

Althin

INTERIM REPORT FOR ALTHIN MEDICAL AB

January - June 1999

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- Group Sales for comparable units totaled SEK 493,1m (482,7).
- Result after net financial items for comparable units totaled SEK –39,4 (-55,0).
- Operating cash flow totaled SEK 8,7m (-7,7m).
- Equity ratio was 30,4% (36,1%), at year end 1998 equity ratio was 33,0%.
- The property in Miami Lakes will be sold within the next year. The market value has been determined to SEK 110m.
- The production of dialyzers will be transferred to Ronneby and is estimated to give an annual cost reduction of SEK 35-40m as of year 2000.

Marketing and Sales

The world market for all hemodialysis products amounts to SEK 35 billion. The number of patients increase every year by 6-8% and the annual growth of the market value is estimated to 4-5%.

Sales for the period totaled SEK 493,1m (523,9). Sales in the divested trading operations that was sold during 1998 totaled SEK 41,2m. Excluding changes in exchange rates and the divested trading operations sales increased by 2% compared to the first six months of 1998. Divided in geographical areas dialysis sales in total has increased by 4% in Europe and 5% in Americas. Sales in Asia decreased by 16%. The subsidiaries in Italy and France continue to gain market shares. Also sales in Argentina and Canada has been strong during the second quarter. Order intake for dialysis machines has been strong during the first part of the year.

Profit

Operating income for comparable units totaled SEK –27,2 (-39,8) and income after net financial items was SEK –39,4m (-55,0). Operating income has been influenced negatively by exchange rate differences of SEK 3m compared to previous year.

After adjustments for restructuring costs, a NUTEK grant and the net profit of the sale of the divested trading operations the improved result between the years amounts to SEK 20m. The positive result for the period is mainly related to efforts to improve quality, to a decrease in the number of employees, a concentration of the production as well as other improvements in production and logistics which all are a part of the action plan that was implemented during the second quarter of 1998.

Operating income is still negatively affected by the over capacity in the dialysis production (see comments under Action plan).

Cash flow

The operating cash flow was SEK 8,7m (-7,7m) for the first quarter 1999. The improvement in cash flow is mainly related to reductions in working capital and an improved net operating result. Operating cash flow previous year includes payment for the sale of the trading operations related to non dialysis products of SEK 41,7m and a grant from NUTEK of SEK 20,6m. Adjusted accordingly operating cash flow totaled SEK 78,7m.

Action plan

The decision to transfer the dialysis production from Miami to Ronneby was taken in August 1999. The cost for the transfer is estimated to SEK 35m, of which the liquidity will be affected by SEK 14m, which will effect the income statement during the third quarter of 1999. The reduction in numbers of employees as well as other synergy gains are estimated to give a yearly cost reduction of SEK 35-40m from the year 2000. The decision that implies that the whole production of dialyzers in the future will take place in the automated plant in Ronneby, is in accordance with the earlier announced strategy to focus production at the production unit, which has the optimal prerequisite for each separate production line.

The plant in Miami will continue to be responsible for the development and the production of cellulose membrane and the new polysulphone membrane. Since the first of January 1999, all development and production of dialysis machines are concentrated to the plant in Miami. The plant in Ronneby will focus its production on dialyzers and Altracart™ products.

Due to the transfer 50% of the total area of the property in USA will be released, which gives the company an opportunity to sell the whole or part of the real estate. An independent appraisal of the building and the land has been performed by Blazejac & Company Real Estate Counselors. The appraisal indicates a value of SEK 110m. If the property is sold according to the evaluation there will be a net profit of SEK 80m, which would improve the equity ratio from approx. 30% to approx. 41%. Althin Medical AB's objective is to sell the real estate within a year.

Product development

Our new Polysulphone membrane has unique qualities and is manufactured without the toxic substance PVB. It will be introduced at the beginning of November at ASN, which is the largest dialysis trade show in the USA and in the world. Our Polysulphone membrane has qualities such as high efficiency for large molecules and biocompatibility which by doctors are considered to increase the quality of life as well as decrease costs since the patient's health improves.

A new computer software for Althin's dialysis machine is in the process of development. The product will make it possible to quickly and easily adapt our patented dialysis machine, TINA®, to the development in hospital care when it comes to efficiency and new methods of treatment.

In cooperation with a Swedish university, Althin Medical develops a new cost effective and easy way to measure dialysis treatment efficiency. The project is now coming into a final clinical testing-phase and the equipment will be available next year. It will be possible to connect this equipment to all existing dialysis machines no matter brand.

Investments

Investments for comparable units during the period totaled SEK 16,9m (18,7). In the production plant in Miami a new EDP system is being implemented. The investment totaled SEK 6m, of which approx. SEK 3,5m have been invested during the first part of 1999. Remaining investments during the period are mainly related to production equipment.

Financial position

The equity ratio was 30,4% at the end of the period compared to 36,1% at the end of the same period the previous year, and 33,0% at the year end 1998. The decrease is related to the loss during the period. Net financial liabilities increased slightly from SEK 399,1m at year end to SEK 401,3m.

Liquid assets including the unutilized portion of approved lines of credit amounted to SEK 131,0m (106,0) which, compared to the same period previous year, is an increase of SEK 25m. Short term liabilities decreased by SEK 40,1m compared to the same period the year before.

As a result of the Board of Director's intention to ensure a flexible and long-term financing of the Group's activity a security agreement with the company's banks has been signed. The security agreement includes shares in subsidiaries as well as company mortgages and mortgages in the property in Ronneby to a total value of SEK 230m. The total lines of credit for the Group amounts to the same as before, which is approx. SEK 540m.

Number of employees

The number of employees were 773 by the end of the period compared to 936 at the same time the year before and 793 by year end 1998. The decrease in number of employees is related to the restructuring of production and the cost reduction programs implemented during 1998.

As a result of the decision to close the dialysis production in Miami approx. 100 employees will be made redundant during the second part of 1999. To meet the demand in increase at the Ronneby plant approx. 15 people will be employed.

Forecast for 1999

For comparable units and exclusive of costs for the in August stipulated action plan a considerable improvement of the result is expected.

Stockholm August 27, 1999

ALTHIN MEDICAL AB

Board of directors

Future reports from ALTHIN Medical AB

Interim report January – September 1999	November 18, 1999
Year end report January – December 1999	February 29, 2000
Annual Report 1999	Mars – April 2000

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Review report for Althin Medical AB (publ)

Registered No. 556218-3987

We have reviewed this interim report and thus adhered to the recommendations issued by the Swedish Institute of Authorized public Accountants (FAR).

A review is considerably limited in relation to an audit.

Based on our review nothing has come to our attention which caused us to believe that the interim report does not comply with the standards in the Stock- and Annual Accounts Act.

Stockholm August 27, 1999

Sigvard Heurlin
Authorized Public Accountant

Anders Lundin
Authorized Public Accountant

INCOME STATEMENT SEKm

	Jan-June	Adjusted Jan-June	Jan-June	Total
	1999	1998	1998	1998
Sales	493,1	482,7	523,9	1007,8
Costs for goods sold	-339,2	-347,0	-372,7	-703,6
Gross profit	153,9	135,7	151,2	304,2
Sales costs	-65,0	-73,3	-81,8	-160,6
Administration costs	-99,1	-76,7	-81,5	-166,7
Research & development costs	-17,0	-25,2	-25,5	-50,1
Operating income	-27,2	-39,8	-37,6	-73,2
Net financial items	-12,2	-15,2	-15,2	-25,8
Income after financial items	-39,4	-55,0	-52,8	-99,0
Taxes	-1,2	14,7	13,9	4,1
Net income for the year	-40,6	-40,3	-38,9	-94,9

The column Adjusted Jan-June 1998 is excluding the sold trading operations. Some other adjustments have been made for comparable reasons.

QUARTERLY INFORMATION IN SUMMARY

1999	I	II			
Invoiced sales	232	261			
Gross profit	72	82			
Operating income	-13	-14			
1998	I	II	III	IV	Total
Invoiced sales	255	269	236	248	1008
Gross profit	76	76	66	87	305
Operating income	-40	3	-20	-16	-73

BALANCE SHEET

SEKm Assets	Jan-June 1999	Jan-June 1998	Total 1998
Intangible fixed assets	57,3	62,7	62,8
Material assets	213,6	220,9	214,1
Other fixed assets	<u>18,7</u>	<u>15,8</u>	<u>15,9</u>
Fixed assets	289,6	299,4	292,8
Inventory	214,3	284,7	244,0
Accounts receivables	286,4	290,8	271,5
Other short-term receivables	<u>53,1</u>	<u>85,1</u>	<u>60,9</u>
Short-term operating assets	553,6	660,6	576,4
Operating assets	843,4	960,0	869,2
Other financial assets	30,9	24,7	44,1
Cash and bank deposits	<u>15,6</u>	<u>6,9</u>	<u>23,7</u>
Financial assets	46,5	31,6	67,8
Total assets	889,9	991,6	937,0
Liabilities and Equity			
Capital stock	24,9	24,9	24,9
Restricted reserve	<u>269,7</u>	<u>265,5</u>	<u>272,9</u>
Restricted equity	294,6	290,4	297,8
Non restricted reserve	16,3	106,5	106,2
Net loss	<u>-40,6</u>	<u>-38,9</u>	<u>-94,9</u>
Non restricted equity	-24,3	67,6	11,3
Equity	270,3	358,0	309,1
Provision	3,0	1,1	1,4
Financial liabilities	447,8	423,6	466,9
Short-term operating liabilities	168,8	208,9	159,6
Total liabilities and equity	889,9	991,6	937,0

ANALYSIS OF CASH FLOW IN SUMMARY

SEKm	1999-06-30	1998-06-30	1998
Operating result	-27,2	-39,8	-73,2
Depreciation according to plan	22,6	21,7	47,2
Change in working capital	33,4	32,3	67,4
Investments	-20,1	-21,9	-40,3
Operating cash flow after investments	8,7	-7,7	1,1
Net financial items	-12,2	-15,2	-25,8
Tax paid	-1,2	14,7	4,1
Cash flow from financial operations	-5,9	1,4	25,3
Adjustment for items not included in Cash flow	2,5	3,9	9,2
Change in cash	-8,1	-2,9	13,9

Quarterly figures from the previous year have been adjusted for the divested trading operations for comparable reasons.

KEY INDICATORS

	1999-06-30	1998-06-30	1998
Operating margin, %	-5,5	-7,2	-7,3
Profit margin, %	-8,0	-10,1	-9,8
Investments in long-term operating assets	16,9	18,7	48,0
Equity total assets ratio, %	30,4	36,1	33,0
Net debt-equity ratio (times)	1,5	1,1	1,3
Return on capital employed, %	-5,9	-9,8	-13,3
Result per share after full tax (SEK)	-6,5	-6,3	-15,3
Shareholder's equity per share (SEK)	43,50	57,60	49,7
Number of shares (thousands)	6218	6218	6218