items	158	–	158
Profit before tax	**14,962**	**–2,344**	**12,618**
Tax	–2,059	656	–1,403
PROFIT FOR THE YEAR	**12,903**	**–1,688**	**11,215**
Earnings per share before full dilution (SEK)	1.23	–0.16	1.07
Earnings per share after full dilution (SEK)	1.13	–0.15	0.98

CONSOLIDATED BALANCE SHEETS

Amounts in SEK 000s	2004 According to RR	Effect from the switch to IFRS	2004 According to IFRS
ASSETS			
Fixed assets			
Intangible fixed 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**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity attributable to Parent Company's shareholders	19,821	8,439	28,260
Liabilities	10,935	3,282	14,217
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**30,756**	**11,721**	**42,477**

CONSOLIDATED BALANCE SHEETS

Amounts in SEK 000s	2004 According to RR	Effect from the switch to IFRS	2004 According to IFRS
ASSETS			
Fixed assets			
Intangible fixed 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**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity attributable to Parent Company's shareholders	32,724	6,751	39,475
Liabilities	12,694	2,626	15,320
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**45,418**	**9,377**	**54,795**

It is hereby ensured that, to our knowledge, the annual report has been prepared in compliance with generally accepted accounting principles for listed companies; that the information provided complies with the factual circumstances; and that nothing of significance has been omitted that could affect the impression of the company conveyed by the annual report.

Stockholm, May 10, 2006

The annual report and consolidated financial statements were approved for publication by the Board as of May 10, 2006. The consolidated income statement and balance sheet and the Parent Company's income statement and balance sheet will be presented for the approval of the Annual General Meeting on June 29, 2006.

Erik Hedlund
Chairman

Johan Löf
President and CEO

Carl Filip Bergendal

Claes-Göran Fridh

Hans Wigzell

My auditor's report was submitted on May 10, 2006

Anders Linér
Authorized Public Accountant

Audit Report – translation

TO THE ANNUAL MEETING OF THE SHAREHOLDERS OF RAYSEARCH LABORATORIES AB (publ)
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 President of RaySearch Laboratories AB for the year 2005. The Board of Directors and the President are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. 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 high but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President 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 President. I also examined whether any Board member or the President 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 have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory Board of Directors' and President's report is consistent with the other parts of the annual accounts and the consolidated accounts.

I recommend to the Annual 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 Board of Directors' and President's report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, May 10, 2006

Anders Linér
Authorized Public Accountant

Board of Directors

ERIK HEDLUND
Chairman and member of the Board of Directors at RaySearch Laboratories since 2003 and RaySearch Medical since 2000. President and member of the Board of Pencil Beam Technologies AB as well as Nordsymton AB. Other directorships: Chairman of the Board of Scandiflash AB, ScandiaFlash Holding AB, ScandiDelux Belysning AB, Kompetenscentrum för Strålningsfysik (Center of Excellence for Medical Radiation Physics) at Karolinska Institutet, and RayIncentive AB. Born 1948. Educational background: M.Sc. in Engineering and MBA. Professional experience: Erik Hedlund has had a number of senior positions in major international groups, including Siemens and Saab, as well as in small and mid-sized companies during his career. He has concentrated on high-tech with the focus on medical technology. Since 1994, his main focus has been on radiation therapy and radiation physics. He is an independent Board member in relation to RaySearch Laboratories but not in relation to major shareholders in the company.
Shareholding: 522,363 Class A and 201,320 Class B shares.

JOHAN LÖF
President and CEO. Member of the Board of Directors at RaySearch Laboratories since 2003 and RaySearch Medical since 2000. Other directorships: RayIncentive AB. Born 1969. Educational background: Johan Löf has an M.Sc. in Engineering Physics from the Royal Institute of Technology and a Ph.D. 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. Professional experience: President and CEO of RaySearch Medical since 2000 and President and CEO of RaySearch Laboratories since 2003. He is not an independent Board member in relation to RaySearch Laboratories or in relation to major shareholders in the company.
Shareholding: 2,081,028 Class A and 779,464 Class B shares.

CARL FILIP BERGENDAL
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. Born 1945. Educational background: M.Sc. in Engineering from the Royal Institute of Technology and MBA from the Stockholm School of Economics. Professional experience: Carl Filip Bergendahl has had a number of senior positions in subsidiaries of the Modo Group (1972-1980) and in the medical technology company Stille-Werner (1980-1987), with the two final years as President and CEO. He has worked since 1988 as Lots coach® and, in this capacity, provides support for managers in large and mid-size companies in undertaking restructuring processes. Partner in Lotscenter AB since 2003. Independent Board member in relation to RaySearch Laboratories and in relation to major shareholders in the company.
Shareholding: 353,859 Class A and 136,377 Class B shares.

CLAES-GÖRAN FRIDH
Member of the Board of Directors at RaySearch Laboratories since 2003 and RaySearch Medical since 2002. CEO of Affärsstrategerna AB (publ). Other directorships: Chairman in Photometric AB, Widermind AB and Samba Sensors AB, Board member of companies such as Affärsstrategerna AB, AlphaHelix Molecular Diagnostics AB, Innate Pharmaceuticals AB, Naty AB and Webupdate AB. Previously Chairman of the Board of the O-listed company Artema Medical AB and Artimplant AB as well as a number of Board assignments in listed companies. Born 1955. Educational background: MBA. Professional experience: Claes-Göran Fridh worked previously as an institutional broker at Svenska Handelsbanken AB (1976-1982) and founded and has been CEO of Civic Fondkommission AB (1982-1988). Independent Board member in relation to RaySearch Laboratories and in relation to major shareholders in the company.
Shareholding: 0. Via Affärsstrategerna 0.

HANS WIGZELL
Member of the Board of Directors of RaySearch Laboratories and RaySearch Medical since May 2004. Professor at Karolinska Institutet in Solna. Other directorships: Chairman of Karolinska Innovations AB, Karolinska Development I AB, Karolinska Development II AB, and Board member of Biovitrum AB. Other assignments: Scientific adviser to the Swedish government since 1999. Member of the Royal Swedish Academy of Science and the Academy of Engineering Science. Born 1938. Educational background: Doctor of Medicine. Professional experience: Dean of Karolinska Institutet in Solna, 1995-2003. Independent Board member in relation to RaySearch Laboratories and in relation to major shareholders in the company.
Shareholding: 0. Options: Options for 10,000 Class B shares.

THOMAS POUSETTE
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. Attorney and partner at Advokatfirma Lindhs DLA Nordic KB. Other directorships: Board member of Lauzon International Network AB and Swedish-Spanish Trade Forum. Born 1964. Educational background: LLM; (Stockholm University), LLM; (Kings College London). Professional experience: County Administrative Court, Jämtland County, Administrative Court of Appeal in Sundsvall, Lindhs DLA Nordic from 1994. He is not an independent board member in relation to RaySearch Laboratories, but is independent in relation to major shareholders in the company.
Shareholding: 4,000 Class B.

Senior management

Anders Liander, Henrik Rehbinder, Johan Löf, Ola Enarson and Anders Murman.

JOHAN LÖF, PRESIDENT AND CEO
Member of the Board of Directors at RaySearch Laboratories since 2003 and RaySearch Medical since 2000. *Other directorships:* RayIncentive AB. Born 1969. *Educational background:* Johan Löf has an M.Sc. in Engineering Physics from the Royal Institute of Technology and a Ph.D. 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. *Professional experience:* President and CEO of RaySearch Medical since 2000 and President and CEO of RaySearch Laboratories since 2003. *Shareholding:* 2,081,028 Class A and 779,464 Class B shares

OLA ENARSON, CHIEF FINANCIAL OFFICER
Born 1961. *Educational background:* Graduate in Business Administration and MBA from the Stockholm School of Economics. *Professional experience:* Ola Enarson previously worked as an authorized public accountant at Öhrlings PricewaterhouseCoopers, Chief Financial Officer and controller at KF Fastigheter, Bombardier, and Cybercom. Employed by RaySearch Medical in 2004. *Shareholding:* 1,000 Class B shares. *Options:* Options for 50,000 Class B shares.

ANDERS LIANDER, DIRECTOR OF DEVELOPMENT
Born 1971. *Educational background:* Anders Liander has an M.Sc. in Electrical Engineering from the Royal Institute of Technology with a focus on medical technology. *Professional experience:* He began at the Department of Medical Radiation Physics at the Department of Oncology-Pathology, 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.
Shareholding: 353,859 Class A and 166,535 Class B shares.

ANDERS MURMAN, DIRECTOR OF MARKETING
Born 1967. *Educational background:* Anders Murman has an M.Sc. in Engineering Physics from the School of Engineering at Uppsala University, with a focus on systems development and radiation science. *Professional experience:* Anders Murman 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).
Shareholding: 0. *Options:* Options for 20,000 Class B shares.

HENRIK REHBINDER, DIRECTOR OF RESEARCH
Born 1972. *Educational background:* Henrik Rehbinder has a M.Sc. in Engineering Physics. In 2001, he received his Ph.D. in Optimization and Systems Theory from the Royal Institute of Technology. His Ph.D. studies focused mainly on mathematical methods for autonomous robot systems and biomechanical models of the human body. *Professional experience:* He has been employed at RaySearch Medical since 2002.
Shareholding: 43.200 Class B shares.

Auditors

AUDITOR
Anders Linér
Auditor at RaySearch Laboratories since 2003 and auditor at RaySearch Medical since 2000. Authorized Public Accountant, KPMG Bohlins AB. Born 1952.

DEPUTY AUDITOR
Lena Krause
Deputy auditor at RaySearch Laboratories since 2003 and deputy auditor in RaySearch Medical since 2000. Authorized Public Accountant, KPMG Bohlins AB. Born 1961.

Scientific Advisory Board

ANDERS BRAHME
Professor and Head of the Department of Medical Radiation Physics at Karolinska Institutet in Stockholm. Professor Brahme received his doctorate in 1975 from Stockholm University. Since then he has been active in the development of new methods for dosimetrics, design of beam delivery and quality assurance. He also initiated the development of intensity modulated radiation therapy (IMRT) with scanned beams and multi-leaf collimators. During the past two decades, his activities have focused on optimization of radiation therapy with radiobiology models.

ANDERS FORSGREN
Professor at the Department of Optimization Science and Systems Theory, Royal Institute of Technology (KTH), Stockholm. Professor Forsgren received his doctorate in optimization science ad system theory from KTH in 1990 and has an M.Sc. in operations analysis from Stanford University. He has worked at KTH since 1990, where he was appointed professor in 2003. His research focus is non-linear optimization.

DAVID JAFFRAY
Head of the Department of Radiation Physics at Princess Margaret Hospital, Toronto, Canada and Associate Professor at the Institutions for Radiation Oncology and Medical Biophysics at Toronto University. Dr. Jaffray received his doctorate for his work in megavolt radiology from the Institution for Medicinal Biophysics at the University of Western Ontario 1994. He is certified in the area of medical physics (ABMP, Radiation Oncology) with more than 10 years of experience. His main area of interest is the development of IGRT equipment and strategies to improve the therapeutic ratio in radiation therapy of cancer. Dr. Jaffray's major contribution has been the understanding of the foundations underlying megavolt imaging and development of cone-beam CT for IGRT.

RADHE MOHAN
Professor and Chairman of the Department of Radiation Physics at M. D. Anderson Cancer Center, Houston, Texas, USA. Professor Mohan received his doctorate in theoretical nuclear physics from Duke University in 1969, following which he held a post-doctoral research post at Rutgers University. He has worked 25 years at Memorial Sloan-Kettering Cancer Center, where he was Assistant Chairman of the Institution for Medicinal Physics. Subsequently, he was professor and head of the Radiation Physics Institution at Virginia Commonwealth University. His research expertise spans a wide spectrum of radiation physics for oncology. In recent years, his activities have focused on intensity-modulated radiation therapy, applications of the Monte-Carlo methods in radiation therapy, imaging systems and IGRT and modeling, assessment and applications of dose response relationships.

Glossary

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 image 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 for solving a problem in a number of steps, for example, a calculation procedure is called an algorithm.

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.

ART Refer to Adaptive Radiation Therapy.

Biological optimization Refer to Radiobiological optimization.

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

Computer 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.

Cone-beam CT Technology for computer tomography (CT) images by means of a cone-formed X-ray beam. This permits images to be acquired in a short time and is used when CT is to be integrated with the treatment machine.

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 radiation therapy Therapy in which clinicians decide to treat patients in an effort to cure the cancer; in other words, completely eradicate the tumor. The opposite is palliative treatment, which is used when clinicians cannot cure the disease, but only alleviate it or slow its progress.

Direct optimization of machine parameters The basis of RayMachine. Direct optimization of machine parameters means that, during optimization, you use detailed model of the accelerator with its physical and technical limitations. 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.

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

Dose response relationships How tissue reacts to radiation.

Fluence optimization A method used for calculating IMRT plans in which one permits the photon fluence to vary randomly across each beam's cross-section. The photon fluences are then recomputed to machine settings in a stage that adversely impacts on treatment quality. A better method is "Direct optimization of machine parameters."

IGRT – Image-Guided Radiation Therapy. Radiation therapy in which information is extracted from images of patients in the treatment position is used for basic geometric corrections such the patient positioning. Typical imaging modalities are portal imaging and CT scanners integrated with the treatment machine. By means of this procedure, positioning errors can be reduced and a better treatment gained. Refer also to Adaptive radiation therapy.

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.

Light ions An ion is an atom that has a negative or a positive charge due to an excess or deficit of electrons. Ions with a higher atomic number, such as helium (2), beryllium (4) and carbon (6) are referred to as being light.

Magnetic Resonance (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.

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 only a rectangular field and essentially always in conjunction with the supply of 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.

MR Refer to Magnetic Resonance

Multileaf collimator Refer to MLC

Oncentra MasterPlan. The new name of Nucletron's treatment planning system, formerly referred to as Oncentra Treatment Planning (OTP).

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 Radiation Therapy 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.

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

Palliative radiation treatment Therapy in which clinicians cannot cure the disease, but only alleviate it or slow its progress. The opposite is referred to as curative therapy, which is used when clinicians decide to treat patients in an effort to cure the cancer, in other words, completely eradicate the tumor.

Plug-in module Software that can be plugged into a larger software system and provide enhanced functionality.

Positron emission tomography (PET) A more recent 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.

Quality assurance Extensive checks are conducted in hospitals of all systems included in the radiation process. Certain checks are conducted daily, other before the treatment of each patient commences. These processes are referred to as quality assurance and are aimed at ensuring that the patients receive exactly the planned dose.

Radiation dose algorithms See Dose calculation algorithms.

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.

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

Treatment planning Using a computer to find 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).

Tumor response. How the tumor reacts to radiation treatment.