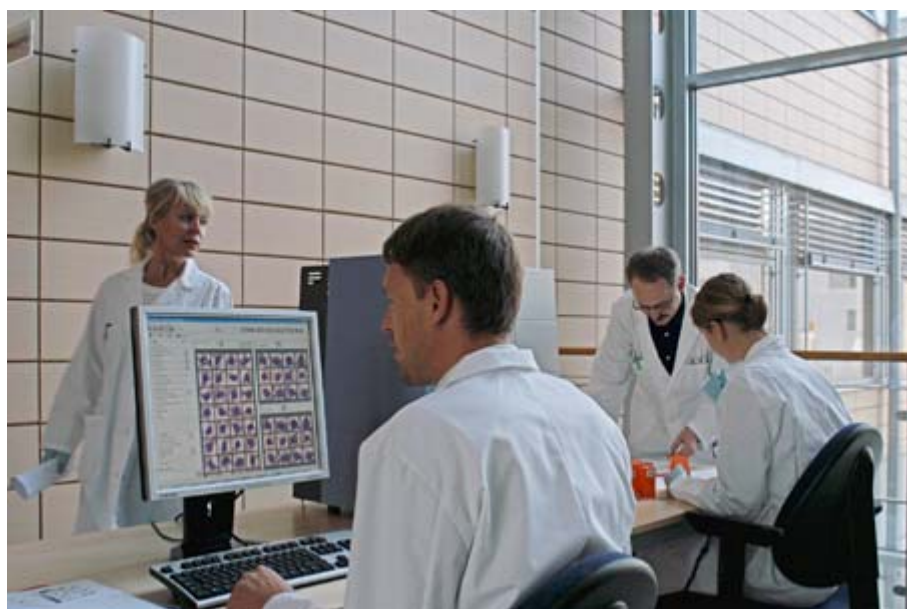


2004 annual report for CellaVision AB (publ)

Corporate ID 556500-0998



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Content

Summary of 2004	3	Cash flow statement	11
Share capital and ownership structure	3	Accounting principles	12
The Board's report	5	Notes	14
<u>Financial report</u>		Audit report	21
Income statement	7	Five-year summary	22
Balance sheet	8	Board and Management team	24
Changes in shareholders' equity	10		

SUMMARY OF 2004

- ▶ Net sales increased by 100% to MSEK 29.8 (15).
- ▶ Successful launch of CellaVision™ DM96 in the U.S. increases the U.S. sales to 50% of total revenue.
- ▶ Operating expenses were reduced with 16% to MSEK 37.1 (44.3).
- ▶ Operating loss amounted to MSEK 26.6 (-39.8). Net loss amounted to MSEK 24.9 (-39.8). Net loss per share amounted to SEK 1.31 (SEK -2.95).
- ▶ A new share issue in January 2004 gave the company a capital injection of MSEK 33.
- ▶ FDA-clearance for CellaVision™ DM96 was received in February 2004
- ▶ Cash and bank holding at the year-end amounted to MSEK 19.2 (5.1)

Key data and ratios All amounts in KSEK	2004	2003	2002	2001	2000
Net sales	29 843	14 974	13 669	8 043	0
Operating loss	-26 597	-39 838	-49 433	-53 037	-30 357
Cash flow	-23 944	-33 844	-44 635	-65 593	-32 029
Shareholders' equity	18 148	8 069	48 664	82 604	66 673
Cash	19 157	5 068	39 239	49 654	60 680
Equity/assets ratio	40%	26%	66%	72%	79%
Number of employees	30	37	46	49	39

SHARE CAPITAL AND OWNERSHIP STRUCTURE

Ownership structure

The table below presents the CellaVision ownership structure on December 31 2004, when CellaVision had about 700 shareholders.

Shareholders	Number of shares	Capital and votes, percent
H & B Capital LP	3 705 373	18,4
Christer Fåhræus	1 827 445	9,1
Företagskapital Kompanjonfond KB (3i)	1 578 786	7,8
Swedish Industrial Development Fund	1 545 455	7,7
Förvaltnings AB Metallica	1 487 105	7,4
Life Equity Sweden KB	1 479 900	7,3
3i Group PLC	1 000 000	5,0
Other	7 526 647	37,3
TOTAL	20 150 711	100,0

Warrants

At year-end, CellaVision had one warrant program with subscription rights. In total the number of shares may increase by 600,000 and add MSEK 18 in cash, of which SEK 90,000 will be share capital.

Warrant program	Number of outstanding	Number of shares when fully exercised	Subscription rate per share	Liquid assets when fully subscribed	Program expires
2002/2005	600 000	600 000	30 kr	18,0 MSEK	2005-12-15

Shareholder agreement

H&B, Christer Fåhræus, Företagskapital, Metallica and Swedish Industrial Development Fund have entered a share holder agreement that among other issues regulates board-member election and limitations on transferability of shares that are held by the above-mentioned parties. The agreement will expire when the company's share is quoted on a stock exchange.

Share capital

On December 31 2004, CellaVision hold 20,150,711 shares to a nominal value of SEK 0.15 per share, in total a share capital of KSEK 3,023. Regardless of the number of shares held by one shareholder, each share gives the shareholder the right to one vote. Each vote may be used at the Annual General Meeting. All shares have equal right to shares in the company's assets and profit. This table illustrates the development since the inception of CellaVision:

All amounts in KSEK

Year	Transaction	Number of new shares	Acc. number of shares	Increase in share capital	Acc. share capital	Funds from new share issue	Acc. funds from share issues
1994	New issue	500	500	50	50	50	50
1996	New issue	150	650	15	65	1 500	1 550
1996	New issue	110	760	11	76	1 500	3 050
1997	Bonus issue	760	1 520	76	152	-	3 050
1997	Split 1000:1	1 518 480	1 520 000	0	152	-	3 050
1997	New issue	122 000	1 642 000	12	164	4 066	7 116
1997	New issue	75 000	1 717 000	8	172	1 500	8 616
1998	New issue	100 000	1 817 000	10	182	4 500	13 116
1998	New issue	158 000	1 975 000	16	198	8 690	21 806
1999	New issue	1 296 750	3 271 750	130	327	25 935	47 741
1999	New issue	333 332	3 605 082	33	361	10 000	57 741
2000	Bonus issue	0	3 605 082	180	541	-	57 741
2000	New issue	1 354 454	4 959 536	203	744	74 495	132 236
2000	Warrants	2 500	4 962 036	0	744	150	132 386
2000	Warrants	1 000	4 963 036	0	744	40	132 426
2000	Warrants	2 000	4 965 036	0	745	80	132 506
2000	Warrants	22 000	4 987 036	3	748	1 100	133 606
2000	Warrants	88 000	5 075 036	13	761	4 400	138 006
2000	Warrants	3 000	5 078 036	0	762	120	138 126
2000	Warrants	11 500	5 089 536	2	763	690	138 816
2001	Warrants	15 000	5 104 536	2	766	900	139 716
2001	Bonus issue	5 104 536	10 209 072	766	1 531	-	139 716
2001	New issue	2 656 070	12 865 142	399	1 930	73 042	212 758
2002	Warrants	94 610	12 959 752	14	1 944	1 892	214 650
2002	New issue	545 455	13 505 207	82	2 026	15 000	229 650
2003	-	-	13 505 207	-	2 026	-	229 650
2004	New issue	6 645 504	20 150 711	997	3 023	33 227	262 877

THE BOARD'S REPORT

The Board and the CEO of CellaVision AB (publ), corporate ID 556500-0998, submit this report for the financial year January 1 2004 to December 31 2004.

The operation

Christer Fåhraeus launched CellaVision in 1994. The company's expertise is in digital image analysis. Its business concept is to develop and market software solutions for medical microscopy analyses. The company currently concentrates on the following products: DiffMaster Octavia, CellaVision DM96, and CellAtlas (all are trademarks or registered trademarks of CellaVision). DiffMaster Octavia and CellaVision DM96 facilitate blood-cell analyses. CellAtlas is a Web-based tool that's used for education and quality assurance.

Sales, results, and investments

Net sales reached MSEK 29,8 (15) for the year, close to a 100% increase compared to last year. The major part of the sold systems is the new product CellaVision DM96 launched 2004. The distribution of net sales is equally distributed between U.S. and Europe.

Total expenses, excluding financial expenses and tax, amounted to MSEK 37.1 (44.3). Compared to last year, total expenses were reduced by around 7 million SEK (16 %). The reduction is a result of reduced number of employees in the beginning of 2004 and the fact that 2003 contained write-offs in goodwill and inventory for in total 3,7 million SEK. No development expenses were capitalized during the year. Write-offs of capitalized development expenditures were charged to cost of goods sold with MSEK 3,8 (3,5) for the year.

The net result was affected by a write-off in inventory for DiffMaster Octavia with MSEK 1.2. This write-off is justified by the fact that a new system will be launched in the second quarter 2005 to replace the DiffMaster Octavia. This will most likely affect the net sales of DiffMaster Octavia in number of units and sales price.

Capital expenditures amounted to MSEK 0,1 (2,7) for the year and depreciations of those amounted to MSEK 1.7 (2.0). The monthly average cash flow, before changes in working capital and excluding financing activities, amounted to MSEK -1.6 (-2.4).

Financial risks

Financing

CellaVision concluded a new share issue on January 23 2004. The issue was almost fully subscribed, and it gave the company a capital injection of MSEK 33. By this issue, 3i together with Kompanjonfonden, became the second largest

owner after H&B Capital. The Swedish Industrial Development Fund increased its shareholding from 4.0% to 7.7%. SIF, a new large owner, held 4.5%. CellaVision has about 700 shareholders; 300 smaller shareholders subscribed for shares to a value of MSEK 8.

The proceeds have and will be used to:

- ▶ Finance the ongoing commercialization of the company's products in the United States through distribution agreement and support via CellaVision Inc. In Europe, through continued expansion and support of the distribution network.
- ▶ Continue product development within hematology.
- ▶ Improve the gross margin by lowering production costs.
- ▶ Further develop the business model to be able to speed up the sales introduction and increase the proportion of recurring business.
- ▶ Increase sales to enable positive cash flow sometime during 2005.
- ▶ Once having reached positive cash flow develop new product application areas, with or without partnership with other players in the market.

Besides the above items, the proceeds will be used to cover the company's working capital needs up to the end of 2005.

Foreign currency and credit risks

The company operations carry a number of financial risks which are handled by the finance policy taken by the board. The major part of the company expenses is tied to the Swedish crown (SEK), while customer invoicing and production costs are mainly in foreign currencies (predominantly USD, Euro and CHF), which increases the company's exposure to currency fluctuations. All contractual inflows are secured to 100 percent. Forecasted exposure is not secured, with consideration to historical uncertainty in order income. The company believes there is no significant credit risk in relation to any specific customer or counterpart. Customers in the international market are well established hematology companies and distributors with high solvency. In the Nordic region the customers are hospitals with public financing.

Liquid assets and financing

Cash and bank holdings at year-end amounted to MSEK 19.2 (5.1). The negative cash flow, before changes in working capital, amounted to MSEK

-19.5 (-29.1). The consolidated shareholder's equity as per December 31 2004 amounted to MSEK 18.1 (8.1) and the total equity per share to SEK 0.95 (0.60) (excl. outstanding warrants).

The market

The new product, CellaVision™ DM96, was introduced to a large number of customers in Europe and in the U.S. where FDA-clearance was received in February 2004. The growing acceptance for automated microscopy in general and for CellaVision DM96 in particular, has led to a substantial increase in sold systems both in Europe and the U.S.A. Lead time from first customer contact to closing of sale transaction has been reduced significantly compared to the introduction of the DiffMaster in Europe and the U.S.A. 2001.

The CellaVision distribution agreement with Sysmex Europe has been negotiated to also include the most recently launched product CellaVision DM96 together with a number of new countries. The following countries are included; Germany, Netherlands, Belgium, Switzerland, Austria, Turkey, Greece, Israel, Czech Republic, Slovakia and Hungary. The distribution agreement for the U.S. market is held by Sysmex America. Since the end of the year the agreement also includes Brazil.

CellaVision AB sells directly in the Nordic region. Two new Danish hospital laboratories, Naestved and Roskilde, were added to the CellaVision system customer base.

Purchase and Production

Purchases are to largest extent handled within the own organization. The production of components is outsourced to a number of sub-contractors while final assembly and quality control is handled by CellaVision AB, Lund. In 2004 several cost-cutting projects were started in order to bring down the product cost of hardware.

R&D

Research and development efforts have been focused on a new hardware platform for DiffMaster Octavia in 2004. When it comes to software the R&D work has primarily been focused on continued

development and improvement of the current product portfolio.

CellaVision has a patent portfolio containing 16 innovations, which so far have generated 20 patents.

R&D expenses during 2004 were MSEK 14.3 (16.7), nothing has been capitalized during the year (0.1).

Organization and employees

The CellaVision Group consists of CellaVision AB, the parent company, and two subsidiaries: CellaVision International AB and CellaVision Inc. In February, the board of CellaVision AB decided to implement additional restructuring to cut operating costs, consequently, CellaVision AB in Lund notified five employees of lay-off.

At year-end, the Group employed 30 (37) persons in CellaVision AB and CellaVision Inc. CellaVision International AB has no employees.

The Board

The board held 14 minuted meetings in 2004; four were held as teleconferences. The board has appointed a committee to deal with financing issues. Each month, the board receives reports on the company's activities, cash flow, profit/loss, and financial position.

Proposed treatment of loss—Parent company

Balance brought forward	0
The year's loss	29 887 874
Total	29 887 874

The Board and the CEO propose that the accumulated loss of SEK 29,887,874 will be balanced against the share premium reserve, which will be reduced by an equivalent amount. On December 31 2004, the consolidated accumulated loss amounted to KSEK 34,867. Appropriation of restricted reserves in the other group companies is not necessary.

INCOME STATEMENT

Amount in KSEK	Note	Group		Parent company	
		JAN 1 – DEC 31 2004	JAN 1 – DEC 31 2003	JAN 1 – DEC 31 2004	JAN 1 – DEC 31 2003
Net sales	1	29 843	14 974	27 529	12 378
Cost of goods sold	8, 9	-19 338	-10 077	-19 090	-9 545
Gross profit		10 505	4 897	8 439	2 833
Selling expenses	9	-11 432	-17 023	-14 200	-6 522
Administrative expenses		-11 274	-10 512	-11 273	-10 512
Research and development expenses		-14 305	-16 094	-14 305	-16 094
Other operating expenses		-91	-626	-245	-626
Operating loss	2, 3, 4, 5, 6, 7, 8	-26 597	-39 358	-31 584	-30 921
<i>Income/loss from financial investments</i>					
Interest income	10	1 920	304	1 912	1 350
Write-down of financial assets	12	0	0	0	-11 475
Interest expenses		-216	-1 093	-216	-1 093
Loss after financial items		-24 893	-40 147	-29 888	-42 139
Tax	11	0	309	0	0
Net loss		-24 893	-39 838	-29 888	-42 139
Earnings per share		-1,31	-2,95	-1,57	-3,12
Diluted earnings per share		-1,31	-2,95	-1,57	-3,12

BALANCE SHEET – ASSETS

Amount in KSEK	Note	Group		Parent company	
		31 DEC 2004	31 DEC 2003	31 DEC 2004	31 DEC 2003
Fixed assets					
<i>Intangible fixed assets</i>					
Capitalized development expenditures	5	4 645	8 409	4 645	8 409
Other intangible assets	6	0	0	7 275	0
Total intangible fixed assets		4 645	8 409	11 920	8 409
<i>Tangible fixed assets</i>					
Equipment	7	2 398	3 827	1 489	2 991
Total tangible fixed assets		2 398	3 827	1 489	2 991
<i>Long- term financial assets</i>					
Shares in group companies	12	0	0	100	100
Total long term financial assets		0	0	100	100
Total fixed assets		7 043	12 236	13 509	11 500
Current assets					
<i>Inventories</i>					
Finished products and goods for resale		6 482	6 410	6482	6410
Advances to suppliers		2 276	567	2 276	567
Total inventories		8 758	6 977	8 758	6 977
<i>Current receivables</i>					
Accounts receivable		6 426	4 520	6 318	4 153
Other receivables		2 714	696	2 670	667
Receivables, Group companies		0	0	45	490
Prepaid expense and accrued income	13	1 018	1 033	1 018	11 937
Total current receivables		10 158	6 249	10 051	17 247
Cash and bank deposits		19 157	5 068	18 244	4 169
Total current assets		38 073	18 294	37 053	28 393
TOTAL ASSETS		45 116	30 530	50 562	39 893

BALANCE SHEET – SHAREHOLDERS' EQUITY & LIABILITIES

Amount in KSEK	Note	Group		Parent company	
		31 DEC 2004	31 DEC 2003	31 DEC 2004	31 DEC 2003
Shareholders' equity					
<i>Restricted equity</i>					
Share capital ¹		3 023	2 026	3 023	2 026
Other statutory reserves		2 207	2 207	2 187	2 187
Additional paid-in capital		47 785	57 141	47 785	56 265
Total restricted equity		53 015	61 374	52 995	60 478
<i>Retained losses</i>					
Balance brought forward		-9 974	-13 467	0	0
The year's result		-24 893	-39 838	-29 888	-42 139
Total retained losses		-34 867	-53 305	-29 888	-42 139
Total shareholders' equity		18 148	8 069	23 107	18 339
Provisions		1 020	440	1 020	440
<i>Long-term liabilities</i>					
Interest bearing payable to credit institutions ²	14	10 000	13 389	10 000	13 389
Total long-term liabilities		10 000	13 389	10 000	13 389
<i>Current liabilities</i>					
Liabilities to credit institutions ²	14	6 897	1 485	6 897	1 485
Accounts payable		4 021	2 048	3 972	2 025
Other liabilities		378	417	339	408
Liabilities, Group companies		0	0	1 316	0
Accrued expense and prepaid income	15	4 652	4 682	3 911	3 807
Total current liabilities		15 948	8 632	16 435	7 725
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES		45 116	30 530	50 562	39 893
Pledged assets	16	8 045	550	8 045	550

¹ The share capital in the parent company is distributed, as per December 31 2004, on 20 150 711 shares at a nominal value of SEK 0.15 each.

² Total interest-bearing liabilities as per December 31 2004 amounted to 6.897 (4.874)

Changes in shareholders' equity

Group	Share capital ¹	Other statutory reserves	Additional paid-in capital	Retained losses	Total
Shareholders' equity 2002-12-31	2 026	2 207	96 145	-51 714	48 664
Appropriation of losses	0	0	-39 004	39 004	0
The year's result	0	0	0	-39 838	-39 838
Translation difference	0	0	0	-757	-757
Shareholders' equity 2003-12-31	2 026	2 207	57 141	-53 305	8 069
New share issue	997	0	32 231	0	33 228
Fundraising costs	0	0	- 600	0	- 600
VAT refund re. fundraising costs in prior periods	0	0	2 028	0	2 028
Appropriation of losses	0	0	- 42 139	42 139	0
The year's result	0	0	0	- 24 893	- 24 893
Transfer between restricted equity and retained losses	0	0	- 876	876	0
Translation difference	0	0	0	316	316
Shareholders' equity 2004-12-31	3 023	2 207	47 785	-34 867	18 148
Parent company	Share capital¹	Other statutory reserves	Additional paid-in capital	Retained losses	Total
Shareholders' equity 2002-12-31	2 026	2 187	95 269	-39 004	60 478
Appropriation of losses	0	0	-39 004	39 004	0
The year's result	0	0	0	-42 139	-42 139
Shareholders' equity 2003-12-31	2 026	2 187	56 265	-42 139	18 339
New share issue	997	0	32 231	0	33 228
Fundraising costs	0	0	- 600	0	- 600
VAT refund re. fundraising costs in prior periods	0	0	2 028	0	2 028
Appropriation of losses	0	0	- 42 139	42 139	0
The year's result	0	0	0	- 29 888	- 29 888
Shareholders' equity 2004-12-31	3 023	2 187	47 785	-29 888	23 107

¹ Each share correspond to one vote per share and each shareholder, with the right to vote, may use all its voting rights without limitations at the annual general meeting. All shares bestow the same right to the Company net assets and result.

CASH FLOW STATEMENT

Amount in KSEK	<i>Group</i>		<i>Parent company</i>	
	JAN 1 – DEC 31 2004	JAN 1 – DEC 31 2003	JAN 1 – DEC 31 2004	JAN 1 – DEC 31 2003
Operating activities				
Operating loss	-26 597	-39 358	-31 584	-30 921
<i>Adjustment for non cash items</i>				
Depreciation of tangible/intangible assets	5 330	6 850	8 508	4 960
Write-down of inventory	1 200	1 189	1 200	0
Write-down of goodwill	0	2 533	0	0
Change in accrued expenses	572	-824	703	-11 602
Tax paid	-263	309	-263	0
Interest income received	348	891	340	1 093
Interest paid	-57	-668	-57	-668
Cash flow from operating activities before changes in working capital	-19 467	-29 078	-21 153	-37 138
<i>Changes in working capital</i>				
Increase/decrease in inventory	-2 981	724	-2 981	-1 267
Increase/decrease in accounts receivables	-1 915	-865	-2 164	-1 981
Increase/decrease in other current receivables	-2 990	-581	-1 559	2 381
Increase/decrease in accounts payable	1 978	-1 308	1 947	-1 261
Increase/decrease in other current liabilities	789	-115	1 249	-73
Cash flow from operating activities	-24 586	-31 223	-24 661	-39 339
<i>Investing activities</i>				
Capitalized development expenditures	0	-600	0	-600
Sales of tangible fixed assets	756	723	756	324
Acquisition of tangible fixed assets	-114	-2 745	-71	-2 003
Cash flow from investing activities	642	-2 622	685	-2 279
<i>Financing activities</i>				
New share issue	33 228	0	33 228	0
Fundraising cost	-600	0	-600	0
Paid out VAT refund	689		689	
Loans raised	4 745	661	4 745	661
Loans repaid	-1 425	-916	-1 425	-916
Loans written-off	1 414		1 414	
Long-term loan, Group companies	0	0	0	7 638
Cash flow from financing activities	38 051	-255	38 051	7 383
Changes in cash and cash equivalents	14 107	-34 100	14 075	-34 235
Translation difference	-18	-71	0	0
Liquid assets at year's start	5 068	39 239	4 169	38 404
LIQUID ASSETS AT END OF PERIOD	19 157	5 068	18 244	4 169

Accounting principles

General

The annual report was prepared according to the Annual Accounts Act and Swedish general accepted accounting principles. CellaVision follows all Swedish Financial Accounting Standards Council's recommendations and statements, except for RR27 (financial instruments: disclosure and presentation) and RR29 (employee benefits).

Consolidated accounts

Financial statements include CellaVision AB (parent company), CellaVision International AB and CellaVision Inc. (wholly owned subsidiaries). The purchase method was used to prepare the consolidated accounts. Consolidation of subsidiaries' assets and liabilities are reported at market value, according to an acquisition analysis. If the purchase value exceeds net assets in the subsidiary, the difference between the purchase value and the estimated market value constitutes group goodwill, which is amortized over an estimated economic life.

Internal invoicing and internal intercompany financial balances were eliminated from the group accounts. The Group applies the current-rate method for translating foreign subsidiary accounts. All assets and liabilities in CellaVision Inc. are translated at the closing day rate¹, while all items in the income statement are translated at the average rate².

Translation differences occur because of (1) the difference between the income statement's average rate and the year-end closing-day rate and (2) net assets being translated at a different rate at the year's end compared to the rate at the year's start. The translation differences related to the net profit/loss and long-term financial intercompany balances are charged directly against shareholders' equity. For other translation differences, see the "Exchange gains and losses" heading in this chapter.

Revenue recognition

When ...	Then revenue consists of ...
Instruments are sold to end customers	Payment for instruments and software (SW) updates. Total revenue related to instruments and software updates is booked as income when principal risks and benefits associated with instruments are transferred to customers.

Instruments are	Payment for instruments and
-----------------	-----------------------------

sold to distributors

software updates. Total revenue related to instruments and software updates is booked as income when principal risks and benefits associated with instruments are transferred to distributors.

Service is sold to end customers

Payment for service of instruments. Revenue is accrued during the service contract's period and can come from one-time service and ongoing service contracts.

SW upgrades (new functions, technologies, or applications) are sold to end customers

Payment for SW upgrades. Revenue is accrued during the upgrade contract's period and can come from a one-time upgrade and ongoing upgrades contract.

Instruments are rented on a payment-per-analysis basis

Payments for instrument rental (period-based), service, and software updates.

Payment-per-analysis basis is made

Fixed and variable payments or just a fixed monthly payment. Variable payment depends on the number of analyses performed with the instrument. Revenue is accrued during the contract-specified period.

R&D expenses

Research expenses are charged against the result as they occur. Development expenses for forthcoming products are charged through the end of prototyping. Expenses are capitalized after that, and up to commercialization phase. Development expenses for existing applications and HW-platforms are charged as they occur. To effectively manage expenses, the company uses cost accounting so that all R&D expenses are allocated to projects. Examples of expenses are:

- Goods and material
- Consultant's fees for conception and design
- Salaries and remunerations

Equipment and computer depreciation is not capitalized. At new product launch, a five-year depreciation schedule goes into effect.

Exchange-rate profit and loss

Realized and unrealized exchange-rate differences and translation differences are reported as other operating expenses (i.e., differences related to operations-based expenses and intercompany

¹ Closing day rate SEK/USD: 6.6125 (7.2750).

² Average SEK/USD: 7.3496 (8.0894)

balances). Translation differences are reported as interest income and interest expenses (i.e., differences related to current financial intercompany balances).

Intangible fixed assets

Intangible assets consist of capitalized development expenses and a customer database. All assets are reported at purchase value, less accumulated, scheduled depreciation.

Tangible fixed assets

Tangible assets are instruments, equipment, and computers; all are reported at purchase value, less accumulated, scheduled depreciation.

Depreciation schedule

Scheduled depreciation is based on an asset's purchase value and its estimated economic life:

- Development expenses, 5 years
- Group goodwill, 5 years
- Instruments, 5 years
- Equipment, 5 years
- Customer database, 3 years
- Computers, 3 years

If an asset's ...

Depreciation is imminent

Then its ...

Recovery value is set.

Booked value is higher than its recovery value

Value is written down to its recovery value.

Recovery value is the highest of market value and usage value. Usage value is capitalized value of future payments that the asset generates.

Leasing

The Group has no financial leasing agreements. Operational leasing primarily covers office rent, computers, and vehicles.

Receivables and liabilities

Receivables are reported as expected, incoming amounts. Liabilities are reported as nominal amounts. Receivables and liabilities in foreign currencies were converted at the closing-day rate, and any unrealized exchange-rate effects were directly charged against the year's profit/loss.

All export-invoices are subject to export factoring. These are accounted for as accounts receivables. The obtained loans in each invoicing-currency are accounted for as a short term loan recalculated to SEK using year-end closing-day rate. Applicable invoices are pledged by the bank and are shown under pledged assets.

Inventories

Inventory is valued at the lower of cost (FIFO method) and net realizable value (lowest value

principle). Inventory includes ready-to-sell products and components for instruments.

Cash flow statement

The cash flow statement was prepared according to the indirect method. Cash, bank balances and current, 90-day, investments are all reported as liquid assets.

Pensions

Insurance companies take over all pension commitments. All employees in Sweden are covered by the ITP-plan, operated by Alecta, except the personnel employed before May 1, 1999. Those are covered by an alternative ITP-plan where the employee is free to choose insurance company by himself. They have the same amount to their disposition, as the one's included in the ITP-plan. Employees with a salary exceeding 10 basic amounts are also offered an alternative ITP for a part of their plan. For all pension fees the company are charged a special salary tax amounting to 24,26 % of paid fees. The employees in the US subsidiary are all covered by a 410k-plan.

Segment reporting

CellaVision operation covers only one business segment, that is, systems for automatic microscopy within hematology. The income statement and balance sheet report data on this primary segment. Geographic segments (Europe and the United States) are reported as secondary segments.

Related party transactions

Transactions between the company and the Board of Directors are limited to the remunerations described in note 2. CellaVision AB and CellaVision Inc have entered a service agreement as per 2004-01-01. CellaVision Inc performs services on behalf of CellaVision AB vis-à-vis their U.S. distributor Sysmex America Inc. CellaVision Inc is remunerated for their actual expenses plus 5 %, a so called cost-plus agreement. Internal transactions and balances derived from this agreement are eliminated on a group level according to the principles described under paragraph – Consolidated accounts.

Note 1 – 2B

Note 1. Key data by geographic segment

CellaVision operation covers only one business segment, that is, systems for automatic microscopy within hematology. The income statement and balance sheet report data on this primary segment. Geographic segments (Europe and the United States) are reported as secondary segments.

Data per geographical area	2004	2003
<i>External sales per geographical area</i>		
Europe (including rest of world)	14 070 ¹	12 378
USA	15 773 ²	2 596
Total	29 843	14 974
<i>Assets per geographical area</i>		
Europe (including rest of world)	52 611	39 893
USA	2 694	2 244
Group elimination	-10 189	-11 607
Total	45 116	30 530
<i>Investments in tangible fixed assets</i>		
Europe (including rest of world)	70	2 003
USA	44	742

¹Of which 638 (787) are rental income.

²Of which 653 (743) are rental income.

Note 2. Personnel

A. Average number of employees	2004		2003	
	Employees	Of which men	Employees	Of which men
Parent company	27	23	34	30
Subsidiary	4	2	4	2
Total	31	25	38	32
B. Salaries and other remunerations	2004		2003	
	Board, CEO	Other	Board, CEO	Other
Parent company	1 554	11 795	1 476	13 824
Subsidiary	0	2 719	0	2 596
Total	1 554	14 514	1 476	16 420

Executives

According to the AGM's decision, the board's remuneration is SEK 350,000 (400,000) of which the board chairman gets SEK 100,000 (100,000), up to the next AGM. This amount is provided for by year end. Salary and remuneration for the parent company's CEO is KSEK 1,808 (1,481); this includes pension and excludes social charges. When terminating employment, the company must give the CEO 12-months notice, and the CEO must give 6-months notice. The CEO has the right to 12-months severance pay if (1) the company gives notice or (2) the CEO gives notice because of a serious breach of contract on the company's part. No additional severance pay is given. On 31 December 2004, the CellaVision AB board had five male board members, and the Group's executive team consisted of six persons of whom one is female (the CEO).

Absenteeism because of illness

During the period Jan 1 2004 to December 31 2004, the company had no long-term absenteeism because of illness or disability. Total illness-related absenteeism during the period amounted to 1.34%. Male absenteeism was 1,34%. Regarding female absenteeism this is not reported as the company got less than 11 females employed. Absenteeism among employees between 30 – 49, was 1.56%. CellaVision has fewer than 11 employees who are age up to 29 and 50+ and thus does not report absenteeism for this group.

Note 2C – 5

Note 2C.

C. Social security and pension expenses	2004		2003	
	Social security	Of which pension	Social security	Of which pension
Parent company	7 074	2 674	7 849	2 987
Subsidiary	438	104	515	339
Total	7 512	2 778	8 364	3 326

Note 3. Audit fees

Fees paid to the companies auditors	2004		2003	
	Group	Parent company	Group	Parent company
Statutory audit	90	90	90	90
Other assignments	195	181	113	113
Total	285	271	203	203

Note 4. Leasing expenses

	2004		2003	
	Group	Parent company	Group	Parent company
<i>Future leasing expenses referring to non terminable leasing agreements</i>				
- Within 1 year	1 473	1 358	2 224	2 084
- Later than 1 year but within 5 years	2 368	2 368	4 677	4 637
- Later than 5 years	0	0	0	0
Total ¹	3 841	3 726	6 901	6 721

¹Of which 3 642 (5 831) refers to office rent.

Note 5. Capitalized development expenditures

	2004		2003	
	Group	Parent company	Group	Parent company
Opening balance	8 409	8 409	11 332	11 332
Acquisitions	0	0	600	600
Depreciations for the year	-3 764	-3 764	-3 523	-3 523
Total	4 645	4 645	8 409	8 409

Note 6 – 7

Note 6 A. Other intangible assets

Customer database – U.S.

	2004		2003	
	Group	Parent company	Group	Parent company
Opening balance	0	0	0	0
Acquisitions	0	10 912	0	0
Depreciations for the year	0	-3 637	0	0
Total	0	7 275	0	0

Note 6 B. Goodwill

	2004		2003	
	Group	Parent company	Group	Parent company
Opening balance	0	0	5 060	0
Acquisitions	0	0	0	0
Depreciations for the year ¹	0	0	-1 294	0
Currency translation difference ²	0	0	-1 233	0
Write-off	0	0	-2 533	0
Total	0	0	0	0

¹ The depreciations for 2003 calculated to closing date rate amounts to 1 164 (-1 412).

² The group goodwill is accounted for in USD as it refers to the acquisition of assets in Triangle Imaging Inc.

Note 7. Tangible fixed assets

	2004		2003	
	Group	Parent company	Group	Parent company
Opening balance	9 736	7 771	8 640	7 017
Acquisitions	114	69	2 745	2 003
Disposal	-177	-722	-1 649	-1 249
Closing balance	9 673	7 118	9 736	7 771
Accumulated depreciations, brought forward	-5 640	-4 780	-4 534	-4 270
Depreciations for the year	-1 520	-1 107	-2 033	-1 437
Reversal of accumulated depreciations on disposed assets	258	258	927	927
Accumulated depreciations carried forward	-6 902	-5 629	-5 640	-4 780
Currency translation difference	-373	0	-269	0
Residual value	2 398	1 489	3 827	2 991

Note 8 – 10

Note 8. Distribution of depreciations

A. Group	2004			2003		
	Cap.dev. expenses	Goodwill	Equipment	Cap.dev. expenses	Goodwill	Equipment
Cost of goods sold	-3 764	0	-360	-3 523	0	-541
Selling expenses	0	0	-421	0	-1 294	-528
Administrative expenses	0	0	-108	0	0	-141
Research & development Expenses	0	0	-631	0	0	-823
Total	-3 764	0	-1 520	-3 523	-1 294	-2 033

B. Parent company	2004			2003		
	Cap.dev. expenses	Other intangibles	Equipment	Cap.dev. expenses	Goodwill	Equipment
Cost of goods sold	-3 764	0	-205	-3 523	0	-261
Selling expenses	0	-3 637	-162	0	0	-212
Administrative expenses	0	0	-108	0	0	-141
Research & development expenses	0	0	-631	0	0	-823
Total	-3 764	-3 637	-1 106	-3 523	0	-1 437

Note 9. Non-recurring items

Write-down of goodwill and inventory¹

	2004		2003	
	Group	Parent company	Group	Parent company
Cost of goods sold	1 200	1 200	0	0
Selling expenses	0	0	3 722	0
Total	1 200	1 200	3 722	0

¹Write-down of inventory – DiffMaster Octavia in 2004. Amount in 2003 represent write-down of goodwill, MSEK 2.5, and MICRO21 inventory, MSEK 1.2

Note 10. Profit on financial investments

	2004		2003	
	Group	Parent company	Group	Parent company
Interest income	1 920	1 912	304	1 100 ¹
Dividends from Group companies	0	0	0	250
Total	304	1 350	304	1 350

¹Of which 0 (827) refers to transactions within the group.

Note 11 – 14

Note 11. Taxes

	2004		2003	
	Group	Parent company	Group	Parent company
Provisions in previous years	-8	0	49	0
Tax paid	0	0	-49	0
Provisions	-8	0	-8	0
Tax reported	0	0	309¹	0
Loss carry-forwards	228 900	228 900	202 315	202 315
Deferred tax benefit not reported	64 092	64 092	56 648	56 648

¹Including a tax refund of 317 referring to prior gains on sold warrants to employees.

Note 12. Shares in group companies

	Corp. ID. nr.	Domi- cile	Number of shares	Par value	Capital and voting rights	Net book value
CellaVision International AB	556500-4299	Lund	1 000	100.000	100%	100.000
CellaVision Inc.		USA	10	1	100%	1 ¹

¹In 2003 a shareholder capital injection was made of 11,5 MSEK to CellaVision Inc. from CellaVision AB. This injection was followed by a write-up of the net book value of the shares with the same amount. The reorganization of the CellaVision Inc's activities in the US, as a consequence after signing of the distribution agreement with Sysmex America Inc., justified a write-down of the share value to par value.

Note 13. Prepaid expense and accrued income

	2004-12-31		2003-12-31	
	Group	Parent company	Group	Parent company
Office rent	480	480	515	515
Pension fees	103	103	118	118
Accrued interest income	182	182	0	0
Other	253	253	400	11 304 ¹
Total	1 018	1 018	1 033	11 937

¹10,9 MSEK refers to CellaVision AB's acquisition of CellaVision Inc's customerdatabase.

Note 14. Liabilities to credit institutions

	2004		2003	
	Group	Parent company	Group	Parent company
<i>Long-term liabilities</i>				
Landstingets fond för teknikupphandling och produktutveckling	0	0	3 389	3 389
The Swedish Industrial Development Fund ¹	10 000	10 000	10 000	10 000
Total²	10 000	10 000	13 389	13 389

Note 14 cont. – 16

	2004		2003	
	Group	Parent company	Group	Parent company
<i>Current liabilities</i>				
Landstingets fond för teknikupphandling och produktutveckling	2 152	2 152	1 485	1 485
The Swedish Industrial Development Fund	0	0	0	0
Nordea Finans Sverige AB (publ) ³	4 745	4 745	0	0
Total ²	6 897	6 897	1 485	1 485

¹The Swedish Industrial Development Fund

At a special AGM in CellaVision AB the 11th of October 2002 it was decided to issue a convertible loan of 10 MSEK. An existing interest bearing loan from The Swedish Industrial Development Fund of 10 MSEK was offset against a new loan without interest. The right to conversion was not used. The loan without interest is due the 30th of June 2006.

²All liabilities to credit institutions are estimated to be repaid within 5 years.

³Exportfactoring. 80 % of the nominal invoice amount for all export is paid out as a loan from Nordea Finans Sverige AB (publ) at invoicing date. The exportfactoring limit is MSEK 11.

Note 15. Accrued expense and prepaid income

	2004		2003	
	Group	Parent company	Group	Parent company
Vacation reserve	1 474	1 346	1 641	1 511
Directors fee	397	397	531	531
Social security expenses	731	731	850	850
Other	2 050	1 437	1 660	915
Total	4 652	3 3911	4 682	3 807

Note 16. Pledged assets

A bank guarantee of SEK 300,000 (550,000) was submitted to a supplier. The bank guarantee expired on February 13 2005.

Nordea Finans Sverige AB (publ) pledge all export invoices that constitute the loan given by them to CellaVision AB. The pledged amount at year-end was 4.745 (0).

Nordea Bank AB (publ) applied for and got registered a chattel mortgage of 3.000 (0) as security for approved credits. All property of CellaVision AB is subject to the chattel mortgage.

Annual General Meeting

The Annual General Meeting will be held on April 25 2005 at 5 PM in CellaVision's office at Ideon in Lund: Delta 5, Scheelevägen 19A, 3 tr.

Lund, Sweden on February 22 2005

Lars Gatenbeck
Board chairman

Christer Fähræus

Christer Nilsson

Peter Zakrisson

Niels Freiesleben

Yvonne Mårtensson
CEO

Our auditor's report was issued in Malmö, Sweden on February 23 2005

Deloitte & Touche AB
Per-Arne Pettersson
Authorized Public Accountant

AUDIT REPORT

To the general meeting of the shareholders of CellaVision AB

Corporate identity number 556500-0998

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors of CellaVision AB for the financial year 2004-01-01 – 2004-12-31. These accounts and the administration of the company and the application of the Annual Accounts Act when preparing the annual accounts and the consolidated accounts are the responsibility of the board of directors. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member. We also examined whether any board member has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the company's and the group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the general meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the loss of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors be discharged from liability for the financial year.

Malmö, 23 February 2005

(signature on original document)

Per-Arne Pettersson
Authorized Public Accountant

FIVE-YEAR SUMMARY

Income statement

All amount in KSEK	2004	2003	2002	2001	2000
Net sales	29 843	14 974	13 669	8 043	0
Cost of goods sold	-19 338	-10 077	-8 762	-6 949	0
Gross profit	10 505	4 897	4 907	1 094	0
Selling expenses ¹	-11 432	-17 023	-20 918	-17 737	-7 396
Administrative expenses ¹	-11 274	-10 512	-12 278	-13 185	-11 005
Research and development expenses ¹	-14 305	-16 094	-20 792	-23 509	-11 891
Other operating income	0	0	0	370	0
Other operating expenses	-91	-626	-352	-70	-66
Operating loss	-25 597	-39 358	-49 433	-53 037	-30 358
Profit/loss on financial investments	-1 704	-789	374	-19	447
Tax	0	309	-49	0	-295
Net loss for the year	-24 893	-39 838	-49 108	-53 056	-30 206

¹The principal for allocating expenses between functions was changed during 2002. The income statements for prior years have been adjusted for comparability.

Balance sheet

All amount in KSEK	2004	2003	2002	2001	2000
Assets					
Intangible fixed assets	4 645	8 409	16 392	21 595	17 215
Tangible fixed assets	2 398	3 827	3 956	3 771	1 758
Current assets	38 073	18 294	53 339	89 980	65 912
Total assets	45 116	30 530	73 687	115 346	84 885
Shareholders' equity and liabilities					
Shareholders' equity	18 148	8 069	48 664	82 604	66 673
Long-term liabilities	10 000	13 389	13 790	9 461	6 304
Current liabilities	15 948	9 072	11 233	23 281	11 908
Total shareholders' equity and liabilities	45 116	30 530	73 687	115 346	84 885

FIVE-YEAR SUMMARY

Key data and ratios	2004	2003	2002	2001	2000
Shareholders' equity, KSEK	18 148	8 069	48 664	82 604	66 673
Capital employed, KSEK	35 045	22 944	63 369	102 427	77 977
Interest-bearing liabilities, KSEK	16 897	14 874	14 706	19 823	11 304
Net investments, KSEK	-642	2 418	3 005	12 026	5 603
Cash flow, KSEK	-23 944	-33 844	-44 635	-65 593	-32 029
Interest coverage ratio	-114,52	-128,63	-33,43	-40,48	-28,79
Net debt/equity ratio	-0,68	1,22	-0,50	-0,36	-0,74
Equity/assets ratio, %	40	26	66	72	79
Percentage of risk-bearing capital, %	40	26	66	72	79
Return on equity, %	Neg.	Neg.	Neg.	Neg.	Neg.
Return on capital employed, %	Neg.	Neg.	Neg.	Neg.	Neg.
Average number of employees	31	38	45	42	31
Number of employees at end of period	30	37	46	49	39

Capital employed

Total assets minus deferred tax liabilities and non-interest-bearing liabilities.

Cash flow

Profit/loss after financial items plus depreciation, with deductions for tax paid, adjusted for a decrease/increase in working capital, excluding liquid assets, with deductions for net investments in fixed assets.

Equity/assets ratio

Shareholders' equity in relation to total assets.

Interest coverage ratio

Profit/loss after financial items plus financial expenses in relation to financial expenses.

Net debt/equity ratio

Net debt in relation to shareholders' equity. (Net debt is loan debt minus cash at the period's end.)

Net investments

Tangible and intangible investments, adjusted for divestments.

Net profit/loss per share

Net profit/loss in relation to the weighted average number of shares. Splits and share issues are accounted for.

Net profit/loss per share after full dilution

Net profit/loss in relation to the weighted average number of shares plus the number arising from full dilution. Splits and share issues are accounted for.

Number of employees, average

Number of employees at month's end, divided by 12.

Percentage of risk-bearing capital

Total of shareholders' equity and deferred tax liabilities in relation to the balance sheet total.

Return on capital employed

Profit/loss after financial items plus financial expenses in relation to average capital employed.

Return on equity

Net profit/loss in relation to average shareholders' equity.

Shareholders' equity per share

Shareholders' equity in relation to the number of shares at year-end. Splits and share issues are accounted for.

Shareholders' equity per share after full dilution

Shareholders' equity after dilution, in relation to the number of shares at year-end, if full dilution occurred. Implemented splits and share issues are accounted for.

Per share data	2004	2003	2002	2001	2000
Net loss, undiluted, SEK	-1,31	-2,95	-3,76	-5,09	-3,52
Net loss, diluted, SEK	-1,31	-2,95	-3,76	-5,09	-3,52
Shareholders' equity before dilution, SEK	0,95	0,60	3,61	6,42	6,55
Shareholders' equity after full dilution, SEK	1,84	2,09	6,04	7,41	9,85
Weighted average number of shares, undiluted	19 043	13 505	13 057	10 430	8 580
Weighted average number of shares, diluted	19 643	14 225	14 713	11 858	9 300
Number of shares at end of period, undiluted	20 151	13 505	13 505	12 865	10 179
Number of shares at end of period, diluted	20 751	14 225	15 184	14 293	11 630

BOARD

* Year of birth

Lars Gatenbeck, Chairman

Djursholm, *1956.

CEO and Partner in GZ Group that manage H&B Capital and Life Equity Sweden. Other board memberships include Aerocrine AB, Cancer-föreningen, GZ Group Holdings AB, Hormos Medical Ltd, Neoventa Medical AB, Profdoc ASA, Index Pharmaceuticals AB

Peter Zakrisson

Lidingö, *1961.

Partner in GZ Group that manage H&B Capital and Life Equity Sweden. Chairman of the Board in Probi AB. Other board memberships: Besthand AB and GZ Group Holding AB

Christer Nilsson

Täby, *1952.

Director and Advisor within 3i Nordic plc. Other board membership: Martinsson Informationssystem, Dotcom Solutions, Avitec, Atle AB, Atle Industri och DIAB Intressenter.

Christer Fåhraeus

Lund, *1965.

Board chairman of Anoto Group AB and Respiratorius AB. CellaVision's founder. CEO until June 1998. Other board memberships: Agellis Group AB, Nextlink and Precise Biometrics AB.

Shares in CellaVision: 1,827,445

Niels Freiesleben

Hornbaek, *1951

CEO and majority owner in Freiesleben Management ApS, TiKi Interiör ApS and Scandinavian Import-Export GmbH.

Christer Pettersson

Kista, *1950.

Christer Pettersson resign as a board member in December 2004.

MANAGEMENT TEAM

* Year of birth

Yvonne Mårtensson

*1953

CEO since 1998. Extensive international marketing and sales experience. Former employed by HemoCue AB, where she served her last two years as Marketing and Sales Manager in the U.S. Board member of Ortivus AB and Luab (Lund University's holding company).

Shares in CellaVision: 15 000

Warrants: Right to subscribe to 80,000 shares.

Peter Åkerlund

*1961

CFO. Employee since 1998. Extensive financial management and accounting experience, most recently in a Gambro Group position.

Shares in CellaVision: 5,000

Warrants: Right to subscribe to 40,000 shares.

Christian Matson

*1970

R&D Director. Employee since 1999. Came to CellaVision from Axis Communications AB, where he worked as development engineer.

Shares in CellaVision: 0

Warrants: Right to subscribe to 10,000 shares.

Lars Juliusson

*1964

Sales Director. Employee since 2000. Extensive experience in selling optical equipment. Came to CellaVision from Zeiss, where he was a Sales Manager for the Microscopy Division in Sweden.

Shares in CellaVision: 3,000

Warrants: Right to subscribe to 25,000 shares.

Hans-Inge Bengtsson

*1958

Quality Assurance Manager. Employee since 2001. More than 15 years of experience with blood analyses and clinical laboratories. Most recent employer was PolyPeptide Laboratory AB, where he worked as Quality Control Manager.

Shares in CellaVision: 1,200

Warrants: Right to subscribe to 26,000 shares.

Ron Hagner

*1954

General Manager, CellaVision Inc. Extensive sales and marketing experience within diagnostics. Was Marketing and Sales Director for Intelligent Medical Imaging Inc. and for Triangle Imaging Inc. Appointed General Manager of CellaVision Inc. in 2001, after acquisition of assets in Triangle Imaging Inc.

Shares in CellaVision: 1000

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