

RaySearch Laboratories AB (publ) Year-end Report 2007

JANUARY 1 – DECEMBER 31, 2007

- Net sales for the period amounted to SEK 64.7 M (69.0)
- Profit after tax was SEK 19.8 M (36.2)
- Earnings per share after tax amounted to SEK 1.73 (3.17)
- Operating profit amounted to SEK 25.8 M (33.5)
- Cash flow from operating activities amounted to SEK 37.9 M (30.1)
- Collaboration agreement with Varian Medical Systems was signed in May
- Collaboration agreement with TomoTherapy was signed in August
- COMPASS® received FDA clearance and was launched in December.
- Board of Directors proposes a dividend of SEK 0.50 (0.00) per share
- Board of Directors proposes 3:1 share split

”We are now in a phase of intensive development. During 2007 we expanded from three to five partners and increased the number of employees in research and development by three quarters. In December, we also entered an entirely new market segment with the launch of COMPASS®,” says Johan Löf, CEO of RaySearch.

“Financially, 2007 was a moderate year since the new products and partnerships had not yet begun to contribute to earnings positively. But with eight products on the market and more than fifteen new products in development, the conditions for solid growth are favorable. I am therefore highly optimistic about the future,” concludes Johan Löf.

SUMMARY OF FINANCIAL RESULTS

Amounts in SEK 000s

	Jan-Dec		Oct-Dec	
	2007	2006	2007	2006
Net sales	64,705	68,976	14,523	21,151
Operating profit	25,781	33,540	3,683	11,046
Operating margin, %	39.8	48.6	25.4	52.2
Net profit*	19,779	36,219	3,006	19,765
Earnings per share, SEK	1.73	3.17	0.26	1.73
Share price in SEK at the end of the period	190.00	150.00		

* Deferred tax revenue relating to capitalized tax loss carry-forwards increased net profit by SEK 11,253,000 during the fourth quarter of 2006.

This information in the interim report is such that RaySearch must release it publicly in accordance with the Swedish Securities and Clearing Operations Act and/or the Financial Instruments Trading Act. The information was released to the public on February 5 at 7:45 a.m.

CEO comments

Fiscal 2007 was a strategically successful year in which RaySearch took major strides forward in many areas, even though 2007 was a moderate year financially.

In May, we signed a partnership agreement with Varian, the largest player in the radiation therapy field. The agreement is an important milestone in our development, since we thereby have agreements with the leading players in the treatment planning area. In August, we signed another agreement with TomoTherapy, which then became our fifth partner. TomoTherapy is a relatively small, but highly innovative and fast-growing supplier of radiotherapy equipment.

Since existing partnerships are proceeding at an undiminished pace, the new agreements create a great need to expand our development capacity. Accordingly, we carried out a strong expansion during the year and recruited some 20 new employees, primarily in research and development. The response during recruitment was enormous. The number of applicants and the expertise of the new recruits exceeded our very high expectations. As a result of the recruitment campaign we have doubled our development capacity and at the same time strengthened our expertise within many key areas.

In December, these expanded development efforts began to bear fruit when COMPASS® received FDA clearance and was launched. The sales process is now up and running and the first orders have been received. COMPASS® is a state-of-the-art solution for quality assurance of intensity modulated radiotherapy that was developed in cooperation with IBA Dosimetry. In addition to improving the precision, COMPASS® has the potential to significantly speed up the quality assurance process, which will enable the clinics to spend more time on treating patients and simultaneously improve safety. The launch provides a large revenue potential and is also of strategic importance. With a third partner that sells our products in addition to Philips and Nucletron, the stability of the company increases. Moreover, the launch means that RaySearch now broadens its base and enters the dosimetry area, which is an entirely new market segment for us.

The new products and partnerships are not yet contributing positively to earnings. Sales declined during the year by 6 percent to SEK 64.7 M. The most significant reasons for the decline is that sales via Nucletron during the fourth quarter did not attain the relatively high levels reached during the corresponding quarter of 2006. Sales were also affected adversely by the declining US dollar. At unchanged exchange rates, sales in 2007 would have been the same as a year earlier. Net profit for 2007 declined to SEK 19.8 M, from SEK 36.2 M in 2006. The decline is attributable to lower operating profit and that net profit in 2006 was affected positively by SEK 11.3 M due to the accounting effect of our taxable loss carryforward deduction, while the corresponding effect did not arise in 2007. However, RaySearch has a very solid financial position. Cash flow from operating activities rose to SEK 37.9 M (30.1) and cash and cash equivalents amounted to SEK 79.1 M at year-end. Therefore, the Board is proposing for the first time that a dividend of SEK 0.50 per share be paid.

Future growth will primarily come from new products and we are now working very hard with product development and have several launches planned in the coming year. The Varian collaboration is moving forward rapidly and we have already demonstrated our future products for radiobiological evaluation and optimization. In addition to these products, we are also developing a product for optimization of conventional 3DCRT treatments. The time lines for the projects remain, with planned release of the first product in 2008. The cooperation with TomoTherapy is also progressing well. Three products have been specified that extend the treatment planning functionality of the TomoTherapy Hi-Art system and facilitate the transfer of treatment plans between the Hi-Art system and conventional linear accelerators. The first product is expected to be released in 2008. In the collaboration with IBA Dosimetry regarding COMPASS®, we are working intensely with further development of the two products that were just released and with the development of more advanced functionality.

Concurrently with focusing much energy on our new collaboration agreements, we are also working continuously with our partners Philips and Nucletron. We have an extensive collaboration with Philips within adaptive radiotherapy in which the first product is planned to be released during the second half of 2008. We are also proceeding in our partnership with Nucletron and are carrying out significant development within proton and ion-carbon therapy, a major future area within radiation therapy.

Overall, we are now in a phase of intensive development. During 2007 we expanded from three to five partners and increased the number of employees in research and development by three quarters. We now have eight different products on the market, have entered an entirely new market segment and are developing more than fifteen new contracted products that will be introduced in the years immediately ahead. In parallel, we also continue to seek out new collaboration opportunities and are involved in several discussions related to expanding existing agreements or entering new partnerships. With such favorable conditions for solid growth in the years ahead, I am highly optimistic about the future.

Stockholm, February 5, 2008

Johan Löf, President and CEO
RaySearch Laboratories AB

Key events

EVENTS DURING THE FOURTH QUARTER OF 2007

COMPASS® approved by the FDA and launched

In December, COMPASS® received 510(k) clearance from the US Food and Drug Administration (FDA) and was launched globally by IBA Dosimetry. COMPASS® is a state-of-the-art dosimetry solution for quality assurance of intensity modulated radiation therapy and has been developed in cooperation with IBA Dosimetry. Initially, two of the three software products contracted with IBA Dosimetry are included. COMPASS® enables the medical staff to measure and reconstruct the 3D radiation dose that was actually delivered to the patient every day during the course of treatment. This is highly valuable, particularly in advanced IMRT/IGRT treatments that aim to maximize the effective dose delivered to the tumor whilst sparing the surrounding healthy tissue. In addition to improving the precision, COMPASS® has the potential to significantly speed up the quality assurance process, which will enable the clinics to spend more time on treating patients and simultaneously improve safety.

EVENTS AFTER THE END OF THE REPORTING PERIOD

No significant events occurred after the end of the reporting period.

Financial information

SALES AND EARNINGS IN THE FOURTH QUARTER

In the fourth quarter of 2007, sales amounted to SEK 14.5 M (21.2). Operating profit during this quarter amounted to SEK 3.7 M (11.0), corresponding to an operating margin of 25.4 percent (52.2). Net profit in the fourth quarter amounted to SEK 3.0 M (19.8). Sales of Nucletron products were lower in this quarter than they were in the relatively strong fourth quarter of 2006. The trend of the USD also adversely affected RaySearch. Deferred tax revenue relating to tax loss carry-forwards increased net profit by SEK 11.3 M during the fourth quarter of 2006. The tax loss carry-forward deduction cannot be applied in the current year, but can be applied in 2009.

SALES AND EARNINGS FOR THE FULL YEAR

Total sales for full-year 2007 declined by 6 percent, compared with the preceding year and amounted to SEK 64.7 M (69.0). The number of licenses sold amounted to 731 (816) and license revenues during 2007 totaled SEK 45.1 M (52.9). Sales comprise mainly license revenues from p-RayOptimizer and p-RayMachine and support revenues. Support revenues are based on the accumulated license revenues and consequently grow continually. Support revenues rose 22 percent in 2007 and amounted to SEK 19.6 M (16.1). The decline in sales in absolute figures is equally distributed between Philips and Nucletron. The Philips decline is mainly attributable to the weakening USD. Sales of p-RayOptimizer since launch in 2001 have been at a steady level on an annual basis and RaySearch sees no signs of a decline.

The company is dependent on the exchange-rate trend for USD and EUR in relation to SEK, since invoicing is in USD to Philips and in EUR to Nucletron. During 2007, revenues from Philips were recorded at an average USD exchange rate of SEK 6.70, compared with SEK 7.31 during 2006. During 2007, revenues from Nucletron were recorded at an average EUR exchange rate of 9.27, compared with SEK 9.14 in 2006. A sensitivity analysis of currency exposure indicates that the effect on operating profit for 2007 of a change in the average USD exchange rate of +/- 10 percent is SEK +/- 4.9 M and that the corresponding effect of a change in the average EUR exchange rate of +/- 10 percent is SEK +/- 1.5 M. The company follows a currency policy established by the Board of Directors.

Operating profit in 2007 amounted to SEK 25.8 M (33.5), corresponding to an operating margin of 39.8 (48.6) percent. Operating costs excluding currency effects increased by SEK 4.6 M, compared with the preceding year, and amounted to SEK 38.1 M. This increase was due to increased research efforts, primarily within radiation therapy with protons and adaptive radiation therapy, and the research collaboration with Princess Margaret Hospital. Costs for recruitment, larger offices, premises renovation and increased amortization of capitalized development expenses also contributed to the increase. Other operating revenues and other operating expenses pertain to exchange rate gains and losses, and the net of these amounted to SEK 0.1 M (-1.1) during 2007.

As of December 31, 2007, 40 (23) employees worked with research and development. Research and development costs include costs for payroll, consulting fees, computer equipment and premises. Before capitalization and amortization, research and development costs totaled SEK 41.1 M (27.8) and are expected to continue to represent a significant portion of costs in the future.

Amortization and depreciation during 2007 amounted to SEK 6.7 M (5.8) for intangible assets and SEK 0.2 M (0.2) for tangible assets. Total amortization and depreciation for 2007 was SEK 6.9 M (6.0). Amortization and depreciation are mainly related to development expenses.

Profit after tax during 2007 amounted to SEK 19.8 M (36.2), corresponding to earnings per share after tax of SEK 1.73 (3.17).

Deferred tax revenue relating to tax loss carry-forwards increased net profit by SEK 11.3 M during the fourth quarter of 2006. The tax loss carry-forward deduction cannot be applied in the current year, but can be applied in future years. The tax expense in the Group amounts to SEK 8.3 M, comprising current taxes of SEK 3.1 M and deferred tax expenses of SEK 5.2 M.

Geographic distribution of license revenues

The majority of RaySearch's customers operate in the US. License revenues for 2007 were distributed as follows: North America, 56 percent (60); Asia, 14 percent (9); Europe and the rest of the world, 30 percent (31).

Capitalization and amortization of development costs

During 2007, development costs amounting to SEK 23.4 M (16.1) were capitalized. Amortization of development costs during 2007 totaled SEK 6.6 M (5.7).

LIQUIDITY AND FINANCING

Cash flow in 2007 totaled SEK 12.3 M (13.2). Cash flow from operating activities amounted to SEK 37.9 M (30.1).

At December 31, 2007, cash and cash equivalents was SEK 79.1 M, compared with SEK 66.8 M at December 31, 2006. At December 31, 2007, current receivables totaled SEK 17.8 M, compared with SEK 21.8 M at December 31, 2006. RaySearch has no interest-bearing liabilities.

INVESTMENTS

Fixed assets mainly comprise capitalized development costs. Investments in intangible fixed assets during 2007 amounted to SEK 24.3 M (16.5) and investments in tangible fixed assets were SEK 2.1 M (0.5). Investments in tangible fixed assets pertained to computers and furniture.

EMPLOYEES

At December 31, 2007, the number of employees at RaySearch totaled 47 (29). The average number of employees during the period January-December 2007 was 37 (28).

PARENT COMPANY

The financials of the Parent Company correspond in all significant respects to the financials of the Group, meaning that the comments for the Group also apply to a high degree for the Parent Company. Capitalization of development costs are accounted in the Group, but not in the Parent Company. During the preceding year, operations were conducted in the former subsidiary RaySearch Medical AB. In conjunction with the merger, which was registered on September 29, 2006, operations were transferred to the Parent Company RaySearch Laboratories AB.

PROPOSAL TO ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the Berns Conference Center, Kammarsalen, Berzelii Park, Stockholm on May 22, 2008 at 6:00 p.m. The 2007 Annual Report will be available at RaySearch's offices, Sveavägen 25 in Stockholm about one month prior to the Annual General Meeting.

Dividend

Taking into account RaySearch's strong financial development and favorable future prospects, the Board and the President propose that the Annual General Meeting decide on a dividend to the shareholders of SEK 0.50 (0,00) per share (before the share split) or SEK 5.7 M (0.0). RaySearch did not pay a dividend in the preceding year.

3:1 share split

The Board and the President propose that the Annual General Meeting decide on a 3:1 share split. Each share will be split into three shares. After the split, the total number of shares will amount to 34,282,773. The quotient value will change from the current SEK 1.50 to SEK 0.50.

CONSOLIDATED INCOME STATEMENTS

Amounts in SEK 000s

	Jan-Dec		Oct-Dec	
	2007	2006	2007	2006
Net sales	64,705	68,976	14,523	21,151
Cost of goods sold	-863	-849	-141	-182
Gross profit	63,842	68,127	14,382	20,969
Other operating income	453	432	404	-30
Selling expenses	-1,366	-2,170	-563	-351
Administrative expenses	-12,525	-13,899	-2,810	-4,263
Research and development costs	-24,225	-17,379	-7,378	-4,742
Other operating expenses	-398	-1,571	-352	-537
Operating profit	25,781	33,540	3,683	11,046
Result from financial items	2,260	1,320	644	515
Profit before tax	28,041	34,860	4,327	11,561
Tax	-8,262	1,359	-1,321	8,204
Net profit	19,779	36,219	3,006	19,765
Earnings per share before full dilution (SEK)	1.73	3.17	0.26	1.73
Earnings per share after full dilution (SEK)	1.72	3.15	0.26	1.72
Number of shares outstanding before and after full dilution	11,427,591	11,427,591	11,427,591	11,427,591
Average number of shares outstanding before full dilution	11,427,591	11,427,591	11,427,591	11,427,591
Average number of shares outstanding after full dilution	11,496,295	11,483,288	11,495,000	11,476,737

CONSOLIDATED BALANCE SHEETS

Amounts in SEK 000s	Dec. 31, 2007	Dec. 31, 2006
ASSETS		
Intangible fixed assets	62,738	45,397
Tangible fixed assets	2,333	979
Deferred tax assets	11,253	11,253
Total fixed assets	76,324	57,629
Current assets		
Current receivables	17,774	21,813
Cash and bank balances	79,135	66,832
Total current assets	96,909	88,645
TOTAL ASSETS	173,233	146,274
EQUITY AND LIABILITIES		
Equity	137,851	118,072
Deferred tax liabilities	22,850	17,816
Accounts payable, trade	4,577	2,296
Other current liabilities	7,955	8,090
TOTAL EQUITY AND LIABILITIES	173,233	146,274
Pledged assets	5,000	5,000
Contingent liabilities	none	none

CASH-FLOW STATEMENTS GROUP

Amounts in SEK 000s	Jan-Dec		Oct-Dec	
	2007	2006	2007	2006
Cash flow from operating activities before changes in working capital	28,064	33,813	5,195	12,911
Cash flow from changes in working capital	9,798	-3,720	6,983	315
Cash flow from operating activities	37,862	30,093	12,178	13,226
Cash flow from investing activities	-25,559	-16,872	-8,626	-5,762
Cash flow for the period	12,303	13,221	3,552	7,464
Cash and cash equivalents at the beginning of the period	66,832	53,611	75,583	59,368
Cash and cash equivalents at the end of the period	79,135	66,832	79,135	66,832

CHANGES IN EQUITY, GROUP

Amounts in SEK 000s

	2007	Jan-Dec 2006
Opening balance	118,072	81,854
Profit for the period	19,779	36,219
Closing balance	137,851	118,073

CHANGES IN NUMBER OF SHARES

Amounts in SEK 000s

	2007	Jan-Dec 2006
Total number of shares (opening and closing balance)	11,427,591	11,427,591
Holding of own shares (opening and closing balance)	149,876	149,876
Average holdings of own shares	149,876	149,876

KEY DATA AND FINANCIAL INFORMATION IN SUMMARY

Amounts in SEK 000s

	2007	Jan-Dec 2006	2005	2007	Oct-Dec 2006	2005
Net sales	64,705	68,976	69,855	14,523	21,151	19,163
Operating profit	25,781	33,540	39,607	3,683	11,046	10,616
Operating margin, %	39.8	48.6	56.7	25.4	52.2	55.4
Profit margin, %	43.3	50.5	57.3	29.8	54.7	55.9
Net profit*	19,779	36,219	29,142	3,006	19,765	8,099
Earnings per share, SEK	1.73	3.17	2.56	0.26	1.73	0.71
Return on capital employed, %	22.2	34.9	66.1			
Return on equity, %	15.5	36.2	48.0			
Equity/assets ratio, %	79.6	80.7	76.4			
Adjusted equity per share, SEK	12.06	10.33	7.16			
Share price at period end, SEK	190.00	150.00	177.00			

* Deferred tax revenue related to capitalized tax loss carry-forwards increased net profit by SEK 11,253,000 during the fourth quarter of 2006

PARENT COMPANY INCOME STATEMENTS

Amounts in SEK 000s

	Jan-Dec		Oct-Dec	
	2007	2006	2007	2006
Net sales	64,705	68,976	14,523	21,151
Cost of goods sold	-863	-849	-141	-182
Gross profit	63,842	68,127	14,382	20,969
Other operating income	453	432	404	-30
Selling expenses	-1,366	-2,170	-563	-351
Administrative expenses	-14,255	-15,528	-3,483	-5,642
Research and development costs	-39,317	-26,094	-13,094	-8,171
Other operating expenses	-398	-1,571	-352	-537
Operating profit	8,959	23,196	-2,706	6,238
Result from financial items	1,781	1,020	498	404
Profit/loss after financial items	10,740	24,216	-2,208	6,642
Appropriations	-1,101	-6,167	-1,101	-6,167
Profit/loss before tax	9,639	18,049	-3,309	475
Tax	-2,974	6,067	817	11,268
Net profit	6,665	24,116	-2,492	11,743

PARENT COMPANY BALANCE SHEETS

Amounts in SEK 000s

	Dec. 31, 2007	Dec. 31, 2006
ASSETS		
Intangible fixed assets	1,164	700
Tangible fixed assets	2,333	979
Financial fixed assets	2,160	2,160
Deferred tax assets	11,253	11,253
Total fixed assets	16,910	15,092
Current assets		
Current receivables	17,774	21,813
Cash and bank balances	64,217	52,320
Total current assets	81,991	74,133
TOTAL ASSETS	98,901	89,225
EQUITY AND LIABILITIES		
Equity	67,436	60,771
Untaxed reserves	20,033	18,932
Accounts payable, trade	4,577	2,296
Other current liabilities	6,855	7,226
TOTAL EQUITY AND LIABILITIES	98,901	89,225
Pledged assets	5,000	5,000
Contingent liabilities	None	None

Other information

ACCOUNTING PRINCIPLES IN ACCORDANCE WITH IAS/IFRS

This year-end report has been prepared in accordance with IAS 34, Interim Financial Reporting, which corresponds to the requirements contained in the Swedish Financial Accounting Standards Council's RR31 recommendation, Interim Reports for Groups. The accounting principles have not changed in relation to 2006. For a description of the accounting principles, see the Annual Report for 2006.

RISKS AND UNCERTAINTY FACTORS IN THE GROUP AND THE PARENT COMPANY

Financial risk management

RaySearch's finance policy for governing the management of financial risks was established by the Board of Directors and represents a framework of guidelines and rules in the form of risk mandates and limits for financial activities. RaySearch is primarily influenced by exchange rate risk. All of RaySearch's net sales are in USD or EUR. In accordance with the established financial policy, no currency hedging is employed.

Operational risks

As a result of its activities, RaySearch is exposed to various operational risks including the following: dependency on key persons, competition and strategic partnerships. RaySearch currently has partnerships with Philips, Varian, Nucletron, IBA Dosimetry and TomoTherapy. RaySearch also has several research partnerships. If RaySearch were to lose one or more of these partners, this could have a significant effect on the company's sales, profit and financial position. RaySearch is engaged in continuous discussions with a number of medical technology companies in respect of new collaborations.

For more detailed information about RaySearch's financial risk management and operational risks refer to the 2006 Annual Report on page 49.

TRANSACTIONS WITH CLOSELY RELATED PARTIES

No transactions occurred between RaySearch and closely related parties that materially affected the company's position and earnings.

Stockholm, February 5, 2008

Johan Löf
President and CEO

Review Report

To the Board of Directors of RaySearch Laboratories AB

I have reviewed the accompanying year-end report of RaySearch Laboratories AB (publ), Corp. Reg. No. 556322-6157 for 2007. The Board of Directors and the President are responsible for the preparation and fair presentation of the interim financial information in accordance with IAS 34 and the Annual Accounts Act. My responsibility is to express a conclusion on this year-end report based on my review.

I have conducted my review in accordance with the Swedish standard for such reviews, SÖG 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by FAR, the institute for the accountancy profession in Sweden. A review of interim financial information consists of making inquiries, primarily of, persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and is substantially less in scope than an audit conducted in accordance with Swedish generally accepted auditing standards and consequently does not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Therefore, a review does not enable me to express a conclusion with the same degree of assurance that an audit would do.

Based on my review, nothing has come to my attention that causes me to believe that the accompanying year-end report is not prepared, in all material respects, in accordance with IAS 34 and the Annual Accounts Act.

Stockholm, February 5, 2008

Anders Linér
Authorized Public Accountant
KPMG

FOR FURTHER INFORMATION, CONTACT:

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

RaySearch Laboratories AB (publ)
Corp. Reg. No. 556322-6157
Sveavägen 25
SE-111 34 Stockholm

FINANCIAL REPORTING IN 2008

Interim report for first quarter	May 7, 2008
Annual General Meeting	May 22, 2008, 6:00 p.m. The Annual General Meeting will be held in Kammarsalen, Berns Conference Center, Berzelii Park, Stockholm.
Interim report for the first six months	August 27, 2008

ABOUT RAYSEARCH

RaySearch Laboratories is a medical technology company that develops advanced software solutions for improved radiation therapy of cancer. RaySearch's products are sold through license agreements with leading partners such as Philips, Varian, Nucletron, IBA Dosimetry and TomoTherapy. Eight products have been released to date and RaySearch's software is used at over 1,200 clinics in more than 30 countries. In addition, existing license agreements cover more than 15 other products that are scheduled to be launched in the coming years. RaySearch was founded in 2000 as a spin-off from Karolinska Institutet in Stockholm and the company is listed in the SmallCap segment on the OMX Nordic Exchange Stockholm.

For more information about RaySearch, visit www.raysearchlabs.com.