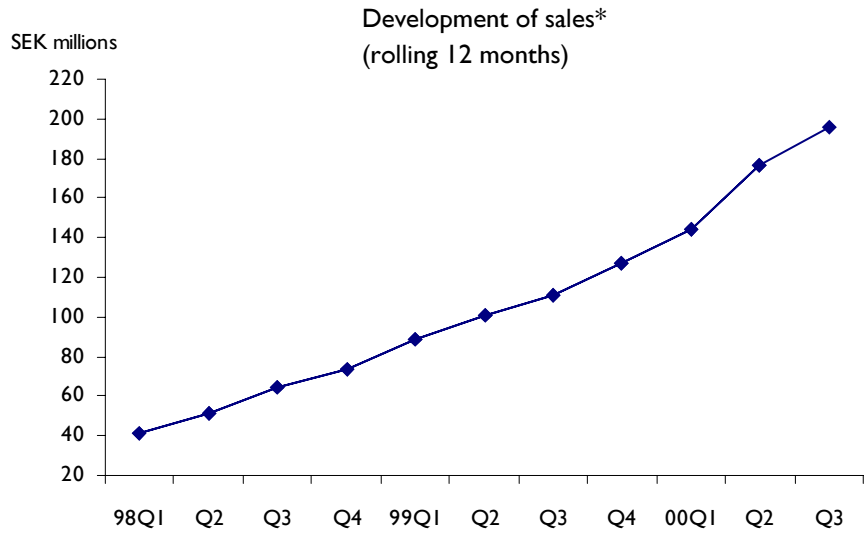
**PRESS RELEASE**
**October 26, 2000**
**Uppsala, Sweden**

# INTERIM REPORT JANUARY - SEPTEMBER 2000

- **Turnover increased by 79% for comparable units to SEK 155.3 (86.6*) million.**
- **Income after financial items increased by 167% to SEK 26.4 (9.9*) million. Increased investments in research and development, 26% (17*) of the turnover.**
- **Ixion is consolidated as from July. This affected operating income by SEK –4.6 million.**
- **Application for European approval of DUROLANE submitted at the beginning of October.**
- **FDA's advisory body recommends approval of DEFLUX in USA.**




*Excluding Venofer, an intravenous iron preparation which Q-Med had a licencing agreement for in the Nordic countries up until December 31, 1999.

*Q-Med is a rapidly growing and profitable biotechnology and 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 four areas, 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. The development of MACROLANE for breast augmentation is ongoing. DUROLANE, Q-Med's product for the treatment of osteoarthritis in the knee-joint, is in the clinical documentation phase. DEFLUX is a product which has been approved in Europe for the treatment of vesicoureteral reflux (malformation of the urinary bladder) in children and stress urinary incontinence in women. Since July 2000 Q-Med has held a majority interest in the American biotechnology company Ixion Biotechnology, Inc., which carries out research within cell therapy for diabetes. Q-Med today has 175 employees, with 125 at the company's production facility and head office in Uppsala, 10 at Ixion and the remainder in wholly owned foreign subsidiaries. The Q-Med share has been listed on the O-list of the OM Stockholm Stock Exchange since December 1999.*

**REVENUES**

Q-Med increased its sales by 79% during the first nine months of 2000 to SEK 155.3 (86.6*) million. For the third quarter turnover amounted to SEK 47.8 (28.5*) million, an increase of 68%. Translated to a rolling 12 months, that is the period October 1999 to September 2000, turnover amounted to SEK 195.5 (110.6*) million, an increase of 77%. Currency fluctuations have had a negative effect of SEK 1.4 million on sales for the first nine months compared with the same period the previous year.

| **Net turnover** | Jan – Sept | | | July – Sept | | | Jan – Dec | Oct – Sept |
|---|---|---|---|---|---|---|---|---|
| (SEK millions) | 2000 | 1999 | +/- % | 2000 | 1999 | +/- % | 1999 | 1999/2000 |
| Esthetics | 153.0 | 85.0 | +80% | 47.2 | 27.7 | +70% | 124.8 | 192.9 |
| Uro-Gynecology | 1.9 | 1.6 | +19% | 0.5 | 0.8 | -29% | 2.1 | 2.3 |
| Other | 0.4 | - | - | 0.1 | - | - | - | 0.3 |
| Total | 155.3 | 86.6 | +79% | 47.8 | 28.5 | +68% | 126.9 | 195.5 |

*Note: Q-Med previously had a licencing agreement with regard to Venofer, an intravenous iron preparation, for sales in the Nordic countries. The agreement was terminated as from January 1, 2000. For the sake of comparability all income statement items attributable to Venofer for the previous year have been excluded in this report. In the appendix the legal income statement for the previous year is also included.

**Esthetics**

- **Sales SEK 153.0 (85.0) million, an increase of 80%.**
- **Application to initiate clinical trials with RESTYLANE in USA approved.**

The Business Unit Esthetics' sales development has been strengthened to a considerable extent by the launch in March of the new products PERLANE and RESTYLANE Fine Lines. PERLANE is intended for somewhat deeper injections to enable correction of the shape of the face as well as more pronounced facial folds and scarring, while RESTYLANE Fine Lines is intended for thin, superficial lines and wrinkles. Demand is increasing in existing markets and business activities have been started in new markets. Further distributors have been established during the third quarter in Bulgaria and the Philippines. Q-Med's facial esthetics products are now sold in almost 50 countries.

The very high sales of PERLANE in the second quarter have led to supply problems during the third quarter. In order to meet the demand for PERLANE the company is increasing its production capacity.

On August 7, Q-Med was notified by the FDA, the American regulatory authority, that the company's application to begin clinical trials within facial esthetics with RESTYLANE had been approved. Approximately 130 patients will be included in the study, and they will receive treatment at six large and leading clinics in USA. The study involves a comparison of RESTYLANE with Zyplast, the product which today is the market leader in USA. The total follow-up time is 12 months and the products will be compared with regard to the effect of treatment after six months, whereupon data will be compiled and included in an application for registration of the product. This application is expected to be submitted during 2001. It is estimated that RESTYLANE will be able to be launched in USA in 2002.

| **Net turnover** | Jan – Sept | | | July – Sept | | | Jan – Dec | Oct – Sept |
|---|---|---|---|---|---|---|---|---|
| (SEK millions) | 2000 | 1999 | +/- % | 2000 | 1999 | +/- % | 1999 | 1999/2000 |
| RESTYLANE | 109.4 | 85.0 | +29% | 32.1 | 27.8 | +15% | 122.3 | 146.8 |
| PERLANE | 35.3 | - | - | 12.5 | - | - | 2.5 | 37.8 |
| RESTYLANE F.L. | 8.3 | - | - | 2.6 | - | - | - | 8.3 |
| Total | 153.0 | 85.0 | +80% | 47.2 | 27.8 | +70% | 124.8 | 192.9 |

**Orthopedics**

- **Application for CE-marking for DUROLANE submitted.**

Within the Orthopedics unit Q-Med is developing DUROLANE, a NASHA product primarily for the treatment of osteoarthritis in the knee-joint. Clinical trials on more than 100 patients were completed in June and the application for sales approval in Europe, so-called CE-marking, was submitted to the Swedish Medical Products Agency at the beginning of October. Q-Med anticipates that DUROLANE will receive this approval before the end of the year.

**Uro-Gynecology**

- **Sales SEK 1.9 (1.6) million.**
- **PMA application submitted for DEFLUX VUR in USA. FDA's advisory body recommends approval.**

In July Q-Med submitted a pre-market approval (PMA) application in USA for the registration of DEFLUX for the treatment of vesicoureteral reflux (VUR) in children. The processing of the product by the FDA, the American regulatory authority, has been given priority, so-called "expedited review" status. At a meeting in Washington October 19, the FDA's advisory body, consisting of experts in the field, decided to recommend that the FDA approve the product with certain conditions.

This decision constitutes a recommendation, that is the FDA can still decide not to follow the opinion of its advisory body. However, Q-Med sees the decision as very positive news, which strengthens the company's opinion that approval may be expected during 2001.

The recommendation is conditional (so-called conditional approval), which means that the panel has recommended that Q-Med must submit certain supplementary information regarding the clinical investigations which underlie the recommendation to approve. Furthermore, the panel has also recommended that Q-Med must carry out certain clinical investigations when the product has begun to be marketed, so-called post-marketing surveillance. Finally, the product information and labelling must be adapted to American standards.

Q-Med sees the conditions which have been laid down as completely natural and in the judgement of the company the supplementary work can be carried out as required.

At the end of July a patent application was submitted for a new injection device for the administration of DEFLUX for stress urinary incontinence.

The fact that sales during the third quarter were lower than the previous year is due to interruptions in the supply of DEFLUX. These interruptions are of a temporary nature and will only affect the fourth quarter marginally.

**EXPENSES AND INCOME***

- **Gross margin 89% (87).**
- **Large investments in research and development, SEK 39.7 (14.3) million.**
- **Operating income SEK 19.1 (11.2) million. Ixion's share was SEK –4.6 (-) million.**

* The figures for the previous year are exclusive of Venofer.

During the first nine months of 2000 Q-Med's gross margin amounted to 89%, an improvement of 2 percentage points compared with the same period the previous year. For the third quarter the gross margin amounted to 90% (86). The improvement in the gross margin is above all due to the increase in volume and full effect of the new production facility which was started up during the second quarter of 1999.

Selling expenses increased as a consequence of continued international expansion. During the autumn of 1999 sales of Q-Med's facial esthetic products in Italy were transferred to a company subsidiary. All operating expenses in the subsidiaries are recorded as selling expenses.

Research and development costs increased by 178% compared with the same period the previous year and amounted to just under 26% (17) of the net turnover. For the third quarter the

increase was 169% or 33% (21) of the net turnover. Ixion is consolidated according to the purchase accounting method as from July 2000. Research and development costs in Ixion amounted to SEK 5.5 (-) million for the period. This increase in research and development costs is also due to an increased number of projects and increased costs for external studies and analyses of DUROLANE and RESTYLANE. There have also been additional costs for the scaling up and development of the manufacturing process for all products compared with the previous year.

Amortization and depreciation of SEK 6.4 (4.6) million, of which SEK 0.5 (0.6) million is comprised of goodwill, has been charged against income. Amortization and depreciation for the third quarter was SEK 2.5 (1.7) million, of which SEK 0.1 (0.1) million was goodwill. The amortization of goodwill is recorded in the row for research costs.

Other operating income and expenses consists of the effect of exchange rates on accounts receivable and payable as well as Ixion's research grants and revenue from research agreements. For the period these grants and revenues amounted to SEK 0.9 (-) million. The previous year a one-off revenue arose due to the writing off of a loan of SEK 2.2 million from the Swedish National Board for Industrial and Technical Development, NUTEK.

Operating income for the first nine months of the year amounted to SEK 19.1 (11.2) million, which gives an operating margin of 12.3% (12.9). For comparable units (excluding NUTEK 1999 and Ixion 2000) operating income amounted to SEK 23.7 (9.0) million, which gives an operating margin of 15.3% (10.4). For the third quarter the operating income was SEK 1.3 (0.2) million and the margin 2.7% (0.7). The reasons for income and the margin being so much lower for the third quarter than the previous quarters this year are: the third quarter is the weakest quarter of the year sales-wise due to seasonal variations within esthetics, the company has had certain interruptions in the supply of above all PERLANE, increased fixed costs within R&D, consolidation of Ixion and costs in connection with a new quality system. For comparable units (exclusive of Ixion 2000) operating income for the third quarter amounted to SEK 5.9 (0.2) million, which corresponds to an operating margin of 12.3% (0.7).

The new share issue which Q-Med carried out in December 1999 in connection with the listing on the OM Stockholm Stock Exchange O-list generated a net sum of SEK 258 million for the company. This meant that net financial income improved and amounted to SEK 7.3 (-1.3) million for the period January-September, SEK 3.3 (-0.4) million for the third quarter. Ixion's net financial income accounts for SEK 0.2 (-) million of this figure.

The estimated tax costs amounted to SEK -3.2 (-2.8) million, of which SEK -1.3 (0.0) million was for the third quarter. Loss carry-forward has been taken into account, mainly in the Parent Company, where SEK 15 million is still unused of the loss carry-forward which arose in 1999, consisting of costs in connection with the new share issue and listing. Ixion affects income negatively for quarter 3 by SEK 2.5 (-) million net.

Note: The accounting principles for division among the functions in the income statement have been changed in 2000 compared with 1999. The figures for 1999 have been corrected to be in accordance with the new division. The net effect on the cost of goods sold for the first nine months of 1999 is an increase of SEK 1.0 million, of which SEK 0.3 is for the third quarter.

## INVESTMENTS AND CASH FLOW

- **59% of Ixion Biotechnology acquired for SEK 68.6 million.**

On July 17, Q-Med announced that the company was acquiring 59% of the American biotechnology company Ixion Biotechnology, Inc. Ixion has been collaborating with Q-Med since April 1999 and makes use of Q-Med's NASHA technology to carry out research around the culture and transplantation of insulin-producing islet cells with a view to treating diabetes.

Since April 1999, Q-Med has financed a large part of Ixion's research in exchange for newly issued shares in the company. Up until June 30, Q-Med had acquired 562,500 newly issued shares for approximately SEK 9.9 million, corresponding to a participating interest of 17.5%. Investments during the first six months of 2000 were SEK 3.9 (2.6) million. The agreement means that Q-Med, through its wholly owned subsidiary Qvestor LLC, acquired on July 14 a further 3,337,500 newly issued shares for approximately SEK 58.7 million. Half of the purchase sum was paid upon the signing of the agreement and the remainder is to be paid 12 months later.

Q-Med's participating interest in Ixion thereby amounted to 59%. The redemption of oustanding options meant that the participating interest at September 30 amounted to 57%. Q-Med can be diluted to a maximum of 52%.

For the second half of 2000 it is estimated that Ixion will affect Q-Med's income negatively by approximately SEK 7 million net. For the first six months of 2000 the loss in Ixion amounted to USD 0.6 million.

Investments in buildings and equipment amounted during the first nine months to SEK 21.0 (13.2) million, of which SEK 6.8 (7.3) was in the third quarter. The investments are largely attributable to the high store next to the production facility and to furniture and computers for new employees.

Q-Med's cash flow from operating activities was SEK 18.0 (-2.1) million for the first nine months of 2000, of which SEK 5.8 (-2.5) million was for the third quarter. The total cash flow was positive, SEK 7.1 (2.1) million (SEK -2.6 and -1.4 million for July-September this year and the previous year, respectively). The reasons for the positive cash flow are the good results combined with the fact that Q-Med's next biggest owner, HealthCap, utilized its outstanding subscription options during the first quarter.

Due to the fact that DEFLUX has been given so-called expedited review status in its application for approval in USA, Q-Med will make considerable investments in its quality system during the coming six months. An American consultancy company, BioQuest, Inc., has been engaged in order to ensure that the business activities in Uppsala meet the requirements laid down by the FDA, the American regulatory authority. The FDA will inspect the Uppsala facility to certify it in accordance with GMP, Good Manufacturing Practice. Due to the fact that Q-Med will probably be able to sell its first product on the American market earlier than planned, investments in the quality system have been brought forward. It is estimated that these investments will amount to SEK 15 million.

## PERSONNEL

Q-Med is continuing to take on new employees and has so far during the year recruited primarily within marketing, research and production. The number of employees on September 30 amounted to 170 (99), of whom 125 (77) were in Sweden.

## PROSPECTS

Q-Med anticipates continued good growth during the fourth quarter. The third quarter is from the point of view of sales traditionally the company's weakest during the financial year due to seasonal swings within the area of esthetics.

October 26, 2000
Uppsala, Sweden
**Q-Med AB (publ)**

Per Olof Wallström
President and CEO

This report has not been the subject of scrutiny by the company's auditors.

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Appendix: Income statement, balance sheet, cash flow analysis and key ratios for January-September 2000.

## Consolidated income statement

| | January – September | | | July – September | | | Full year |
|---|---|---|---|---|---|---|---|
| (SEK millions) | 2000 | 1999* | +/- % | 2000 | 1999* | +/- % | 1999* |
| Net turnover NASHA products | 155.3 | 86.6 | 79 | 47.8 | 28.5 | 68 | 126.9 |
| Cost of goods sold | -16.8 | -11.3 | 49 | -4.7 | -4.0 | 18 | -15.8 |
| **Gross income** | **138.5** | **75.3** | **84** | **43.1** | **24.5** | **76** | **111.1** |
| Selling expenses | -63.0 | -38.9 | 62 | -22.3 | -13.2 | 69 | -59.6 |
| Administrative expenses | -19.5 | -12.7 | 54 | -6.6 | -4.6 | 43 | -17.7 |
| Research and development costs | -39.7 | -14.3 | 178 | -15.9 | -5.9 | 169 | -22.3 |
| Other operating revenues | 4.4 | 2.9 | 52 | 3.1 | 0.0 | | 2.9 |
| Other operating expenses | -1.6 | -1.1 | 45 | -0.1 | -0.6 | | -0.8 |
| **Operating income** | **19.1** | **11.2** | **71** | **1.3** | **0.2** | **550** | **13.6** |
| Result from financial items | 7.3 | -1.3 | | 3.3 | -0.4 | | -1.1 |
| **Income after financial items** | **26.4** | **9.9** | **167** | **4.6** | **-0.2** | | **12.5** |
| Tax on income for the period | -3.2 | -2.8 | 14 | -1.3 | 0.0 | | -1.4 |
| Minority interest Ixion | 1.9 | - | | 1.9 | - | | |
| **Net income for the period** | **25.1** | **7.1** | **254** | **5.2** | **-0.2** | | **11.1** |

*The figures for 1999 are exclusive of Venofer.

## Consolidated income statement 1999 incl. Venofer

| | Jan – Sept | July – Sept | Full year |
|---|---|---|---|
| (SEK millions) | 1999 | 1999 | 1999 |
| Net turnover | 98.7 | 32.8 | 143.7 |
| Gross income | 82.1 | 26.8 | 120.4 |
| Operating income | 14.6 | 1.2 | 18.2 |
| Income after financial items | 13.3 | 0.8 | 17.1 |
| Net income for the period | 9.5 | 0.6 | 15.7 |

All the income statements for 1999 are recalculated according to the changed division among the functions.
Estimated tax for the periods January-September 1999 and 2000, after utilization of loss carry-forward.

## Consolidated cash flow analysis

| | January - September | | Full year |
|---|---|---|---|
| (SEK millions) | 2000 | 1999 | 1999 |
| Cash flow from operating activities* | 18.0 | -2.1 | 14.1 |
| Cash flow from investing activities | -24.2 | -18.0 | -34.9 |
| Cash flow from financing activities | 13.3 | 22.2 | 268.6 |
| **Cash flow for the period** | **7.1** | **2.1** | **247.8** |
| Cash at beginning of period | 250.6 | 2.8 | 2.8 |
| Exchange rate difference in liquid funds | 2.1 | - | - |
| Cash at end of period | 259.8 | 4.9 | 250.6 |
| * Of which change in working capital | -12.5 | -16.1 | -5.8 |

## Consolidated balance sheet

| (SEK millions) | Sept 30, 2000 | Sept 30, 1999 | Dec 31, 1999 |
|---|---|---|---|
| **Fixed assets** | | | |
| *Intangible assets* | | | |
| Patents and other intellectual property | 49.0 | 1.0 | 1.0 |
| Goodwill | 4.8 | 5.6 | 5.3 |
| *Tangible assets* | 92.5 | 62.4 | 76.0 |
| *Financial assets* | 0.8 | 4.7 | 6.4 |
| **Current assets** | | | |
| *Inventories* | 11.5 | 9.4 | 9.7 |
| *Current receivables* | | | |
| Accounts receivable | 40.3 | 22.6 | 26.0 |
| Other current receivables | 5.6 | 1.8 | 4.7 |
| Prepaid expenses and accrued revenues | 7.7 | 8.1 | 1.3 |
| *Cash and bank deposits* | 259.8 | 4.9 | 250.6 |
| **Total assets** | **472.0** | **120.5** | **381.0** |
| **Shareholders' equity** | 373.1 | 50.6 | 314.9 |
| **Minority interest** | 23.2 | - | - |
| **Provisions** | 6.5 | 5.0 | 5.2 |
| **Long-term liabilities** | | | |
| Overdraft facility utilized (limit: SEK 20 m) | - | 9.3 | - |
| Other interest-bearing long-term liabilities | 20.4 | 33.1 | 26.9 |
| **Current liabilities** | | | |
| Interest-bearing current liabilities | 6.9 | 1.1 | 6.0 |
| Accounts payable | 7.4 | 5.9 | 12.3 |
| Other interest-free current liabilities | 7.1 | 3.3 | 4.0 |
| Accrued expenses and prepaid revenues | 27.4 | 12.2 | 11.7 |
| **Total liabilities and shareholders' equity** | **472.0** | **120.5** | **381.0** |

## Key ratios

| | January - September | | Full year |
|---|---|---|---|
| | 2000 | 1999 | 1999 |
| Gross margin, % | 89.2 | 83.2 | 84.3 |
| Gross margin exclusive of Venofer, % | 89.2 | 87.0 | 87.5 |
| Operating margin, % | 12.3 | 14.8 | 12.7 |
| Operating margin exclusive of Venofer, % | 12.3 | 12.9 | 10.7 |
| Operating margin exclusive of Venofer and before R&D costs, % | 37.9 | 29.4 | 28.3 |
| Number of employees | 170 | 99 | 110 |
| Equity/assets ratio, % | 79.0 | 42.0 | 82.6 |
| Average number of outstanding shares (thousands) | 23,877 | 17,805 | 18,222 |
| Earnings per share, SEK | 1.05 | 0.53 | 0.86 |
| Earnings per share exclusive of Venofer, SEK | 1.05 | 0.40 | 0.61 |
| Earnings per share after full dilution, SEK | 1.00 | 0.48 | 0.77 |
| Earnings per share after full dilution, exclusive of Venofer, SEK | 1.00 | 0.36 | 0.55 |
| Shareholders' equity per share, SEK | 15.30 | 2.84 | 13.81 |
| Shareholders' equity per share after full dilution, SEK | 14.82 | 2.55 | 12.50 |

Note: Earnings per share is defined as the earnings for the period in relation to the average number of outstanding shares for the period. At September 30, 2000 there were 794,250 outstanding subscription options and 24,385,750 shares.