

Althin

YEAR END REPORT FOR ALTHIN MEDICAL AB

January – December 1998

March 5 1999

- Group Sales decreased with 3 percent to SEK 1.007,8m (1.037,6)
- Operating income totaled SEK –73,2m (11,2)
- Income after net financial items was SEK –99,0m (-2,8)
- Improved Operating cashflow from SEK -171,2m to SEK 1,1m, a change of SEK 172,3m
- Operating gross margin was improved during the fourth quarter, 33,3% compared to 27,4% in average for the year

Sales

Sales for the period totaled SEK 1.007,8m (1.037,6). During the year the trading operations related to non-dialysis products was sold. Sales in the divested trading operations totaled SEK 41,2m (87,2). Excluding changes in exchange rates and the divested trading operations, SEK 34,4m, sales decreased with SEK 18,2m or 1,8%. The decrease in volume during the year is due to the deterioration of the Asian market and quality problems which have had an effect on the sales in Americas. Sales have decreased with 27% in Asia and 2% in Americas while sales in Europe has increased with 8%.

Profits

Operating income totaled SEK –73,2m (11,2) and income after net financial items was SEK –99,0 (-2,8). The major reasons for the weak result is overcapacity in the production due to the large investments made in 1997, quality costs and delays in deliveries due to disturbances in the production in both Ronneby and Miami. Also, as the customer structure is changing especially the American market is experiencing a strong pressure from the market on the price.

The financial result includes a profit of SEK 11,0m from the sale of real estate, of SEK 25,2m from the sale of trading operations related to non-dialysis products, a grant from NUTEK of SEK 3,6m, various receipts from sales of rights of SEK 5,2m and

restructuring costs of SEK 31,5m. Altogether these items have had a positive effect on the year end report with net SEK 14,1m.

The restructuring costs are primarily due to:

- Relocation of the Portland factory to Miami
- Reorganization of US operations
- Quality assurance projects in the USA
- Consulting costs
- Start-up costs in Ronneby
- Move of production facilities from Ronneby to Miami

Depreciation increased from SEK 35,5m to SEK 47,2m and financial net increased from SEK –14,0m to SEK –25,8m. The gross result during the fourth quarter has improved compared to earlier reported quarters due to measures taken during the year.

Action plan

A strategic plan was implemented during the second quarter of 1998. This Group-wide program encompasses a reorganization in the US, system improvements in management and control systems, capital budgeting, logistics and production areas. As a step toward improving the company's profits, the Board of Directors decided in September to consolidate the production of the various product lines. Manufacturing of machines is being concentrated in Miami Lakes, USA and manufacturing of dialyzers will in it's entirety gradually be located in Ronneby, Sweden. As an effect of this decision the Group has reduced the number of employees with 120 from September 1998 to year end. The number of employees is expected to gradually decrease as the dialyzer production is being concentrated in Ronneby.

The action plan has also implied that considerable efforts have been made to further improve the quality of machines and dialyzers. These efforts are expected to have a positive effect on both sales and quality costs during 1999.

Our action plans during 1998 had a positive effect on the liquidity. Liquid assets including unutilized credit commitments was improved from SEK 67m after the first quarter 1998 to SEK 144m at year end, in spite of the loss during the year. The restructuring program and the rationalization actions started to have an effect on the gross result during the fourth quarter 1998.

Actions taken during 1998 to reduce the capital tied up in accounts receivable and inventory has resulted in a decrease with SEK 87,4m in the period. We expect a continuous decrease of the capital during 1999, which will contribute to a positive cash flow and an improved result.

Investments

Investments totaled SEK 40,3m (80,4). The investments during the year is mainly due to production equipment.

Product development

Our new membrane Althane™ – P.S. is now in clinical test and will, provided that the tests are successful and the authorities concerned give their approval, be sold in limited quantities during the fall of 1999. After the introduction further development will take place together with our customers to optimize the product.

In the same way pursue the development of our dialysis machines and new options to be able to individualize and optimize the treatment for each patient.

Financial Position

At year end the equity ratio was 33 percent compared to 39 percent previous year.

The net financial liabilities increased from SEK 389m to SEK 399m. Approved lines of credit from credit institution amounted to approximately SEK 543m at year end, which is unchanged compared to previous year.

Liquid assets including the unutilized portion of approved lines of credit amounted to SEK 144m (118) at year end.

Number of employees

During 1998 the number of employees was 854 in average compared to 869 previous year. At year end 1998 the number of employees was 793 compared to 835 at year end 1997. The decrease in numbers of employees is related to the restructuring of production and the cost reduction program that was implemented during the year.

Cash flow

Cash flow has improved from SEK -171,2 to SEK 1,1m, a change of SEK 172,3m.

Parent company

The business of Althin Medical AB concerns production of dialyzers and Altracart, the Group's management functions and an international sales division. The Company's production facility as the Group's head office is situated in Ronneby, Sweden.

Board of Directors

The Board of Directors of Althin Medical consists of six members including the Chief Executive Officer and a deputy member, all elected at the shareholder's meeting. Group Executives participate in the Board meetings submitting reports. When the annual report is being presented the Groups auditors account for their observations from the revision. The Board of Directors had nine meetings during 1998. The distribution of work and responsibility between the Board of Directors and the Chief Executive Officer is regulated by a program for the Board of Directors and an instruction for the Chief Executive Officer.

Dividend

For the financial year 1998 no dividend is proposed by the Board of Directors.

Shareholders' meeting

The shareholder's meeting will take place in Ronneby, Sweden, on Tuesday May 11, 1999 at 16.00CET. The Annual Report for 1998 will be distributed during week 16 and will be available at the head office in Ronneby.

Forecast for 1999

For 1999 a considerable improvement of the result is expected compared to 1998. 1999 will however be a year of recovery, consolidation and secure of the ongoing restructuring programs.

Stockholm March 5, 1999

ALTHIN MEDICAL AB

Board of Directors

Future reports from Althin Medical AB

Interim report January – March 1999	May 11, 1999
Interim report January – June 1999	August 27, 1999
Interim report January – September 1999	November 15, 1999

For further information, please contact;
Anders Althin +46 709 370253 or Thomas Nörby +46 708 505145

INCOME STATEMENT

SEK m	1998	1997
Sales	1007,8	1.037,6
Cost of goods sold	-731,2	-683,0
Gross profit	276,6	354,6
Sales costs	-160,6	-155,4
Administration costs	-139,1	-139,3
Research & Development costs	-50,1	-48,7
Operating income	-73,2	11,2
Net financial items	-25,8	-14,0
Income after financial items	-99,0	-2,8
Taxes	4,1	2,5
Net income for the year	-94,9	-0,3

QUARTERLY INFORMATION IN SUMMARY

1998	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>Total</u>
Invoiced sales	255	269	236	248	1008
Gross profit	67	67	60	83	277
Operating income	-40	3	-20	-16	-73
1997	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>Total</u>
Invoiced sales	251	250	256	281	1.038
Gross profit	95	94	84	82	355
Operating income	14	12	16	-31	11

BALANCE SHEET

SEK m	1998	1997
Assets		
Intangible fixed assets	62,8	60,5
Material assets	214,1	224,6
Other fixed assets	<u>15,9</u>	<u>14,6</u>
Fixed assets	292,8	299,7
Inventory	244,0	294,7
Accounts receivable	271,5	308,2
Other short-term receivables	<u>60,9</u>	<u>75,7</u>
Short-term operating assets	576,4	678,6
Operating assets	869,2	978,3
Financial assets	67,8	33,6
Total assets	937,0	1.011,9
<u>Liabilities and Equity</u>		
Capital stock	24,9	24,9
Restricted reserve	<u>272,9</u>	<u>265,3</u>
Restricted equity	297,8	290,2
Nonrestricted reserve	106,2	104,9
Net loss	<u>-94,9</u>	<u>-0,3</u>
Nonrestricted equity	11,3	104,6
Equity	309,1	394,8
Provision	1,4	1,2
Financial liabilities	466,9	421,3
Short-term operating liabilities	159,6	194,6
Total liabilities and equity	937,0	1.011,9

ANALYSIS OF CASH FLOW IN SUMMARY

<u>SEK m</u>	<u>1998</u>	<u>1997</u>
Operating result	-73,2	11,2
Depreciation according to plan	47,2	35,5
Change in working capital	67,4	-137,5
Investments	-40,3	-80,4
Operating cash flow after investments	1,1	-171,2

KEY INDICATORS

	1998	1997
Operating margin, %	-7,3	1,1
Profit margin, %	-9,8	-0,3
Investments in long-term operating assets	40,3	80,4
Equity total assets ratio, %	33,0	39,0
Net debt-equity ratio (times)	1,3	1,0
Return on capital employed, %	-13,3	-0,4
Earnings per share (SEK)	-15,3	-0,1
Shareholder's equity per share (SEK)	49,7	63,5
Number of shares (thousands)	6218	6218