Elekta AB (publ) | Corp. reg. no. 556170-4015

Nine months ended January 31, 2005

Interim Report

ELEKTA

Interim report Nine months ended January 31, 2005

- **Profit after tax rose by 20 percent to SEK 165 M (138). Earnings per share after dilution increased by 26 percent to SEK 5.27 (4.18).**
- **Operating profit rose by 23 percent to SEK 236 M (192) and the operating margin amounted to 11 percent (10).**
- **Cash flow after investments was negative SEK 15 M (positive 122).**
- **Order bookings rose by 15 percent to SEK 2,454 M (2,143). At fixed exchange rates, order bookings rose by 17 percent. Order bookings in the third quarter improved by 50 percent and amounted to SEK 939 M (625).**
- **Order backlog is at record high level, amounting on January 31, 2005, to SEK 2,880 M, compared with SEK 2,728 M on April 30, 2004.**
- **Net sales rose by 9 percent to SEK 2,196 M (2,021). At fixed exchange rates, net sales rose by 12 percent.**

Elekta is an international medical technology Group, developing advanced clinical solutions for high-precision radiation treatment of cancer and non-invasive and minimally invasive treatment of brain disorders.

Elekta provides world-leading and innovative clinical solutions for:

- Precision Radiation Therapy
- Image Guided Radiation Therapy
- Stereotactic Radiation Therapy
- Gamma Knife® surgery
- Stereotactic Neurosurgery
- Functional Mapping

Due mainly to a longer life expectancy and better diagnostics, the number of newly diagnosed cases of cancer is steadily increasing.

Radiation therapy is an important weapon in the fight against cancer. Approximately 50 percent of patients diagnosed with cancer needs to be treated with radiation therapy during some part of the course of the disease – either as part of a curative therapy or with a palliative approach in order to relieve pain or other symptoms. New, advanced methods such as image guidance and stereotactical applications are expected to increase the use of radiation therapy in the future. This development is accelerated by the fact that radiation therapy is cost-effective compared with other cancer treatment methods while also being less traumatic for the patient.

Elekta has a unique and over 30 year long experience in image guidance and stereotactical applications in radiation treatment. On the basis of this experience, Elekta now leads the development of new advanced methods for radiation therapy for cancer. Elekta was the first supplier in the world to offer systems for image guided radiation therapy (IGRT) and is now leading the clinical development in this area. Elekta's advanced technology, Elekta Synergy®, makes it possible to acquire high-resolution three-dimensional computer tomography images of patients' inner organs, at the time of treatment, and thus improve the precision and reliability of the treatment.

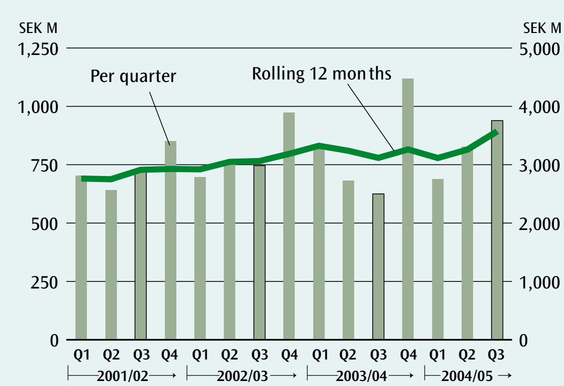
In 2004, Elekta Synergy® S was launched, a system for stereotactic radiation therapy in which integrated high-resolution X-ray is combined with stereotaxy, meaning ultraprecise positioning achieved by immobilizing the patient and using external reference points. Elekta Synergy® S and stereotactic radiation therapy signify new possibilities for the treatment of small tumors close to critical structures as well as dose escalation, which implies a reduced number of treatment fractions.

Leksell Gamma Knife® is the predominant and most advanced method for stereotactic radiosurgery in the brain, and development toward expanded areas of application is continuing at a steady pace. The method is today used routinely for the treatment of benign and malignant brain tumors, vascular malformations and for radiosurgical treatment of functional disorders.

The latest generation, Leksell Gamma Knife® 4C, is facilitating a simplified and more efficient treatment process and enhanced precision through new, integrated image treatment possibilities. The system includes Leksell GammaPlan® 4C planning software, providing users with a previously unattainable possibility to integrate images from various image sources and as a result to achieve higher treatment precision and improved treatment results.

The total market for Elekta's products is expected to grow by 5–10 percent annually, and demand for Elekta's clinical solutions remains strong. The high value of individual orders and order coordination within the frame-

Order bookings



Order bookings

SEK M	Quarter 3 2004/05	Quarter 3 2003/04	Change %	9 months 2004/05	9 months 2003/04	Change %	Rolling 12 months	Change %
Europe, Middle East, Africa	539	277	95	1,212	934	30	1,754	42
North and South America	262	183	43	760	664	14	1,161	11
Japan	57	5	1,040	207	184	13	252	–32
Asia excl. Japan	81	160	–49	275	361	–24	406	–13
Group	939	625	50	2,454	2,143	15	3,573	15
of which								
Oncology	698	473	48	1,786	1,474	21	2,643	30
Neurosurgery	241	152	59	668	669	0	930	–14

work of healthcare investment programs often lead to significant quarterly variations in business volume.

Order bookings and order backlog

Order bookings for the 9 months rose by 15 percent to SEK 2,454 M (2,143). Order bookings for oncology products rose by 21 percent to SEK 1,786 M (1,474). Order bookings for neurosurgery products amounted to SEK 668 M (669). At fixed exchange-rates, the Group's order bookings rose by 17 percent, oncology rising by 23 percent and neurosurgery rising by 5 percent.

Order bookings for the third quarter rose by 50 percent to SEK 939 M (625).

Order bookings for the rolling 12 months increased by 15 percent to SEK 3,573 M despite an unfavorable currency exchange rate development.

The order backlog is at a record high level, amounting on January 31, 2005, to SEK 2,880 M, compared with SEK 2,728 M on April 30, 2004.

Market comments

Europe

Order bookings in the Europe region, including the Middle East and Africa, rose by 30 percent to SEK 1,212 M (934). At fixed exchange rates, total order bookings for the region rose by 30 percent, and for oncology products by 41 percent.

Elekta's position in the European market is strong. The European market for radiation therapy is driven primarily by the lack of care capacity and therapeutic equipment. In many European countries, the number of linear accelerators per capita is less than half that of the US.

The Sales Consulting Agreement that Elekta signed in 2004 with IMPAC Medical Systems Inc., giving Elekta the opportunity to offer IMPAC's oncology information system products and services, has led to a strengthening of the market positions of both companies. The increased interest in advanced therapeutic equipment, particularly among new members of the EU, also creates new sales opportunities for Elekta.

North and South America

Order bookings in North and South America rose by 14 percent to SEK 760 M (664). At fixed exchange rates, order bookings in the region rose by 22 percent. Order bookings for oncology rose by 12 percent, while order bookings for neurosurgery rose 39 percent, based on fixed exchange rates.

The American market is in many ways leading the development and the continued penetration of advanced methods such as intensity modulated and image guided radiation therapy. This is reflected in faster replacement rates and larger investment budgets for radiation therapy clinics.

In the American market, efficiency in patient flow and the management of clinics' information flows are often decisive sales arguments. Software systems based on common industry standards involving open connectivity to hospitals' other IT systems and equipment are therefore in demand in most sales situations.

Japan

Order bookings in Japan rose by 13 percent to SEK 207 M (184). At fixed exchange rates, order bookings rose by 16 percent.

Elekta holds a strong position in the Japanese market, particularly within neurosurgery. A relatively high penetration of Leksell Gamma Knife® in Japan entails a good potential for upgrades and after-market sales.

Japan is a pioneer country in magnetencephalography (MEG). Elekta Neuromag™ is well established in Japan and interest remains strong.

Asia

Order bookings in Asia, excluding Japan, declined by 24 percent to SEK 275 M (361). At fixed exchange rates, total order bookings for the region declined by 22 percent, primarily due to a decline in neurosurgery. Order bookings for oncology products declined by 8 percent at fixed exchange rates.

The growth of the Asian economies is continuing,

Income statement

SEK M	3 months Nov-Jan 2004/05	3 months Nov-Jan 2003/04	9 months May-Jan 2004/05	9 months May-Jan 2003/04	12 months Feb-Jan 2003/04	12 months May-Apr 2003/04
Net sales	730	700	2,196	2,021	3,075	2,900
Cost of products sold	–460	–405	–1,366	–1,239	–1,910	–1,783
Gross income	**270**	**295**	**830**	**782**	**1,165**	**1,117**
Selling expenses	–100	–98	–292	–280	–387	–375
Administrative expenses	–73	–74	–202	–201	–292	–291
R&D expenses	–56	–59	–163	–155	–226	–218
Exchange differences in operation	29	21	63	46	90	73
Operating result	**70**	**85**	**236**	**192**	**350**	**306**
Result from participations in associated companies	4	0	7	7	8	8
Interest income	6	9	16	22	21	27
Interest expenses	–3	–4	–9	–10	–15	–16
Financial exchange differences	–1	–1	–7	–1	–6	0
Income after financial items	**76**	**89**	**243**	**210**	**358**	**325**
Taxes	–25	–31	–78	–72	–83	–77
Net income	**51**	**58**	**165**	**138**	**275**	**248**
Earnings per share before dilution	1.62	1.76	5.27	4.21	8.69	7.63
Earnings per share after dilution	1.62	1.76	5.27	4.18	8.72	7.63

Cash flow

Operating cash flow	87	103	281	249	404	372
Change in working capital	–77	44	–259	–57	–126	76
Cash flow from operating activities	**10**	**147**	**22**	**192**	**278**	**448**
Investments and disposals	–15	–33	–37	–70	–52	–85
Cash flow after investments	**–5**	**114**	**–15**	**122**	**226**	**363**
External financing	–50	10	20	22	–304	–302
Change in liquid assets	–56	115	–5	139	–80	64

Balance sheet

SEK M	Jan 31, 2005	Jan 31, 2004	Apr 30, 2004
Intangible fixed assets	336	382	372
Tangible fixed assets	141	129	134
Financial fixed assets	21	14	16
Inventories	369	336	311
Receivables	1,302	1,066	1,092
Liquid assets	1,146	1,226	1,151
Total assets	**3,315**	**3,153**	**3,076**
Shareholders' equity	1,583	1,614	1,413
Provisions	185	155	158
Interest-bearing liabilities	209	227	231
Interest-free liabilities	1,338	1,157	1 274
Total shareholders' equity, provisions and liabilities	**3,315**	**3,153**	**3,076**
Assets pledged	58	—	76
Contingent liabilities	122	—	109

Change in shareholders' equity

SEK M	Jan 31, 2005	Jan 31, 2004	Apr 30, 2004
Opening balance	1,413	1,445	1,445
Changed accounting principle*	–2	—	—
Option premiums and warrants exercised	74	26	26
Redemption of shares	—	—	–312
Repurchase of shares	–50	—	—
Translation differences	–17	5	6
Net income	165	138	248
Closing balance	**1,583**	**1,614**	**1,413**

* Implementation of RR29 (IAS 19) Employee benefits.

Key figures

	12 months[1] May–Apr 2000/01	12 months May–Apr 2001/02	12 months May–Apr 2002/03	12 months May–Apr 2003/04	9 months May–Jan 2003/04	9 months May–Jan 2004/05
Order bookings, SEK M	2,402	2,927	3,186	3,262	2,143	2,454
Net sales, SEK M	2,160	2,738	2,781	2,900	2,021	2,196
Operating result, SEK M	92	207	323	306	192	236
Operating margin, %	4	8	12	11	10	11
Profit margin, %	3	8	11	11	10	11
Shareholders' equity, SEK M	887	1,272	1,445	1,413	1,614	1,583
Capital employed, SEK M	1,178	1,313	1,697	1,644	1,841	1,792
Equity/assets ratio, %	39	50	49	46	51	48
Return on shareholders' equity, % [2]	5	13	17	17	14	18
Return on capital employed, % [2]	10	19	22	20	18	21

[1] Restated for new accounting principles for taxes. [2] Based on rolling 12 months.

Data per share

	12 months[1] May–Apr 2000/01	12 months May–Apr 2001/02	12 months May–Apr 2002/03	12 months May–Apr 2003/04	9 months May–Jan 2003/04	9 months May–Jan 2004/05
Earnings per share						
before dilution, SEK	1.52	4.66	7.29	7.63	4.21	5.27
after dilution, SEK	1.89	4.56	7.14	7.63	4.18	5.27
Cash flow per share						
before dilution, SEK	8.11	3.64	8.99	11.14	3.73	–0.48
after dilution, SEK	7.90	3.63	8.81	11.14	3.70	–0.48
Shareholders' equity						
before dilution, SEK	31.84	40.03	44.79	45.49	48.96	50.47
after dilution, SEK	35.03	39.89	44.58	45.49	48.96	50.47
Interest on converted debentures,						
net after tax, SEK M	17	3	—	—	—	—
Average number of shares,						
before dilution, 000s	27,854	31,048	32,019	32,585	32,718	31,326
after dilution, 000s	31,662	32,504	32,694	32,585	32,954	31,326
Number of shares at closing,						
before dilution, 000s	27,854	31,765	32,256	31,066	32,954	31,363
after dilution, 000s	31,662	33,084	32,988	31,066	32,954	31,363

[1] Restated for new accounting principles for taxes.
The increase shown in 2000/01 is from debentures converted 2001.
Dilution in 2001/02-2003/04 refers to warrants program 1999/2002 and 2000/2003.

Exchange rates

		Average rate			Closing rate		
Country	Currency	May–Jan 2004/05	May–Jan 2003/04	Change %	Jan 31, 2005	Apr 30, 2004	Change %
Europe	1 EUR	9.095	9.103	0	9.105	9.138	0
Great Britain	1 GBP	13.348	13.011	3	13.180	13.550	–3
Japan	100 JPY	6.727	6.875	–2	6.755	6.930	–3
United States	1 USD	7.269	7.797	–7	6.993	7.658	–9

Accounting principles

This report has been prepared in accordance with the Annual Accounts Act and Recommendation RR20 (IAS 34) Interim Reports, issued by the Swedish Financial Accounting Standards Council. As of the 2004/05 fiscal year, Elekta applies the Swedish Financial Accounting Standards Council's Recommendation RR29 (IAS 19) Employee Benefits. The effect of the transition is marginal. Provision for pensions rose by SEK 3 M and shareholders' equity declined by SEK 2 M. Other accounting principles and calculation methods applied are the same as those used in the most recent Elekta Annual report.

Net sales

SEK M	Quarter 3 2004/05	Quarter 3 2003/04	Change %	9 months 2004/05	9 months 2003/04	Change %	12 months
Europe, Middle East, Africa	314	327	–4	895	908	–1	1,319
North and South America	148	179	–17	645	585	10	868
Japan	142	101	41	273	232	18	303
Asia excl. Japan	126	93	35	383	296	29	410
Group	730	700	4	2,196	2,021	9%	2,900
of which							
Oncology	479	447	7	1,526	1,317	16	1,876
Neurosurgery	251	253	–1	670	704	–5	1,024

despite a certain leveling-out in specific countries. Elekta holds a strong market position in the region. The need for equipment for the treatment of tumor-related diseases is substantial in most Asian countries. Several countries in the region that currently lack equipment for radiosurgical treatment are showing a clear interest in investing in Leksell Gamma Knife®.

After-market

Order bookings for Elekta's after-market products, including technical service, amounted to SEK 756 M (773). Order bookings over a rolling 12-month period rose by 1 percent to SEK 1,070 M. During the period, fewer orders were signed for upgrades of Leksell Gamma Knife® than in the corresponding period in the preceding year, partly because the process of securing regulatory approvals for the latest generation of Leksell Gamma Knife® 4C is under way in certain countries, including Japan.

Installations of Elekta IntelliMax™, Elekta's unique Intelligent Device Management (IDM) system, are continuing according to plan. The system permits ongoing Internet-based supervision and follow-up of Elekta's digital linear accelerators and creates a potential for continued enhancement of efficiency and quality in Elekta's international service operations.

Net sales

Consolidated net sales rose by 9 percent to SEK 2,196 M (2,021), primarily as a result of the increased delivery volume. Based on fixed exchange rates, net sales rose by 12 percent.

Net sales for oncology products rose by 16 percent to SEK 1,526 M (1,317). For neurosurgery products, net sales declined 5 percent to SEK 670 M (704).

Net sales for the after-market rose by 5 percent to SEK 675 M (643) and accounted for 31 percent (32) of consolidated net sales.

Net sales for the third quarter amounted to SEK 730 M (700).

Result

Operating profit rose by 23 percent to SEK 236 M (192), primarily due to increased sales volume. The operating margin amounted to 11 percent (10). The operating margin for rolling 12 months amounted to 11 percent.

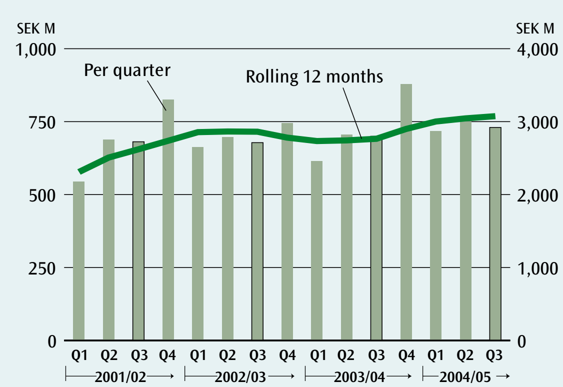
The gross margin declined to 38 percent (39) as a result of a changed product mix.

Investments in research and development rose 9 percent to SEK 161 M (148), or 7 percent (7) of net sales. Capitalization of development costs and amortization of capitalized development costs had an adverse effect of SEK 2 M (7) on earnings. Capitalization amounted to SEK 16 M (5) and amortization to SEK 18 M (12).

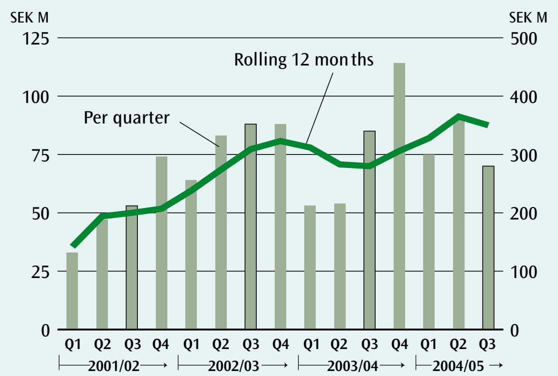
Year-on-year exchange rate movements had an adverse impact of approximately SEK 34 M on operating profit, mainly due to a strengthening of the exchange rate for the GBP and a weakening of the USD against the SEK.

Elekta hedges contracted net flows and part of expected net flows over a rolling 18 months through forward contracts. Exchange-rate gains from forward contracts in operating profit amounted to SEK 53 M. Unrealized exchange-rate gains compared with exchange rates on January 31 for forward contracts that were not revalued in the balance sheet were SEK 23 M.

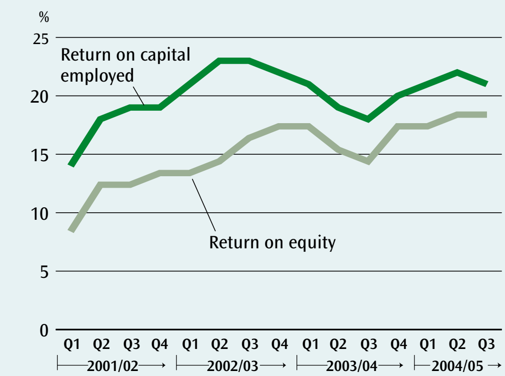
Net sales



Operating result



Earnings ratios



Net financial items amounted to income of SEK 7 M (18). Net interest declined due to lower interest income, and amounted to SEK 7 M (12) of net financial items. Earnings from participations in associated companies amounted to SEK 7 M (7) and loss from exchange-rate differences to SEK 7 M (loss: 1).

Profit after net financial items increased to SEK 243 M (210). The tax expense on profit for the period was calculated at SEK 78 M, or 32 percent. Profit after taxes improved by 20 percent to SEK 165 M (138).

Earnings per share rose to SEK 5.27 M (4.21) before dilution and by 26 percent to 5.27 (4.18) after dilution.

The return on shareholders' equity amounted to 18 percent (14), while the return on capital employed amounted to 21 percent (18).

Investments and depreciation/amortization

Investments in intangible and tangible assets amounted to SEK 57 M (79). Depreciation and amortization of intangible and tangible assets amounted to SEK 75 M (65).

Liquidity and the financial position

Cash flow from operating activities amounted during the period to SEK 22 M (192). Tied-up working capital increased as a result of increased accounts receivable and a build-up of inventories for delivery in Q4. At the end of the previous fiscal year working capital was negative, when operating liabilities on April 30, 2004, exceeded operating receivables.

Cash flow after investments was negative in an amount of SEK 15 M (positive: 122).

On January 31, 2005, liquid funds amounted to SEK 1,146 M, compared with SEK 1,151 M on April 30, 2004. Bank balances in an amount of SEK 55 M was pledged, primarily for commercial guarantees.

Interest-bearing liabilities amounted to SEK 209 M, compared with SEK 231 M at the start of the fiscal year 2004/05.

The equity/assets ratio amounted to 48 percent.

In May-September 2004, 501,200 new Series B shares were subscribed for through the exercise of warrants distributed within the framework of the established options program. On January 31, 2005, the total number of shares amounted to 31,567,454.

With the aim of fulfilling the company's dividend policy, Elekta repurchased 224,900 Series B shares in January-February at an average price of SEK 222.34 and for a total value of SEK 50 M. The intention is that shares repurchased in accordance with Elekta's dividend policy will be cancelled subject to a decision by the Annual General Meeting to be held in September 2005.

Employees

The average number of employees amounted to 1,206 (1,126).

The number of employees at the end of the period amounted to 1,244 compared with 1,170 on April 30, 2004.

Parent Company

Parent Company operations comprise Group management, joint Group functions and financial management. The Parent Company's loss after net financial items amounted to SEK 17 M (loss: 7). The average number of employees amounted to 16 (16).

Proposed acquisition

On January 18, 2005, an agreement was announced under which Elekta AB (publ) will acquire IMPAC Medical Systems Inc., a world leading provider of information systems for managing radiation and medical oncology and related clinical practices.

Under the terms of the agreement, Elekta will pay USD 24.00 in cash for each share of IMPAC common stock outstanding, corresponding to a diluted equity value of approximately USD 250 M and an enterprise value of approximately USD 190 M. The merger is contingent upon approval of the transaction by IMPAC's stockholders, receipt of Hart-Scott-Rodino regulatory approval and other customary closing conditions. IMPAC's board of directors has approved the acquisition and recommends that stockholders vote in favor of the transaction. IMPAC intends to hold a special stockholders meeting to approve the merger and to close the transaction shortly thereafter. Major stockholders of IMPAC, together holding approximately 33 percent of the company's shares, have entered into agreements with Elekta to vote their shares in favor of the transaction.

Joining forces, Elekta and IMPAC will be able to offer a fully-integrated and seamless solution based on open connectivity and architecture – addressing the entire spectrum of the cancer care process from diagnosis through treatment planning, treatment delivery and follow-up, including cancer registry and decision support.

While the acquisition considerably strengthens Elekta's presence and position in the American market, Elekta's international sales organization will facilitate the sales and market penetration of IMPAC's software systems outside the US.

While Elekta will be able to provide its customers with a complete "one-partner" solution going forward, both Elekta and IMPAC remain firmly committed to an open architecture, multi-vendor software format. Management expects that the transaction will result in:

- Immediate accretion to earnings on a cash basis (before amortization of intangibles)
- Dilution to reported earnings in fiscal year 2005/06, and accretion in fiscal year 2006/07 and onwards
- Accelerated revenue growth
- Preserved balance sheet strength and financial flexibility

Outlook for fiscal year 2004/05

Demand for Elekta's products and clinical solutions remain favorable and the order backlog remains high.

For full-year 2004/05, Elekta expects its growth and operating margin to match the Group's financial objectives – sales growth of 10-15 percent in local currency and an operating margin of 10-12 percent.

Financial information

The year-end report on operations in 2004/05 will be published on June 15, 2005.

STOCKHOLM MARCH 9, 2005

ELEKTA AB (PUBL)

Laurent Leksell,
President

The Company's auditors have not reviewed this interim report.

ELEKTA

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