

RaySearch Laboratories AB (publ) Interim Report January 1 – March 31 2008

JANUARY 1 – MARCH 31 2008

- Net sales for the period amounted to SEK 15.6 M (16.1)
- Profit after tax was SEK 3.1 M (5.2)
- Earnings per share amounted to SEK 0.27 (0.46)
- Operating profit amounted to SEK 3.6 M (7.1)
- Cash flow from operating activities amounted to SEK 1.2 M (13.4)
- The first revenues were recorded for COMPASS® and the agreement with IBA Dosimetry was expanded

AFTER THE END OF THE REPORTING PERIOD

- Release of first product from Varian collaboration postponed
- Negotiations in final stages with Philips regarding development of a new product for the new revolutionary treatment method VMAT
- As a result of the market driven prioritization of VMAT, the first product release within adaptive radiation therapy will be delayed

”We are currently finalizing the negotiations with Philips regarding a new product for VMAT which is a new exciting area with very large potential. However, this also means that the first product release from the collaboration with Philips regarding adaptive radiotherapy will be postponed,” says Johan Löf, CEO of RaySearch.

“The COMPASS® collaboration with IBA Dosimetry has now started to generate revenues. We have also expanded the COMPASS® collaboration with a new product that, together with the new Philips product, further strengthens our broad growth platform.”

”The first product release from the Varian collaboration has been postponed until next year. The delay is not due to any technical reasons” concludes Johan Löf.

SUMMARY OF FINANCIAL RESULTS

Amounts in SEK 000s

	Jan-Mar		Jan- Dec
	2008	2007	2007
Net sales	15,595	16,120	64,705
Operating profit	3,637	7,109	25,781
Operating margin, %	23.3	44.1	39.8
Net profit	3,134	5,227	19,779
Earnings per share, SEK	0.27	0.46	1.73
Share price in SEK at the end of the period	138.00	177.00	190.00

The information in this 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 May 7 at 7:45 a.m.

CEO comments

Revenues declined 3 percent in the first quarter compared with the corresponding period in the preceding year. Future sales growth will mainly be generated from new products and we are pleased that COMPASS®, which was launched in cooperation with IBA Dosimetry in December, has now begun to generate revenues. COMPASS® is a revolutionary system for quality assurance of advanced radiation treatments, representing a major stride forward in the dosimetry area. The system is attracting substantial attention, but since it is so advanced and differs from older solutions for quality assurance many potential buyers want to view the system in action in a clinical environment and also see the system generate solid clinical data before making a purchasing decision. Accordingly, the sales efforts are now centered on securing reference clinics and much work is focused on documenting relevant clinical cases. The work is proceeding well and the first orders and revenues have already been generated. It is however important to point out that since the sales process is longer and moreover involves hardware investments, the sales volumes will rise slower for COMPASS® than has been the case historically for our software products.

Concurrently, the COMPASS® development work is progressing. We have also formally agreed on a new product, i-RayTracker, which IBA Dosimetry plans to launch as an add-on to COMPASS® during 2009. Already today, COMPASS® enables the users to measure what dose is actually delivered to the patient each day during the treatment process. In addition, i-RayTracker will allow the users to accurately compute the accumulated dose, taking into consideration anatomical changes occurring during the course of treatment, such as organ movements or tumor shrinkage. This is a highly important step toward adaptive radiation therapy and this advanced functionality is not available in any commercial system today.

We are currently focusing much energy on VMAT (Volumetric Modulated Arc Therapy). This is an advanced form of radiation therapy that is now being promoted intensely by Varian and Elekta. VMAT means that the radiation treatment machine rotates around the patient while the treatment beam is turned on, resulting in a faster delivery of a highly precise dose distribution. We are developing a solution that enables treatment planning of this type of treatment and we have already completed a first prototype. We are right now finalizing negotiations with Philips regarding a license agreement for this product which is planned to be demonstrated at the upcoming trade shows this year. As a result of the prioritization of VMAT, the first product release from our collaboration with Philips within adaptive radiation therapy will be delayed. This release was previously scheduled for the second half of 2008.

Within the TomoTherapy collaboration, we are now dedicating substantial resources to the first product that facilitates the transfer of treatment plans between a TomoTherapy Hi-Art system and conventional linear accelerators. The aggressive timetable remains and the first product is expected to be released during 2008.

The Varian collaboration is progressing but, as previously announced, the first product release that was expected in 2008 has been postponed. Now the three products for radiobiological evaluation, radiobiological optimization and optimization of conventional 3D-CRT plans are all expected to be released in the first half of 2009 instead. The development work is continuing at a high pace and we already have working prototypes that will be demonstrated at the major trade shows during 2008.

The last area I wish to mention is our efforts within treatment planning of proton radiation therapy. In this area, we are working intensely within our cooperation with Nucletron and we have made a lot of progress with our implementation of a clinical application. On the commercial side we are actively engaged in the ongoing tender process in Uppsala and we will also participate in the global PTCOG proton therapy meeting later in May.

All in all, we have a lot of ongoing activities and it is amazing to see the strength of our development organization after the large expansion that we carried out last year. Right now, we are also going through a supplementary recruitment round to fill the remaining gaps that are currently being covered by consultants.

Financially, the major product development initiatives resulted in lower earnings for the period since the new products have not yet begun to generate significant revenues. Profit declined to SEK 3.1 M (5.2), which is attributable mainly to increased depreciation of capitalized development costs and higher research expenses. Cash flow from operating activities during the first quarter decreased to SEK 1.2 M (13.4). This is mainly attributable to a negative impact by changes in working capital of SEK 3.1 M in the first quarter, while changes in working capital in the first quarter last year affected cash flow positively by SEK 6.6 M. At the end of the period, cash and cash equivalents amounted to SEK 73.6 M, which means that RaySearch's financial position remains very solid. It is a major strength that we can retain our long term focus and avoid major reprioritizations as a result of the temporary product delays that sometimes occur as a result of our business model where our partners are responsible for sales and marketing.

The foundation for strong growth has been laid and there is considerable potential for increasing revenues as more releases follow from the over 15 contracted products under development. In addition, there are favorable conditions for the product portfolio to grow even more since we are involved in several discussions related to expanding existing agreements or entering new partnerships. Our broadening growth platform will over time lessen the dependence of individual products and further strengthen RaySearch.

Stockholm. May 7, 2008

Johan Löf, President and CEO
RaySearch Laboratories AB

Significant events

EVENTS DURING THE FIRST QUARTER OF 2008

First revenues generated from COMPASS® and collaboration with IBA Dosimetry expanded

COMPASS® is a state-of-the-art dosimetry solution for quality assurance of intensity modulated radiation therapy that has been developed in cooperation with IBA Dosimetry. In December 2007 COMPASS® was launched globally by IBA Dosimetry and during the first quarter the first orders were received and RaySearch recorded the first revenues as the first commercial system was installed. The collaboration has also been formally expanded with a new product, i-RayTracker, which will further strengthen the COMPASS® system's unique on-line surveillance capabilities. Already today, COMPASS® enables the users to measure what dose is actually delivered to the patient each day during the treatment process. Using images captured during the course of treatment, i-RayTracker will in addition allow the users to accurately compute the accumulated dose taking into consideration anatomical changes such as organ motion or tumor shrinkage. This will in turn offer a potential for even more effective treatments with decreasing risk of side effects. This advanced functionality is not available in any commercial system today and a release is planned in 2009.

EVENTS AFTER THE END OF THE REPORTING PERIOD

First release from Varian collaboration postponed

Varian Medical Systems and RaySearch Laboratories are since 2007 engaged in a long-term strategic collaboration agreement in which RaySearch will develop advanced software for integration into Varian's Eclipse™ treatment planning system. The collaboration involves a number of components aimed at improving radiation treatments, such as products for radiobiological optimization and optimization of conventional 3D-CRT treatments. The first product from the collaboration was previously expected to be released during 2008. In May RaySearch announced that this release has been postponed and now the three products for radiobiological evaluation, radiobiological optimization and optimization of conventional 3D-CRT plans are all expected to be available to clinicians during the first half of 2009.

Financial information

SALES AND EARNINGS IN THE FIRST QUARTER

Total sales in the first quarter declined by 3 percent, compared with the corresponding period in the preceding year and amounted to SEK 15.6 M (16.1). The number of licenses sold amounted to 174 (195) and license revenues in the first quarter of 2008 totaled SEK 10.9 M (12.1). 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 during the first quarter of 2008 rose 18 percent and amounted to SEK 4.7 M (4.0). At unchanged exchange rates, total sales would have increased 3 percent compared with the first quarter of 2007. The decline in sales is attributable to Philips and due mainly to the weakening of the USD. Sales of the COMPASS® products through IBA Dosimetry began during the first quarter of 2008.

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 and IBA Dosimetry. During the first quarter of 2008, revenues in USD were recorded at an average exchange rate of SEK 6.31, compared with SEK 6.96 during the corresponding period in 2007. During the first quarter of 2008, revenues in EUR were recorded at an average exchange rate of 9.39, compared with SEK 9.25 during the corresponding period in 2007. A sensitivity analysis of currency exposure indicates that the effect on operating profit for the first quarter of 2008 of a change in the average USD exchange rate of +/- 10 percent is SEK +/- 1.1 M and that the corresponding effect of a change in the average EUR exchange rate of +/- 10 percent is SEK +/- 0.4 M. The company follows a currency policy established by the Board of Directors.

Operating profit in the first quarter of 2008 amounted to SEK 3.6 M (7.1), corresponding to an operating margin of 23.3 percent (44.1). Operating costs excluding currency effects increased by SEK 1.8 M, compared with the preceding year, and amounted to SEK 11.1 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 larger offices and increased amortization of capitalized development expenses also contributed to the increase. Other operating revenues and other operating expenses pertain mainly to exchange rate gains and losses in the first quarter of 2008, and the net of these amounted to a loss of SEK 0.7 M (gain: 0.5).

As of March 31, 2008, 40 (24) 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 11.6 M (8.4) and are expected to continue to represent a significant portion of costs in the future.

Amortization and depreciation in the first quarter of 2008 amounted to SEK 2.7 M (1.6) for intangible assets and SEK 0.0 M (0.0) for tangible assets. Total amortization and depreciation for the first quarter of 2008 was SEK 2.7 M (1.6). Amortization and depreciation are mainly related to capitalized development expenses.

Profit after tax during the first quarter of 2008 amounted to SEK 3.1 M (5.2), corresponding to earnings per share of SEK 0.27 (0.46).

Geographic distribution of license revenues

The majority of RaySearch's customers operate in the US. License revenues for the first quarter of 2008 were distributed as follows: North America, 48 percent (57); Asia, 22 percent (6); Europe and the rest of the world, 30 percent (37).

Capitalization and amortization of development costs

During the first quarter of 2008, development costs amounting to SEK 6.6 M (4.3) were capitalized. Amortization of capitalized development costs during the first quarter of 2008 totaled SEK 2.6 M (1.6).

LIQUIDITY AND FINANCING

Cash flow in the first quarter of 2008 totaled a negative SEK 5.5 M (pos: 8.9). Cash flow from operating activities amounted to SEK 1.2 M (13.4). The decline was in part due to a negative change in working capital during the first quarter of 2008, compared with a positive change in working capital in the first quarter of 2007, as well as increased payments of salaries for new recruits and rent related to larger office space.

At March 31, 2008, cash and cash equivalents was SEK 73.6 M, compared with SEK 75.7 M at March 31, 2007. At March 31, 2008, current receivables totaled SEK 20.8 M, compared with SEK 16.7 M at March 31, 2007. RaySearch has no interest-bearing liabilities.

INVESTMENTS

Fixed assets mainly comprise capitalized development costs. Investments in intangible fixed assets during the first quarter of 2008 amounted to SEK 6.9 M (4.3) and investments in tangible fixed assets were SEK 0.0 M (0.1).

EMPLOYEES

At March 31, 2008, the number of employees at RaySearch totaled 47 (30). The average number of employees during the period January-March 2008 was 47 (29).

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.

CONSOLIDATED INCOME STATEMENTS

Amounts in SEK 000s	Jan-Mar		Jan-Dec
	2008	2007	2007
Net sales	15,595	16,120	64,705
Cost of goods sold	-191	-200	-863
Gross profit	15,404	15,920	63,842
Other operating income	100	528	453
Selling expenses	-430	-159	-1,366
Administrative expenses	-3,086	-3,542	-12,525
Research and development costs	-7,598	-5,622	-24,225
Other operating expenses	-753	-16	-398
Operating profit	3,637	7,109	25,781
Result from financial items	790	399	2,260
Profit before tax	4,427	7,508	28,041
Tax	-1,293	-2,281	-8,262
Net profit	3,134	5,227	19,779
Earnings per share before full dilution (SEK)	0.27	0.46	1.73
Earnings per share after full dilution (SEK)	0.27	0.46	1.72
Number of shares outstanding before and after full dilution	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
Average number of shares outstanding after full dilution	11,480,828	11,486,836	11,496,295

CONSOLIDATED BALANCE SHEETS

Amounts in SEK 000s	March 31, 2008	March 31, 2007	Dec. 31, 2007
ASSETS			
Intangible fixed assets	66,903	48,130	62,738
Tangible fixed assets	2,246	954	2,333
Deferred tax assets	11,253	11,253	11,253
Total fixed assets	80,402	60,337	76,324
Current assets			
Current receivables	20,796	16,692	17,774
Cash and bank balances	73,596	75,706	79,135
Total current assets	94,392	92,398	96,909
TOTAL ASSETS	174,794	152,735	173,233
EQUITY AND LIABILITIES			
Equity	140,985	123,299	137,851
Deferred tax liabilities	23,977	18,595	22,850
Accounts payable, trade	2,419	3,285	4,577
Other current liabilities	7,413	7,556	7,955
TOTAL EQUITY AND LIABILITIES	174,794	152,735	173,233
Pledged assets	5,000	5,000	5,000
Contingent liabilities	none	none	none

CASH-FLOW STATEMENTS GROUP

Amounts in SEK 000s	2008	Jan-Mar 2007	Jan-Dec 2007
Cash flow from operating activities before changes in working capital	4,329	6,805	28,064
Cash flow from changes in working capital	-3,099	6,566	9,798
Cash flow from operating activities	1,230	13,371	37,862
Cash flow from investing activities	-6,769	-4,497	-25,559
Cash flow for the period	-5,539	8,874	12,303
Cash and cash equivalents at the beginning of the period	79,135	66,832	66,832
Cash and cash equivalents at the end of the period	73,596	75,706	79,135

CHANGES IN EQUITY, GROUP

Amounts in SEK 000s	Jan-Mars 2008	Jan-Dec 2007
Opening balance	137,851	118,072
Profit for the period	3,134	19,779
Closing balance	140,985	137,851

CHANGES IN NUMBER OF SHARES

Amounts in SEK 000s	Jan-Mars 2008	Jan-Dec 2007
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	2008	Jan-Mar 2007	2006	Jan-Dec 2007
Net sales	15,595	16,120	15,549	64,705
Operating profit	3,637	7,109	7,308	25,781
Operating margin, %	23.3	44.1	47.0	39.8
Profit margin, %	28.4	46.6	48.4	43.3
Net profit	3,134	5,227	5,327	19,779
Earnings per share, SEK	0.27	0.46	0.47	1.73
Return on capital employed, %	19.1	33.1	57.6	22.2
Return on equity, %	13.4	34.3	41.8	15.5
Equity/assets ratio, %	80.7	80.7	79.2	79.6
Adjusted equity per share, SEK	12.34	10.79	7.63	12.06
Share price at period end, SEK	138.00	177.00	167.00	190.00

PARENT COMPANY INCOME STATEMENTS

Amounts in SEK 000s

	Jan-Mar		Jan-Dec
	2008	2007	2007
Net sales	15,595	16,120	64,705
Cost of goods sold	-191	-200	-863
Gross profit	15,404	15,920	63,842
Other operating income	100	528	453
Selling expenses	-474	-159	-1,366
Administrative expenses	-3,580	-3,624	-14,255
Research and development costs	-11,085	-8,323	-39,317
Other operating expenses	-753	-16	-398
Operating profit	-388	4,326	8,959
Result from financial items	652	299	1,781
Profit/loss after financial items	264	4,625	10,740
Appropriations	-	-	-1,101
Profit/loss before tax	264	4,625	9,639
Tax	-127	-1,474	-2,974
Net profit	137	3,151	6,665

PARENT COMPANY BALANCE SHEETS

Amounts in SEK 000s

	March 31, 2008	March 31, 2007	Dec. 31, 2007
ASSETS			
Intangible fixed assets	1,304	650	1,164
Tangible fixed assets	2,246	954	2,333
Financial fixed assets	2,160	2,160	2,160
Deferred tax assets	11,253	11,253	11,253
Total fixed assets	16,963	15,017	16,910
Current assets			
Current receivables	20,796	17,500	17,774
Cash and bank balances	58,659	61,045	64,217
Total current assets	79,455	78,545	81,991
TOTAL ASSETS	96,418	93,562	98,901
EQUITY AND LIABILITIES			
Equity	67,573	65,396	67,436
Untaxed reserves	20,033	18,932	20,033
Accounts payable, trade	2,419	3,285	4,577
Other current liabilities	6,393	5,949	6,855
TOTAL EQUITY AND LIABILITIES	96,418	93,562	98,901
Pledged assets	5,000	5,000	5,000
Contingent liabilities	None	none	none

Other information

ACCOUNTING PRINCIPLES IN ACCORDANCE WITH IAS/IFRS

This interim report has been prepared in accordance with IAS 34, Interim Financial Reporting, which corresponds to the requirements contained in the Swedish Financial Accounting Standards Council's RR31 recommendation, Interim Reports for Groups. The accounting principles have not changed in relation to 2007. For a description of the accounting principles, see the Annual Report for 2007.

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. The finance policy is updated at least once annually.

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 major effect on the company's sales, profit and financial position. This risk was reduced during the past year since the number of partners has increased from three to five. 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 2007 Annual Report on page 48.

TRANSACTIONS WITH CLOSELY RELATED PARTIES

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

Stockholm May 7, 2008

Johan Löf
President and CEO

Review Report

To the Board of Directors of RaySearch Laboratories AB

I have reviewed the accompanying interim report of RaySearch Laboratories AB (publ), Corp. Reg. No. 556322-6157 for the period January 1, 2008 – March 31, 2008. 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 interim financial information 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 interim financial information is not prepared, in all material respects, in accordance with IAS 34 and the Annual Accounts Act.

Stockholm, May 7, 2008

Anders Linér
Authorized Public Accountant
KPMG

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ANNUAL GENERAL MEETING

The Annual General Meeting will be held on May 22, 2008, 6:00 p.m. in Kammarsalen, Berns Conference Center, Berzelii Park, Stockholm.

FINANCIAL REPORTING IN 2008

Interim report for the first six months	August 27, 2008
Interim report for the first nine months	November 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 1,300 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.