

Press release

Linköping, Sweden, September 7, 2004

First quarter interim report, May – July 2004:

Weak start to Sectra's fiscal year

Sectra reports net sales of SEK 79.4 million (96.0) for the first quarter. Profit after net financial items amounted to SEK 3.3 million (12.2), corresponding to a profit margin of 4.2% (12.7). Earnings per share amounted to SEK 0.07 (0.25).

“We had a weak start to the fiscal year, with earnings that were also affected by increased costs resulting from our large investments in the mammography market,” says Jan-Olof Brüer, President and CEO of Sectra AB.

Comparable profit after net financial items excluding Mamea Imaging AB amounted to SEK 11.4 M (12.9), corresponding to a profit margin of 14.3% (12.7).

There is major growth potential in the mammography area and Sectra aims to become a leading supplier in this market. In 2-4 year's time, Sectra's goal is that the mammography operations will account for a substantial part of the overall business.

During the quarter, Sectra signed a seven-year agreement with Dr. Gray's Hospital in Elgin, Scotland, for the digitization of the hospital's radiology operations. The agreement is for Sectra's integrated IT solution, which includes a radiological information system (RIS) and systems for processing and archiving of radiology images (PACS). This is the first time that Sectra has sold RIS outside Scandinavia.

“Since the structure of the UK and Scandinavian healthcare sectors is very similar, the requirements imposed on RIS are also similar. Accordingly, we can now also offer RIS to the UK market and thus satisfy the demand of the British healthcare providers for an integrated IT solution for radiology,” says Jan-Olof Brüer.

Following the close of the quarter, Sectra concluded an agreement with Dutch authorities regarding a national adaptation of Sectra's Tiger XS security terminal to the country's security requirements. This marks a breakthrough for Tiger XS in the European market for defense and public authorities.

“Our mobile communications system Tiger is designed in such a way that it can be adapted to new markets. Many countries have special national requirements for the protection of sensitive information and with Tiger XS, our new security terminal, we provide a cost-effective way of satisfying these requirements“, says Jan-Olof Brüer.

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Interim Report for Sectra AB (publ) for the three months ended July 31, 2004

Period in brief (May – July 2003 in parentheses)

- Order bookings amounted to SEK 59.6 million (72.1).
- Sales totaled SEK 79.4 million (96.0).
- Profit after net financial items amounted to SEK 3.3 million (12.2), corresponding to a profit margin of 4.2% (12.7).
- Comparable profit after net financial items, excluding Mamea Imaging AB, amounted to SEK 11.4 million (12.9), corresponding to a profit margin of 14.3% (12.7).
- Profit after tax was SEK 2.6 million (8.4).
- Earnings per share amounted to SEK 0.07 (0.25).

Significant events during the first quarter

- Sectra increased its holding in Mamea Imaging AB from 95 to 100% by acquiring 5,260 shares from Life Equity Sweden KB.
- Sectra introduced its radiology information system in the UK market and signed a seven-year agreement with Dr. Gray's Hospital in Elgin, Scotland, regarding the digitization of the hospital's radiology operations.
- Sectra sold its operations for wireless information systems, its so-called DARC operations, to Axentia Technologies AB.

Significant event after the end of the quarter

- Sectra concluded an agreement with the Dutch authorities regarding national adaptation of Sectra's mobile security terminal, Tiger XS, to the security requirements of the Netherlands.

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Sectra in brief

Since the mid-1980s, Sectra has successfully conducted development and sales of high-tech products that increase the efficiency of the healthcare sector and protect sensitive information. Today, the operations include medical systems and secure communication systems.

Sectra has 350 employees in eight countries and the company's systems and products are used by customers worldwide. More information about Sectra's operations is available on the company's website: www.sectra.se.

Sales and earnings

During the first quarter, the Group's order bookings amounted to SEK 59.6 million (72.1). Net sales totaled SEK 79.4 million (96.0). Profit after net financial items during the period amounted to SEK 3.3 million (12.9), corresponding to a profit margin of 4.2% (12.7). Sales and earnings during the quarter include Mamea Imaging AB, which is consolidated in the Sectra Group as of May 1, 2004. Comparable profit after net financial items excluding Mamea Imaging AB amounted to SEK 11.4 million (12.9), corresponding to a profit margin of 14.3% (12.7).

Sectra is traditionally subject to seasonal variations that result in the spring months accounting for most of its sales and earnings. The sales trend for secure communications systems was weak during the spring and summer. The Swedish defense sector is currently cautious, pending the forthcoming defense decision later this autumn, which will provide a framework for the future size of the defense sector. Net sales for Sectra's largest business sector, medical systems, were in line with figures for the corresponding period in the preceding year and amounted to 91% of consolidated sales during the first quarter.

Earnings were affected by increasing costs for the production and marketing of Sectra MicroDose Mammography, the digital mammography system that represents the company's major future-oriented investment in the mammography area. Marketing and sales channels are being built up and strengthened, with the aim that the mammography segment will account for a significant portion of Sectra's total operations in a period of two to four years.

Net sales by business segment

(SEK million)	3 month	Full year
	May – Jul	May – Apr
	2004	2003/04
Medical systems	72.2	418.4
Secure communication systems	6.9	72.5
Other	11.7	57.5
Group eliminations	-11.4	-53.1
Total	79.4	495.3

Operation profit by business segment

(SEK million)	3 month	Full year
	May – Jul	May – Apr
	2004	2003/04
Medical systems ¹⁾	3.8	0.0
Secure communication systems	-6.9	0.2
Other	3.6	19.4
Group eliminations	-0.2	0.0
Total	0.3	19.6

- 1) A non-recurring write-down of capitalized development costs within Mamea Imaging AB had a negative effect of SEK 70.9 million on operating profit for full-year 2003/2004.

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Net sales by geographic markets

(SEK million)	3 month	Full year
	May – Jul	May - Apr
	2004	2003/04
Sweden	33.2	201.7
Rest of Europe ¹⁾	42.4	271.0
Rest of world	3.8	22.6
Total	79.4	495.3

1) Philips Medical Systems' deliveries of Sectra's digital radiology systems on a global basis are invoiced Philips in the Netherlands and are reported under sales in the Rest of Europe.

Medical systems

Market

The market for medical systems is currently in a strong growth phase, with many hospitals electing to increase the efficiency of their radiology operations through the introduction of digital systems. Increasing numbers of countries are demanding the system solutions offered by Sectra. Today, the largest share of Sectra's installations of digital radiology systems is in Scandinavia and the US (via partners).

Scandinavia is currently the world's most developed market for digital radiology and Sectra's market share in Scandinavia, in terms of the number of implemented digital radiology examinations, is more than 50%. In the US – the world's largest and one of the fastest-expanding markets for medical IT – there is a substantial sales potential. Sectra is growing rapidly in this market.

Mammography is the second most prevalent type of radiology examination in the world and a transition from film-based to digital systems has commenced in this area. It is estimated that approximately 30,000 film-based mammography systems are installed worldwide and many countries are expanding their mammography programs. This represents considerable growth potential and Sectra is investing in becoming a leading supplier in the market.

First quarter

Net sales of medical systems during the first quarter amounted to SEK 72.2 million. Operating profit amounted to SEK 3.8 million, corresponding to an operating margin of 5.3%.

Sectra has expanded its offering to the UK market through the addition of radiology information systems (RIS). The prospects in the UK are assessed as favorable and the market is one of the most attractive in the years immediately ahead. As a first step, Sectra has signed a seven-year contract with Dr. Gray's Hospital, in Elgin, Scotland. The order pertains to Sectra's integrated IT solution, including RIS and PACS. Accordingly, Sectra RIS is now being sold in Scandinavia and the UK.

Sectra's new software application for the visualization of three-dimensional radiology images has been approved by the Food and Drug Administration (FDA) and can thus be sold in the US. The new application is part of a portfolio of clinical solutions developed in order to satisfy the specific requirements of various healthcare specialists.

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Secure communication systems

Market

The market for secure communication systems is characterized by investments in new defense structures based on network-based information management. The flow of information in network-based defense requires high-security solutions that form an integral feature of communications structures. The demand for high-security solutions also applies to tactical radio systems. Sectra is well advanced in these fields and has core expertise in encryption and advanced radio design.

First quarter

Due to delays in the Swedish Defense Forces' procurement of planned projects, secure communications systems report low sales and a loss. Net sales during the first quarter amounted to SEK 6.9 million. The operating loss was SEK 6.9 million.

During the quarter, Sectra received an order from the Swedish Defense Forces for a new crypto module that will form the basis of the next generation of crypto modules designed to satisfy various needs for the defense of the future. In the international defense and public authorities market, evaluation of Sectra's Tiger products is continuing in several countries. After the close of the first quarter, Dutch authorities have proceeded to order a national adaptation of the Tiger XS security terminal.

Acquisition

In June, Sectra acquired 5,260 shares in Mamea Imaging AB from Life Equity Sweden KB, thereby raising its shareholding in the company from 95 to 100%. Sectra shares were used as payment for the acquisition, on similar terms to those issued by Sectra on April 30, when it acquired a majority interest from the founders of Mamea. The acquisition increased Sectra's goodwill by SEK 3.0 million and has no significant impact on Sectra's earnings and financial position.

Divestment of wireless information systems

In June, Sectra sold its operations for wireless information systems, its so-called DARC operations, within Sectra Wireless Technologies AB to Axentia Technologies AB, a newly started Swedish company. The divested operation accounted for less than 1% of Sectra's total sales in the 2003/2004 fiscal year and the divestment will have no significant impact on Sectra's earnings and financial position. The purchase agreement includes a supplementary purchase consideration, which entails that Sectra will receive a portion of profits that Axentia generates in the next five years.

Financial position

The equity/assets ratio at July 31, 2004 was 68.1% (44.1) and the liquidity was a multiple of 3.1 (1.7). The company's interest-bearing liabilities at the end of the period amounted to SEK 45.8 million (58.5), of which SEK 31.5 million (28.9) related to convertible debentures. Repayment of a loan to Industrifonden and conversion and repayment of convertible debenture loans during the quarter reduced interest-bearing liabilities by SEK 41.6 million. The convertible debenture loan in an amount of SEK 11.1 million that matures in June 2005 has been reclassified from a long-term to a current liability.

Investments

Investments in the Group during the quarter amounted to SEK 18.4 million (0.9), of which capitalized development costs accounted for SEK 6.2 million (0.0). In total, capitalized development costs amounted to SEK 75.7 million (0.0) at the end of the period.

Personnel

The number of employees increased by 1 during the first quarter. Accordingly, the total number of employees in Sectra at July 31, 2004 was 348 (280).

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The Sectra share

The issue of 540,540 Series B shares that was under way at the end of the preceding fiscal year, which pertained to payment for the acquisition of 60,000 shares from the founders of Mamea Imaging AB, was registered during the quarter. The share issue increased the share capital by SEK 540,540.

In order to pay for the 5,260 shares in Mamea Imaging AB acquired from Life Equity Sweden KB, the Board implemented the issue of 47,387 Sectra shares to the sellers, supported by the authorization the Board received at the Annual General Meeting in June 2003. The new issue corresponds to 0.1% of the share capital and voting rights in the company.

In June, conversion of convertible debentures corresponding to 11,200 Series B shares was implemented at a conversion price of SEK 57.70, pertaining to the convertible debenture loan issued to Group employees during the 2001/2002 fiscal year. The remaining SEK 17.1 million of the convertible debenture loan was repaid on the loan's due date of July 1, 2004.

On July 31, 2004, Sectra's share capital amounted to SEK 36,450,638. At full conversion and exercise of the outstanding convertibles program and employee stock options, the number of shares will increase by a maximum of 1.8% and the number of votes by 1.1%. After dilution, the total number of shares will amount to 37,117,188.

Sectra's Annual General Meeting in June 2004 decided to carry out an issue of convertible debentures to Group employees in a total nominal amount of SEK 35 million and an issue to external Board members in a total amount of SEK 3.5 million. The conversion price will be SEK 74.70 and the subscription period is September 17 – October 15, 2004. The term of the convertibles is October 31, 2004 – September 30, 2007 and conversion will be possible during the period September 10 to 14, 2007. At full subscription and full conversion, the maximum dilution effect would be 1.0% on share capital and 0.6% on voting rights.

The Meeting also approved the Board's proposal involving the issue of an additional maximum of 40,000 employee stock options for the Group's employees in the US. If these options are fully exercised, employees will acquire shares in the company corresponding to 0.1% of the share capital and voting rights.

The Meeting also approved the Board's proposal regarding the issue of not more than 900,000 warrants to enable the future payment of a supplementary purchase consideration for the acquisition of Mamea Imaging AB. If all of the warrants are exercised for the subscription of shares, the company's share capital will increase by SEK 900,000, corresponding to 2.5% of the share capital and 1.5% of the voting rights in the company.

Authorization

Sectra's Annual General Meeting in June authorized the Board, on one or more occasions until the next General Meeting, to decide on the new issue of not more than 3,600,000 Series B shares. The purpose of the authorization is to enable the new share issues to be used in connection with implementation or financing of acquisitions of all or portions of companies or operations and in connection with market investments. If the entire authorization is utilized, the share capital will be diluted by approximately 10% and the voting rights by about 6%.

Repurchase of own share

The Annual General Meeting in June also authorized the Board, on one or more occasions until the next General Meeting, to make decisions regarding the repurchase or divestment of the company's own shares. The purpose of the authorization is to enable the use of repurchased shares in connection with the acquisition of all or portions of companies or operations, in connection with market investments, in order to cover the costs that arise from the company's incentive programs and to be able to continuously adapt the company's capital structure and thus to contribute to the generation of increased shareholder value.

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Outlook

Sectra has a strong technology platform. The products and system solutions that Sectra develops are aimed at markets with high growth potential. The company's strong position in the home market provides a solid platform for ongoing international expansion. The Board's assessment that Sectra will continue to expand with favorable profitability remains valid.

Accounting principles

This report was prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation RR20. The accounting principles and calculation methods used in the interim report are the same as those applied for the most recent Annual Report. In addition, as of May 1, 2004, Sectra is applying the Financial Accounting Standards Council's recommendation RR29, Employee Benefits, which did not require any changes in accounting principles or the recalculation of amounts reported in prior years.

Report publication dates

Interim report for the first six months, May-October 2004:
December 7, 2004

Interim report for the first nine months,
May 2004-January 2005:
March 8, 2005

Year-end report for 2004/2005:
May 24, 2005

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This interim report has not been examined by the company's auditors.

Linköping, September 7, 2004

Board of Directors

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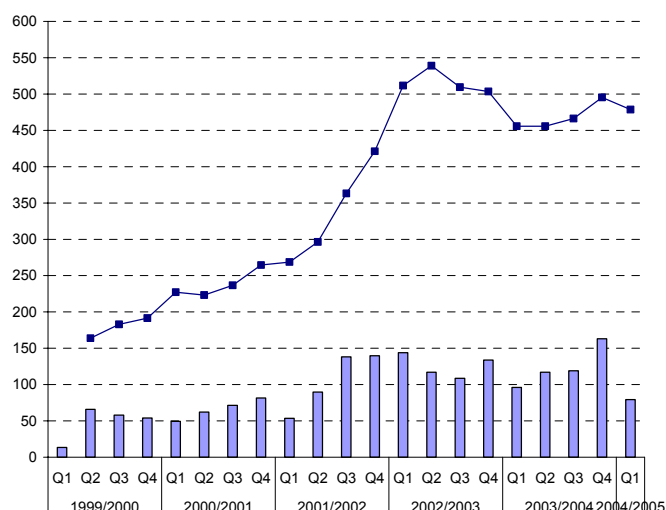
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Condensed Income Statement for the Group

SEK million	3 month May-July 2004	3 month May-July 2003	12 month Aug 2003 - July 2004	Full year May - Apr 2003/2004
Net sales	79 350	96 045	478 641	495 336
Capitalized work for own use	6 153	-	6 153	-
Operating expenses	-80 921	-83 343	-396 333	-398 754
Depreciation	-3 465	-1 194	-6 746	-4 476
Goodwill amortization	-853	-394	-2 035	-1 576
Items affecting comparability ¹⁾	-	-	-70 936	-70 936
Operating profit	264	11 114	8 744	19 595
Net financial items	3 067	1 095	10 019	8 046
Earnings after financial items	3 331	12 209	18 763	27 641
Tax on earnings for the period	-1 017	-3 842	-7 374	-10 199
Minority interest	313	2	3 858	3 547
Net earnings	2 627	8 369	15 247	20 989
Earnings per share				
Before dilution, SEK	0.07	0.25	0.45	0.63
After dilution, SEK	0.07	0.25	0.44	0.61
No. of shares at end of period				
Before dilution	36 450 638	33 076 511	36 450 638	35 851 511
After dilution ²⁾	37 117 188	33 806 261	37 117 188	37 366 801
Average, before dilution ³⁾	36 231 400	33 076 511	34 115 233	33 326 511
Average, after dilution ^{2) 3)}	37 103 417	33 806 261	35 039 762	34 215 473

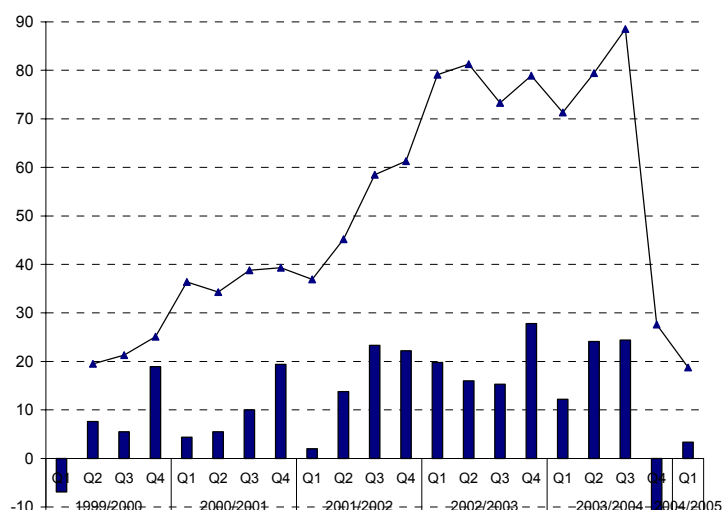
- 1) Items affecting comparability pertain to the write-down of capitalized development costs in Mamea Imaging AB.
- 2) Dilution is based on the convertible debenture programs issued in 2002/2003 (171,550) and 2003/2004 (330,000) and the personnel options issued in 2001/2002 (30,000), 2002/2003 (55,000) and 2003/2004 (80,000).
- 3) Average number of shares has been adjusted for implemented share splits and share issues.

Net sales



The bars show quarterly net sales and the line 12 month net sales.

Earnings after financial items



The bars show quarterly earnings and the line 12 month earnings after financial items.

Condensed Balance Sheet for the Group

SEK thousands	31 July 2004	31 July 2003	30 April 2004
Assets			
Intangible assets	103 564	10 752	97 110
Tangible assets	23 819	14 330	14 773
Financial assets	2 042	99 407	1 908
Total fixed assets	129 425	124 489	113 791
Other current assets	132 657	159 506	190 896
Cash and bank balances	293 224	164 311	332 342
Total current assets	425 881	323 817	523 238
Total assets	555 306	448 306	637 029
Equity and liabilities			
Equity (including profit for the period)	378 195	197 722	393 033
Provisions	1 235	15 389	891
Minority interests	-	9	- 2 561
Long-term liabilities	34 319	40 721	71 615
Current liabilities	141 557	194 465	174 051
Total equity and liabilities	555 306	448 306	637 029

Change in Equity

SEK thousands	3 month May – July 2004	3 month May – July 2003	Full year May – Apr 2003/2004
Equity at start of period	393 033	206 030	206 030
New issue/Conversion	3 513	-	150 752
Dividend paid	-18 196	-16 538	- 16 538
Subscribed, unregistered share capital	-	-	30 000
Shareholdings reclassified to subsidiaries	-	-	5 885
Change in share of capital	-2 561	-33	- 2 366
Change in translation difference	-219	347	0
Change in present value calculation	0	-453	- 1 719
Net earnings for the period	2 627	8 369	20 989
Equity at end of period	378 195	197 722	393 033

Condensed Cash-Flow Statement for the Group

SEK thousands	3 month May – July 2004	3 month May – July 2003	Full year May – Apr 2003/2004
Cash flow from operations before changes in working capital	432	11 026	86 340
Cash flow from operations after changes in working capital	39 120	45 698	64 058
Investing activities	-18 034	-761	-37 434
Financing activities	-59 937	-49 996	137 407
Change in cash and bank balances	-38 851	-5 059	164 031
Cash and bank balances, opening balance	332 342	170 479	170 479
Exchange rate difference in liquid assets	-267	-1 109	-2 168
Cash and bank balances, closing balance	293 224	164 311	332 342

Key Figures

	3 months 31 July 2004	3 months 31 July 2003	12 months 31 July 2004	Full year 30 Apr 2004
Equity/assets ratio, %	68.1	44.1	68.1	61.7
Liquidity, multiple	3.1	1.7	3.1	3.1
Profit margin %	4.2	12.7	3.9	5.6
Return on shareholders' equity			4.0	5.8
Return on capital employed			7.3	8.8
Average number of employees	336	279	310	296
Equity per share	10.38	6.0	10.38	10.96
Equity per share after dilution	10.19	5.9	10.19	10.52
Cash flow per share	0.01	0.30	2.11	1.9
Cash flow per share after dilution	0.01	0.29	2.07	1.8
P/E ratio, multiple			134.2	92.9
Share price at end of period	60.0	46.0	60.0	58.5

Consolidated income statement, quarterly

	2004/2005	2003/2004				2002/2003			
SEK million	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net sales	79.4	163.0	119.0	117.3	96.0	133.8	108.6	117.1	143.9
Capitalized work for own use	6.2	-	-	-	-	-	-	-	-
Operating expenses	-81.0	-125.8	-95.3	-94.4	-83.3	-103.4	-93.3	-100.3	-122.8
Depreciation	-4.3	-1.6	-2.0	-0.8	-1.6	-2.5	-1.4	-1.4	-1.6
Items affecting comparability ¹⁾	-	-70.9	-	-	-	-	-	-	-
Operating profit	0.3	-35.3	21.7	22.1	11.1	27.9	13.9	15.4	19.5
Net financial items	3.0	2.3	2.7	2.0	1.1	-0.1	1.4	0.6	0.3
Earnings after financial items	3.3	-33.0	24.4	24.1	12.2	27.8	15.3	16.0	19.8
Tax on earnings for the period	-1.0	9.4	-7.2	-8.6	-3.8	-9.6	-4.3	-6.0	-5.8
Minority interest	0.3	3.5	-	-	-	-	-	-	0.1
Net earnings	2.6	-20.1	17.2	15.5	8.4	18.2	11.0	10.0	14.1

1) Items affecting comparability pertain to the write-down of capitalized development costs in Mamea Imaging AB.

Five-year summary

	2003/2004	2002/2003	2001/2002	2000/2001	1999/2000
Net sales, SEK M	495.3	503.4	410.0	264.9	211.8
Earnings before tax, SEK M	27.6	78.9	61.4	39.3	27.7
Earnings after tax, SEK M	21.0	53.3	40.4	27.7	16.2
Profit margin, %	5.6	15.7	15.0	13.5	14.4
Return on equity, %	5.8	28.7	26.9	22.7	20.1
ROCE, %	8.8	32.5	30.0	26.7	26.9
Earnings per share before dilution, SEK	0.63	1.62	1.23	0.85	0.51
Earnings per share after dilution, SEK	0.61	1.57	1.20	0.84	0.49
Equity per share before dilution, SEK	10.96	6.23	5.03	4.12	3.36
Equity per share after dilution, SEK	10.52	6.09	4.91	4.04	3.33
Dividend per share, SEK	0.50	0.50	0.40	0.30	0.20
Stock market price at year end, SEK	58.5	38.0	62.0	42.5	59.0
P/E ratio	92.9	23.6	50.0	50.0	115.7

1) A non-recurring write-down of capitalized development costs within Mamea Imaging AB had a negative effect of SEK 70.9 million on operating profit for full-year 2003/2004.

Definition of key figures

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

Liquidity: Current assets divided by current liabilities.

Profit margin: Profit before tax as a percentage of sales.

Return on equity: Profit after tax as a percentage of average adjusted equity.

Capital employed: Total assets reduced by non interest-bearing debts.

Return on capital employed (ROCE): Profit before tax plus financial expenses as a percentage of average capital employed.

Earnings per share: Profit/loss before tax reduced by actual tax divided by the average number of shares.

Equity per share: Equity divided by the number of shares at the end of the period.

Cash flow per share: Cash flow divided by the number of shares at the end of the period.

P/E Share price at the end of period divided by earnings per share.