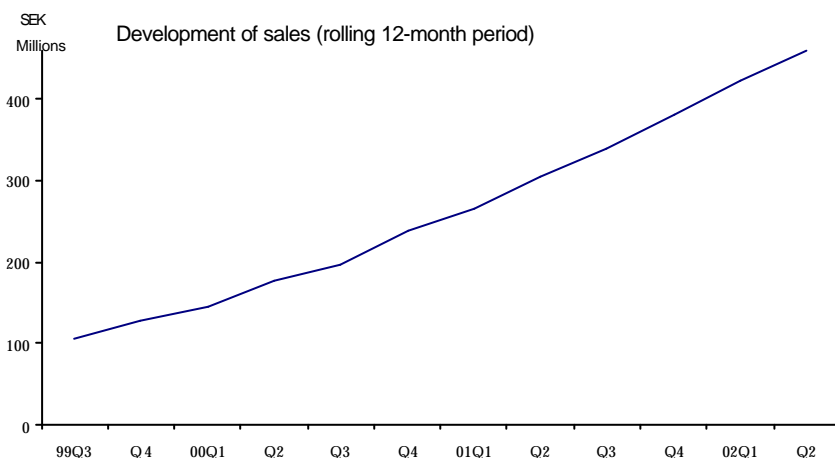


## HALF YEAR REPORT JANUARY – JUNE 2002

- Continued strong growth. Sales increased by 46 percent to SEK 253.4 (174.0) million. On a rolling 12-month basis sales rose by 51 percent to SEK 459.6 (303.7) million.
- Operating income amounted to SEK 24.9 (16.2) million. Adjusted for a one-time payment for the granting of exclusive negotiation rights, operating income amounted to SEK 3.2 (16.2) million.
- Good growth within the Esthetics and Uro-Gynecology business units. Sales rose by 35 and 457 percent, respectively, compared with the previous year.
- Sales of DEFLUX® in the USA rose by 73 percent compared with the first quarter of 2002.
- Study showed significant better effect with RESTYLANE® than with the product it was compared with. An application for the registration of RESTYLANE® in the USA has been submitted to the FDA.



*Q-Med is a rapidly growing and profitable biotechnology/medical device company that develops, produces and markets medical implants. All products are based on the company's patented technology for the production of NASHA - Non-Animal Stabilized Hyaluronic Acid. Q-Med's operations focus on the four areas of Esthetics, Orthopedics, Uro-Gynecology, and Cell Therapy and Encapsulation. The products RESTYLANE, RESTYLANE Fine Lines and PERLANE are used for the filling out of lips and facial wrinkles and today account for the majority of sales. Development of MACROLANE for body contouring, for example breast augmentation, is ongoing. DUROLANE, Q-Med's product for the treatment of osteoarthritis of the knee joint, has been approved in Europe since May 2001. DEFLUX is a product which has been approved in Europe and the USA for the treatment of vesicoureteral reflux (malformation of the urinary bladder) in children. ZUIDEX for the treatment of stress urinary incontinence in women has been sold in Europe since July 2002. Since July 2000 Q-Med has owned a majority interest in the American biotechnology company Ixion Biotechnology, Inc., with research within cell therapy for diabetes and within oxalate control. Q-Med today has just over 330 employees, with approximately 230 at the company's production facility and head*

office in Uppsala, 20 at Ixion and the remainder in wholly owned foreign sales companies. The Q-Med share was first listed on the O-list of the Stockholm Stock Exchange in December 1999.

## REVENUES

The Group's turnover rose by 46 percent during the period to SEK 253.4 (174.0) million. Adjusted for Nuova ICT, which was acquired in 2001, growth during the period was 36 percent. During the second quarter turnover amounted to SEK 139.7 (102.6) million, an increase of 36 percent. Converted to a rolling 12 months, turnover amounted to SEK 459.6 (303.7) million, an increase of 51 percent.

Fluctuations in exchange rates have positively affected sales during the first half of the year by SEK 2 million compared with the same period the previous year.

In order to exploit the full potential of the Spanish market, Q-Med opened a subsidiary of its own in March 2002, with the head office in Madrid. The number of active subsidiaries thereby amounts to 8 in all. Q-Med's products are at present sold in just over 60 countries.

### Net turnover per business area

	Jan – June			Apr – June			Jan – Dec	July – June
SEK millions	2002	2001	+/- %	2002	2001	+/- %	2001	2001/2002
Esthetics	231.0	170.5	+35	125.5	100.7	+25	371.2	431.7
Orthopedics	2.9	0.0	-	2.4	0.0	-	0.0	2.9
Uro-Gyn.	19.5	3.5	+457	11.8	1.9	+521	9.0	25.0
Other	0.0	0.0	-	0.0	0.0	-	0.0	0.0
Total	253.4	174.0	+46	139.7	102.6	+36	380.2	459.6

### Net turnover per geographical area

	Jan – June			Apr – June			Jan – Dec	July – June
SEK millions	2002	2001	+/- %	2002	2001	+/- %	2001	2001/2002
Nordic countries	8.7	7.6	+14	5.2	4.3	+21	16.1	17.2
Rest of Europe	138.7	92.7	+50	75.6	50.0	+51	201.8	247.8
North & South America	44.5	32.9	+35	27.0	21.5	+26	65.4	77.0
Rest of the world	61.5	40.8	+51	31.9	26.8	+19	96.9	117.6
Total	253.4	174.0	+46	139.7	102.6	+36	380.2	459.6

### Esthetics business unit

Sales during the first half of the year amounted to SEK 231.0 (170.5) million, of which SEK 125.5 (100.7) million was during the second quarter. Operating income amounted

to SEK 81.4 (58.9) million, of which SEK 53.0 (37.6) million was during the second quarter. Compared with the previous year, sales growth amounted to 35 percent during the first half year and 25 percent during the second quarter. Adjusted for sales of products under license, which were added on October 1, 2001 in connection with the acquisition of Nuova ICT, sales during January-June amounted to SEK 214.2 million and growth to 26 percent.

Growth was strong primarily in Asia, with an increase of over 59 percent. Continued sales successes in above all Japan are the primary reason for the increase. In Europe Q-Med is the market leader and growth is good. The development of sales in Latin America has been weak due to the current financial situation in the region.

In February 2001 a study was begun in the USA in which Q-Med's product RESTYLANE® was compared with the competing product Zyplast, which is based on collagen. The results from the study showed that RESTYLANE® had significant better effect than Zyplast. An application for registration in the USA was submitted to the FDA (Food and Drug Administration) in June 2002.

Within the area of Esthetics Q-Med is working on developing a new product, MACROLANE®, for body contouring. The first area where clinical trials will be carried out is that of breast augmentation. The protocol has been approved by the Swedish Medical Products Agency and it is estimated that the study will start as soon as approval has been obtained from the Ethical Committee. This is expected to take place during the autumn. The results will form the basis of continued clinical studies which will constitute the foundation of the registration application.

### **Orthopedics business unit**

Sales during the first half year amounted to SEK 2.9 (0.0) million, of which SEK 2.4 (0.0) million was during the second quarter. Operating income amounted to SEK 5.8 (-11.6) million, including the one-time revenue of SEK 21.7 million which Q-Med received in accordance with an agreement for exclusive negotiation rights. During the second quarter operating income amounted to SEK -3.8 (-7.8) million. Income has primarily been affected by costs for the marketing organization which is being built up as well as by costs for the clinical program for DUROLANE®.

At the end of January 2002 Q-Med signed an exclusive negotiating agreement with a major international company concerning the future distribution of DUROLANE®. The sole rights in the agreement have expired. This means that Q-Med now has the right to carry on discussions with other parties as well.

The study on osteoarthritis of the knee which was completed last spring, where DUROLANE® was compared with sodium chloride injections, has been further analyzed. A total of 346 patients were recruited. Of these, 216 had osteoarthritis only in the knee joint, while the remaining 130 had general osteoarthritis involving other joints. In the group with only osteoarthritis of the knee significant treatment effects were seen in favour of DUROLANE®. This difference in effect was neutralized when the complete study material was analyzed. This was due to the high number of patients who dropped out because of problems in joints not treated with DUROLANE®. A revised report has been drawn up and submitted to the American regulatory authority, FDA. The results are very much in agreement with the expected residence time of the product in the joint of 6 – 8 weeks and for the first time a dose/effect connection has been able to be shown for

hyaluronic acid based products. These facts will be communicated to the FDA. DUROLANE® is also being tested for osteoarthritis of the hip joint, with positive preliminary treatment results.

### **Uro-Gynecology business unit**

Sales amounted to SEK 19.5 (3.5) million, of which SEK 11.8 (1.9) million was during the second quarter. Compared with the year before, sales grew by 457 percent during the first half year and 521 percent during the second quarter. Operating income amounted to SEK -44.5 (-13.7) million, of which SEK -27.8 (-8.0) million was during the second quarter. Operating income has mainly been affected by costs for the building up of a sales organization in the USA and Europe, as well as by costs for clinical programs and increased production capacity for DEFLUX®, ZUIDEX® and IMPLACER®.

Sales of DEFLUX®, which is used for the treatment of reflux in children, rose during the second quarter by 73 percent in the USA compared with the first quarter of 2002. During January the recruitment of four specialist salesmen for DEFLUX® in the USA was completed. Just over 60 percent of the hospitals and doctors in the USA who work with the treatment of reflux in children have tried DEFLUX®. The development of sales of DEFLUX® in Europe continues to be positive.

The launch of ZUIDEX®, Q-Med's product for the treatment of stress urinary incontinence, has been begun in Europe through the company's own subsidiaries.

ZUIDEX® has been approved in Europe since 1999. In April 2002 the injection device IMPLACER®, which is used in connection with the treatment, was approved in Europe. The multicenter study which has been planned for Europe has thus been able to start. In the study, which will be ongoing for 12 months, 150 patients will be treated at 15 clinics in 5 countries. A multicenter study in the USA is also planned to begin during 2002 as the basis of a registration application in the USA.

### **Cell Therapy and Encapsulation**

The Cell Therapy and Encapsulation business unit runs its operations through the American company Ixion Biotechnology, Inc. The operating income for the period is on a par with that for the previous year. Some redistribution among the projects has taken place, whereby resources have been redirected from stem cell research to the project involving oxalate, and this is expected to lead to a considerable reduction in costs.

### **Operating income per business unit**

SEK millions	Jan – June			Apr-June			Jan – Dec 2001
	2002	2001	+/- %	2002	2001	+/- %	
Esthetics	81.4	58.9	+38	53.0	37.6	+41	122.1
Uro-Gynecology	-44.5	-13.7	-225	-27.8	-8	-247	-32.4
Orthopedics	5.8	-11.6	-	-3.8	-7.8	+51	-28.3
Cell Therapy and	-17.8	-17.4	-2	-9.4	-10.3	+9	-37.7

Total	24.9	16.2	+54	12.0	+11.	+4	23.7
					5		

## EXPENSES AND INCOME

Q-Med's gross margin amounted to 89 (90) percent during January – June 2002.

During the second quarter the gross margin amounted to 90 (90) percent.

Selling expenses increased by 56 percent during the period and amounted to SEK 117.3 (75.4) million, which corresponds to 46 percent of turnover. Selling expenses for the second quarter rose by 38 percent and amounted to SEK 58.8 (42.7) million, which corresponds to 42 percent of turnover.

Compared with the previous year there has been additional amortization of goodwill to the tune of SEK 3.1 million.

Within Esthetics selling expenses amount to 35 percent of turnover. It is thus the investments within the Orthopedics and Uro-Gynecology business units, for the latter primarily establishment costs in the USA, which are the cause of the higher selling expenses in the period compared with the previous year.

Costs for research and development amounted to 33 (31) percent of turnover during the period, an increase of 54 percent compared with the same period the previous year. During the second quarter these costs amounted to 32 (30) percent, an increase of 46 percent compared with the same period the previous year. The increase in costs derives from ongoing clinical trials, registration work and product development. The research costs also include Ixion's costs.

Amortization and depreciation of SEK 12.2 (5.6) million, of which SEK 7.0 (2.9) million was for the second quarter, has been charged against income. Of these costs SEK 3.4 (0.4) million comprise goodwill, half of which is attributable to the second quarter. The amortization of goodwill is recorded in the rows for selling expenses or research costs, depending on their nature and origin.

Other operating revenues include the revenue of SEK 21.7 million which Q-Med received from a potential partner for the sales and distribution of DUROLANE®. Otherwise other operating revenues and expenses consist mainly of the effects of exchange rates on accounts receivable and payable. Furthermore, other operating revenues include research grants received for Ixion, which amounted to SEK 4.2 (1.6) million, of which SEK 3.6 (0.2) million was during the second quarter.

Operating income for the first half of 2002 amounted to SEK 24.9 (16.2) million, which gives an operating margin of 10 (9) percent. Operating income adjusted for the one-time revenue amounted to SEK 3.2 (16.2) million. During the second quarter operating income amounted to SEK 12.0 (11.6) million, which gives an operating margin of 9 (11) percent.

Net financial income amounted to SEK -4.9 (5.8) million for the period, of which SEK -4.9 (1.9) was during the second quarter. Recorded exchange rate effects affected net financial income by SEK -4.3 million for the whole period.

Estimated tax costs were SEK 5.9 (5.5) million, of which SEK 1.8 (3.5) million was during the second quarter.

Net income for the period in 2002 amounted to SEK 18.0 (20.5) million, which gives a net margin of 7 (12) percent. Net income for the second quarter amounted to SEK 7.2 (12.3) million, with a net margin of 5 (12) percent.

## **INVESTMENTS AND CASH FLOW**

Q-Med's need for closely connected business activities has led to the construction of new office and laboratory premises of 11,000 m<sup>2</sup> being begun at the beginning of 2001. Occupancy of parts of the premises took place at the beginning of May 2002. During the period SEK 54.3 (26.2) million was invested in buildings, of which SEK 16.4 (18.0) million was during the second quarter. The total investment in the property is estimated to amount to approximately SEK 130 million, of which SEK 64.1 million was invested during 2001. The project will be completed at the end of October this year. Investments in machinery and equipment amounted to SEK 8.9 (12.5) million during the period, of which SEK 6.7 (8.4) million was during the second quarter.

In March the purchase sum of SEK 5.4 million was paid for the shares in Nuova ICT. This sum has previously been recorded and entered as a liability. At the turn of the year Q-Med Italy and Nuova ICT merged and became Q-Med ICT S.r.l.

The redemption of options programs has contributed SEK 2.8 million to shareholders' equity.

The Parent Company has raised a loan of SEK 50 million during the period.

Q-Med's cash flow from operating activities was SEK 11.1 (20.9) million for the period, of which SEK -15.1 (20.8) was for the second quarter. The cash flow from investing activities amounted to SEK -84.6 (-48.7) million, of which SEK -23.7 (-34.0) million was during the second quarter. The overall cash flow was negative, SEK -24.7 (-25.5) million.

## **PARENT COMPANY**

The net turnover for the Parent Company Q-Med AB was SEK 175.0 (129.9) million for the first half year, of which SEK 99.6 (76.2) million derives from the second quarter. Income after financial items amounted to SEK 32.1 (27.2) million for the period, of which SEK 13.1 (9.3) million was during the second quarter.

## **PERSONNEL**

Q-Med continues to employ new employees and recruited 71 employees to the Parent Company during the period, primarily within production, research and development. The number of employees amounted to 337 (225) at June 30, including 232 (164) in Sweden. During 2002 the recruiting within production, research and development will continue as well as the building up of a market organization in the USA and the expansion of the subsidiaries' sales personnel.

## **ANNUAL GENERAL MEETING**

All members of the Board were re-elected at Q-Med's Annual General Meeting on April 23. Håkan Edström was elected as a new member of the Board. Furthermore, the Annual General Meeting gave the Board renewed authorization to issue, on one or more occasions up until the time the time of the next Annual General Meeting, a maximum of 1,280,000 new shares in order to enable future business opportunities to be taken advantage of.

## **PROSPECTS FOR WHOLE OF 2002**

Continued strong growth is expected for 2002. The gross margin will continue to be about 90 percent. The investments in new products and markets will continue and this means that the costs for above all clinical trials and registration will increase. The expansion will take place with continue profitability. The previously stated forecast thus remains unchanged.

August 22, 2002

Uppsala

**Q-Med AB (publ)**

Bengt Ågerup

President and CEO

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This report has not been the subject of scrutiny by the company's auditors. The same accounting principles and methods of calculation have been used in the drawing up of this half year report as in the latest Annual Report. The company's accounting and valuation principles are in accordance with the recommendations and pronouncements of the Swedish Financial Accounting Standards Council.

The report for the period January – September 2002 will be submitted on October 24, 2002.

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<b>Group income statement</b> (SEK millions)	January – June			April – June			Whole year	July – June
	2002	2001	+/- %	2002	2001	+/- %	2001	2001/2002
Net turnover	253.4	174.0	46	139.7	102.6	36	380.2	459.6
Cost of goods sold	-28.7	-18.2	-57	-13.7	-10.7	-28	-37.0	-47.5
<b>Gross income</b>	<b>224.7</b>	<b>155.8</b>	<b>44</b>	<b>126.0</b>	<b>91.9</b>	<b>37</b>	<b>343.2</b>	<b>412.1</b>
Selling expenses	-	-75.4	-56	-58.8	-	-38	-	-213.3
	117.3				42.7		171.4	
Administrative expenses	-19.2	-14.3	-34	-9.7	-8.3	-17	-28.0	-32.9
R&D costs	-83.2	-54.0	-54	-44.2	-	-46	-	-151.3
					30.3		122.1	
Other operating revenues	30.8	7.3	322	6.9	3.1	123	11.5	35
Other operating costs	-10.8	-3.2	-238	-8.1	-2.1	-286	-9.6	-17.2
<b>Operating income</b>	<b>24.9</b>	<b>16.2</b>	<b>54</b>	<b>12.0</b>	<b>11.6</b>	<b>3</b>	<b>23.7</b>	<b>32.4</b>
Result from financial items	-4.9	5.8	-	-4.9	1.9	-	11.7	1.0
<b>Income after financial items</b>	<b>20.0</b>	<b>22.0</b>	<b>-9</b>	<b>7.1</b>	<b>13.5</b>	<b>-47</b>	<b>35.4</b>	<b>33.4</b>
Tax on income for the period	-5.9	-5.5	-7	-1.8	-3.5	49	-8.3	-8.7
Minority interest Ixion	3.9	4.0	-3	1.9	2.3	-17	8.2	8.1
<b>Net income for the period</b>	<b>18.0</b>	<b>20.5</b>	<b>-12</b>	<b>7.2</b>	<b>12.3</b>	<b>-41</b>	<b>35.3</b>	<b>32.8</b>
Earnings per share, SEK	0.73	0.83		0.29	0.50		1.43	
Earnings per share after full dilution, SEK	0.70	0.81		0.28	0.49		1.38	
Number of outstanding shares at closing day	24,813,500	24,681,750					24,723,500	
Average number of outstanding shares*	24,809,566	24,660,085					24,687,000	

\*Earnings per share is defined as the earnings for the period in relation to the average number of outstanding shares for the period.

At June 30, 2002 there were 780,000 outstanding subscription options.

<b>Other key ratios</b>	January – June		Whole year
	2002	2001	2001
Gross margin, %	88.7	89.5	90.3
Operating margin, %	9.8	9.3	9.9
Operating margin excl. Ixion, %	15.1	17.5	14.5
Operating margin before R&D costs, %	42.6	40.3	38.3
Number of employees	337	225	266
Equity/assets ratio, %	69.6	80.1	71.9
Shareholders' equity per share, SEK	18.36	17.08	17.88
Shareholders' equity per share after full dilution, SEK	17.74	16.46	17.27

<b>Group cash flow analysis</b> (SEK millions)	January – June		Whole year
	2002	2001	2001
Cash flow from operating activities*	11.1	20.9	-0.9
Cash flow from investing activities	-84.6	-48.7	-134.8
Cash flow from financing activities	48.7	2.3	43.9
<b>Cash flow for the period</b>	<b>-24.7</b>	<b>-25.5</b>	<b>-91.9</b>
Liquid funds at beginning of period	162.8	252.8	252.8
Exchange rate differences in liquid funds	-4.1	3.2	1.8
Liquid funds at end of period	134.0	230.5	162.8
*Of which change in working capital	-13.8	-5.4	-41.9

<b>Group balance sheet</b>			
(SEK millions)	June 30, 2002	June 30, 2001	Dec 31, 2001
<b>Fixed assets</b>			
<i>Intangible</i>			
Patents and other intellectual property	68.6	79.2	77.1
Goodwill	56.9	4.3	62.3
<i>Tangible</i>	245.0	132.1	178.4
Deferred prepaid tax	13.3	-	6.7
Financial	1.0	1.0	0.9
<b>Current assets</b>			
<i>Inventories</i>	52.3	24.7	46.5
<i>Current receivables</i>			
Accounts receivable	93.5	71.6	92.6
Other current receivables	9.0	5.6	8.9
Prepaid expenses and accrued revenues	5.1	4.2	8.5
<i>Liquid funds</i>	134.0	230.5	162.8
<b>Total assets</b>	<b>678.8</b>	<b>553.2</b>	<b>644.6</b>
<b>Shareholders' equity</b>	455.7	421.5	442.1
<b>Minority interest</b>	16.5	21.6	21.4
<b>Provisions</b>	1.7	5.3	1.8
<b>Interest-bearing long-term liabilities</b>	56.0	10.5	9.9
<b>Interest-free long-term liabilities</b>	1.1	0.3	-
<b>Current liabilities</b>			
Interest-bearing current liabilities	44.4	13.8	46.7
Accounts payable	31.1	27.5	38.1
Other interest-free current liabilities	34.6	20.5	48.9
Accrued expenses and prepaid revenues	37.7	32.2	35.7
<b>Total liabilities and shareholders' equity</b>	<b>678.8</b>	<b>553.2</b>	<b>644.6</b>
<b>Change in shareholders' equity during the period</b>	January – June	Whole year	
(SEK millions)	2002	2001	2001
Opening balance	442.1	392.0	392.0
Options programs	2.9	5.1	7.6
Translation difference	-7.3	3.9	7.2
Net income for the period	18.0	20.5	35.3
Closing balance	455.7	421.5	442.1