

GAMBRO ANNUAL REPORT 1999



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As a guidance, in this annual report certain figures are also given in USD. These are indicative figures which for profit and loss items 1999 and 1998 are based on the average exchange rate for USD 1999 and for balance sheet items 1999 and 1998 on the exchange rate at the end of 1999. All market data are Gambro's own estimates.

One company – one identity

Gambro is rapidly evolving into being a more cohesive company. After focusing, Gambro has established three core areas – blood component technology (Gambro BCT) together with services (Gambro Healthcare) and products for renal care (Gambro Renal Products) – which will be foundations for the future. Combining the strengths of the businesses and founding the work on common values and beliefs, Gambro is improving its performance to better be able to serve patients and the medical community as a whole all over the world.

Gambro has a deep commitment into some of the most demanding areas of healthcare – renal care and blood component technology. Gambro builds its business on the trust created by the employee's know-how, skills and enthusiasm as well as by the investments in research and development and the close relations with all parties in the healthcare sector.

Gambro builds its activities on a

strong common base. The foundation is the deep knowledge in blood and its advanced handling outside the body – to purify, treat and separate its components. It is the shared knowledge in areas like systems and information technology and joint work in the environmental, materials and other fields.

The future of Gambro will be shaped based on core values and beliefs, a common management culture and system in combination with cooperation, sharing of skills, resources, market knowledge and technology all through the three business areas. This is all manifested and conveyed through strong products and corporate brands.

To confirm and support the vision of being one company Gambro is now strengthening and developing its brand and visual identity. A new refined and joint logotype is introduced for the business areas and for the group together with a group-wide identity system.



More than 17,000 people work for Gambro worldwide. All share a common goal – to make a difference to the lives of the patients and medical teams who depend on Gambro. The photos in this annual report give a glimpse of the work within Gambro as well as of the ordinary life of patients and blood donors.

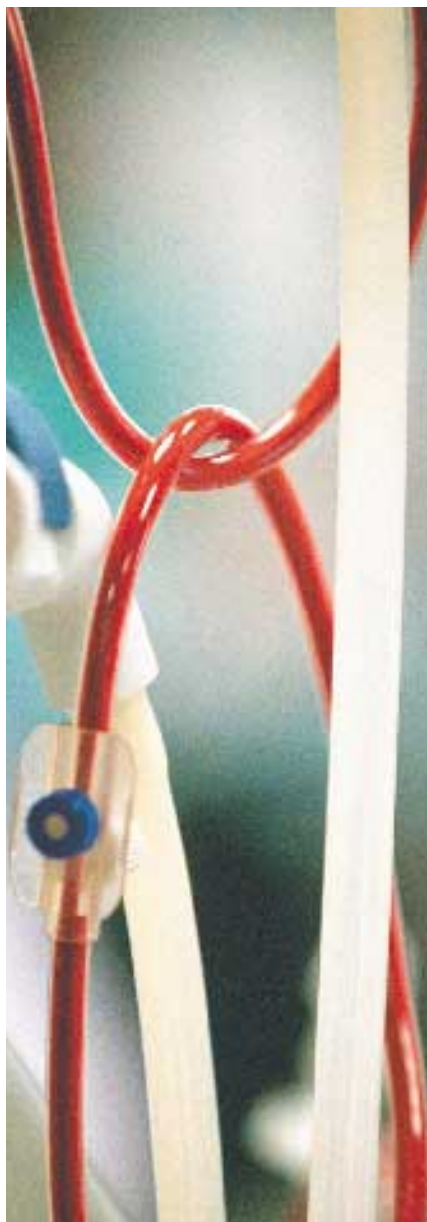
Highlights 1999

Gambro organization strengthened
The guiding principle for the Gambro organization is a comprehensive management philosophy, common values and beliefs. The organization is united under a single corporate trademark: Gambro. A new visual identity for the Group is introduced during 2000. On a product level, there is focus on strong brands.

Continued good growth
Revenues amounted to SEK 19,743 M (USD 2,386 M), compared with SEK 18,734 M (USD 2,264 M) in 1998. The current Group structure increased its revenues by 12 percent (9 percent, currency adjusted). Gambro Healthcare increased its revenues by 19 percent (15 percent, currency adjusted), Gambro Renal Products by 4 percent (1 percent, currency adjusted) and Gambro BCT by 12 percent (7 percent, currency adjusted).

Positive development of profit margins
The operating earnings before depreciation (EBITDA) amounted to SEK 4,313 M (USD 521 M), compared with SEK 7,452 M (USD 901 M) in 1998. This includes nonrecurring items of SEK 552 M (USD 67 M), compared with SEK 4,179 M (USD 505 M) in 1998.

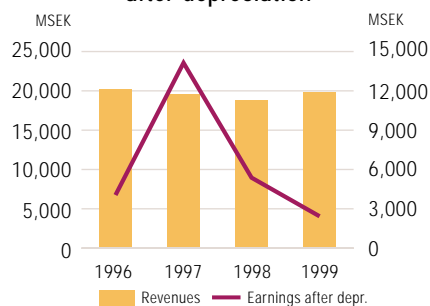
Excluding nonrecurring items, the



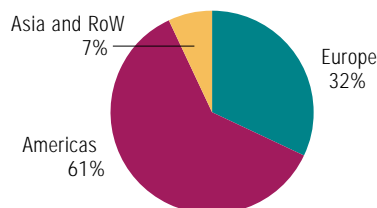
earnings before depreciation were SEK 3,761 M (USD 455 M), compared with SEK 3,294 M (USD 398 M) in 1998, and the corresponding margin was 19.0 (17.6). The improvement in earnings is mainly attributable to the effects of the restructuring program, including improved production efficiency.

Half way for restructuring program
In mid-January 1999, Gambro launched a restructuring program, mainly for the Gambro Renal Products business area, but certain measures also affect the Gambro Healthcare and Gambro BCT business areas. The program is to be implemented over a 24-month period. The objective is to strengthen Gambro's leading position within quality renal care, secure continued good growth, improve profitability and increase the operating margin (EBITDA), which is to reach 20 percent by the end of 2000. Of the more than 1,000 employees scheduled to leave as a result of the program, 930 employees had left the Group as a result of cut-backs, reorganization and divestment of operations at December 31, 1999. Of the SEK 1,100 M (USD 133 M) in provisions made during the fourth quarter in 1998, approximately SEK 592 M (USD 72 M) has been utilized.

Revenues and earnings after depreciation



Revenues by market



shown very strong performance in clinical studies.

Gambrosol Bio, a new PD product, has been approved by the Swedish authorities. It is a PD solution based on a three-products-in-one concept and consists of a bag with various sections. The new product provides access to a solution with a concentration adapted to the patient, while also simplifying logistics and handling for clinics, patients being cared for in the home, and for Gambro as supplier.

Gambro has launched a new innovative machine for peritoneal dialysis, *the PD 200 monitor*, which supplies the abdominal cavity with dialysis fluid. The product is intended for Automated Peritoneal Dialysis (APD), an area that is experiencing strong growth.



Divestment of Cardiopulmonary Care business unit

In May, the divestment of the COBE CV subsidiary (Cardiopulmonary Care business area) was completed. Following the approval of the competition authorities, the sale to the Italian Sorin Biomedica medical technology company was finalized. The sale generated a capital gain of SEK 966 M (USD 115 M) for Gambro. COBE CV had some 950 employees and sales of approximately SEK 1,150 M (USD 140 M) in 1998.

New business arena for Blood Component Technology

The Gambro BCT business area changed approach during the year from being a niche player with a focus on apheresis technology to becoming a broad and leading player on blood bank technology. The change in approach means that the business area is currently operating in a market, which is valued at approximately SEK 11,200 M (USD 1,350 M), compared with approximately SEK 3,700 M (USD 450 M) for the apheresis market. One example of this extension is the focus on Pathogen Inactivation, that is, the cleansing of the blood from viruses and bacteria, an area in which Gambro presented interesting new research dis-

coveries during 1999. Another example is the alliance with HemaSure, where Gambro became part-owner and now has the right to sell the r\LS filter system, which removes white blood cells from red blood cells.

Acquisitions

The Group's acquisitions during the period amounted to SEK 1,050 M (USD 127 M). These acquisitions include clinics in the US and Europe, as well as the acquisition of several sales and distribution rights within the Gambro Renal Products business area.

New products

During the autumn 1999, *the Polyflux dialyzer* was launched in the US for single use and it is expected to be launched in the US market also for reuse during the first half of 2000. The latter has

Key ratios²⁾

SEK M	1999	1998	1997	1996	1995
Revenues	19,743	18,734	19,490	20,220	24,324
Earnings after financial items	1,893	4,991	13,890	5,228	4,653
Return on shareholders' equity, % ¹⁾	8.6	10.7	57.6	21.5	20.8
Return on total capital, %	7.4	14.6	35.3	19.1	18.1
Earnings per share, SEK ¹⁾	4.66	6.70	33.70	8.44	7.11
Total return on Gambro share	-11.0	-29.3	46.9	73.8	24.7
Equity/asset ratio, %	59	54	52	44	52
Interest coverage, multiple	4.1	5.5	14.7	4.6	4.0

¹⁾ After full tax ²⁾ See definitions on page 79

Gambro today

The company

Gambro is a global company active within the areas of medical technology and care. The company is organized within the following business areas: Gambro Healthcare, Gambro Renal Products and Gambro BCT (Blood Component Technology). Gambro has approximately 17,000 employees in some 40 countries and had revenues totaling SEK 20 billion (USD 2 billion) in 1999.

Objectives

Gambro's goal is to be among the world leaders within the group's operating areas: Gambro Healthcare, Gambro Renal Products and Gambro BCT. The pursuit of this goal will ensure that the best value is created for patients, customers, employees, shareholders and other stakeholders.

Gambro Healthcare

Gambro owns and operates 588 clinics for kidney patients, serving a total of about 44,200 patients on four continents. The largest concentration of clinics is in the US. 10,152 employees work in the business area. Gambro Healthcare's revenues increased by 19 percent to SEK 10,828 M (USD 1,309 M) during 1999. The business area accounts for 55 percent of total revenues.

Market

Nearly one million people worldwide receive dialysis treatment. The number of individuals needing dialysis care is growing by an average of 7 percent each year. There are a number of reasons behind this growth rate. As the number of people in the world increases, so does the number of people suffering from kidney disease. Renal failure is associated with aging, among other factors.

In pace with economic development in different regions of the world, increased resources are made available for health care. The medical causes of kidney disease are also highly significant – two thirds of all cases of chronic renal failure are caused by three disorders: diabetes, high blood pressure and glomerulonephritis.

The total cost for all patients receiving dialysis care is estimated to amount to more than SEK 250 billion (USD 30 billion) of which dialysis products account for SEK 50 billion (USD 6 billion). In 1999, Gambro's market share was 4 percent, with a total of 44,200 patients receiving treatment, which gives the company a market ranking as world number 2.

Operations

Gambro has a strong strategic position in the clinic market including high quality of the clinics and investments in IT. Gambro's clinics mainly use hemodialysis, but peritoneal dialysis is also used

to some extent. The clinical results of dialysis are measured in terms of such quality indicators as dialysis effectiveness, blood values, bone production, fistular infections and nutrition. Gambro dedicates substantial resources to providing information and training to patients and doctors in order to assure, high-quality cost-effective dialysis care. Gambro cooperates with well-known medical faculties at major universities in the US and elsewhere in order to remain at the cutting edge of dialysis-care development.

Gambro Renal Products

The operations relate to products used in dialysis treatment. Gambro has production facilities in 11 countries and its own sales companies in 29 countries. Gambro Renal Products has 6,281 employees. The revenues increased by 4 percent to SEK 8,059 M (USD 974 M) during 1999. The business area accounts for 38 percent of total Group revenues.

Market

The need for dialysis products increases in pace with the increase in the number of dialysis patients. The stable patient growth of 7 percent has a favorable influence on the product market.

The market is divided into three segments: products for hemodialysis (HD), peritoneal dialysis (PD) and renal intensive care (RIC) respectively. Gambro ranks second in the world in HD prod-

ucts, fourth in PD products and is the world leader in RIC products.

The market for renal products was valued at a total of approximately SEK 50 billion (USD 6 billion) in 1999. Gambro's market share was 16 percent, placing the company in third position in the market as a whole.

Products

The main products used in dialysis are:

- Dialyzers
- Dialysis machines
- Dialysis concentrate
- Blood lines

In hemodialysis (the most common type of dialysis) the patient's blood is drawn outside the body in blood lines and passed through an artificial kidney – the dialyzer – where it is cleansed. The entire process is monitored and controlled by a dialysis machine. In peritoneal dialysis, the blood does not need to be removed from the patient's body. Instead, the cleansing fluid is introduced into the patient's abdominal cavity, where the peritoneum acts as the dialysis membrane.

Gambro BCT

The business area's operations cover products used in blood component technology. During 1999, a decision was made to broaden the business area's business concept and focus on becoming a leading player in the blood bank technology segment.

Gambro BCT has production plants in Colorado, US and the UK. 921 employees work in the business area. The revenues increased by 12 percent to SEK 1,359 M (USD 164 M) during 1999. Gambro BCT accounts for 7 percent of Gambro's total revenues.

Market

As a result of the change in strategic orientation that is now being implemented, the business area will be operating in a substantially larger market. Last year, the market was valued at approximately SEK 11.2 billion (USD 1.4 billion), of which Gambro's market share amounted to 12 percent.

Gambro BCT's operations are divided into two segments, the first of which is *Blood Bank Technology*, which, in addition to apheresis technology, includes technology for extracting white blood cells in order to improve the quality of blood platelet doses, as well as IT applications for blood centers/banks, methods for cleansing blood of bacteria and viruses, solutions and bags to hold the solutions. The second segment is *Therapeutic Specialties*, which includes therapeutic apheresis and stem cell therapy. Based on this division into segments, blood bank technology accounted for 75 percent of the business area's revenues in 1999.

Products

Apheresis technology is a natural focus for Gambro's products, since this has been Gambro BCT's niche area up to 1999. A key product in this area is the COBE Spectra Apheresis System blood separator. The TRIMA system provides the starting-point for Gambro BCT's Automated Blood Collection (ABC) concept, which will characterize future cost-efficient automated blood centers.

During 1999, a cooperative venture was initiated with HemaSure to produce filters to enable white blood cells to be extracted during the collection of red blood cells. Gambro also presented promising research results in the Pathogen Inactivation area.

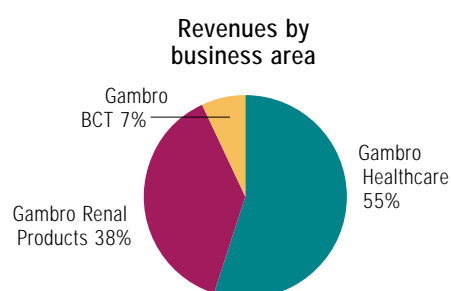
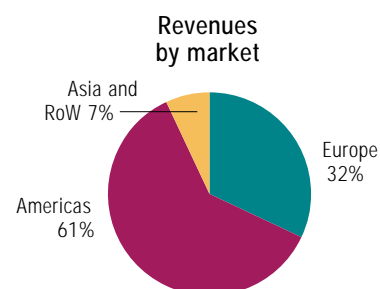
Common values

Gambro bases the management and development of the corporate organization on common values, which are vitally important for the creation of a cohesive Group. The common values are:

Excellent business performance, which includes such values as customer orientation, quality and leadership.

Cooperative spirit, which includes commitment to patients, open and active communication, teamwork and employee development.

High ethics, which includes honesty and integrity, being a good citizen and showing environmental awareness.



Chairman's comments

In 1998, Gambro concluded a seven-year period of upheavals and rapid transformations during which the Group underwent a change of scale from the somewhat overgrown industrial conglomerate that was Incentive to the streamlined medical-technology company that Gambro now is.

However, 1999 was also a year of substantial changes for Gambro. A major restructuring program was initiated in January 1999, with the aim of creating a better integrated company than the fragmented organization that had resulted from the acquisitions of the past few years.

The aim of the program is to reduce cost levels within the Group and lay the foundation for increased growth, particularly in Gambro Renal Products. The concentration of resources will strengthen the prospects for developing new products.

A decision was made during the year to sharpen the strategic focus of the Gambro BCT business area toward blood bank technology, which will substantially increase Gambro BCT's development potential.

The products in cardiopulmonary care were divested in their entirety during the year.

The major restructuring program has proceeded according to plan. At the time of writing – 12 months since the launch of the program – we are beginning to see the first results in the form of improved margins and new product launches.



The year has been disappointing for Gambro's shareholders. Although the change program was conducted with full energy and commitment, it is obvious that the stock market is still awaiting more concrete proof that profitability reaches more satisfactory levels and that Gambro no longer deviates adversely from the industry as a whole.

For historical reasons, Gambro has an extremely strong financial position, which provides a sound basis for continued development. At the same time, the strength of the balance sheet should not be such that it could hinder the utilization of capital to produce an attractive return for the shareholders. In the opin-

ion of both the Board of Directors and the management, Gambro's balance sheet as it stands at present is not optimal in this regard, meaning that the implementation of a share buy-back program ought to be in the best interests of the shareholders.

Accordingly, the Board of Directors presented a proposal for a share buy-back program to the Annual General Meeting.

Finally, on behalf of the Board of Directors, I would like to warmly thank Mikael Lilius and other members of the Executive Management for their tireless efforts and staunch commitment to the process of transforming and developing Gambro.

Our gratitude must also include Mikael's management group, which, despite its small size, is successfully implementing the comprehensive change process.

The Board of Directors would also like to warmly thank all Gambro's other employees, and express the hope that in the future they will have the chance to experience years characterized less by turbulence and change and more by stable long-term growth.

In conclusion, I would like to express my gratitude to my colleagues on the Board of Directors for their committed and professional contributions to Gambro's development.

Claes Dahlbäck

President's message

In this interview, Gambro's President and CEO Mikael Lilius states his views on a number of strategic issues, such as trends in the dialysis market, the most significant results achieved during 1999, goals for the next few years, ways in which the pace of growth and innovation could be increased, how Gambro intends to create increased value for shareholders and why it is so important to create a cohesive group.

What are your predictions for the long-term development of the market?

The dialysis market is a unique market that is independent of economic trends and has stable growth. The market grows by 7 percent each year due to the influx of new patients. I see no reason to believe that the pace of growth will change significantly during the next ten years. The market in which Gambro BCT operates – blood bank technology – also exhibits positive future growth projections.

In the early 1990s, the sector developed from a regionally structured to a global industry, in regard to both dialysis products and nursing care. The sector

has developed into a global arena in which three players are active: Fresenius, Baxter and Gambro.

Gambro's clinic operations continued to grow during 1999, both organically and through acquisitions. Growth within the renal products area was more modest. Major acquisitions were made by distributors, particularly in Europe, in order to exploit economies of scale and operate in closer proximity to the customers. Operations in the blood component technology area are on the threshold of an exciting transformation, with an extended business arena and increased growth potential.

What are the most significant results achieved by Gambro during 1999?

It turned out to be a highly significant year. Following the sale of Cardiopulmonary Care Products, Gambro now has the basic structure upon which we intend to build for the future. In all our operations, we now have strong positions in attractive markets exhibiting good growth. We have also taken significant steps toward the creation of a strong and cohesive Group with a clear and distinct organizational structure. The business areas now have global responsibility but at the same time possess a strong internal solidarity. Throughout the entire Group, we work on the basis of common values and beliefs. We are focusing on employee

development, with a special emphasis on the managers who will lead the Group into the future. The Group-wide introduction of a coordinated corporate identity and logotype system will affirm and reinforce our unified strength.

Among the most important initiatives that we have set in motion, and the results of which we have begun to see, is the change project that mainly affects Gambro Renal Products. We have created a joint organization that has now been put into effect. The new organization is pursuing the change process with maximum vigor. Management has succeeded in fueling the enthusiasm of the employees. Production efficiency has been enhanced and quality improved. I see the change process as having two dimensions: our aim in the short term is to eliminate costs, and in the long term it is to create growth. We shall achieve this by focusing our resources on the development of new products, including dialysis machines and dialyzers with shared technology platforms.

We closed two plants in the US during the year and transferred their production to other units. We also started new production in a Florida plant where dialysis solutions are produced, and at a BiCart production unit in Lund, Sweden. In Japan we achieved strategic freedom of action by terminating two unprofitable joint ventures.

Sales in our main markets and earnings within Gambro Renal Products



showed a positive trend. Despite the change program, we succeeded in maintaining our strong position in Europe.

Other important steps taken by Gambro during the year were the measures to enhance operational efficiency within Gambro Healthcare and Gambro BCT's new strategic focus on blood bank technology.

What opportunities and risks do you see in Gambro BCT's transition from being a niche player to being a full-service provider to blood banks?

Gambro BCT has been highly successful, with annual growth of approximately 15 percent during the 1990s. Now we are entering a new phase. The plan is for Gambro BCT to expand from focusing on a single technology - apheresis - to become a leading supplier of technology, products and systems to blood banks. This means we are switching from a market worth some SEK 3,700 M (USD 450 M) to a market valued at more than SEK 11,000 M (USD 1,350 billion).

In my view, we have excellent prospects of succeeding with this strategy. We have a sound technology platform, an excellent reputation and a strong market position. We have acquired an interest in the blood filter producer HemaSure, with which we have established good cooperation. Another key asset is our know-how in the area of Pathogen Inactivation, which is used to cleanse collected blood components of viruses and bacteria. Our unique technology in this area has considerable potential and could lead to major commercial opportunities.

Among the risks involved in becoming a full-service supplier are that we could fail to maintain a sufficiently high tempo and fail to develop or acquire supplementary technologies to the extent required. On the other hand, we are in the process of expanding our research

resources substantially to ensure that the new venture is a success.

What ambitions do you have as President of Gambro?

It is my ambition to create, together with the rest of the management team, the leading company in the segments within which we operate. While this does not necessarily mean becoming the largest company, it does mean becoming the best. And this applies to everything from research and production to marketing, sales, development of managers and many other areas. It is a question of survival. If we neglect this ambition, we shall disappear. We are competing with the world's leading companies. As long as we focus on being the best, customers will purchase our products. We can attract and develop the best employees. We can be the most attractive alternative for our business partners. Our shareholders can invest in the most attractive alternative in our segment of the capital market. Finally – and most important: our patients can know that they are being treated by Gambro, or with products from Gambro, a company that is fully committed to ensuring that patients receive the best possible care.

What are Gambro's goals for the year 2000?

Our long-term goal is to increase revenues by about 10 percent annually. We have also referred previously to our

short-term goal of achieving an operating margin (EBITDA) of 20 percent by the end of 2000.

In terms of business development, we aim to build on the positive trend of 1999. This means that we shall complete the change program within Gambro Renal Products, ensure that the efficiency-enhancement measures being implemented within Gambro Healthcare yield results, and commit our full resources within Gambro BCT to becoming a full-service supplier to blood banks. Research and development programs within Gambro BCT are currently being expanded substantially.

What measures are you taking to increase the pace of innovation?

First and foremost, we are taking an integrated approach to research. Our new organization makes it easier for us to focus research efforts toward a number of strategic projects. At the same time, we are creating common technology platforms for the development of new products. Close contact between the marketing and development units is crucial. We have a global marketing function that defines the product portfolio and passes on assignments to the product development function. The special focus on a new strategic orientation within Gambro BCT is a good example of the importance that management attaches to development work within the Group.

What are you doing to create a unified Group – a common Gambro culture? Why do you attach so much importance to working toward a common identity?

Today's complex global organizations cannot be controlled through handbooks. We must base our system of controls on common values. Our values are based on performance, corporate spirit and ethics. These values include everything from dedication to patients to customer orientation, quality, integrity and having the courage to stand up for one's beliefs.

It is extremely important that we see ourselves as a company, a Group. Previously we were fragmented. Gambro was, in practice, a holding company with three brands that operated in the US, Europe and Asia. Our aim now is to fully utilize the strength and know-how of all 17,000 employees worldwide. The whole will be worth more than the individual parts. We want to stimulate cooperation between the business areas, so that we can raise care operations to a new level and develop new advanced products. This holistic spirit manifests itself as a belief in a single all-embracing brand – Gambro – which represents many positive values relating to patients, hospitals, employees, shareholders and other stakeholders.

The Gambro share

The Gambro share is listed on the OM Stockholm Exchange, on which it was originally listed under the Incentive name on July 18, 1991. Incentive was renamed Gambro on July 1, 1998.

Return on the Gambro share
During 1999, Gambro shareholders received a dividend of SEK 1 per share.

The total return on a share includes the share price performance, the dividend and the reinvestment of dividends. The total return on Gambro shares in 1999 amounted to a loss of 11 percent. The average for the OM Stockholm Exchange was a gain of 70 percent.

SEK 100 invested in Gambro on December 31, 1994 had grown to SEK 203 by year-end 1999, compared with an average of SEK 423 for the OM Stockholm Exchange during the same period.

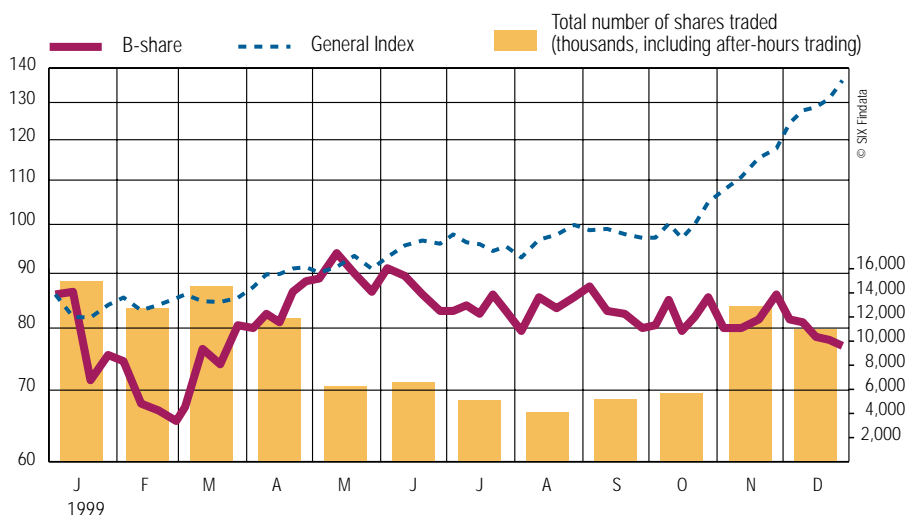
Share price performance

Gambro shares series A fell by 13 percent in 1999, from SEK 88 to SEK 76.50. Series B fell by 12.5 percent in 1999, from SEK 88 to SEK 77. Affärsvärlden's General Index increased by 66 percent during 1999. The year's highest and lowest prices paid for series A were SEK 94.50 and SEK 64.50, respectively, and for series B SEK 96.50 and SEK 65, respectively.

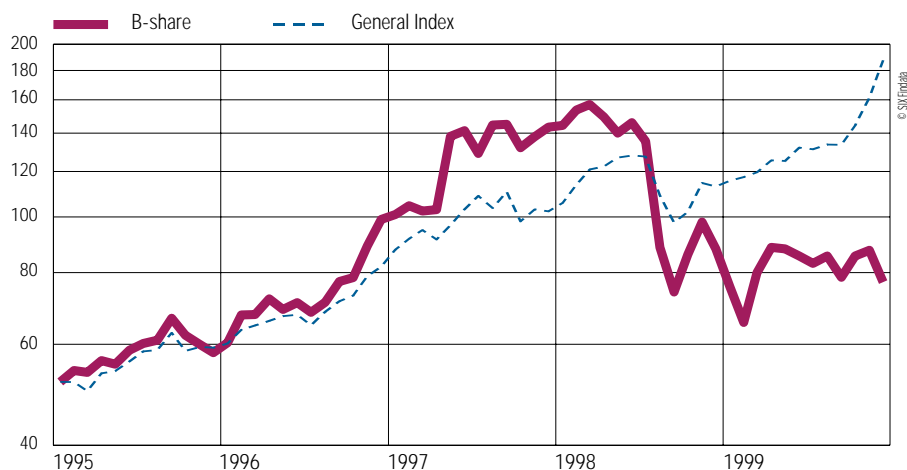
Capitalization

On December 31, 1999, Gambro's total market capitalization was SEK 26.2 billion, compared with SEK 30.1 billion a year earlier, making the company the

Price trend and trading volume 1999



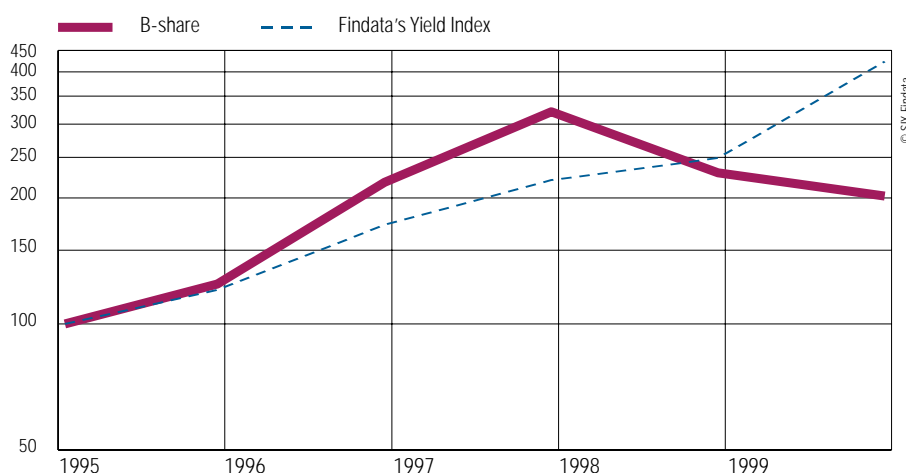
Price trend 1995-99



Share prices paid

at December 31 (SEK)	1999	1998	1997	1996	1995
Series A	76.50	88	143	99	58
Series B	77.00	88	143	99	58

Gambro share: Total return 1995–99



means the Gambro share has varied 11 percent less than the index during the past 48 months.

Proposed dividend SEK 1.10

Gambro's dividend policy is adapted to the Group's focus, whereby value is largely created through growth. This means that a considerable proportion of the Group's value is created through the reinvestment in operations of a substantial proportion of generated cash flow. The objective is to adapt the dividend paid to the Group's profit trend, taking future growth into account.

The Board of Directors proposes a dividend of SEK 1.10 per share for 1999.

Distribution of share types

Share type	Number of		Proportion, %	
	Shares	Votes	Shares	Votes
Series A	250,574,090	250,574,090	72.7	96.4
Series B	94,079,198	9,407,920	27.3	3.6
Total	344,653,288	259,982,010	100	100

Per-share data¹⁾

	1999	1998	1997	1996	1995
Dividend, SEK	1.10 ²⁾	1.00	2.00	2.00	1.80
Dividend as % of market value (direct yield)	1.4	1.1	1.4	2.0	3.1
Earnings, SEK	4.66	6.70	33.70	8.44	7.11
Total shareholder's return, %	-11.0	-29.3	46.9	73.8	24.8
Shareholders' equity, SEK	57	52	74	43	36
Market value/net profit (P/E ratio)	16.5	13.1	4.2	11.7	8.2
Market value/shareholders' equity, %	135	169	193	232	162

¹⁾ After full tax ²⁾ Proposed

Share capital

Gambro's share capital at year-end amounted to SEK 689 M, represented by some 345 million shares with a par value of SEK 2 each. These shares comprise approximately 251 million shares series A (1 share, 1 vote) and about 94 million shares series B (1 share, 1/10 vote).

Shareholders

At the end of 1999, Gambro had 81,095 shareholders, up 4 percent compared with December 31, 1998. Share ownership in Gambro is concentrated, with 25 shareholders accounting for approximately 65 percent of the share capital.

Gambro's largest shareholder is Investor AB, with 19.9 percent of the capital and 26.4 percent of the votes. Gambro's ten largest owners hold shares corresponding to 53.2 percent of the capital and 61.0 percent of the votes.

Swedish institutions hold 58 percent of the shares, while Swedish mutual funds hold 15 percent. Swedish private individuals own 17 percent of the shares.

The proportion of shares owned by individuals or legal entities domiciled outside Sweden amounts to 10 percent.

30th largest on the OM Stockholm Exchange.

Turnover

Approximately 205 million Gambro shares, at a value of SEK 16.5 billion, were traded in 1999.

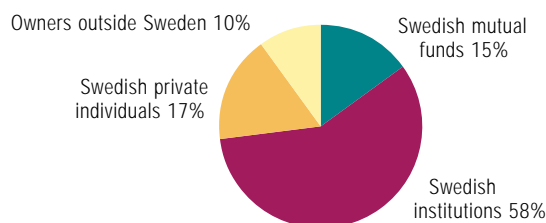
The turnover rate for Gambro's shares in 1999 was 60 percent; 38 percent of the A shares and 118 percent of the B shares were traded. The OM Stockholm Exchange's turnover rate was 94 percent in 1999.

Beta value

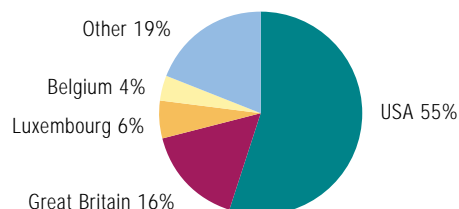
The beta value is a risk measurement that shows the sensitivity of stock prices to market fluctuations, compared with the entire market over a given period of time. A beta value of more than 1.0 means the share price is more volatile than the market index. If the beta value is lower than 1.0, the share is less sensitive than the market as a whole.

According to SIX Findata, the beta value of the Gambro share is 0.89, measured against Affärsvärlden's General Index over the past 48 months. This

Distribution of shareholders



Distribution of foreign owners



Ownership distribution, December 31, 1999

Number of shares	Number of shareholders	% of shareholders	% of share capital
1-1.000	66,122	81.5	6.0
1.001-10.000	13,996	17.3	10.6
10.001-100.000	805	1.0	6.0
100.001-	172	0.2	77.4
Total	81,095	100	100

Source: DN Ågarservice

Ten largest shareholders, December 31, 1999

Shareholder	Number of shares	% of share capital	% of votes
Investor AB	68,635,425	19.9	26.4
The Nat. Pension Ins. Fund			
4th Fund Board	21,150,200	6.1	7.3
Robur's funds	18,953,553	5.5	4.0
Wallenberg Foundations	17,988,355	5.2	6.8
SPP (Mutual Insurance)	12,236,170	3.6	3.3
SEB Funds	9,753,152	2.8	3.0
Nordbanken Funds	9,624,955	2.8	2.0
AMF Pension Insurance	9,528,200	2.8	2.3
SHB's Funds	8,479,300	2.5	3.2
Ratos	7,100,000	2.1	2.7
Total	183,449,310	53.2	61.0

Source: DN Ågarservice

Gambro is monitored continuously by the following analysts

Gambro is followed by the analysts listed below. Please note that any opinions, estimates or forecasts regarding Gambro's performance made by these analysts are theirs alone and do not represent opinions, forecasts or predictions of Gambro or its management. Gambro does not by its reference below or distribution imply its endorsement of or concurrence with such information, conclusions or recommendations.

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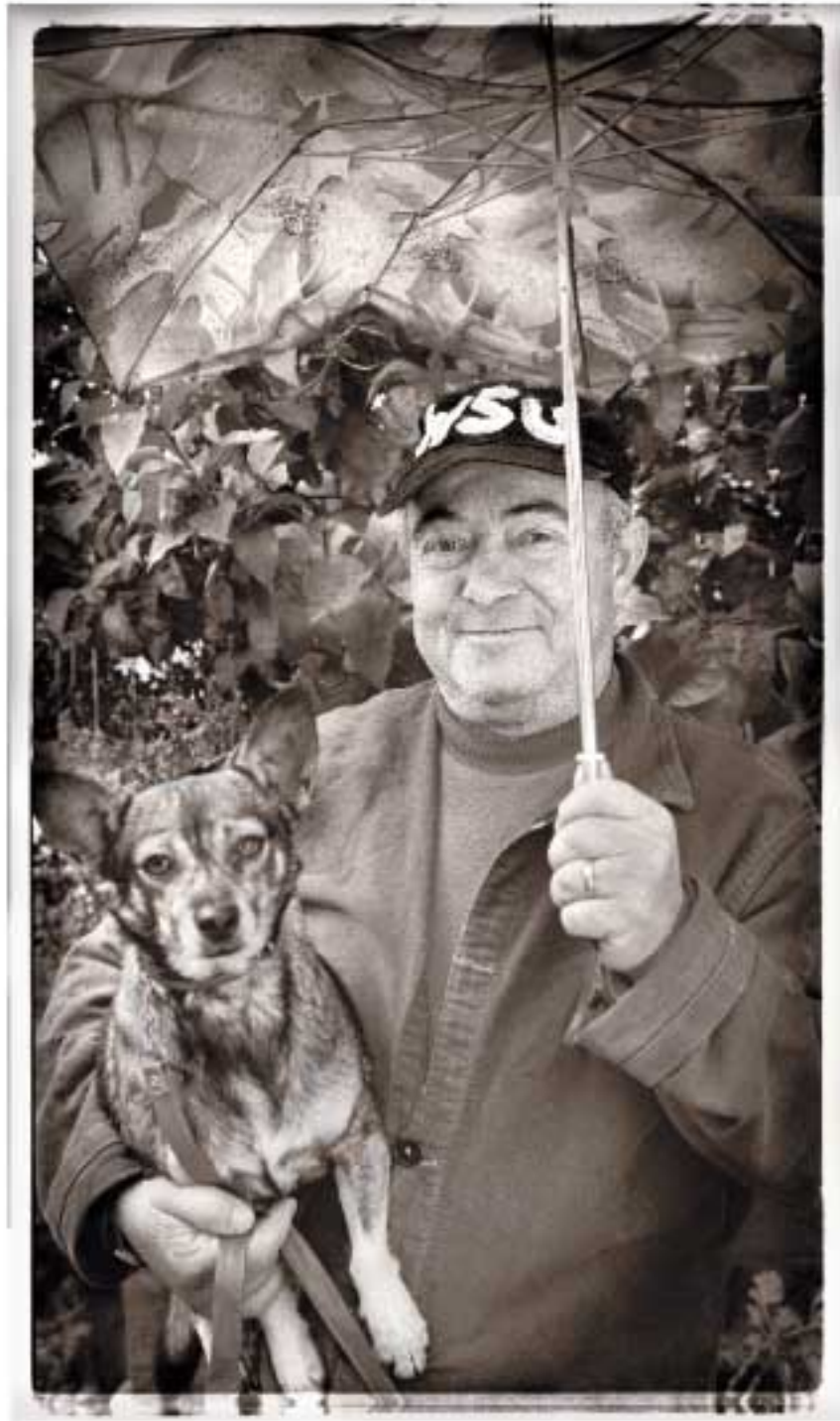
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WestLB Panmure

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>> Obviously things were better before, when my kidneys were
were still functioning, but on the other hand, the nurses at the
clinic are really nice and help to keep my spirits up<<

Benedetto Ferrante, Rome

The dialysis market

International dialysis care is an important aspect of global healthcare. The development trend in the dialysis market has been characterized by a steady 7 percent annual increase in patient numbers over the past few years, continued substantial inequalities between different geographical regions in regard to financing and reimbursement systems, and an expansion of private dialysis care in the interests of enhanced efficiency and quality of care. Another significant trend is the continuing globalization of the dialysis market.

Global healthcare

Today, the global healthcare industry is influenced by a number of factors, such as economic trends (countries with a high GDP per capita tend to have well-developed healthcare systems), healthcare traditions and financing and reimbursement systems. The players in the healthcare market, the patients, providers of medical services, healthcare organizations, insurance companies and authorities are all highly dependent on political decisions. This applies to such issues as healthcare availability, its quality, regulation and financing, the training and competence of medical service providers, research allocations and opportunities for privatization. Gambro is a global player,

with an active presence in more than 100 markets, and is thus highly dependent on healthcare policy trends, decisions and legislation in each local market.

The international dialysis market is an integral part of the global healthcare sector. The most important factors governing the development of the dialysis market are patient volume growth, reimbursement systems, managed care, privatization trends, healthcare quality and globalization.

Patient volume growth

Today, approximately 1 million individuals in the world receive dialysis treatment, of whom the US accounts for more than a quarter. The number of

people in need of dialysis treatment is expected to increase by 7 percent annually during the period 1999-2001. More than 85 percent of today's dialysis patients receive hemodialysis treatment and less than 15 percent peritoneal dialysis (see glossary on page 86). The total cost for all patients receiving dialysis care is estimated to amount to more than SEK 250 billion (USD 30 billion), of which dialysis products account for SEK 50 billion (USD 6 billion). The growth in patient volume is affected by several factors:

The global population increase annually and an increasing proportion of the population consists of older persons, who are in need of care. Kidney failure is also

a disease that primarily affects older persons.

The *current trend within emerging markets*, which is creating opportunities for improved healthcare and the treatment of patients with kidney disease.

The increase in such diseases as *diabetes, hypertension (high blood pressure) and glomerulonephritis*. These diseases are responsible for causing more than 60 percent of all cases of kidney failure. Infections, hereditary kidney diseases and cancer are examples of other disorders that can lead to chronic kidney failure.

The *increased use of prescribed pharmaceuticals* also contributes to the number of kidney patients, since the side effects of certain drugs can have an adverse effect on the kidneys.

The *quality of dialysis care* also has an impact on the growth in the number of patients, since it is now possible to save more patients, compared with the situation ten years ago. As a result, patients remain under dialysis care for longer periods.

Despite the efforts being made, the number of kidney transplants, amounting to around 40,000 a year, has only marginally affected the growth in the number of dialysis patients.

Reimbursement systems

The types of healthcare financing and reimbursement systems vary widely between different areas and countries. In the US, patients are mainly reimbursed through the Medicare program established in 1965. Over the years, the system has been revised on a number of occasions. Originally, patients with private health insurance had to cover the cost of their treatment during the first 18-21 months through private insurance

programs. In 1997, Congress decided to extend this period to 30 months.

Thereafter, Medicare steps in and pays for the dialysis treatments. Employer health-insurance programs also cover a major part of the costs during the 30-month period. Should the employer health-insurance programs be insufficient to cover the cost of the treatment, Medicare makes compensation payments up to a certain level through its Medicare Secondary Payer (MSP) provision.

Medicare's base reimbursement of SEK 1,042 (USD 126) per dialysis treatment has not changed significantly since 1983. Extra reimbursements of up to SEK 414 (USD 50) are paid in addition to the base amount to cover the cost of any extra medication and treatment.

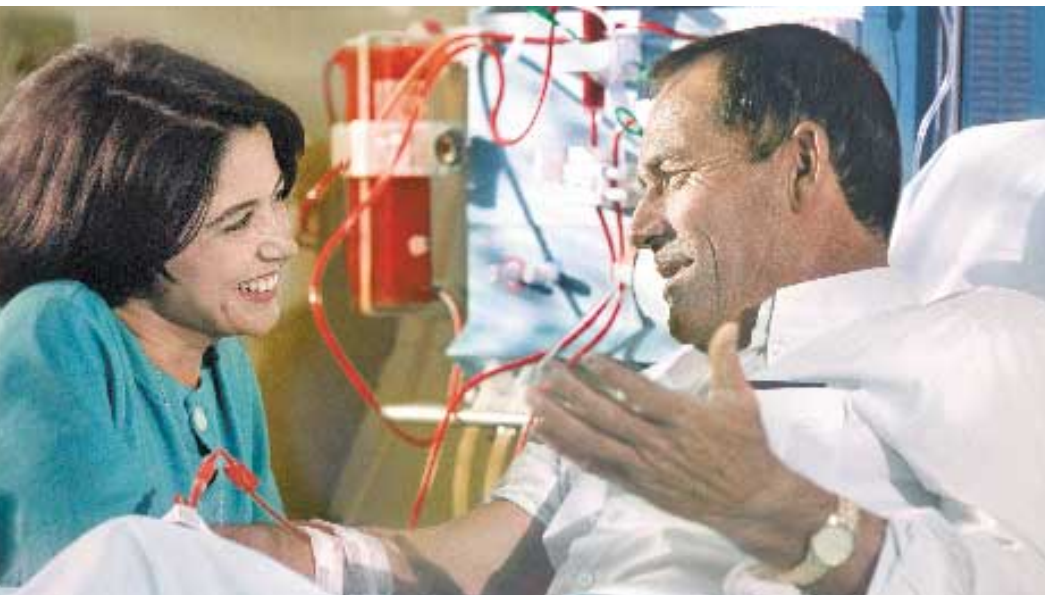
Healthcare experts and the National Kidney Foundation patient organization claim that there is a connection between the mortality rate and the fact that Medicare's reimbursements have not been increased, despite increases in product prices and personnel costs. Studies have also shown that European dialysis patients receive longer individual treatment periods and they also have the opportunity to choose from a broader range of treatment-related products. Accordingly, at the end of 1999 it was decided that reimbursements from Medicare would be raised by 1.2 percent as of January 1, 2000 and by an additional 1.2 percent a year later.

Despite having different reimbursement systems, approximately the same level of treatment is provided in Europe's various markets. Healthcare in these markets is often financed with public sector funds. This also applies to privately owned clinics, which are reimbursed on a per treatment base.

Per capita, Japan has the highest number of dialysis patients in the world. This is partly because so few kidney transplants are carried out in Japan, due to cultural and religious objections. Dialysis care in Japan is largely publicly funded. However, certain private insurance companies offer insurance with minor coverage for healthcare. In emerging markets, patients normally pay for their renal care themselves, or via private health insurance programs.

Managed care

The rising cost of health and medical care in the western world (14 percent of GDP in the US) is a constantly debated issue. In these countries, changes are being implemented to reduce healthcare costs, which naturally also has an effect on dialysis care. In Europe, an increasing number of public sector dialysis clinics are outsourcing their operations to subcontractors, often to one of the larger clinic chains. The increase in the number of private clinics is also an indication of the efforts being made to improve the efficiency of the care services provided. In the US, extensive disease-management programs are becoming more common, particularly for patients with chronic disorders, such as kidney failure or diabetes. Disease management provides dialysis clinics with opportunities to assume an increasing degree of responsibility for the care of their patients. This leads to greater growth in the market, since the clinics are assigned increasingly extensive responsibilities. As a result of the Managed Care concept, Health Maintenance Organizations (HMOs) in particular are striving to increase the quality and efficiency of the operations conducted by the dialysis clinics. The trend



toward Managed Care for patients with chronic illnesses has also emerged in Japan due to cutbacks in public funding.

Privatization trends

Dialysis treatment in the US is normally conducted via privately owned clinics. Although the trend toward privatization has also become stronger in Europe, it varies from country to country. Of the total of 225,000 dialysis patients in Europe, 57 percent are treated through public healthcare services, 30 percent via private clinics and 13 percent via foundation-owned clinics. Privately owned clinics are showing the most rapid growth (7-8 percent annually), while public and foundation-owned clinics are growing at a rate of 3-4 percent annually.

In Europe, private clinics are mainly operated in Italy, France, Portugal and Spain. Privately operated clinics are also on the increase in the UK as a result of the Private Finance Initiative, among other reasons, whereby former public sector operations are outsourced to private companies on a public-private partnership basis. The Gambro dialysis clinic in Belfast, where 300 patients are treated, is a good example of this type of agreement. In Germany, 40 percent of the patients are treated in clinics owned by foundations, of which Kuratorium für

Dialyse is the largest player. Healthcare system regulations in Finland, Norway, Denmark and Benelux do not permit treatment in private clinics.

The healthcare services provided by the private clinics is often more efficient as a result of the higher growth in the private sector, compared with growth in the public equivalent. Several private clinics provide care in the form of so called Limited Care, whereby the care services provided are adapted and limited to meet existing demand. This means that doctors do not need to be on hand the whole time, but can be summoned at short notice on an on-call basis. Although the clinic chains receive less compensation, they also have lower overheads as a result of the limited level of care provided. The total number of Limited Care clinics (irrespective of ownership) is currently increasing at a rate of 9 percent per year in Europe.

Healthcare quality

In the future, it is possible that clinics in the US in particular, but also in Europe, will be reimbursed in line with the results achieved by their dialysis treatments. Special outcome contracts could be established, in which mortality rates, care quality and costs will be key parameters. Through the development of the

Internet, patients and healthcare organizations are being given the opportunity to compare data from different clinics. This trend will be strengthened by demands from patient organizations, particularly in the US, for greater transparency regarding the effects of dialysis care.

This means that pressure to improve the quality of healthcare has increased. Efforts to raise the quality of dialysis care have therefore been assigned priority and this is paying dividends. Advances in medicine, intensive research and development in the medical technology field have led to a situation where patients who would have been doomed just ten years ago can today be saved.

Globalization

One of the strong driving forces in the dialysis market is the increasing focus on globalized operations. This applies to both the production of dialysis products and the treatment of dialysis patients. Today's dialysis companies require a global presence and large volumes in order to offset the pressure on the price of dialysis products. Currently, the products market is dominated by a handful of major players.

Today, the market as a whole is characterized by a concentration to just a few global clinic chains – of which the really large chains account for almost one fifth of the world market. In the US, where this consolidation process is more far-reaching than anywhere else, the four largest dialysis chains treated about 60 percent of all dialysis patients in 1999, compared with 40 percent in 1996. The process is being driven by efforts to increase quality, cost efficiency and the need to invest in information systems. This consolidation process will continue, driven by the increased outsourcing of public sector dialysis operations to private contractors.



"YOGA IS A RELEASE FOR ME AND A KEY ASPECT OF MY OVERALL HEALTH. TOGETHER WITH THE DIALYSIS TREATMENT, IT GIVES ME THE STRENGTH TO GO ON

FERNANDO MAURICIO MARTINS, PORTUGAL

Gambro Healthcare

The market for dialysis care is growing by 7 percent annually. The trend for Gambro Healthcare during 1999 was characterized by favorable growth and strengthened market positions. This was particularly true of the two main markets – Americas and Europe. The trend reflects strong organic growth, the establishment of new clinics and the acquisition of clinics. Gambro has a total of 588 clinics, 83 percent of which are located in the US. Sales increased by 19 percent in 1999 to SEK 10,828 M (USD 1,309 M).

Market

More than a million patients with chronic kidney failure receive dialysis treatment all over the world. The number of patients in need of dialysis is increasing by 7 percent each year. This increase has remained at a relatively stable level for the past two decades. A number of factors lie behind this predictable growth trend.

Demographic: the increasing world population means that a growing number of individuals are suffering from kidney failure. The proportion of older people among the population also contributes to the increasing number of kidney patients.

Economic: Since World War II, the

economies of many countries and regions have improved and additional resources have become available for healthcare systems. This applies particularly to countries in Eastern Europe, Asia and South America.

Medical: Certain medical disorders also contribute to the rise in the number of kidney patients. Age-related diseases such as diabetes and high blood pressure are increasing. Such disorders often lead to kidney failure. The lack of healthy kidneys for transplants is also a factor driving this trend.

The market can be divided up into the following treatment forms: hemodialysis (HD), peritoneal dialysis (PD), acute dialysis, or renal intensive

care (RIC) and kidney transplantation. Within the dialysis market for chronic kidney failure more than 85 percent of all patients receive HD treatment and 15 percent PD treatment. Each year, around 400,000 patients receive RIC treatment for a period of one week. The total cost for all patients receiving dialysis care is estimated to amount to more than SEK 250 billion (USD 30 billion), of which dialysis products account for SEK 50 billion (USD 6 billion).

During 1999, Gambro had a 14 percent share of the dialysis care market in the US. Gambro's share of the total dialysis care market is 4 percent with total revenues of SEK 11 billion (USD 1.3 billion).

Gambro strengthened its market

position during the year through a combination of organic growth, acquisitions and the establishment of new clinics (de novo clinics). Globally, the Group has a total of 588 clinics, with 83 percent located in the US.

The number of patients is growing by 7 percent annually in the US, while the growth rate in Europe is somewhat lower, at 5 percent. The market in Japan is growing at an annual rate of about 6 percent.

As a result of this stable growth, predictions can be made of the number of kidney patients in the future. In year 2005, about 1,400,000 patients will receive dialysis treatment throughout the world, of which the US will account for some 360,000, Europe for 280,000 and Japan for 260,000 patients. During the period, countries outside these three regions will show a faster rate of growth, of approximately 11 percent per year.

At the end of 1999, Gambro provided dialysis care service for a total of 44,200 patients in its clinics, of whom clinics in the US accounted for 36,600 patients, Europe for 3,900 and the rest of the world for 3,700.

Objectives

Important operating goals include continuing improvement of the quality of care and clinical outcome in the Group's

clinics worldwide, measured through the application of quality indicators, such as adequacy of dialysis treatments, anemia, nutrition, bone production, and vascular access problems. In addition it is the objective to reduce the mortality and the number of days of hospitalization.

The business area's revenues shall increase by a minimum of 15 percent annually. Organic growth shall be slightly higher than market growth. In the markets in which Gambro is active, the average annual growth rate is about 5-7 percent. At global level, the growth rate is about 7 percent. An important part of growth shall be achieved through acquisitions.

In terms of markets, Gambro's goal is to continue to strengthen the favorable position already achieved in the US, at the same time as the business area increases its share of other markets.

Special initiatives have been implemented to improve anemia values, and to address vascular access problems.

The goal is also to improve productivity and reduce cost of supplies, particularly in regard to dialyzers, in order to reduce the cost of dialysis and to compensate for inflation. Productivity is measured by the number of productive hours per treatment. This includes the total number of hours for all clinic personnel, excluding training hours.

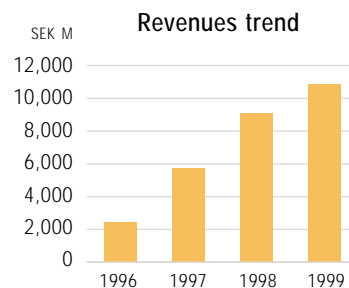
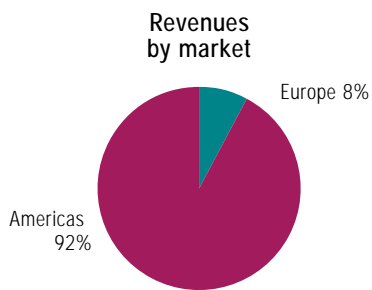
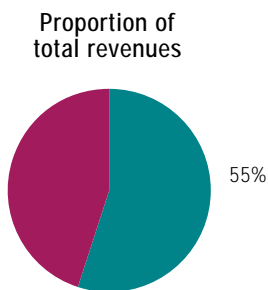
Strategies

Growth strategies and strengthened market positions

A key strategy for Gambro is to expand through acquisitions of dialysis clinics. Growth via acquisition is expected to increase more rapidly in parts of the world outside the US, particularly in Europe. An increasingly important growth strategy is the establishment of de novo clinics, especially in the US.

In the US, growth shall be achieved partly through organic growth at existing clinics, for example via more effective high quality care services, and partly through the establishment of de novo clinics and selective acquisitions. The acquisitions shall focus on areas and regions in which Gambro is strongly established and has favorable profitability or new areas where Gambro can reach a strong market position immediately. The

Key data	
Revenues 1999:	10,828 SEK M
No. of employees:	10,152
No. of clinics:	588
No. of patients:	44,200
No. of treatments:	5,769,000
Revenue per treatment:	1,820 SEK (220 USD)



ambition is to be number one or two in each local market.

Strategies for improved patient treatment/data

Pre-ESRD program: This program includes information and training for doctors who are general medical practitioners and patients. The program underlines the importance of allowing patients to meet a nephrologist at the earliest possible stage in order to improve their chances of long-term survival.

Single-use dialyzers: A major component in the strategic drive towards higher quality care and efficiency is the use of single-use dialyzers. It is a pioneering initiative in the industry and is part of

Gambro's total system approach whereby the entire process in the dialysis clinic is reengineered to improve quality and long term efficiency.

Vascular Access Care Program: This is a program for, at an early stage, taking care of the problems that can arise with the vascular access. By reducing the amount of hospital visits for this reason, Gambro is able to reduce costs for both public health authorities and managed care organizations. During the past year, Gambro has introduced its Vascular Access Care Program at some 40 clinics in the US, with very successful results. During 2000-2001 the program will be introduced within all remaining US clinics. The program will also be introduced

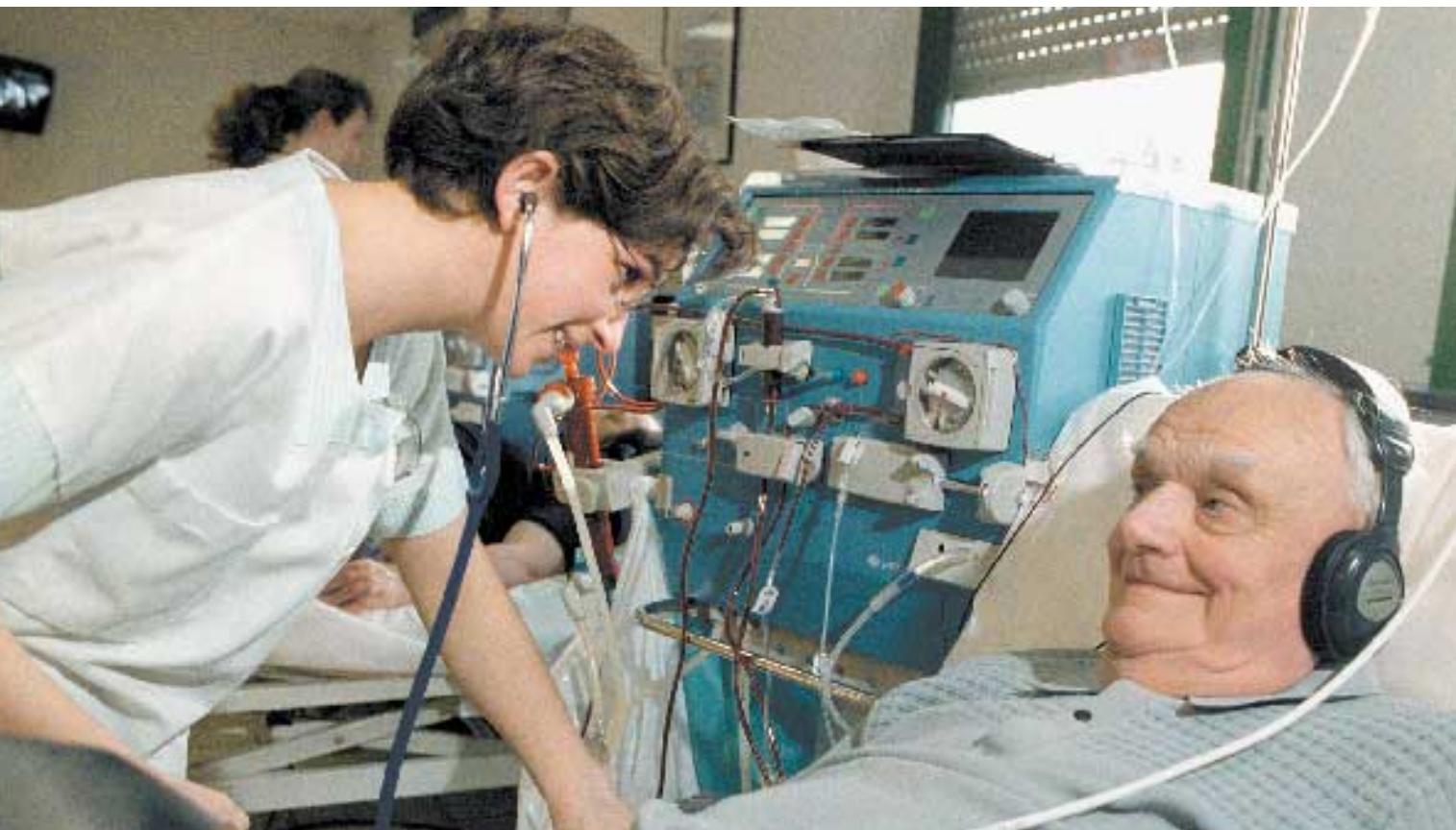
in clinics outside the US during 2000.

Anemia Management Program: This program is focused on improving the anemia outcomes through specialized training programs.

The programs for Pre-ESRD, Single-use dialyzers, Vascular Access Care, and Anemia Management will contribute to reducing not only patient mortality, but also patient hospital time and the total cost for dialysis patients.

Strategies for increased productivity

To increase productivity, meaning the number of productive hours per treatment, the business area will work with a common IT system, use special productivity tools, for example various planning



Chains of dialysis clinics, January 2000

	No. of patients	Share, %	US	Share, %	Europe	Share, %	RoW	Share, %
Fresenius Medical Care	84,100 ¹⁾	8.2	61,500	23.0	10,500	4.7	12,100	2.3
Gambro	44,200	4.3	36,600	13.7	3,900	1.7	3,700	0.7
Total Renal Care	40,400 ¹⁾	4.0	40,400	15.1				
Kuratorium für Dialyse	16,000	1.6			16,000	7.1		
Renal Care Group	14,400	1.4	14,400	5.4				
Dialysis Clinic Inc.	10,000	1.0	10,000	3.7				
Baxter	13,000	1.3			2,000	0.9	11,000	2.1
Everest	5,800	0.6	5,800	2.2				
National Nephrology	3,300 ²⁾	0.3	3,300	1.2				
Satellite	3,000	0.3	3,000	1.1				
Excelsior Group	2,000	0.2					2,000	0.4
Braun Eurocare	1,600	0.2			1,600	0.7		
Total	237,800	23	175,000	66	34,000	15	28,800	5
Other care providers	782,200	77	92,000	34	191,000	85	499,200	95
Total no. of patients	1,020,000	100	267,000	100	225,000	100	528,000	100

1) Proforma after FMC's takeover of TRC's international business 2) Proforma incl. acquisition of Renex

and follow-up systems, plus a team-nursing concept, during which clinic personnel work in groups to optimize the care of their patients and at the same time improve productivity. Gambro's Internet based system allows to follow both clinical and operational performance indicators in an effective manner.

Physician oriented culture

Gambro believes it is key to long term success to be a high quality provider with a strong physician oriented culture. Gambro is also developing tools that enable the physicians to improve their productivity and at the same time improve the quality of care for the patients.

Strengths, weaknesses, opportunities and threats
Gambro Healthcare has the following strengths, weaknesses, opportunities and threats:

Strengths

- A global presence – with representation in key markets
- Integration between operations within

the services and product areas

- Well-developed information systems
- Good care quality measured via quality indicators
- Strong financial position

Weaknesses

- Efficiency in some areas

Opportunities

- High organic growth
- Acquisition of clinics
- Establishment of de novo clinics
- Efficiency improvements

Threats

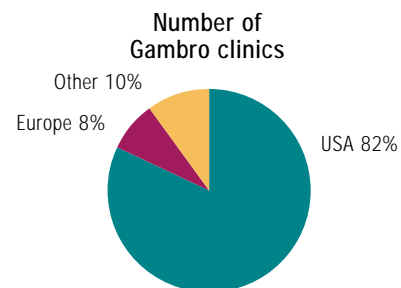
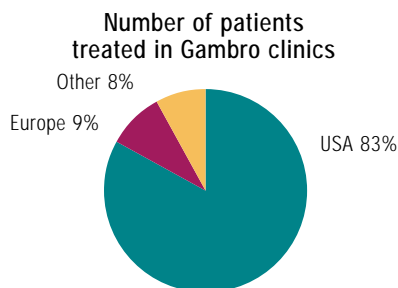
- Reduced governmental reimbursement
- More detailed regulatory scrutiny and requirements

Competitors

Gambro and its main competitors within renal care services, Fresenius, Total Renal Care, and Renal Care Group, are the four largest companies in the sector.

Fresenius Medical Care (FMC) is a listed company treating some 84,000 patients including the acquisition of TRC's international business, with the US accounting for 73 percent and the rest of the world for 27 percent.

Total Renal Care has some 40,000 patients, all located in the US after the divestment of the international business to FMC. Based on the number of patients treated, Fresenius has a market



share of 8.2 percent, Gambro 4.3 percent and Total Renal Care 4 percent.

Highlights 1999

Revenues increased to SEK 10,828 M (USD 1,309 M), an increase of 19 percent compared with 1998 (15 percent currency adjusted).

At year-end, the number of patients treated globally in the 588 clinics either owned or operated by Gambro totaled 44,200. The total number of treatments performed in clinics consolidated by Gambro was 5,769,000 and the corresponding average revenue per treatment was SEK 1,820, or USD 220. In the United States, Gambro owns or operates 483 clinics in 31 states and the District of Columbia.

The trend in Gambro Healthcare was characterized by continued favorable growth. This applied particularly to the principal markets, the Americas and Europe. The trend reflected good organic growth, the establishment of new clinics and the acquisition of clinics. During 1999, a total of 34 clinics were acquired at which some 3,344 patients were treated, whereof 19 clinics in the US. Gambro established some 30 new clinics in the US.

Revenues in the Americas amounted to SEK 9,967 M (USD 1,205 M), an increase of 20 percent. Revenues in Europe amounted to SEK 857 M (USD 103 M), an increase of 11 percent. Revenues in the rest of the world totaled SEK 4 M (USD 0.5 M), an increase of 52 percent.

Work to increase the quality of dialysis care continued, as did programs to increase the efficiency of these operations, both clinically and operationally. A number of care quality indicators are



used to follow-up all patients and a special program was implemented in all US clinics to improve the anemia outcomes. As a result of this program we have seen significant improvements in the anemia values for the patients. A special vascular access management program (meaning connections between the blood system and the dialysis system via a fistula, graft or catheter) has also been introduced. The use of single-use – which is a main component in the strategic efforts in progress to raise the quality and efficiency of care services within Gambro's clinics – continued to increase during the year.

In the measures implemented to increase the cost efficiency of the business area, the number of employees was

reduced during the year by the equivalent of 340 full-time personnel excluding new acquisitions.

In 1999, Gambro Healthcare launched a program to improve the productivity of its dialysis treatment operations. Clinic managers and other care services personnel were trained in the use of various productivity-enhancement tools to facilitate planning and the implementation of such clinic operations as time planning and staffing.

During the year, major investments have been made in improved hardware and software information systems. Internet based solutions make it easier for physicians and care givers to follow up treatment results. New applications

facilitate the work of the doctors and other care services personnel to handle both medical and financial matters in the clinics. The IT system facilitates identification, diagnosis, treatment and follow-up.

An American public health authority has decided to claim repayment of laboratory services carried out by Gambro (see page 64).

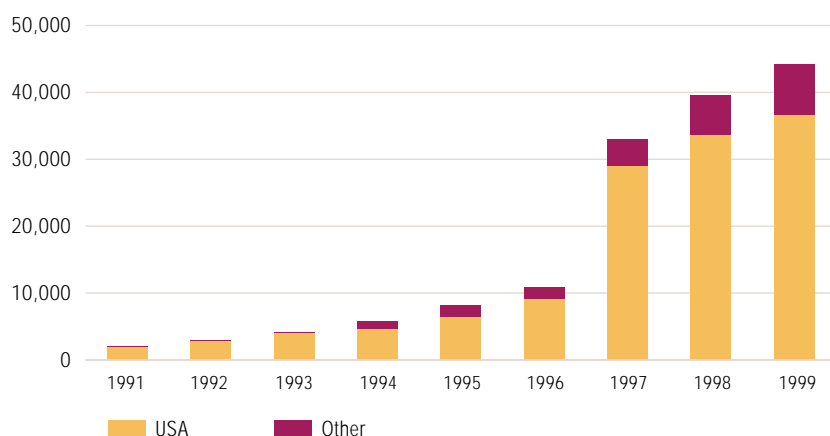
Future outlook

The currently favorable growth trend will continue. The rate of acquisition will be slightly slower in the US, compared with Europe, for example, where the market has yet to be consolidated to the same extent. As a result of efforts to reduce the cost of public sector healthcare, the changes in reimbursement systems will continue. In the US the reimbursement from Medicare will be raised

by 1.2 percent on January 1, 2000 and with an additional 1.2 percent on January 1, 2001. It will become increasingly important for global clinic chains to contribute to ensuring that the overall cost of dialysis treatment is reduced. Quality, close cooperation with doctors and cost controls are some of the key factors that will ensure long-term success.

Gambro occupies a strong strategic position in the clinic market, with major investments in IT and high quality. This is a situation that provides scope for continued favorable growth and increased market shares. With the measures already implemented during the year and Gambro Healthcare and Gambro Renal Products continuing to work in an integrated manner, there are excellent opportunities for continued positive development in the years ahead.

Gambro Healthcare – expansion. Global no. of patients





My illness forced me to leave Mozambique and stop going after the really big fish - it felt as if my life was over. But the treatments have given me a new lease of life and now I am trying to persuade my children to move here.

Humberto Unes Rodriques, Portugal

WHEN I FIRST LEARNED ABOUT MY
ILLNESS, I WAS VERY UPSET.

BUT I AM STILL THE SAME
PERSON I ALWAYS WAS, AND THANKS
TO THE CLINIC I CAN GO TO WORK
EVERY SECOND DAY

ADILIA CRISPIN, LISBON



Gambro Renal Products

During 1999, Gambro maintained its strong position and 16 percent market share despite the major changes carried out within the business area. Sales increased by 4 percent to SEK 8,059 M (USD 974 M). During the year, major sections of the restructuring program presented in January were implemented. The program addresses both cost savings and long-term strategic development. The main positive effects of the strategic restructuring initiated during 1999 are expected to become apparent over the longer term.

The market

The Gambro Renal Products business area operates in a growth market which, in terms of volume, is expanding at 7 percent annually, corresponding to annual value growth of approximately 5 percent. The difference is created by some price pressure in the market.

The market for Gambro Renal Products is affected by the same factors that control the market for clinical operations. The need for dialysis products increases in parallel with the number of dialysis patients. The market for renal products, accordingly, is driven by the same factors that are described in detail in the Dialysis market section.

In 1999, the total market for renal products was valued at approximately SEK 50 billion (USD 6 billion). Gambro's market share amounted to 16 percent, with total revenues of SEK 8,059 M (USD 974 M). Based on these figures, Gambro is the third largest supplier of renal products, ranking behind Fresenius of Germany, with a market share of somewhat more than 24 percent, and the American company, Baxter, with a little less than 24 percent market share.

The market is divided into three segments: products for hemodialysis (HD), peritoneal dialysis (PD) and acute dialysis (RIC).

Products for hemodialysis, including

acute dialysis, account for the largest percentage of revenues by Gambro Renal Products, a sector in which Gambro had a market share of 21 percent. Gambro is the second largest supplier of HD products, with Fresenius as the market leader.

Gambro ranks fourth in the peritoneal dialysis segment of the market, with a market share of 2 percent. Baxter is the largest supplier of PD products, with Fresenius second and Terumo of Japan in third place.

Gambro is the global leader in the growing market for acute dialysis products.

A geographic division of the market shows that Gambro is the strongest supplier in Europe, including Eastern

Europe and Russia, with a market share of 33 percent. In the Americas, Gambro has a market share of 9 percent, and 7 percent market share in Asia and the rest of the world.

Objectives

Primary efforts will be based on improvements in operating efficiency and increased sales. Gambro believes the business area's future long term sales growth will equal or surpass market growth.

In terms of marketing, the objective is to maintain the business area's strong position in Europe and strengthen its positions in other markets.

Gambro's long-term vision is to recapture its position as the market's leading player for renal products.

Strategies

Gambro's pursuit to become the market's leading supplier of renal products will proceed primarily via structural changes in the business area's operations with a view toward:

- Lower costs and higher operating efficiency
- Reduced complexity and increased focus
- Higher revenues through development

and introduction of new products.

For the secondary stage, Gambro has formulated a market strategy based on expansion in markets outside Europe, in parallel with efforts to strengthen and defend its solid position in Europe.

Thirdly, the advantages of Gambro's strategy to become an integrated company, with operations in both product and care sectors of the market, will be utilized fully in product development and sales activities. The percentage of proprietary products used in clinics owned by Gambro will also be increased.

The restructuring program, which was announced in January 1999, offers a dual challenge to Gambro in view of its strong emphasis on cost savings in parallel with strategic long-term growth. The ongoing process of structural change yielded several positive effects in 1999. The strongest effects of the Group's strategic restructuring will be realized over the long-term perspective, however.

The foundation of Gambro's long-term development was laid in 1999. The Group's three brand names, Gambro, Hospal and COBE, which have functioned in principle as independent companies within Gambro, were finally merged in a joint global organization comprising sales, marketing, production and product

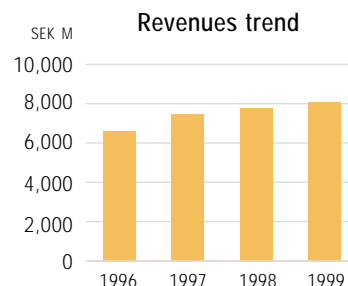
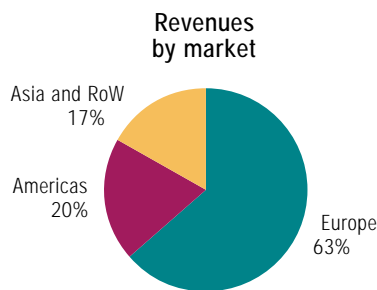
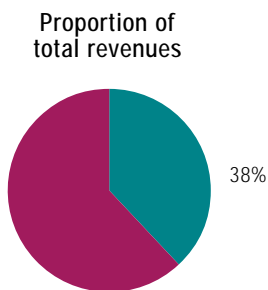
development. The consolidation of operations will enable Gambro to optimize its utilization of Group resources.

Gambro's new branding strategy is based on the Group's concentration on a single brand – Gambro. In Europe, Gambro will continue to use its two strong brands, Hospal and Gambro.

As a result of its new strategy, Gambro also plans to introduce a modular and platform concept for the development of new products. Gambro will continue to offer a broad variety of products under the Gambro and Hospal brand names, but overlapping products will be eliminated and new products will be based on common platforms in such areas as electronics, software, hydraulics and other system modules.

Comprehensive changes are being made in the structure of production and logistics operations to reduce costs and

Key data	
Revenues 1999:	SEK 8,059 M
No. of employees:	6,281
Production units: 21 in Sweden, Germany, Italy, France, Portugal, the Czech Republic, the US, Mexico, Japan, South Korea, China and Australia	



increase efficiency in compliance with the following strategies:

- Know-how and development in the Group's respective product areas have been concentrated in four "Centers of Excellence".
- All production has been consolidated in a joint global structure to achieve maximum efficiency in the utilization of Group resources.
- Focus on core activities – all operations will be analyzed and non-core activities will be outsourced to subcontractors.
- Priority on measures designed to yield long-term effects.
- Continued cutbacks in the number of storage units and concentration on a limited number of logistics centers.
- A global procurement project will be conducted to re-negotiate contracts and replace certain suppliers – Gambro's annual procurements for the business area amount to SEK 4–4.5 billion (USD 480–540 M).

Strengths, weaknesses, opportunities and threats

Gambro Renal Products has the following strengths, weaknesses, opportunities and threats.

Strengths

- Well-established and highly functional customer relations.
- Strong position in Europe
- Complete supplier of products for hemodialysis.
- Integrated company with operations in both product and care – internal market and common approach to product development.
- Global presence
- Innovative company
- High and consistent quality standards.
- Secure and foreseeable market growth.



Weaknesses

- Complexity in product offering.
- Inconsistent capacity utilization and high operating costs due to fragmented production structure.

Opportunities

- Effects of restructuring program
 - lower costs – higher operating efficiency, consolidation.
 - reduced complexity – stronger focus.
 - higher revenues – new products.
- Focus on product development.
- Stronger presence in new growth markets such as Asia and south America as well as increased sales to Gambro clinics in the US.
- Increased revenues from growing market sectors such as acute dialysis (RIC), dry-concentrate dialysis fluids and peritoneal dialysis.
- Fragmented market, with the exception of three leading players – Fresenius, Baxter and Gambro.

Threats

- Certain price pressure caused by copies of BiCart, for example.
- The utilization of kidneys from pigs is not expected to gain acceptance in transplantation procedures until after the year 2010.
- Improved treatments of underlying illnesses and conditions such as diabetes and high blood pressure.

Products and product development

The products used in hemodialysis are:

- dialyzers
- dialysis machines
- dialysis concentrates
- blood lines

Gambro has traditionally served as an innovative leader in the field of renal products, pioneering the development and market launch for a large number of new products.

Gambro Renal Products sharpened its focus on product development in 1999. Through a coordination of development efforts within Gambro, Hospal and former COBE a focusing of the development resources has taken place. Greater resources are now being allocated for new development activities, and absolute values of R&D investments have increased.

The development of new products in platform projects is proceeding at full strength, with strong emphasis on platforms for several products. The first finished products from the platform project will be ready for market launch next year. As early as this year, however, certain elements of the new platforms will be included in new Gambro products.

Gambro's development of new products is controlled largely by constantly growing customer demands. Customers want more cost-effective treatment forms, products with higher capacity and more sophisticated treatments. It is important for Gambro, therefore, to impact costs in innovative phases of new product development activities, as exemplified by the Group's platform concept.

The following is a presentation of Gambro's strategies in different product areas and its accomplishments in 1999:

In the Group's own *dialyzer production operations*, new investments are now focused exclusively on synthetic membranes, and efforts to optimize the product range will eliminate overlapping products in parallel with new product development based on joint platforms. The first products based exclusively on platform projects are expected to be introduced on the market in year 2001. Some products with modules from the new platforms will be launched this year,

however. Polyflux, the new dialyzer, was introduced for single use in the US in the autumn of 1999, and a reusable version of Polyflux, which has shown strong performance in clinical studies, is expected to be launched in the American market during the first half of year 2000. Also in 1999, Gambro and Baxter entered a joint venture for the production of semisynthetic single use dialyzers. Gambro uses the dialyzers in its own clinics in the US.

Product development work in the field of *dialyzer machines* was focused on platform projects and efforts to upgrade existing products. During year 2000, new products containing modules from the new platforms will be introduced.

In the field of *dialysis concentrates*, Gambro's strategy is focused on expanding the system with new products to supplement its successful bicarbonate cartridge, BiCart. One example is BiCart Select, which combines a sodium chloride cartridge with an ion bag to form a complete-coverage system for dialysis concentrates. Advantages of the new system are partly logistic including minimal volume, simplified storage requirements, improved hygienic qualities and low weight. Furthermore online production of dialysis concentrates offers substantial advantages in handling and management.

The strategy for *blood lines* includes determined efforts to adapt high-quality products for Gambro's own dialysis machines. The warning letter issued in 1998 by the FDA following production disturbances was withdrawn in 1999.

Investments in *acute dialysis* (Renal Intensive Care, RIC) will remain focused on the successful Prisma system, which noted continued sales success in 1999.

The FDA approved Gambro's *water treatment plants* for dialysis clinics in

1999, and the product was launched in the US market.

In the area of *peritoneal dialysis*, Gambro has continued to invest in its Unica Bag System and the new PD 200, a peritoneal dialysis machine designed for APD (Automated Peritoneal Dialysis). Unica bags are unique in two respects: logistically, Unica is designed to deliver three different concentrate grades in one single bag; its design prevents the creation of toxic substances. The Unica Bag System was introduced in Europe in 1999 and was approved in Sweden under the name Gambrosol Bio. PD 200 was introduced in 1999, and full market introduction will take place in year 2000.

Competitors

Gambro's largest competitors in the market for renal products are Fresenius of Germany and Baxter of the US. Combined with Gambro, the German and American companies comprise the market's three leading players.

Fresenius Medical Care (FMC) is a publicly listed company that was separated from Fresenius AG, a German medical technology company. FMC passed Baxter in 1999 and is now the global market leader in dialysis products, with a market share of a little more than 24 percent. FMC's operations are similar to Gambro's, with activities in both the product and care sectors of the market. It is the world's largest supplier of products for hemodialysis, with a market share of 28 percent. Fresenius ranks second in peritoneal dialysis, with a market share of 16 percent.

Baxter is a large American corporation in which dialysis products represent one of many areas of activity. It is the world's second largest supplier of renal



products, with a market share of a little less than 24 percent. Baxter has a commanding lead in products for peritoneal dialysis, with a market share of 70 percent. Baxter's share of the market for hemodialysis products is 6 percent. Following the acquisition of Althin Medical, which was announced in December, Baxter will regain its position as the number one in the world on dialysis products.

Trailing behind the global market's three largest suppliers of dialysis products are several Japanese players ranked in the following order: 4) Nissho/Nipro, 5) Fuso, 6) Toray, 7) Terumo, and 8) Asahi.

Highlights 1999

Revenues increased to SEK 8,059 M (USD 974 M), an increase of 4 percent compared to 1998 (1 percent currency adjusted). Operating costs declined during the year as a result of the restructuring program initiated in January. Trends in Gambro's major markets in

Europe were favorable, keeping pace with market growth. Revenues in Europe amounted to SEK 5,122 M (USD 619 M), an increase of 2 percent compared with 1998. Revenues in the Americas were at the same level as in 1998 and amounted to SEK 1,582 M, (USD 191 M). In other world markets revenues rose 16 percent to SEK 1,355 M (USD 164 M).

The favorable trend of business development in 1999 was supported by stability in the Group's sales organization, which enabled Gambro to maintain its market share on main markets in parallel with reduced operating costs. Despite significant changes, production operations reported high capacity utilization and few disruptions.

In 1998 a total of SEK 1,100 M (USD 133 M) was charged against fourth-quarter earnings for implementation of the restructuring program in all parts of the Group. The bulk of provisions were earmarked for Gambro Renal Products.

Measures within the restructuring program:

A new global organization was established.

To narrow the gap between Gambro and its customers, the network of Group distributors was consolidated through takeovers by Gambro of sales rights in the Nordic countries, South Korea, Brazil, Switzerland, Austria, Germany and Belgium. In Japan, two joint venture agreements, one with Teijin Ltd. and one with Shimitsu, were terminated and Gambro's three sales organizations in Japan were consolidated in a single unit. The restructuring of production operations continued throughout the year. Production of blood lines and BiCart was discontinued at the plant in Virginia and transferred to Mexico and Europe. The plant in Oklahoma formerly used to produce dialysis cassettes was sold.

Production of dialysis machines in Lakewood, Colorado was continued in 1999, but the plant's operations will be transferred to Europe in year 2000.

The number of storage facilities was reduced during the year from 38 to 28 units. A new distribution center was opened in Lyon, France, and another new center is under construction in Italy.

The platform project in product development was started during the year.

A procurement project was initiated to reduce costs.

Production was characterized by stability, with consistent capacity utilization and reduced quality disruptions.

Strong financial results, with improved margins, were achieved in 1999.

Other events during the year

Sören Mellstig, previously CFO of the Gambro Group, was appointed President, Gambro Renal Products.

A joint venture was established with

Baxter for production in the US of single-use dialyzers. Gambro will focus primarily on meeting market demand for single-use dialyzers used in the Group's own clinics in the US.

Allocations for investments to increase production of powder cartridges for dialysis treatment in Lund amounted to SEK 150 M (USD 18 M). The investments are being made to meet growing demand for BiCart and other powder-cartridge products.

Substantial investments were made during the year to develop the IT systems. A new administrative system was successfully introduced and implemented quickly by several other units. Resources were also allocated to develop a global forecasting and planning system and logistics-support.

Future outlook

Gambro's future in renal products is characterized by significant business opportunities. Gambro operates in a market with stable and foreseeable growth.

With its new strategies and organizational structure, Gambro has built a strong platform for key factors critical to its future success: product and market development. In parallel, the Group's improved cost structure provides scope for a strong increase in profits.

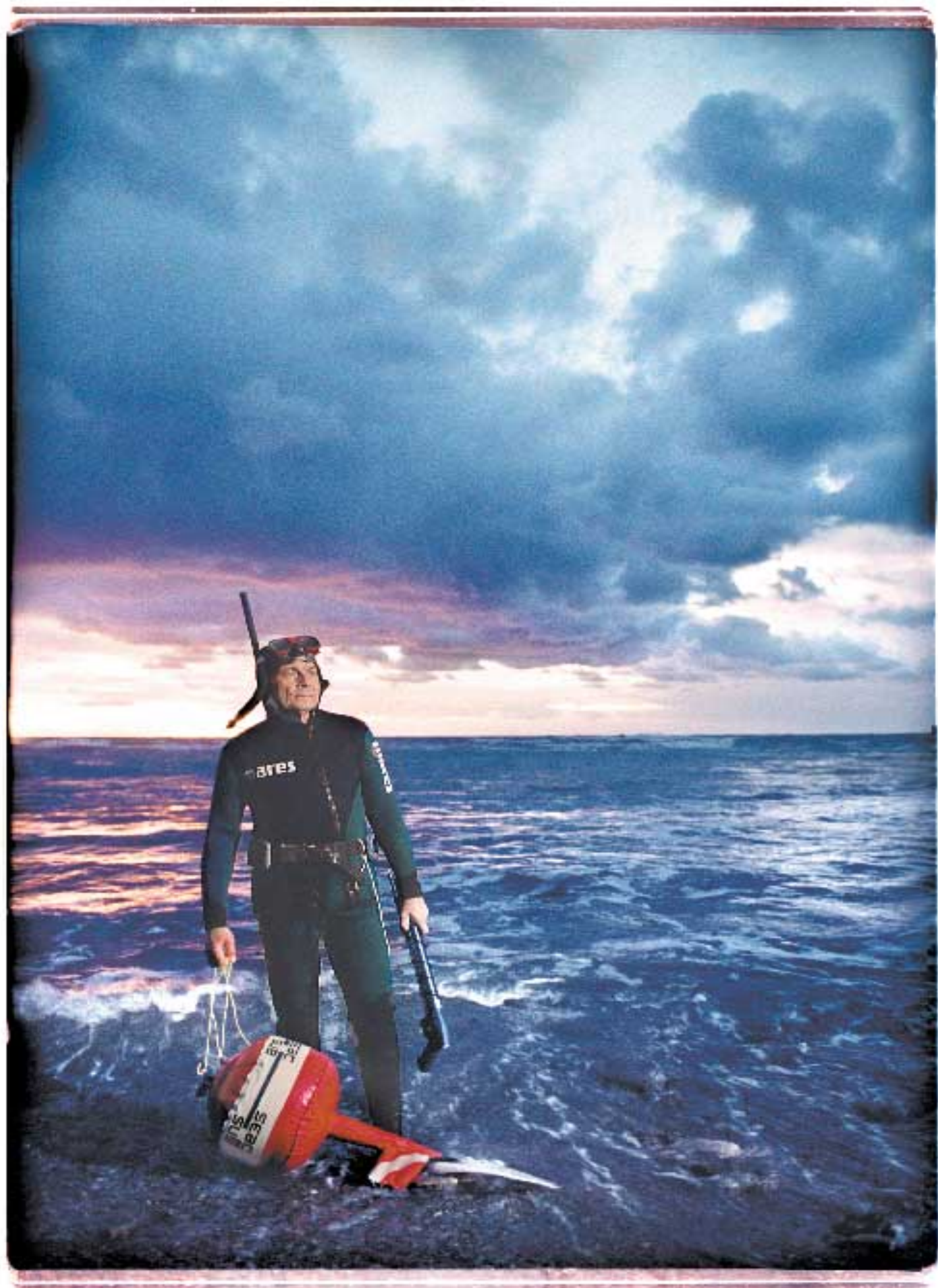
Ongoing trends highlighted by increased demands on improved cost-efficiency, intensified global competition and customer needs for higher treatment capacity at unchanged prices are forcing all market players toward increased consolidation. The market's smaller players will probably be affected most by current trends in the industry.

As competition intensifies, integrated

operations such as the structure now being adopted by Gambro, with operations in both product and care sectors of the market for dialysis products, will become increasingly important. Integration will also generate significant benefits in product development based on the Group's experience in clinical operations.

Gambro is one of the three leading players in the market for dialysis products, and it has created the critical mass needed to compete globally. Furthermore, the most significant effects of the Group's restructuring program will not be realized until year 2001 in the form of new products, a more rapid rate of market launch for new products and coordination benefits created by a unified market and sales organization. Also efforts to develop the markets in the Americas and Asia are expected to give positive effects.







I have accepted my situation as a dialysis patient
- it means the octopuses can relax for a while
on the days when I am on dialysis.

Sandro Bartoli, Rome

Gambro BCT

During 1999, Gambro redefined its strategy in the blood component technology area. Gambro is repositioning itself away from its earlier role as a niche player focusing on apheresis products to become a player in the overall Blood Bank Technology market. The change means that Gambro will be operating in a growth market which conservative estimates expect to double within the next few years. The business area increased its sales by 12 percent to SEK 1,359 M (USD 164 M) during 1999, which corresponds to a 12 percent share of the total Blood Bank Technology market.

The market

Gambro BCT has to date been a niche player focusing entirely on the apheresis product market. However, in 1999, Gambro BCT decided to expand its business concept and aim for a position as a broad based, leading player in Blood Bank Technology. The market for Blood Bank Technology provides blood centers with products for blood collection, blood purification and blood storage, which is much larger and faster growing than the market for apheresis technology alone.

Apheresis technology involves separating blood from donor's or patient's blood circulation into its components: red blood cells, white blood cells, platelets and plasma. Apheresis technolo-

gy is used for both collections of blood components, as well as for therapeutic removal and replacement purposes.

Gambro BCT has historically divided its market into three segments:

Transfusion medicine, that is, collection of blood components from blood donors for transfusion into patients; *Therapeutic apheresis*, in which sick or damaged blood cells or plasma are collected and removed, to be replaced by donated or artificial blood components; and *Stem cell therapy*, in which stem cells are collected and then injected in the patient's blood circulation for example, following treatment with cytotoxic drugs.

Gambro BCT is market leading in all three segments, and in 1999 it com-

manded 37 percent of the total apheresis market, which is valued at SEK 3,700 M (USD 450 M). The change in strategic direction currently being implemented will result in the business area operating in a considerably larger market approximately SEK 11,200 M (USD 1,350 M), where Gambro has a market share of 12 percent.

From now on, Gambro divides the business area into two segments. One concerns *Blood Bank Technology*, defined as those products and services that enable blood centers to collect, purify, and store blood components. These products include automatic and manual collection products, apheresis technology, filters for removal of white blood cells

from red blood cells, IT applications for blood centers/blood banks, methods of purifying blood from bacteria and viruses, and sterile solutions in collection bag sets. The other segment is *Therapeutic Specialties*, which includes therapeutic apheresis and stem-cell therapy.

Blood Bank Technology accounted for three-quarters of the revenues in 1999, with Therapeutic Specialties accounting for the remaining 25 percent.

Blood banks or blood centers are organized differently in different parts of the world. They are typically community owned, not for profit institutions. In the US, they are often run by the American Red Cross. In Sweden, blood banks are almost always departments of major hospitals.

Gambro BCT's blood center customers today are dealing with the multiple problems of budget limitations, a decreasing number of qualified donors, an increasing demand for blood components, an increased demand for costly blood testing and other safety improvements, as well as increased scrutiny by government regulators.

Solving these problems is difficult for blood centers, in part because they still rely upon manual collection techniques developed decades ago. These systems

were never designed to cope with today's more demanding needs. New technologies designed to collect more blood components from fewer donors, under automatically controlled conditions and better blood purification processes will help blood centers solve these problems.

In the future, the business area will grow in primarily the following three areas:

Automated Blood Component Collection (ABC), which enables much more efficient separation of blood components from donor's blood than manual collection. This technology makes it possible to often collect twice as many transfusion doses from a donor as is possible with manual collection. With 38 percent of the market, Gambro is already market-leading in this area. Today, the main focus is on apheresis technology for platelet collection. However, the substantial growth in the future will come from automated collection of red blood cells and plasma.

The second future growth area is technology for removal of contaminating white blood cells from donor red blood cells and platelets (*leukoreduction*). In 1999, Gambro BCT launched a filter for removing white blood cells from collected red blood cells. This filter is produced

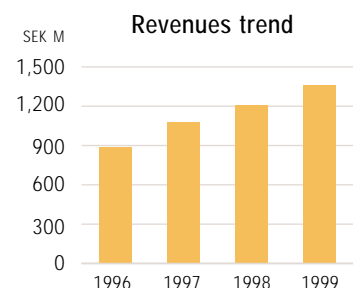
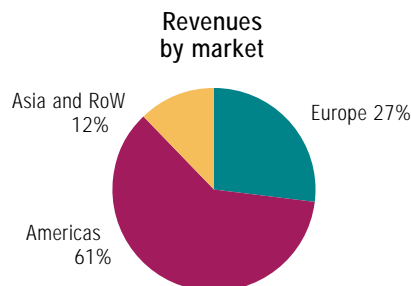
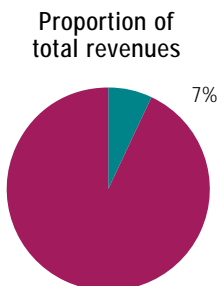
by the American company HemaSure. Gambro BCT's rLS device has been widely adopted as the premier method for leukoreducing platelets, and with the HemaSure technology, Gambro BCT can now leukoreduce red cells as well. The current market for red cell leukoreduction is worth SEK 2,000 M (USD 250 M), but its value is expected to rise to over SEK 3,300 M (USD 400 M) in the next few years.

Market growth in the area is driven by increasing numbers of countries introducing requirements of leukoreduction of red blood cell and platelet products.

The third future growth area is *Pathogen Inactivation* – inactivation of viruses and bacteria that cause diseases. This is an entirely new market with only one product commercially available, but this product is so complicated it must be used only in specialized pharmaceutical plants, rather than in the blood centers. In 1999, Gambro BCT presented

Key data

Revenues 1999:	SEK 1,359 M
No. of employees:	921
Production sites:	2 (the US and the UK)



research findings in a new Pathogen Inactivation process with a potential to revolutionize Blood Bank Technology. However, it is too early to say when the research breakthrough will result in a product that blood centers can use to reduce the risk of viruses or bacteria in the blood components they deliver to hospitals. The potential size of this market is difficult to predict, since no products that blood centers can use exist to date. However, it is clear that society is willing to invest considerable resources to improve the safety of blood transfusions.

The market for Blood Bank Technology in which Gambro currently operates is rapidly growing. Just how rapidly is difficult to determine, since the potential for Pathogen Inactivation can be large and not known at this time. However, as a conservative estimate, the market could double from SEK 10 billion (USD 1.2 billion) to approximately SEK 20 billion (USD 2.5 billion) within a few years.

In terms of geographic submarkets, BCT is strongest in the US, with revenues of SEK 832 M (USD 101 M) in 1999, an increase of 11% from 1998, corre-

sponding to a market share of 20 percent. In Europe, revenues were about SEK 370 M (USD 45 M) in 1999, an increase of 9% from 1998, creating a market share of 9 percent. In the rest of the world, including Asia, the market share was about 6 percent with revenues amounting to SEK 157 M (USD 19 M), an increase of 27% from 1998.

Objectives

Gambro's aim within the business area is to establish itself as a broad-based player in the market for blood bank technology in the short term, and to help blood centers to use Automated Blood Component Collection (ABC) to a greater extent. In the short term, Gambro wants primarily to expand its leukoreduction market and to grow within Automated Blood Component Collection. The company expects that revenues in the business area will increase by 15 percent per year. Gambro BCT intends to be first or second in all areas in which the business area operates.

In the long term, the business area will transform its research findings in Pathogen Inactivation into profitable operations. Today, it is impossible to say when this research success will produce a product or how extensive the market will be. It is therefore difficult to make any long-term forecasts for the business area.

Strategies

Since the start, Gambro BCT has been a niche company concentrating on products in apheresis technology. In recent years, growth in the global apheresis market has decreased. Accordingly, in 1999 Gambro decided to follow a strategy that expands its business possibilities and leads to greater growth in the future.



The repositioning of the business area as a broad-based player within Blood Bank Technology opens a new large market: 45 million collections annually at blood centers worldwide, compared with three million apheresis collections per year.

The redirected strategic focus involves Gambro's dealing with one of the market segments in which the business area has historically been successful – Transfusion Medicine – and expands its range to include the technology required by blood centers to collect, purify and store blood components. Blood Bank Technology thus becomes the core operations of the business area.

For the business area to succeed in its new market, the high-level expertise in the apheresis area must be supplemented by several other types of expertise, namely: additional filtration technology, IT applications in blood centers, inactivation of viruses and bacteria that cause diseases (Pathogen Inactivation), sterile solutions in bags, and blood donor management tools. Gambro must acquire this expertise either by building it internally, through acquisitions or by creating alliances. For example, in 1999, an agreement with HemaSure provided Gambro with its requisite filtration technology. Based on its own expertise, during the year Gambro presented promising research findings in the area of Pathogen Inactivation.

Gambro BCT originally began in 1979 as a Therapeutic Apheresis company. Therapeutic Apheresis procedures, including Stem Cell Collections, remain an important part of the business, and will be so in the future. To ensure continued success in these fields with Gambro BCT's new Blood Bank Technology focus, a new unit, Therapeutic



Specialties, is being created, which includes both historic segments Therapeutic Apheresis and Stem Cell Therapy. The new unit will continue to develop Gambro's market-leading position in this niche, with the help of expertise from other areas of the business.

Gambro BCT's new business strategy, despite its changed focus, involves essentially the same basic elements that have made the business area so successful during the past 15 years. Its successes are based on a focusing on valuable innovations, customers' success and common values.

Strengths, weaknesses, opportunities and threats
Gambro BCT has the following strengths, weaknesses, opportunities and threats:

Strengths

- Strong position in the apheresis market.
- Strong reputation – strong customer focus, delivers top quality.

Weaknesses

- Added technologies needed to implement strategic direction.

- Competition from low price products.
- Weak position in the Japanese market.

Opportunities

- Filtration of red cells (leukoreduction).
- Expansion in Automated Blood Component Collection (ABC).
- Research and innovation in blood purification (Pathogen Inactivation).

Threats

- Limitations on how much society will pay for better blood components.
- Competitors' success
- Inconsistent and changing regulation of blood collection operations.

Products and product development

Gambro's products focus has been, until 1999 on apheresis technology. The key product in this apheresis niche is the COBE Spectra Apheresis System, introduced in 1988. Improved versions have regularly been introduced since then. The Spectra system is known for high purity in collection of blood components, high efficiencies, and for the system's ease of use.

The TRIMA Automated Blood Component Collection System was introduced in Europe in late 1997 and was approved by the US FDA in autumn 1998. The TRIMA system can be applied broadly for the collection of all types of blood components – platelets, plasma, and red cells. The TRIMA system is the basis for the coming powerful expansion within ABC.

The COBE r\LS product is a filter and bag set designed for connection to a unit of collected red cells, enabling those red cells to be leukoreduced. Additionally, the filter can be integrated with the TRIMA system, enabling production of leukoreduced TRIMA red cells. In 1999, an alliance was forged with the American HemaSure company, whereby HemaSure manufactures filters specifically for Gambro BCT applications, and Gambro BCT distributes HemaSure's products in most of the world's markets.

Gambro BCT has traditionally been highly innovative. This will continue to be very important in the future, as the strategic direction changes. Research and product development are therefore assigned high priority.

In 1999, important new research findings in the area of sterilization or purification of blood and blood components from viruses and bacteria (Pathogen Inactivation) were announced. Gambro has filed for patent protection on blood component sterilization methods based on the use of riboflavin and light illumination. However, so far it is not possible to say when these developments will result in a new product.

Research and development are also being carried out in other areas important for the business area's new focus,

namely: development of IT tools to help blood centers manage blood donors, and to enhance the quality of the blood components they deliver to hospitals.

Competitors

The American Baxter Biotech Division is Gambro's strongest competitor in the blood bank market. Baxter is strong in leukoreduction and apheresis technology with about 34 percent of the market for blood bank technology.

Another important competitor is the American company Haemonetics, which has approximately the same aims as Gambro BCT. Haemonetics has a market share of about 9 percent.

Pall Corporation Filter Division is a more specialized competitor, with 60 percent of the market for leukoreduction.

Today's only commercial Pathogen Inactivation process (limited for use with plasma) is marketed by Octapharma in Europe and Vitex in the United States. Further Pathogen Inactivation product and process developments are under way by Vitex and Cerus, along with their marketing partners.

Highlights 1999

Revenues increased to SEK 1,359 M (USD 164 M), an increase of 12 percent (7 percent currency adjusted).

The business area grew more rapidly than the market as a whole in 1999. For Gambro, during the year growth has been good in Europe, reaching revenues of SEK 370 M (USD 45 M) in 1999, increasing by 9 percent. In the US, revenues grew by 11 percent, to SEK 832 M (USD 101 M). In the rest of the world, including Asia, revenues amounted to

SEK 157 M (USD 19 M), an increase of 27 percent.

Important events in 1999

The business area created a global sales and service organization as part of the Group reorganization following the sale of the Cardiopulmonary Care business area in 1999 and the restructuring program.

An alliance with the American company HemaSure, whereby Gambro purchased 33 percent of the shares in the company. The alliance gives Gambro increased sales rights to HemaSure's products. In 1999, sales of filters for removal of white blood cells in collection of red blood cells leukoreduction were launched. The American regulatory authority granted its approval for the sale of r\LS filters in the US.

Research gains concerning sterilization of blood or purification of blood and blood components from viruses and bacteria (Pathogen Inactivation).

Future outlook

The future looks promising for Gambro BCT. Its new strategic focus, positioning Gambro as a player in the overall blood collection market, creates major opportunities.

In the short term, Gambro will carry out a strategic repositioning of its operations, involving extensive work on developing new areas of expertise and promoting the development of the concept of Automated Blood Component Collection (ABC).

Value Based Management

Gambro is determined to create superior value in the form of care, products and other services for patients and customers. Long-term value creation must always be based on the customer perspective and in coordination with other stakeholders – the employees, suppliers, lenders, the environment and society. Shareholders stand last in line when values are to be distributed. It is therefore natural to measure the creation of shareholder value.

Gambro applies Value Based Management (VBM) as a complement to traditional business development tools.

VBM has two purposes

To improve strategic and tactical business decisions. As a result of VBM the organization has the possibility to assess the impact of various activities on the unit's and thus the Group's value. The attractiveness of various business alternatives can be ranked.

To assist management in focusing on the value drivers in operational follow-up. Since VBM creates understanding about what creates value, focus can be placed on the correct driving factors and goal conflicts can be dealt with in a bet-

ter manner than what is otherwise possible. Each activity, each strategy has its own specific value drivers which demand focused measurement and follow-up.

VBM – more than just a tool for value analysis

Value creation begins in the planning process with the selection of a strategic direction. Various strategic alternatives are developed and compared. As a complement to traditional financial control tools, VBM provides the opportunity to assess how much value a strategic alternative or an activity will create and at what time these estimated values will be realized.

The strategic planning process gains an interactive/iterative facet which results

in more employees becoming involved in strategic considerations. Various issues can be highlighted in isolation or in combination. For example, product development projects can be compared with market development projects or combined into a complete strategic alternative.

Traditional work methods and decision criteria can be challenged and resources guided to where they can best be utilized.

A business plan analyzed in accordance with the VBM method can be broken down into its various value drivers. Critical activities can be identified, planned and targets set. Operational activities can be directly linked to the selected strategy.

A tool such as VBM demands that those who are involved in the planning and decision processes in general and controllers in particular have the ability from a total perspective to recreate the operative activity in the form of a business model that project the outcome of the various activities in financial terms.

Change is a condition for value creation

The valuation model that serves as a foundation for Gambro's VBM concept is based on discounted cash flows. In contrast to traditional cash flow models, Gambro's model yields a specific value for each year's financial result/forecast/plan. An understanding is created for

what drives value while the insight that "old victories don't count" is highlighted.

All value creation is based on a change having occurred. High profitability with good and stable cash flows does not create value without growth. Gambro's valuation model provides a unique possibility to understand what value creation the given combination of growth, profitability and cash flow of a certain activity will result in.

Value has three sources

In Gambro's VBM model, all value creation can be traced to three sources:

Profitability: Change in cash flow return, expressed as a percentage of the total assets required to participate in the

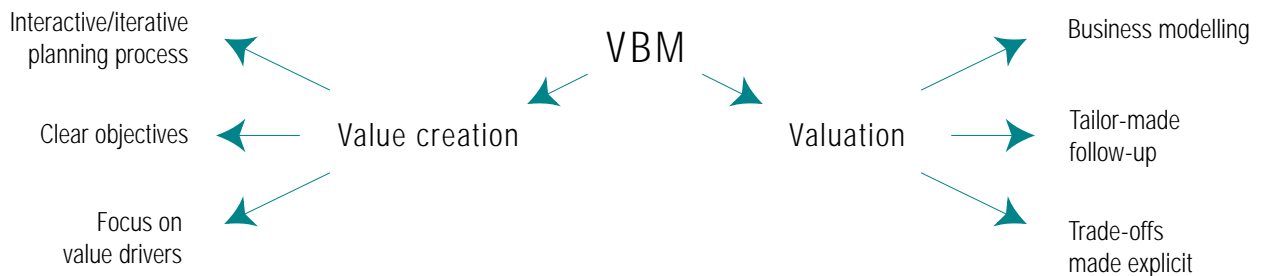
business transaction in which the company chooses to participate, during a measurement period.

Growth: Change in total assets during the measurement period.

Cash flow: Change, during the measurement period, in the sustainable growth rate, which is made possible by the cash flow generated.

During each specific period of time – historical or future – it is the change in the above parameters that creates or destroys value. It is not a question of maximizing one or two of the above. The key is to manage the given combination of them.

Value Based Management summarized





I have had a new outlook on life since I became ill. It's a question of doing one's best to enjoy life, and that's no problem at all between dialysis treatments.
Antonia Guerrero, Portugal

Research

The role of Gambro's research operations was focused in 1999, when all the Group's business areas had assumed direct responsibility for product development. The change was made to enable Gambro to invest increased resources in long-term research that will create new business opportunities and continued development of the Group's business areas.

Research policy and principles

Gambro strives to be a world market leader in know-how and expertise, innovations and creative development in the Group's core areas of business activity.

Research has always been a basic element in Gambro's overall efforts to improve the health of patients. Gambro's future growth and ability to create values and build its business are linked strongly with research skills and expertise.

The focal points of Gambro's research activities are customer needs and further development of the Group's unique proprietary skills and know-how.

The main objective of Gambro's research activities is to achieve optimal utilization of resources in the flow of ideas and skills. Innovative new products are developed and tested in close cooper-

ation with customers. Research activities are conducted with strong emphasis on system-oriented methods. Gambro strives constantly to provide customers with total solutions.

Research activities are conducted through a broad and well-developed cooperation network comprising universities and research institutes in all parts of the world, as well as general practitioners, suppliers, technicians and entrepreneurs.

Gambro's strengths in research can be summarized as a *knowledge-intensive culture* in close cooperation with *clinical realities*, supplemented by a very *strong external network*.

R&D investments

Including investments in product development within the business areas Gambro

in 1999 invested SEK 456 M (USD 55 M) in its R&D operations.

Renal research

Gambro's core skills in the renal area are concentrated in the following areas:

- separation technology
- membrane technology
- medical technology
- treatment systems
- biocompatibility of medical equipment and fluids
- dialysis fluids
- quality evaluations of dialysis care

Organization

Three core areas of expertise comprise the cornerstones of Gambro's new research organization. They are Treatment Systems Research, with research groups in Lund

and Lyon; Medical & Biological Research, located in Hechingen and Lund; and Membrane & Device Research in Hechingen. Through so-called Therapy Groups in Europe, the US and Asia, personnel at all research centers maintain continuous contact with colleagues in the field. Gambro's close cooperation with clinics helps expose its research activities to clinical realities. It also strengthens links to the marketing department, thereby enabling the Group to gain valuable market knowledge.

Gambro also supports research activities conducted by several highly prominent universities in cooperation with Gambro. All research investments and

tion to stronger emphasis on their links with Gambro's overall strategy.

It is easier now to seize and develop internal and external ideas. Job rotation stimulates internal research dialogue and the flow of ideas, facilitating the efforts of cross-functional research teams. The new structure has also clarified relationships between research units and the Group's business areas. The scientific support function has become more effective and reporting routines have been simplified.

Current research projects

From the beginning of every project, Gambro's goal in research is to incorporate as much know-how as possible in all

developed to help dialysis patients live longer and achieve higher quality of life standards?" Several research projects are now being conducted within the Group, including studies in the following areas:

Optimal individualized treatment and disease management. Every patient is unique, and dialysis is a highly complicated process. Gambro constantly strives to develop products and methods for better patient care, which also supports efforts by attendant physicians to make the right decisions at the right times.

Sensors, bio-feedback and expert systems. In this area, projects are now being conducted to improve patient conditions and facilitate working conditions for



allocations are managed and coordinated by Gambro's Senior Vice President, Research, who is based in Lund.

With its new organizational structure, Gambro's research activities will place stronger focus on long-term research and develop the Group's most important resource – its own researchers and their skills. It will also create opportunities for better management of the Group's bank of ideas and product concepts. Research objectives will also be clarified, in addi-

Group products. Research projects are always focused on the customer and customer needs. The close cooperation that characterizes Gambro's research network makes it easier to prioritize projects with the potential to generate the greatest added value, both for customers and the Group.

Problem-orientation is the initial point of departure, and Gambro constantly seeks new answers to the same question: "What can be improved and

treatment personnel.

Bio-compatible materials and dialysis fluids. The goal for research in this area is constant improvements in the bio-compatibility properties of products, also defined as reducing the body's reactions to foreign materials and fluids.

New materials and new process techniques. Research is focused on improved utilization of resources and reduced environmental impact.

Alternative separation methods. Sep-

aration using membranes is a method encumbered by certain limitations. Gambro is now studying other, more specific separation methods based on molecular properties other than size.

New product opportunities that may help Gambro offer a total solution for dialysis treatment.

Gambro BCT Research

Research within Gambro BCT is managed by the BCT Research and Development Department and the Marketing/Scientific staff located in Brussels. Directions and projects are guided by close interaction with the marketing, manufacturing and quality functions. Research is conducted by technicians, engineers, and scientists within the department, in cooperation with academic hospitals and blood centers, through contracts with external research laboratories, and in association with trade organizations such as the BEST (Biomedical Excellence for Safer Transfusion) Working Party of the International Society of Blood Transfusion and ISHAGE (International Society for Hematotherapy and Graft Engineering).

Gambro BCT research is focused in the areas of transfusion medicine and cell therapy. Research projects may be directed toward improving understanding of

areas of basic clinical science and technology applicable to medical specialties. This is done as part of the development and validation of new protocols and product offerings, or for the purpose of demonstrating the clinical benefits and flexibility of current products.

The customers in transfusion medicine face the challenges of:

- Decreased donor availability.
- Improving standards of quality controlled manufacturing.
- Increasingly competitive customer service and pricing.
- Provision of leukoreduced and, in the not distant future, pathogen inactivated products.

To address these challenges, Gambro BCT research is directed toward improvements in efficiency and productivity of blood product collections, donor safety and comfort, leukoreduction of components, and reducing the risks of transfusion transmitted disease. Current research projects addressing these are:

Development of automated collection systems which increase the efficiency of product collections, permitting either shorter duration of a donor procedure or the collection of more transfusion products (both number and type) per donor procedure.

Improved understanding of the physi-

ology of anticoagulant infusion leading to safe, optimized protocols for anticoagulant management.

Development of systems which document procedures and provide information supporting controlled manufacturing of blood products.

Basic studies of platelet storage physiology intended to support increases in storage duration and improvements in product quality.

Development of pathogen inactivation methods for plasma, red blood cells, and platelets utilizing safe, non toxic, endogenous photosensitizers.

Research projects in cell therapy aim at simple cost effective systems to condition the cellular content of stem cell transplant products. Physical methods of cell separation capable of removing undesirable cells are under development.



"I have a relatively good life - around 7 on a 10-point scale. I feel perfectly at ease at the clinic and have no misgivings about getting any infections."

Neil Gardiner, an Englishman living in Malaga

Human resources

During the year, Gambro took a major step toward becoming an integrated, global company, with common goals and values. To a great deal this has affected the work within the human resources area.

During 1999, Gambro's personnel activities focused on internal globalization matters. The personnel function held its first intra-Group conference, and the local personnel units began operating as a cross-geographic team in various personnel matters. Efforts aimed at formulating a new global personnel policy were also initiated. To ensure that Gambro's management upholds a high international standard, a new process for developing future managers and a new development program for Gambro executives were introduced.

Human Resources staff

Gambro's employees are its primary resource, and within the company, sys-

tematic, continuous efforts are being conducted to support and develop employee expertise. Gambro's personnel activities include both a local function responsible for ongoing, daily personnel activities and a development function whose efforts provide long-term results. During 1999, Gambro focused on a number of long-term projects in which the international work set the tone. During the year, communication within the company was strengthened through emphasis on IT application with respect to the internal dialogue.

The tasks assigned to the central personnel function are to:

- Create the capability of adapting and building up management expertise

- Create a common platform of values, corporate culture and visions
- Develop policies and systems which support this platform
- Be an advisor to the Group units
- Ensure that a high standard in personnel activities is maintained.

The Senior Vice President, Corporate Human Resources is responsible for overall Group personnel matters and is located at Gambro's head office in Stockholm. However, the center of personnel operations is to be found within the Group's business units, with the overwhelming share of the work being performed by the local personnel departments, in which some 150 persons are employed. Through this structure, it is

easier to involve and utilize personnel resources effectively and to facilitate the work with global projects.

A global Gambro

A major human resources conference was held in June 1999 in Stockholm. It was the first time that all managers involved in personnel matters within Gambro had been convened. The purpose was for all to become acquainted, to exchange experiences and to formulate guidelines for the future. In various seminars, discussion centered on policy matters, globalization of the personnel function, the new trainee program, inter-cultural communication, etc. Around these themes, cross-geographical work groups were then formed for the conduct and development of such questions throughout the Group.

As a result of the June conference, a forum was instituted in autumn 1999, a forum in which the managers of the human resources departments of Gambro's units participate. These new personnel forums are aimed at simplifying cooperation within cross-geographic teams and to provide momentum in the conduct of important joint projects.

Corporate level projects

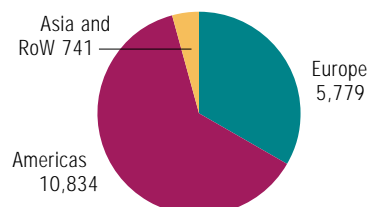
Leadership development

In 1998, a Leadership Development Program (LDP) was initiated. The goal of LDP is to ensure that world-class leadership within Gambro is maintained and, with the aid of common goals and values, to develop and strengthen the Group. Through the build-up of a common candidate pool within Gambro, Group expertise will be exploited to a greater extent in the placement of new managers. LDP will also promote increased communication between managers and employees, resulting in other positive effects.

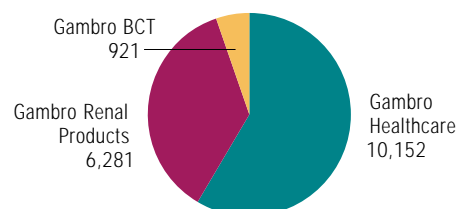
The LDP is based both on individual development discussions between employees and managers and so-called talent reviews, in which all managers at a certain level meet to discuss and make joint evaluations of results from development conversations. The managers then provide feedback to the employee.

Forming the basis for LDP are interviews with some 50 top executives throughout the Group. A test project was conducted within all business areas during the year. Following each test, the participants points of view were gath-

Employees by market



Average number of employees by business area



ered, and the process was then revised and further developed. The program was finalized in late 1999 with start-up projected for January 2000. The program will encompass approximately 500-600 persons during the year 2000.

International leadership training

A new leadership development program, Gambro International Management Program (IMP), which was developed in cooperation with the IFL (Swedish Institute of Management), in Stockholm, and the Center for Creative Leadership (CCL) in Colorado Springs, was presented for the first time in 1999. The program is of three-week duration and henceforth will take place three times annually, each with about 25 participants. The participants will be placed in cross-geographical groups. The training will take place in Europe and the US.

Gambro values

All work and initiatives within Gambro must be based on the basic values and beliefs of the company.

Excellent business performance

- Customer orientation
- Quality
- Leadership and initiative
- Performance ethics
- Results orientation
- Competency

Cooperative spirit

- Patient commitment
- Open and active communication
- Team work
- Respect and trust
- People development
- One global company

High ethics

- Honesty and integrity
- Good citizenship
- Dedication to environment
- Courage

Increasing importance of human resources work at Gambro Healthcare



Mary Nick is Senior Vice President, Human Resources, Gambro Healthcare.

“A major focus in '99 was the move of the Gambro Healthcare Human Resources/Payroll Department from Atlanta, Georgia to our headquarter's location in Colorado”, says Mary Nick, Gambro Healthcare. The purpose of the move was to support the GHC initiative of consolidating corporate functions into fewer locations and to align Human Resources more closely with the business. The change also gave us the opportunity to organize around our customers and to personalize the service we provide to our more than 10,000 employees at some 500 clinics across the US. We did this by creating Employee Service Teams, each of which is assigned to a particular geographic region of the

country supporting approximately 2,000 employees. Members of the teams are cross trained in each of the many specialty area for which HR is responsible, making it possible for our customers (employees) to call one person and get help with all of their questions and problems. This 'one-stop-shop' approach has greatly improved our ability to satisfy our customers' needs and, along with our many other continuous improvement efforts, has allowed us to operate much more cost effectively.

During 1999 we introduced the HR site on the Gambro Healthcare internal website. Forms, policies, training materials, employee directories and more are available on the website. Printing and mailing costs are greatly reduced and all employees are able to access the most up-to-date information quickly and easily no matter where in the organization they are.

The global focus of the Gambro Corporate HR function during 1999 has allowed the local HR functions to focus more on issues facing our businesses while Gambro Corporate HR works on the development of broader, Group-wide programs. The HR Steering Group which was created this year provides a forum for monitoring the development of these global programs to ensure that, in their final format, they work effectively in each of the businesses.”

European Works Council

As a consequence of EU agreements, Gambro has implemented a European Works Council (EWC). The first meeting was held in June 1999, and henceforth the EWC will meet at least once annually. Its aim is to bring together the company and the union organizations within the EU countries in which Gambro is active. The meetings are to stimulate information interchange and dialogue regarding matters affecting the company at the European level.

Compensation system

During 1999, a major survey was made of the compensation system for approximately 200 executives within the Gambro organization, with comparisons compiled of the various markets in which Gambro is active. A new compensation system affecting basic salary, bonus, long-term compensation, mainly option programs, was unveiled. The new system has a more direct connection with other value-creating programs within Gambro than was the case with the system previously in place.

Trainee program

A new trainee program began being developed during 1999. The new program is global, with a total of 10 to 15 participants from the US, Europe and Asia. Recruiting for the new program is planned to take place during the year 2000.



Environmental efforts

Groupwide environmental work, which was established as part of a strategic plan for Gambro in 1997 and initiated in 1998, continued to yield tangible results in 1999. Half of the Group's production units and distribution centers have been certified in accordance with ISO 14001. Environmental awareness has been created throughout the Group, and systematic efforts are continued to integrate environmental considerations in Gambro's R&D work.

Focus on environmental issues

Gambro constantly improves its environmental work, both in terms of Group activities and products. The cornerstone in Gambro's environmental commitment is to gain certification in accordance with ISO 14001 for all Group production units by the end of year 2000. The goal of Gambro's environmental work is to achieve improved utilization of resources and better waste management, both for Gambro and its customers. The Group is focusing greater attention on the environmental impact of products in the early stages of new development work, and raw materials are now chosen more carefully. Products with reduced environmental effects are more attractive to cus-

tomers and enable Gambro to assume its social responsibility and gain competitive advantages.

ISO 14001

Gambro has chosen to work with eco-management systems in compliance with ISO 14001. This standard contains 17 fundamental points for performance-related management of environmental issues. Based on the 17-point program, comprehensive efforts are now being made at all Group units to introduce routines to identify environmental effects and establish crisis management and improved communications concerning the Group's environmental work with business and community interests. The

environmental impact of Gambro's products and business activities will be reduced and environmental awareness will be increased among all Group employees.

Thirteen of Gambro's 25 production units and distribution centers have already been granted certification in accordance with ISO 14001. By year-end 2000, all units are expected to have gained certification.

Products and production

A number of product development projects initiated in 1999 are expected to result in several new products with reduced environmental impact. A complete review has also been started to

study the environmental effects of all Group products, with the ultimate objective of producing environmental labels. Environmental considerations are now addressed in the early stages of all new product development projects. Different components and parts included in Gambro products and machines will also be labeled to support recycling.

Complete production processes, from design and development to transport, are also being reviewed to address environmental concerns. Environmental demands are now placed on Group suppliers and, whenever possible, Gambro now selects materials with the lowest environmental impact. Furthermore, determined efforts are being made to minimize energy consumption in the Group's production processes.

Sterilization

Most of Gambro's disposable products must be sterilized before they are delivered to customers. Using several different methods, the products are sterilized in the Group's own plants and subcontracted facilities. The processes utilize sterilization with ethylene oxide (ETO), steam, beta or gamma radiation. Each method has its pros and cons from environmental, technical or economic aspects.

ETO sterilization generates the lowest level of negative effects on the material being sterilized. Some materials included in many of Gambro products, and which must be included for various medical and functional purposes, can only be sterilized using the ETO.

However, ETO is classified as a carcinogenic substance and all handling and emissions of the gas are subject to stringent regulations. To ensure that emissions are contained within the limits

imposed by public authorities, the sterilization plants are equipped with a variety of high-performance purification systems, e.g. so-called scrubbers.

Strict regulations are also imposed on permissible levels of residual ETO content in sterilized products. Accepted levels of permissible ETO content are extremely small, amounting to a few tens of ppm. The values are tested regularly using different systems for process control. No incidents related to malfunctions of these systems were reported during the year.

After discontinuation of dialyzer production and PD lines in Sweden, sterilization operations have been transferred to Italy. The transfer has created more effective utilization of the Italian sterilization plant and resulted in lower total emissions of ETO.

Gambro has also invested approximately SEK 162 M (USD 19 M) in a new ETO sterilization facility in Colorado, US. This facility, scheduled to come on stream in early 2000, is designed with state of the art technology to exceed requirements of the US Environmental Protection Agency, as well as other agencies.

PVC

Polyvinyl chloride, PVC, is used in a large number of Gambro's disposable products, such as tubes and bags. Two primary environmental problems are linked to the use of PVC: negative environmental effects of softeners used in the plastic materials and environmentally harmful substances released from combustion of waste materials. So far Gambro has not been able to find an acceptable alternative to PVC, in terms of comparable technical, economic and

bio-compatible properties.

Environmental problems caused by PVC production have been greatly reduced through the years, both with regard to risks to the work environment and emissions of the substance. The environmental impact of PVC combustion has also been reduced through improved control systems now used in modern combustion plants.

In parallel with Gambro's continued efforts to find satisfactory alternatives to PVC, the Group is trying to reduce its utilization of the plastic composite material by developing new products that require lower PVC-content levels.

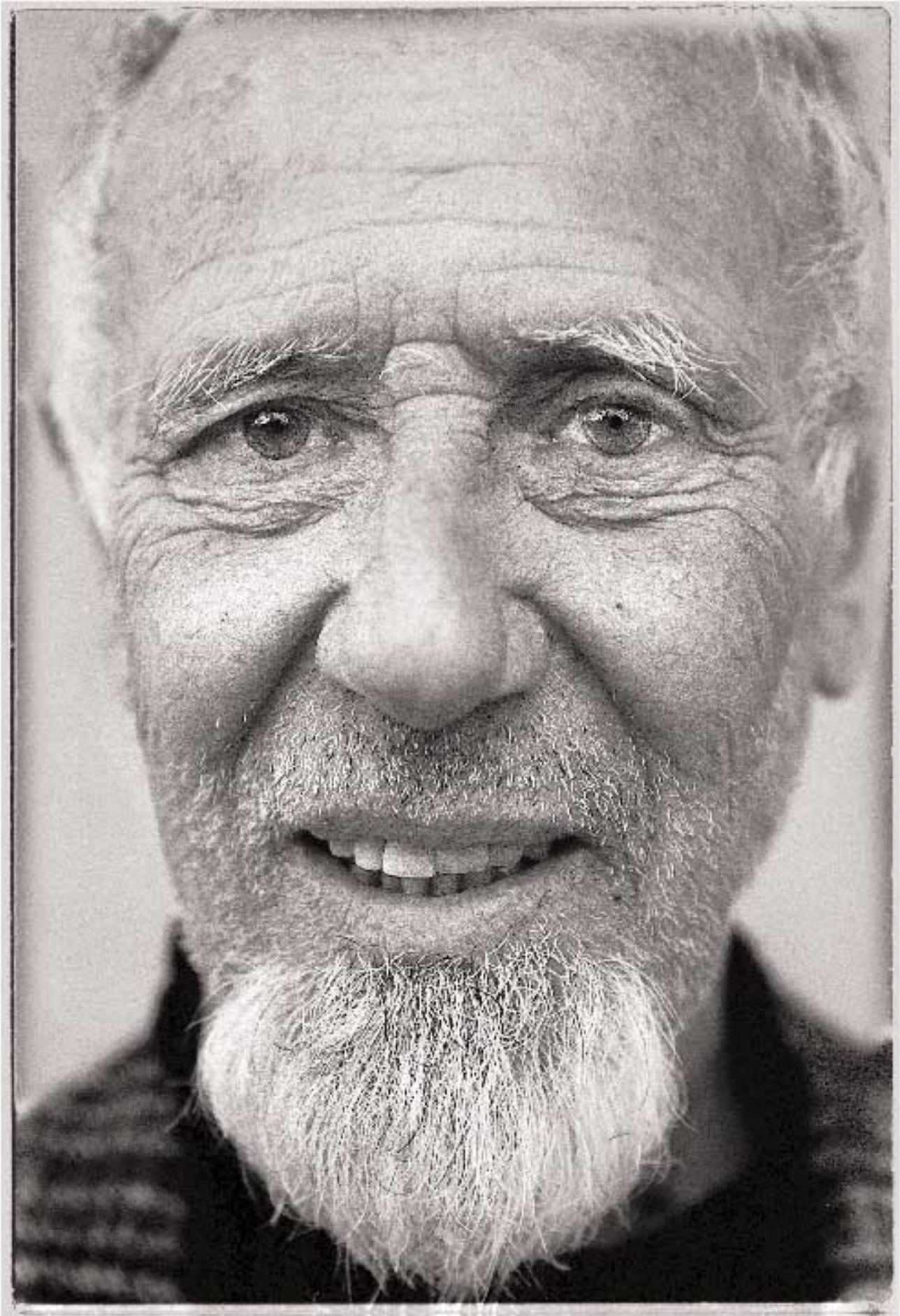
Two examples – BiCart and cassette-based blood lines
Gambro has made major strides to reduce the environmental impact of two important product groups. One of the most prominent examples is BiCart, a cartridge filled with bicarbonate powder, which has replaced canisters filled with liquid bicarbonate concentrate. BiCart has contributed to reduced materials requirements and significant reductions in transport needs.

Another example is the Group's development of cassette-based blood lines. New cassette tubing has reduced total plastics consumption in blood line production by 60 percent, compared with traditional blood lines. Total amounts of PVC, in turn, have been reduced by 70 percent.

Gambro is now moving forward in the development of both product groups, as reflected in the Group's introduction of a new generation of powder concentrate – BiCart/Duo/Select – as well as gradual replacements of most traditional tubing with cassette-based blood lines.

"The dialysis clinic is a central part of my life and gives me a tolerable existence. I met my best friend there, and now we make wine together on his farm."

Granito Nicandro, Rome



IT strategy

Gambro has placed high priority on becoming a leading player in terms of using IT solutions to achieve key objectives and facilitate growth. During 1999, Gambro continued to build a strong corporate IT platform in the clinics operation consisting of medical and administrative functions. This is facilitating Gambro's endeavors towards achieving a higher level of quality of care and more efficient clinic operations.

Gambro's focus on the development of the Group's IT structure has given the company a good position in this field. During 1999, Gambro invested SEK 295 M (USD 35 M) in new IT solutions, in addition to investments related to the millennium shift.

Gambro Healthcare

During 1999, the Group's IT work focused on the implementation of a common IT structure for Gambro Healthcare.

This system is the foundation stone for information collection at all levels within the business area. The resultant database will create completely new opportunities for following up, monitoring and implementing measures in all of the business area's activities, from patient

up to corporate level.

The new common IT system mainly offers three large advantages: it has high accessibility, it provides tools for measuring clinical and financial values, and it enables transactions to be handled more efficiently.

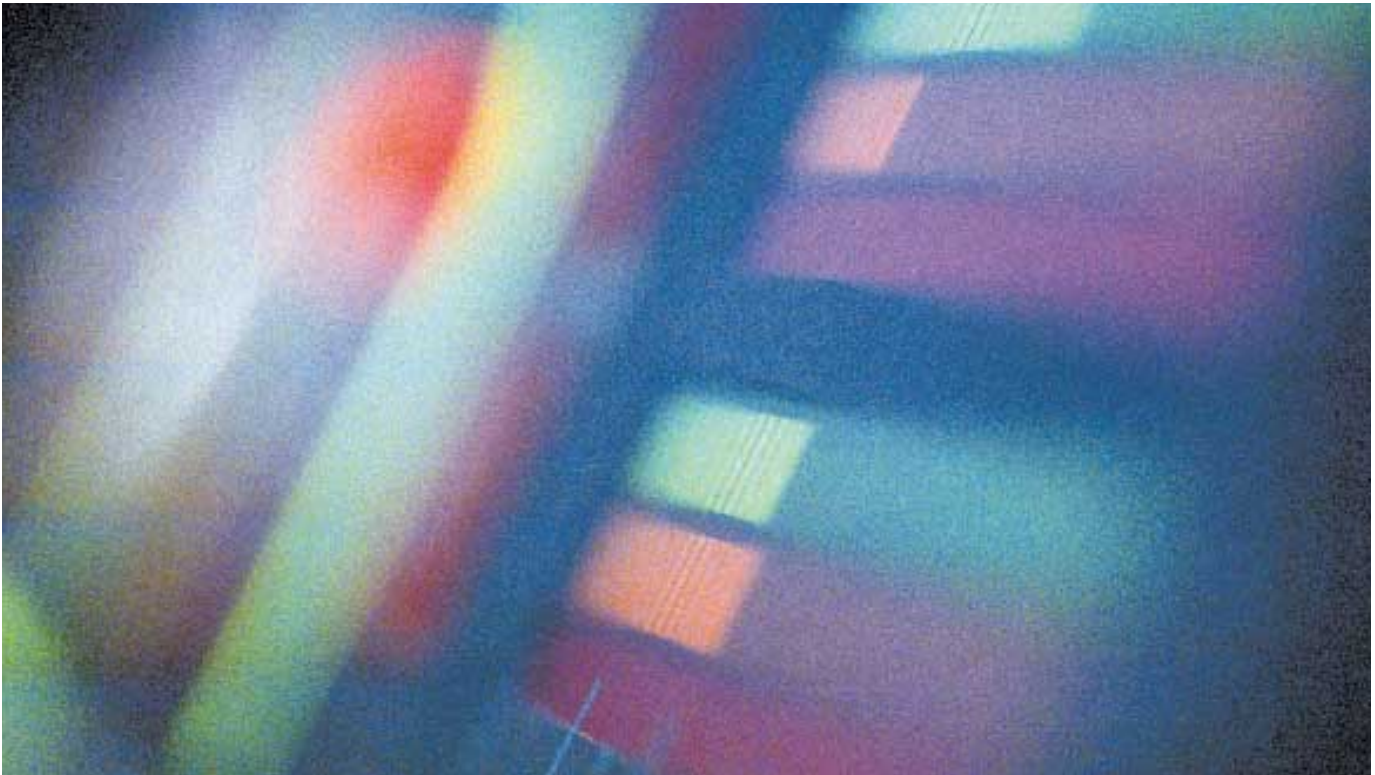
The high accessibility derives from the system being web-based, which makes it easy to reach via the Internet from Gambro clinics located anywhere in the world. The system's accessibility makes it easier to integrate new clinics, which is an important advantage, since one of Gambro's main strategies is to grow through acquisitions and the establishment of new clinics throughout the world. High accessibility offers many advantages. For example, the system creates an effi-

cient way for communication between business area management and clinic personnel spread throughout the world. The system can also be used as an interactive training tool and for the efficient distribution of new software to the clinics.

The new common system will be a very powerful measurement tool that makes it possible to identify deviations in care quality and economic results at an early stage. This also enables Gambro to implement countermeasures at an early stage.

On the care side, it will be possible to monitor and measure developments in detail, from patient up to business area level.

On the financial side, the common system will create a highly effective follow-up process. The system also features



an interactive balanced scorecard program to facilitate follow-up measures.

Finally, the common system also contains an efficient transaction-handling system to facilitate follow-ups and reduce the manual workload. This focuses on the handling of invoices, payrolls, reimbursements from public sector systems and other routine matters.

Gambro Renal Products

Gambro is also at the forefront of technological development in other business areas. Substantial investments were made in Gambro Renal Products during 1999, which are related to the restructuring program in progress within this business area.

Investments have been made in both a global logistics support system for the business area and in a global forecasting and planning system that is currently under preparation. In addition, work continued during 1999 to replace local administrative systems of various origins and quality with the R/3 system from SAP.

Gambro BCT

A number of common IT systems were built up within Gambro BCT. The business area also has access to the common Group-wide IT structure, the installation of which commenced in 1998. All of the larger operations centers are now connected to Gambro's international network.

In other respects, IT work within Gambro BCT focused on external customers. As the business area now broadens its market to encompass Blood Bank Technology, opportunities are created for the development of an IT system to support customers. Accordingly, Gambro has started to develop IT-based support systems for blood banks to handle donor administration among other routines.

Y2K preparations

During 1999, the extensive work to prepare Gambro for the millennium shift, and to minimize the impact of Y2K problems, was concluded. The work, which was carried out in project form,

embraced all Group units and was led and coordinated at corporate level.

At the end of November 1999, the project management team could note that all 833 Gambro locations had been Y2K-secured. With a few minor exceptions, Gambro's products were also confirmed as being Y2K-compliant. In those cases where question marks occurred, customers were contacted and offered the opportunity to have the products in question secured. The total cost to secure Y2K compliance amounted to approximately SEK 150 M (USD 18 M), in addition to other IT system investments, of which approximately SEK 100 M was expensed in 1999.

Euro strategy

Large sections of Swedish industry have been affected by the initiation of the European monetary union and the introduction of the new European currency unit, the euro, at the beginning of 1999. Gambro, which has extensive international operations, was well prepared to handle the new currency. During 1999, work on EMU-related issues has continued within Gambro, in project groups at company level within the euro area.

In Sweden, work is in progress aimed at amending legislation to make it possible for Swedish companies to use euros when reporting their share capital and issuing their annual reports. For Swedish companies with the major portion of their operations in Europe, it is extremely important to be able to issue financial reports in euros.

It is likely that this will not be legally possible until 2001, since work in this area has been delayed. However, it became possible during 1999 for companies listed on the OM Stockholm Exchange to have their share prices quoted in euros.

Gambro has extensive operations, accounting for 99 percent of annual sales, in countries other than Sweden. However, a large portion of the Group's

international operations is based outside Europe, with 61 percent of Gambro's annual revenues deriving from the Americas, for example. Countries within the euro zone account for 25 percent of Gambro's sales. Accordingly, the euro is not the only foreign currency that is important for the Gambro Group.

Against this background, Gambro at Group level is not prioritizing the change to financial reporting in euros. The necessary preparations have been made, however, and data systems and other administrative systems at Group level are fully adapted to the new currency.

Ongoing adaptation

At company level within the euro zone, on the other hand, company managements are working continuously on

EMU issues in project groups and reporting on a monthly basis to Group management.

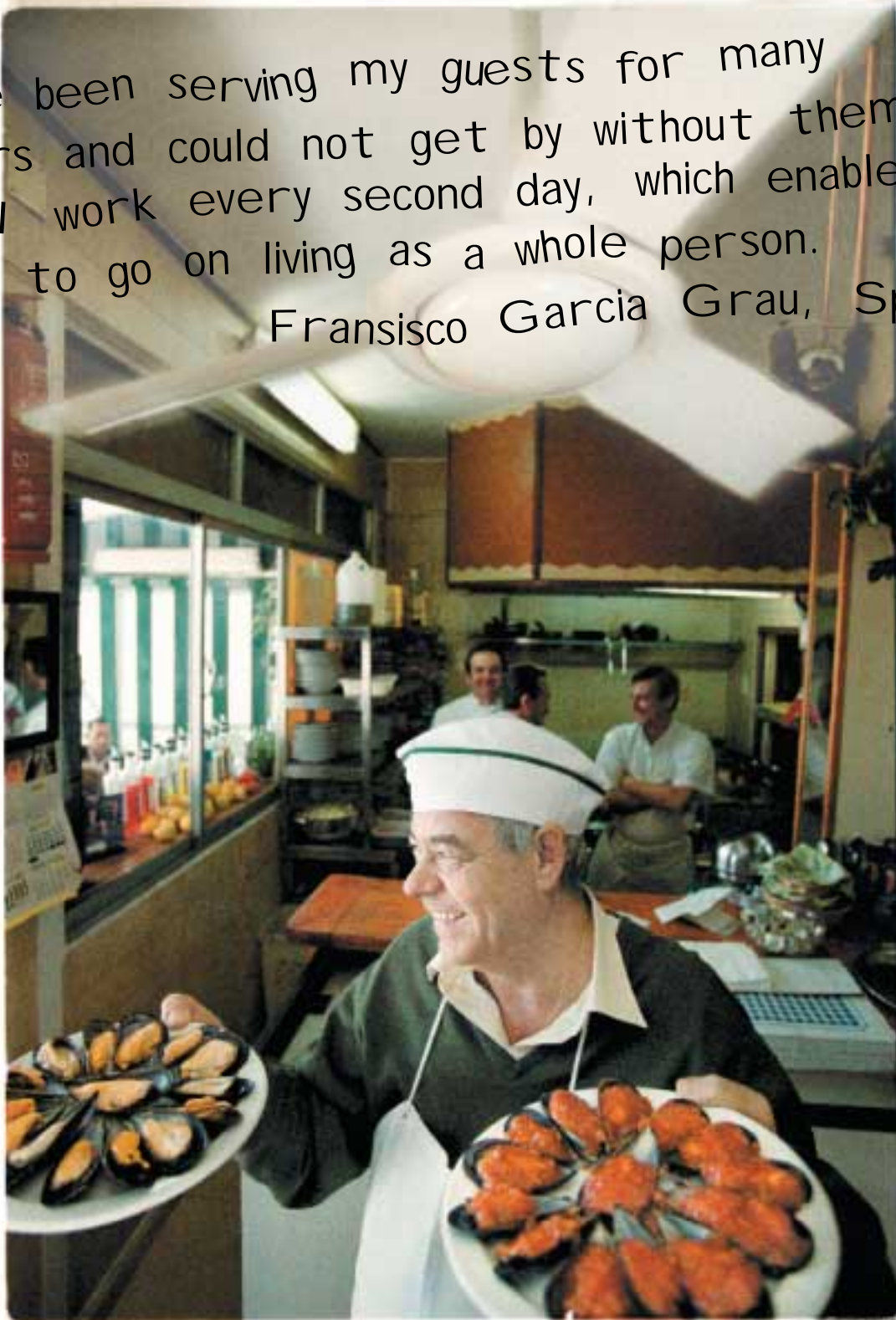
Currency handling changed

The introduction of the new currency has also brought changes in the way international companies handle various currencies. Today, Gambro conducts all its international business with, and within, the euro zone in euros, thereby avoiding currency risks and ensuring that the same interest rates apply in all euro-zone countries.

The changes have enabled Gambro Treasury, which is the Group's internal bank, with responsibility for currency hedging, capital supply, cash management, cash pools and netting, to enhance the efficiency of its operations. (Read more in the section on Financial Risks.)

I have been serving my guests for many years and could not get by without them. Now I work every second day, which enables me to go on living as a whole person.

Francisco Garcia Grau, Spain



BOARD REPORT

Financial risks

The Gambro Group has very large operations outside Sweden, which account for 99 percent of sales, and is also a major net borrower. As a result, the Group is continuously exposed to financial risks, such as currency, funding and interest-rate risks, as well as liquidity and credit risks. To minimize the impact of these risks on earnings, most of the Group's finance activities are conducted by Gambro Financial Services.

Gambro has a financial policy, which provides rules for financial risk management and stipulates risk limits. The policy also covers the use of financial off-balance sheet instruments, such as forward contracts, options and interest swaps and currency swaps. The policy is established by the Board of Directors of Gambro AB.

A credit policy providing guidelines for credit rating of customers, classification of country risk and claim routines was developed in 1999.

Concentrating most of the financial activities within Gambro Financial Services, which includes Gambro Treasury AB and Gambro Credit AB, enables the Group to take advantage of economies of scale, match cash flows and support other Group companies in financial issues.

Gambro Treasury is the Group's internal bank, responsible for currency hedging, capital procurement, cash management, cash pools and netting. Gambro Credit offers customer financing in the form of leasing, project and export financing. Another function handles the Group's insurance risks.

Gambro Financial Services is a profit center subject to an after-tax return requirement of 20 percent on shareholders' equity. Gambro Credit and Gambro Treasury have adequate capital coverage in relation to the market risks of their operations.

In principle, individual Group companies are not permitted to take any financial risks. These risks are primarily to be hedged at corporate level, through Gambro Treasury. All transactions with

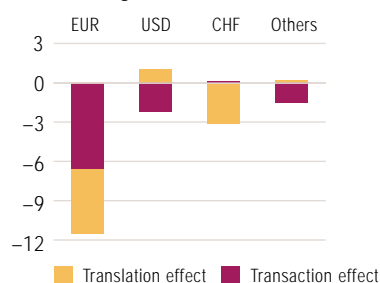
Group companies are conducted on market terms.

During 1999, Gambro Treasury operated with a risk mandate that allowed the Group a maximum loss of SEK 100 M (USD 12 M) caused by a momentary unfavorable change of 2 percent in interest rates (parallel shift in the yield curve) and of 10 percent in exchange rates. The risk measurement model ignores correlations between currencies and interest rates, volatility, etc. The risk, which is measured daily, amounted to an average of SEK 30 M (USD 4 M), of which SEK 28 M (USD 3 M) in interest risk. During the year the risk mandate was utilized mainly for taking positions in interest rates.

As a profit center, Gambro Treasury is subject to a return requirement on its

risk mandate. Earnings are reported using the principle of lowest value – that is, unrealized net gain in the form of

Diagram 1.
Earnings effect*



*The effect (in SEK M at year-end rates) on the consolidated earnings before tax (before hedging transactions) as a result of a one percent change in the value of the Swedish krona.

Table 1. Transaction exposure

SEK M at year-end rates

Currency	Net flow	Share of net flow against SEK	Net exposure
EUR	828	659	331
USD	395	222	160
JPY	-72	-70	-40
AUD	115	61	18
GBP	166	4	53
CAD	160	14	44
DKK	65	68	19
Other	319	66	73
Total	1,976	1,024	658

Table 2. Transaction exposure Outstanding forward contracts, year-end 1999

Currency combination	Hedged amount in million of base currency	Value at year-end (note 21)	Value at forward rate	Average rate	Average remaining term, months
EUR/SEK	45	382	391	8.7005	4.7
SEK/EUR	195	195	191	0.1147	4.9
USD/KRW	-21	-181	-191	1175.9387	4.2
USD/SEK	21	180	174	8.3933	4.4
USD/HKD	14	120	121	7.7679	3.2
USD/EUR	14	119	112	0.9552	5.7
EUR/USD	9	78	83	1.0484	5.0
GBP/EUR	4	60	57	1.5406	5.2
JPY/USD	709	59	57	0.0091	5.2
AUD/SEK	10	58	55	5.3609	5.8
Other		248	231		5.0
		1,318	1,281		4.6

exchange and interest rate differences is not included in income. The return on the utilized mandate exceeded 100 percent in 1999.

Currency risks

Gambro is an international group with most of its production and particularly its sales outside Sweden. The consolidated income statement and balance sheet are both influenced by changes in exchange rates. The main currency risks are transaction and translation risks.

Diagram 1 shows the effect (a total of SEK 17 M, USD 2 M) on consolidated earnings before tax and before hedging transactions of a one percent increase in the value of the Swedish krona. Earnings in 1999 were approximately SEK 12 M (USD 1 M) higher than in 1998, due to currency effects.

Earnings are also affected by changes in the value of currency combinations which do not include the Swedish krona. Table 1 shows the Group's commercial payment flows involving currency risk in the form of transaction exposure, totaling SEK 1,976 M (USD 232 M), of which 1,318 was hedged, as well as the net flow of foreign currencies to Swedish

kronor (totaling 52 percent, which reflects the Group's sensitivity to changes in the value of the Swedish krona).

Transaction risks – that is, invoicing in currencies other than the Group companies' home currencies – are present primarily in the plants belonging to Gambro Renal Products. Group policy regarding internal flows is to invoice the sales companies in their local currencies, concentrating transaction risk to the production units.

Each individual Group company is responsible for hedging its commercial flows in foreign currencies. At least 90 percent of forecasted flows up to six months ahead are hedged and minimum 50 percent of forecasted flows 6–12 months ahead are hedged. All contractual flows are fully hedged.

With very few exceptions, all flows are hedged with Gambro Treasury. The Group's currency-hedging routines delay the impact of exchange-rate fluctuations in payment flows on earnings by 9 months.

As seen from Table 2, Gambro had outstanding forward contracts to cover transaction risks with a nominal value of SEK 1,318 M (USD 155 M) at year-end, and an average remaining maturity of 4.6 months. The market value of these forward contracts was below the nominal value by SEK 23 M (USD 3 M), based on the forward rates at year-end. During 1999, expired forward contracts had a negative impact of SEK 3 M (USD 0 M) on the Group's pretax earnings.

To avoid currency risks in loan financing, where revenues are earned in the domestic currencies, Gambro companies borrow in their local currencies or hedge amounts borrowed in foreign currencies using financial currency swaps.

Translation risks affecting Group net assets in foreign currencies – that is, subsidiaries' shareholders' equity – are not

hedged. Besides the fact that hedging net assets with forward contracts could have considerable cash flow effects when the contracts are prolonged, hedging would involve placing the entire risk-capital base of Gambro, with 99 percent of its operations outside Sweden, in Swedish kronor. Table 3 shows that Gambro had net assets of SEK 17,342 M (USD 2,040 M) in foreign currencies at year end.

A sensitivity analysis demonstrates that one percentage point stronger SEK should reduce net assets by SEK 173 M (USD 20 M).

Funding and interest-rate risks
Channeling Group financing needs through Gambro Treasury makes it possible to negotiate better interest rates and terms in the domestic and international capital markets. The aim is to ensure both financial stability and funding flexibility.

Funding risks, or the risk of not being able to meet the Group's capital requirements, are limited through constant access to committed lines of credit totaling at least SEK 5 billion more than current utilization. In addition, the Group has uncommitted lines of credit – that is, facilities offered by banks without a commitment fee.

As shown in Table 4, Gambro had lines of credit at year-end totaling SEK 18.3 billion (USD 2,153 M), of which non-utilized facilities amounted to SEK 13.7 billion (USD 1,612 M), with an average maturity of 28 months. The facilities are provided by over ten different counterparties, and borrowing is distributed over various terms of maturity.

To reduce dependence on short-term financing, Gambro has chosen to have a considerable proportion of long-term financing, primarily through a USD 1 billion (SEK 8,535 M) seven-year syndicated

Table 3. Translation exposure SEK M at year-end rates

Currency	Net assets ²⁾	Strengthening of SEK by 1%
USD ¹⁾	14,090	-141
CHF	964	-10
EUR	1,761	-18
Other	527	-5
Total in foreign currency	17,342	-173

¹⁾ Of which SEK 8,149 M refers to Parent company liquid assets swapped to USD

²⁾ Before elimination of shares in subsidiaries

Table 4. Credit lines SEK M at December 31, 1999

Maturity	Committed facilities	Uncommitted facilities	Total utilized facilities
2000	1,500	7,682	2,461
2001		41	3
2002			
2003	300	180	470
2004		101	71
2005	8,535		1,596
Total	10,335	8,004	4,601

Table 5. Interest bearing net debt SEK M per December 31, 1999

	Outstanding amounts	Remaining terms (months)	Remaining fixed interest period (months) ¹⁾	Average interest, %
Bond loan in SEK	500	2	2	8.7
Bond loan in SEK	300	40	40	8.8
Promissory note in USD ²⁾	278	4	4	12.0
Promissory note in USD	180	32	32	9.5
Syndicated bank loan USD	1,536	51	3	6.0
Promissory note in EUR	618	6	6	3.3
Overnight loan SEK	350	0	0	3.9
Promissory note in JPY	127	4	4	1.0
Promissory note Korea	100	0	0	7.0
Other	612	3	3	6.0
Pension liabilities	629	12	12	3.6
Liquid funds	-598	0	0	2.0
Swaps ³⁾			4	2.0
Total	4,632	24	10	8.9

¹⁾ Including remaining fixed interest period for financial currency swaps

²⁾ Loan in USD, financial currency swap in ARS

³⁾ Interest differences between currencies. Total volume financial currency swaps SEK 5,300 M (USD 624 M) excl. ARS

6. Interest-rate derivatives Gambro Treasury's holding at December 31, 1999 in SEK M

Derivative	Expiration day	Currency	Nominal amount *	Market value
OM Forward Rate Agreement	March 2000–March 2001	SEK	-5,900	-5,899
OTC Forward Rate Agreement	March 2000–June 2000	SEK	500	500
OTC Forward Rate Agreement	June 2000–Sept. 2000	USD	853	854
OTC Forward Rate Agreement	March 2000–June 2000	EUR	428	429
Interest swap	2000-12-20	USD	427	429
Interest swap	2000-10-25	USD	1,024	1,026
Total			-2,668	-2,662

* +buy/-sell

bank loan, which may be utilized until 2005. As a result of the company and share divestments during recent years, the Group's funding requirements were reduced significantly. Accordingly, bank facilities totaling SEK 1,500 M (USD 176 M) were terminated during the year.

Interest-rate risks represent the effects of interest-rate changes on earnings. Interest fixing terms, the duration of the Group's loans and investments, determine the rate at which interest-rate changes impact earnings. Gambro strives to maintain an average fixed interest term of nine months. This applies to all interest-bearing assets and liabilities, including off-balance instruments such as forward contracts and options. At December 31, 1999 the average interest duration was 10 months (Table 5).

Gambro is also affected by interest-rate differences between different countries, since the Group's cash holdings are mainly in Swedish kronor, which are converted using forward contracts to cover currency risk – so-called financial swaps – primarily to US dollars, to fund the American operations. In 1999, net interest was adversely affected by SEK 70 M (USD 8 M) due to interest-rate differences.

The annual effect on consolidated net interest items of a one percentage

point change in interest-rates, amounting to a total of SEK 40 M (USD 5 M) is shown per currency in Diagram 2, which is based on currency distribution of the Group's interest-bearing assets and debt at year-end. Considering the remaining fixed interest terms, the net effect on consolidated net interest items of a one percentage point change in interest rates would be approximately SEK 19 M (USD 2 M) during 2000. In 1999 the average interest rates for the Group's interest-bearing assets and interest-bearing liabilities amounted to 2 percent and 8 percent, respectively. The currency mix of the Group's interest-bearing assets and liabilities, which affects the average interest-rate, is shown in Diagram 3.

Forward rate agreements and interest-rate swaps are used to adjust fixed terms and take positions in the market. Gambro Treasury's outstanding holdings as of year-end are presented in nominal and market-value terms in Table 6.

Liquidity and credit risks

The risk that funds are invested in financial instruments that cannot be sold is a liquidity risk. The risk that invested liquid assets will be lost due to the counterparties inability to pay is a credit risk. Both types of risk are minimized by sub-

jecting the management of liquid funds to strict investment rules.

Investments are limited to interest-bearing securities with low risk and high liquidity (counterparties with short- and long-term ratings of Prime 1 and A1 at Moody's, or of A-1 and A+ at Standard & Poor's) plus limits on amounts that may be invested with a certain counterparty. Liquid funds are usually placed with Gambro Treasury or in local cash pools. No credit losses on investments occurred during 1999.

During the year, ISDA contracts were signed with several counterparties. These contracts are designed to reduce counterparty risk by netting claims and debts. Monthly cash settlements corresponding to the value change of open FRAs (forward rate agreements) reduce the counterparty risk exposure of contracts handled by OM Stockholm Exchange.

Liquidity coordination

Since the Group is a net borrower of a considerable magnitude, the objective is to keep liquid assets to a minimum and to utilize these as much as possible to repay loans.

As part of liquidity management and coordination, the Group runs local cash pools in Sweden, the US, Germany, France, the UK, and the Netherlands, as well as a global overlay structure which includes the Group's bank accounts in currencies that are not the respective companies' local currency. The introduction of the euro has made it possible to reduce the number of currency accounts and further concentrate liquidity. During the year a new cash-pool set-up was negotiated, to enhance efficiency in payment flows in the US. Implementation is scheduled to commence in the year 2000.

Diagram 2.
Interest-rate effect

Effect on net interest of a one percent increase in interest rates (SEK M at year-end rate)

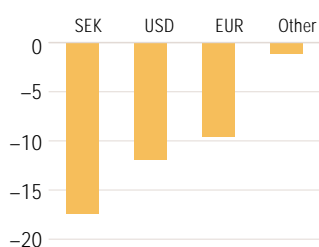
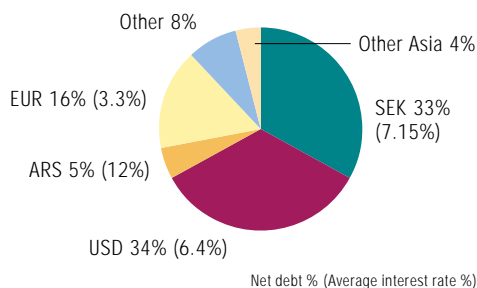


Diagram 3.
Net debt
(Average interest rate)
per currency



Financial review

Business conditions

In 1999, the Group took further measures to restructure the business, focusing on medical technology and healthcare in the areas of renal care and blood component technology. From the beginning of the year the business areas Gambro Healthcare and Gambro Renal Products were reorganized from a geographical base, where the former included the United States and the latter the rest of the world, to one based on the respective business globally. In addition, a two-year restructuring program, mainly including Gambro Renal Products, was launched in mid-January and the sale of the Cardio-pulmonary Care business area was finalized in May 1999.

As a medical technology and healthcare company, the Gambro Group is proportionately insensitive to economic swings. Factors driving the growth of the operations are primarily the increased ageing of the world's population and higher global living standards increasing access to healthcare. The development of Gambro's market is also affected by non-economic factors such as healthcare policies, types of financing for healthcare and healthcare traditions. Gambro is benefiting from the global privatization trend within healthcare. The increased demand for savings within the public sector throughout the world is leading to that an increasingly larger percentage of healthcare is handled privately.

Analysis and comments

The presentation in the following financial review comments on, and analyzes, the Gambro Group's income statement, yield, cash flow, investments and financial position and concludes with a brief section dealing with the Parent Company, Gambro AB.

Revenues

The Group's total revenues amounted to SEK 19,743 M (USD 2,386 M) compared to SEK 18,734 M (USD 2,264 M) 1998, an increase of 5 percent. Revenues for present structure, including acquisitions, increased by 12 percent. Volume increase accounts for 8 percent of the increase while 1 percent is attribu-

Condensed income statement – quarterly breakdown

SEK M	1999					1998				
	Q1	Q2	Q3	Q4	S:a	Q1	Q2	Q3	Q4	Total
Revenues ¹⁾	4,654	4,990	4,857	5,242	19,743	4,447	4,560	4,650	5,077	18,734
Operating earnings before depreciation (EBITDA)	878	1,914	766	755	4,313	1,151	1,384	5,230	-313	7,452
Do. margin (%)	18.9	38.4	15.8	14.4	21.8	25.9	30.4	112.5	-6.2	39.8
Operating earnings before depreciation (EBITDA) – excl. nonrecurring items	878	948	921	1,014	3,761	858	823	826	787	3,294
Do. margin (%)	18.9	19.0	19.0	19.3	19.0	19.3	18.0	17.8	15.5	17.6
Depreciation/Amortization	-472	-505	-492	-540	-2,009	-573	-583	-449	-473	-2,078
Operating earnings after depreciation (EBIT)	406	1,409	274	215	2,304	578	801	4,781	-786	5,374
Do. margin (%)	8.7	28.2	5.6	4.1	11.7	13.0	17.6	102.8	-15.5	28.7
Operating earnings after depreciation (EBIT) – excl. nonrecurring items	406	443	429	474	1,752	431	387	377	314	1,509
Do. margin (%)	8.7	8.9	8.8	9.0	8.9	9.7	8.5	8.1	6.2	8.1
Financial net	-143	-95	-90	-83	-411	-181	46	-110	-138	-383
Earnings before tax (EBT)	263	1,314	184	132	1,893	397	847	4,671	-924	4,991
Tax	-180	-565	-154	683	-216	-123	-382	-2,372	242	-2,635
Minority	-14	-10	-28	-20	-72	-8	-21	-7	-12	-48
Net income	69	739	2	795	1,605	266	444	2,292	-694	2,308
1) Of which divested						290	290	268	304	1,152

table to price changes and 3 percent to foreign exchange movements. As a result, the currency adjusted growth for the present structure was 9 percent. As shown in the section about financial risks (page 58–61), Gambro hedges future crossborder currency flows. These hedges do not affect revenues but do affect earnings (see section about Earnings after financial items below).

Growth is a priority control parameter to create shareholder value. The objective is to achieve annual growth of at least 10 percent.

Revenues by market

SEK M	1999	1998	Change, %
Europe	6,247	6,051	3
Americas	11,980	10,297	16
Asia, rest of the world	1,516	1,234	23
Present structure	19,743	17,852	12
Divested companies		1,152	
Total	19,743	18,734	5

Revenues in the main markets, Europe and North America, which account for 92 percent of Gambro's sales, have increased by 12 percent. However, in Eastern Europe, Russia, Ukraine and the Middle East sales have declined due to weak demand.

Operating earnings before depreciation (EBITDA)

Operating earnings before depreciation, financial items and taxes (EBITDA) constitutes the basis for the Group's cash flow. EBITDA amounted to SEK 4,313 M (USD 521 M) compared to SEK 7,452 M (USD 901 M) 1998. This includes nonrecurring items of SEK 552 M (USD 67 M) compared to SEK 4,179 M (USD 505 M) 1998 and staff costs within the former Incentive of SEK 0 M (-21). For operations EBITDA amounted to SEK 3,761 M (USD 455 M) compared to SEK 3,294 M (USD 398 M) 1998, with a corresponding margin of 19.0 percent

(17.6). The improvement refers mainly to stability within operations in Gambro Renal Products.

Depreciation/amortization

Total depreciation and amortization was, SEK 2,009 M (USD 243 M) compared to SEK 2,078 M (USD 251 M) 1998, can be split into amortization of goodwill, SEK 891 M (1,077), and other depreciation/amortization of SEK 1,118 M (1,001).

Goodwill makes up a substantial part of the asset side in Gambro's balance sheet. The item arises when a company is acquired and constitutes the difference between the purchase price and the acquired company's shareholder equity. Gambro's acquisitions are made primarily within Gambro Healthcare, that is, dialysis clinics, where the price for acquired companies is high in comparison to their shareholder equity. To a large extent, the price that is paid is

based on future earnings within the acquired company and integration advantages through the in-house production of equipment and disposables.

The single largest goodwill item comes from the acquisition of Vivra in 1997 and amortization constitutes SEK 508 M (USD 61 M) compared to SEK 481 M (USD 58 M) 1998. The reduction in amortization of goodwill is explained by the write-off of the goodwill from the acquisition of Gambro by the former Incentive in mid 1998. SEK 9,749 M (USD 1,178 M) of goodwill was then charged against shareholder equity, reducing the goodwill amortization by SEK 566 M (USD 68 M) on an annual basis.

Operating earnings after depreciation (EBIT)

Gambro's earnings after depreciation according to plan decreased to SEK 2,304 M (USD 278 M) compared to SEK 5,374 M (USD 650 M) 1998. This includes nonrecurring items of SEK 552 M (USD 67 M) compared to SEK 4,179 M (USD 505 M), staff costs within the former Incentive of SEK 0 M (-21) and amortization of goodwill attributable to Incentive's acquisition of Gambro and MacGREGOR of SEK 0 M (-293). For operations EBIT amounted to SEK 1,752 M (USD 212 M) compared to SEK 1,509 M (USD 182 M) 1998, with a corresponding margin of 8.9 percent (8.1).

Nonrecurring items

During 1999 the Group has incurred nonrecurring items of SEK 552 M (USD 67 M) compared to SEK 4,179 M (USD 505 M) 1998, which consists of:

Nonrecurring items

SEK M	1999	1998
Cobe CV (Cardiopulmonary care)	966	
Charge for laboratory billing	-279	
Résidence du Parc	-135	
Prior year adjustment	-96	
Reversal of provisions relating to divestitures in prior years	96	
ABB		4,004
Electrolux		535
MacGREGOR		400
TAC		200
Munters		140
Restructuring reserve		-1 100
Total	552	4,179

In May the divestiture of the Cardiopulmonary Care business area (COBE CV) to the Italian medical technology company Sorin Biomedica was concluded. The divestiture resulted in a capital gain of SEK 966 M (USD 115 M).

As announced by Gambro in August 1998, the billing records of two US subsidiaries for laboratory testing have been the subject of investigations regarding Medicare billings. US government agencies have requested the records from two different periods during 1996-1998. In December 1999, the agencies announced their intention to expand the period under review to include the years 1994-95.

Health Care Financing Administration (HCFA), which is one of the agencies involved, has made overpayment determinations for a total amount of USD 20.3 M. The refunded amounts have been charged against the 1999 results of operations. Upon request by HCFA, these amounts have been repaid in order to avoid interest penalties. The respective rights of appeal of the laboratories have been preserved. The validity and accuracy of the overpayment deter-

minations currently is the subject of discussion with HCFA. The Company believes that not all relevant information has been considered and has advised the agencies of its intent to appeal the overpayment determinations. Total Medicare billing by the laboratories amounted to USD 102.0 M for the period under review (January 1994 - May 1998). The period covered by the overpayment determinations represents billings of USD 44.8 M.

In the fourth quarter 1999, the Company established a provision of USD 15.0 M (SEK 124 M). The amount includes USD 1.5 M representing an overpayment claim related to the Deland laboratory (included in the USD 20.3 M above), which was received in late December, and a general provision of USD 13.5 M. The reserve is being provided to recognize that, because of statutory and regulatory requirements, certain claims may not be billable since the investigation described above has not yet been resolved. The reserve also takes into consideration receivables that may not be collectible due to the ongoing dispute with the former manager of the Deland laboratory.

It is not known whether additional claims will be made with respect to the other periods. It is also not known whether federal agencies other than HCFA will take any action against either laboratory. The Company continues to cooperate fully with the government and has established a productive dialogue with government representatives. Because of the government investigations, the laboratories discontinued submitting claims for its services effective mid 1998. The Company has recorded Medicare revenues of approximately USD 58 M

for such services up to end 1999.

In Europe a French hospital including non-dialysis operations was divested during the fourth quarter. The hospital had a turnover of about SEK 300 M and about 430 employees. The divestiture is part of the ongoing restructuring program in Gambro and will result in a strategic focusing of the European clinics operation to renal care. The divestiture resulted in a capital loss of SEK 135 M.

In mid January 1999 the Group initiated a restructuring program that runs up to the end of the year 2000. The program mainly includes the business area Gambro Renal Products, but also some actions in Gambro Healthcare. The objectives are to reinforce Gambro's commitments to quality renal care, secure continued good growth and improve profitability. The program involves a reduction of more than 1,000 employees and is expected to cost SEK 1,100 M (USD 129 M), which was charged to the 1998 accounts. The program has proceed as planned and as of December 31, 1999 about 930 employees had left the Group as a result of the program and SEK 592 M (USD 72 M) of the provision had been utilized.

The result has been charged with prior year items of SEK 96 M (USD 12 M), but it has also been positively effected with the same amount relating to reversal of provisions relating to divestitures in prior years.

Financial net and financial position

At December 31, 1999, the Group's net debt amounted to SEK 4,632 M (USD 543 M) compared to SEK 2,242 M (USD 263 M) 1998. The net increase is mainly explained by tax payments following restructuring transactions in the prior year. The financial net amounted

to SEK -411 M (USD -50 M) compared to SEK -383 M (USD -46 M) 1998, with the main item being interest net that amounted to SEK -408 M (USD -49 M) compared to SEK -665 M (USD -80 M) 1998. Average net debt during the year amounted to some SEK 3,600 M (USD 422 M), resulting in an average interest rate of 10.0 percent (adjusted for interest not attributable to items in the net debt).

The cash in the Parent Company, created through restructuring transactions in the prior years, is used internally to fund the Group's operations in the US. In order to avoid any currency risk, the cash in SEK is swapped to USD, whereby a premium corresponding to the interest rate difference between the currencies is paid. Financial net was charged with SEK 70 M (USD 8 M) compared to SEK 100 M (USD 12 M) in premiums related to these swaps. The main reason for the reduction is that by the end of February, SEK from the Parent Company corresponding to USD 1,000 M was swapped and lent out long term. This portion of cash is frozen at the exchange rate prevailing when the swap was made.

Dividends from shareholdings in ABB and Electrolux are included in the financial net with SEK 10 M (USD 1 M) compared to SEK 259 M (USD 31 M) 1998. The surplus value of Gambro's remaining ABB shares as of balance sheet date was SEK 624 M (USD 76 M).

Earnings after financial items (EBT)
Earnings after financial items amounted to SEK 1,893 M (USD 229 M) compared to SEK 4,991 M (USD 603 M) 1998. This change was strongly affected by nonrecurring items (see page 64). The total impact of foreign exchange

movements on earnings after financial items in 1999 compared with 1998 was about SEK +12 M (USD 1 M).

If Gambro's flow in foreign currencies had not been hedged, income in 1999 would have been SEK 3 M (USD 0 M) higher. Gambro's hedging policy and its effects are discussed in the section "Financial risks".

Taxes

Gambro applies full tax accounting, which means that the item "Taxes" in the income statement also includes deferred tax. Combined tax cost for the year amounted to SEK 216 M (USD 26 M) compared to SEK 2,635 M (USD 318 M) 1998. Taxes regarding nonrecurring items are included with approximately SEK +0.6 billion (USD 67 M) compared to SEK -2.0 billion (USD 242 M) 1998.

In connection with comprehensive divestitures of companies and shares in prior years, taxes have been provided for based on conservative accounting principles. By year end Gambro concluded that some SEK 969 M (USD 117 M) were excess reserves that have been reversed as tax income in the 1999 accounts.

The total tax rate on earnings was 11.4 percent (52.8). Adjusted for amortization of goodwill, which is not a deductible expense, and nonrecurring items the tax rate was 35.3 percent (32.2).

Return on capital employed/

Return on equity

Gambro's profitability target is that the return on capital employed in the individual operations must exceed 20 percent over the long term, with growth of at least 10 percent.

The overall return on capital

employed in 1999 was 10.8 percent (19.7), but was strongly affected by the amortization of goodwill and nonrecurring items. Adjusted for these two factors, the return on capital employed was 12.2 percent (9.7).

Return on shareholder's equity amounts to 8.6 percent (10.7) and adjusted for goodwill and nonrecurring items 7.3 percent (5.7).

Cash flow and investments

The Group's free cash flow is defined as cash flow generated by wholly owned operations plus dividends from associated companies.

Group free cash flow

SEK M	1999	1998
Earnings after financial items	1,893	4,991
Depreciation/amortization	2,009	2,078
Change in operating capital	-325	-1,269
Investments	-1,529	-1,587
Operating cash flow	2,048	4,213
Acquisitions	-1,050	-1,204
Taxes paid	-1,843	-473
Dividends received from associated companies	-	259
Free cash flow	-845	2,795

Investments of SEK 1,529 M (USD 178 M) in 1999 compared to SEK 1,587 M (USD 186 M) in 1998 included SEK 75 M (USD 9 M) compared to SEK 86 M (USD 10 M) attributable to companies in Sweden.

Parent Company

The Parent Company's operations, which are based in Stockholm, consist of Group management functions. As a result of the ongoing work to simplify the Group structure, the Parent Company has assumed direct ownership of a number of Group companies, earlier held by other Group companies.

Parent Company earnings after financial items amounted to SEK 763 M (USD 92 M) compared to SEK 2,943 M (USD 356 M) 1998, of which SEK 0 M (2,302) was nonrecurring items. The Parent Company's liquid funds at year-end amounted to SEK 0 M (USD 0 M) compared to SEK 11 M (USD 1 M) 1998. In addition, SEK 11,949 M (1,400), classified as Receivable from Group companies, are deposited with the inhouse bank, Gambro Treasury. A significant portion of the Parent Company's balances with subsidiaries is not calculated with interest. An interest charge would reduce the Parent Company's earnings by approximately SEK 900 M (USD 109 M) compared to SEK 603 M (USD 73 M) 1998.

Significant events since year-end

As part of the strategic refocusing, within Gambro BCT, the Excorim immunoadsorption business, with annual revenues of about SEK 30 M (USD 3 M) was divested in January.

Proposed distribution of earnings

As shown in the Consolidated Balance Sheet, unrestricted equity for the Gambro group amounts to SEK 8,334 M (12,229). No allocation of the Group's unrestricted equity to restricted funds is required.

The Board of Directors and the President propose that retained earnings and net income in the Parent Company at the disposal of the Annual General Meeting (SEK M):

Retained earnings	12,086
Net income	561
Total	12,647

be appropriated as follows:

To the shareholders, a dividend of SEK 1.10 per share, totaling	379
Balance to be carried forward	12,268
Total	12,647

As a result of this appropriation, the Parent Company's shareholders' equity is (SEK M):

Share capital	689
Legal reserve	145
Retained earnings	12,268
Total	13,102

Income statements

SEK M		Group		Parent company	
		1999	1998	1999	1998
Revenues	Note 1	19,743	18,734	150	163
Cost of goods sold		-14,448	-13,990		
Gross earnings		5,295	4,744	150	163
Sales costs		-1,470	-1,514		
Administration costs		-1,637	-1,639	-248	-216
Research and development cost		-456	-637		
Other operating income	Note 2	82	260	-	-
Other operating costs	Note 3	-62	-19	-	-
Nonrecurring items	Note 4	552	4,179	-	2,302
Operating earnings ¹⁾	Note 8, 9, 22 and 25	2,304	5,374	-98	2,249
Financial items, net	Note 5	-411	-383	861	694
Earnings after financial items		1,893	4,991	763	2,943
Appropriations	Note 24			-94	-160
Taxes	Note 6	-216	-2,635	-108	-186
Minority interest	Note 7	-72	-48		
Net income		1,605	2,308	561	2,597
¹⁾ Of which amortization of goodwill		-891	-1,077		
of which, depreciation, other assets		-1,118	-1,001		

Balance Sheets

MSEK	Koncernen		Moderbolaget	
	1999	1998	1999	1998
ASSETS				
Fixed assets				
Intangible fixed asset	Note 8	16,410	15,593	
Tangible fixed assets	Note 9	5,515	5,340	4
				2
Financial fixed assets				
Participations in group and associated companies	Note 10	417	244	24,420
Other long-term receivables	Note 11	668	638	358
Total financial fixed assets		1,085	882	24,778
Total fixed assets		23,010	21,815	24,782
Current assets				
Inventories, etc	Note 12	2,217	2,282	
Accounts receivable	Note 21	5,940	5,585	
Current receivables	Note 14	2,147	2,555	11,949
Cash and bank		606	1,169	
Total current assets		10,910	11,591	11,949
Total assets		33,920	33,406	36,731
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Restricted equity				
Share capital (344,6 million share at par value SEK 2 each)		689	689	689
Other reserves		10,632	4,932	145
Unrestricted equity				
Retained earnings		6,729	9,921	12,086
Net income		1,605	2,308	561
Total shareholders' equity		19,655	17,850	13,481
Minority interest		192	149	
Untaxed reserves	Note 24			554
				460
Accruals				
Accruals for pension and similar rights	Note 15	632	586	247
Accruals for taxes		1,772	1,334	
Other accruals	Note 16	1,008	1,761	9
Total accruals		3,412	3,681	256
Liabilities				
Long-term liabilities	Note 17	2,146	1,182	6,017
Current liabilities	Note 20	8,515	10,544	16,423
Total shareholders' equity and liabilities		33,920	33,406	36,731
Assets pledged	Note 18	30	33	–
Contingent liabilities	Note 19	178	413	14,378

¹⁾ Reclassification of participations

Cash flow statements

SEK M	Group		Parent company	
	1999	1998	1999	1998
OPERATING ACTIVITIES				
Earnings after financial items ¹⁾	1,062	-288	763	2,943
Non-cash items	1,288	1,247	-123	6,962
	2,350	959	640	9,905
Taxes paid	-1,843	-473	-265	-306
	507	486	375	9,599
Changes in operating capital: ²⁾				
Inventories	-205	-180	-	-
Receivables	-193	-1,551	-59	7,135
Liabilities	-1,179	1,625	-684	1,488
Cash flow from operating activities	-1,070	380	-368	18,222
INVESTMENT ACTIVITIES				
Capital expenditure	-1,667	-1,598	-3	-1
Disposals	138	11		
Acquisitions and divestitures net	571	7,077	-1,655	-8,139
Cash flow from investment activities	-958	5,490	-1,658	-8,140
FINANCING ACTIVITIES				
New issue	-	342		342
Change in short-term loans	818	-2,694	3,022	-8,923
Change in long-term loans	964	-8,882	-657	-852
Change in accruals for pension	46	-48	-5	46
Dividend paid/group contributions	-345	-684	-345	-684
Cash flow in financing activities	1,483	-11,966	2,015	-10,071
Cash flow this period	-545	-6,096	-11	11
Liquid assets opening balance	1,169	7,249	11	0
Currency effect in liquid assets	-18	16	0	0
Liquid assets closing balance	606	1,169	0	11
¹⁾ Excluding capital gains	831	5,279		
²⁾ Of which change in inventories, accounts receivables and accounts payable	-325	-1,269		

Notes and Comments

SEK M, unless otherwise noted

1. Revenues

By business area	Group	
	1999	1998
Gambro Healthcare	10,828	9,087
Gambro Renal Products	8,059	7,771
Intra-Group	-503	-488
Gambro BCT	1,359	1,212
Divested (Cobe CV)		1,152
	19,743	18,734
By market	1999	1998
Europe	6,247	6,051
Americas	11,980	10,297
Asia, roW	1,516	1,234
Divested (Cobe CV)		1,152
Total	19,743	18,734

During 1999 and 1998, the Parent company did not sell products to, or purchased products from, other group companies.

2. Other operating income

	Group		Parent company	
	1999	1998	1999	1998
Result from financial operations	82	121		
Result from patent disputes		14		
Other		125		
Total	82	260	0	0

Earnings from financial operations include earnings from the Group's internal bank taking positions in interest rates and currencies as well as earnings from sales supporting financial activities

3. Other operating cost

	Group		Parent company	
	1999	1998	1999	1998
Bad debt loss	-44	-19		
Other	-18			
Total	-62	-19	0	0

4. Nonrecurring items

	Group		Parent company	
	1999	1998	1999	1998
Result from divestitures	831	5,279		2,302
Provision for repayment of laboratory billings	-279			
Prior year adjustments	-96			
Reversal of provisions relating to divestitures in prior years	+96			
Restructuring reserve		-1,100		
Total	552	4,179	0	2,302

Note 4 continued

In the capital gain of SEK 966 M (USD 115M) from the divestiture of Cobe CV, is a provision of SEK 46 M (USD 5 M) included regarding costs for the disposal of the name Cobe and the related actions regarded namechanges.

5. Financial net

	Group		Parent company	
	1999	1998	1999	1998
Participations in group companies				
Earnings in subsidiaries divested during the year	0	84		
Dividends			163	
Capital gains			126	
	0	84	289	0
Participations in earnings of associated companies				
Participation before taxes and less minority interests	-26	-44		
Interest income				
from subsidiaries			587	465
from others	202	434	65	50
	202	434	652	515
Interest expense				
from subsidiaries			-82	-265
from others	-610	-1,099	-34	-27
	-610	-1,099	-116	-292
Other financial items				
Dividends	10	259	10	
Other financial items	13	-17	26	471
Total	-411	-383	861	694

6. Taxes

	Group		Parent company	
	1999	1998	1999	1998
Taxes paid ¹⁾	-973	-2,790	-108	-186
Deferred tax	-210	115		
Other taxes ²⁾	967	40		
Total	-216	-2,635	-108	-186
¹⁾ of which tax on nonrecurring items	-398	-2,027		

²⁾ In connection with comprehensive divestitures of companies and shares in prior years, taxes have been provided for based on conservative accounting principles. By year end Gambro concluded the SEK 969 M were excess reserves that have been reversed as tax income in the 1999 accounts.

7. Minority interest

	Group	
	1999	1998
Share in earnings after financial items	-111	-80
Share of taxes	39	32
Total	-72	-48

8. Intangible fixed assets

Group	Acquisition value	Investments	Amortization for the year	Accumulated amortization	Translation difference	Closing balance 1999	Closing balance 1998
Concessions, patents, licenses, trademark and similar rights	1,072	5	-105	-389	14	597	684
Goodwill	16,569	928	-891	-1,660	867	15,813	14,909
Total	17,641	933	-996	-2,049	881	16,410	15,593

Every year the value of the goodwill item is considered to assess if a change is needed.

9. Tangible fixed assets

Group	Acquisition value	Investments	Divestments	Transfers	Depreciation for the year	Accumulated depreciations	Translation difference	Closing balance 1999	Closing balance 1998
Buildings and land	3,267	455	-136	43	-172	-1,120	10	2,347	2,147
Machinery and other technical fixed assets	2,190	196	-4	46	-154	-1,476	-2	796	714
Equipment, tools and installations	4,018	643	-375	352	-687	-2,255	17	1,713	1,763
Construction in progress	716	373		-441			11	659	716
Total	10,191	1,667	-515	0	-1,013	-4,851	36	5,515	5,340

Parent company

Equipment, tools and installations	10	3			-1	-8		4	2
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Tax assessment values in Sweden SEK 102 M

11. Other long-term receivables

	Group		Parent company	
	1999	1998	1999	1998
Opening balance	638	334	461	365
Additions	141	304		96
Redemptions	-111		-103	
Closing balance	668	638	358	461

Included in the closing balance is deferred tax receivables of SEK 165 M (135)

12. Inventories

	Group		Parent company	
	1999	1998	1999	1998
Raw materials and consumables	262	360		
Work in progress	176	230		
Finished products and goods for resale	1,779	1,692		
Total	2,217	2,282	0	0

13. Shareholders' equity

Group	Share capital	Legal reserve	Share premium reserve	Other restricted reserves	Retained earnings	Net income	Total
Value as of Jan. 1, 1999		689		34	4,753	12,229	17,850
Transfer between restricted and unrestricted reserves					5,363	-5,363	0
Translation differences				337	208		545
Dividend					-345		-345
Net income for the year						1,605	1,605
Value as of Dec 31, 1999		689		34	10,453	6,729	19,655

Pursuant to Decision at the Annual General Meeting an amount of SEK 0 of unrestricted reserves should be transferred to restricted reserves. Unrestricted reserves in the group thereafter amounts to SEK 8.334 M.

Parent company

Value as of Jan. 1, 1999	689 ¹⁾	145			12,459		13,293
Group contribution					-39		-39
Tax on group contribution					11		11
Dividend					-345		-345
Net income for the year						561	561
Value as of Dec 31, 1999	689	145			12,086	561	13,481

¹⁾ Total number of shares outstanding 344,653,288 (of which, Series A: 250,574,090, Series B: 94,079,198)

10. Shares and participations

Parent company holdings							
Swedish subsidiaries	Corporate identity number	Domicile	Number of shares	Holding %	Book value 1999	Book value 1998	
Athena AB	556020-3316	Malmö	100,000	100	17	17	
Avenir AB	556018-0514	Stockholm	50,000	100	22	22	
Gambro Lundia AB	556057-7594	Lund	1,834,585	2	675	675	
Incentive Grosshandel AB	556067-7956	Stockholm	20,000	100	4,149	4,149	
Kungsdialysen AB	556426-6772	Uppsala	13,010	100	15	0	
Persöner AB	556053-1682	Stockholm	40,000	100	4	4	
Scandinavian Heart Center AB	556239-5193	Göteborg	64,800	100	12	0	
Örekron Holding AB	556269-5121	Stockholm	15,022,786	100	16	16	
Örekron Service AB	556475-6400	Stockholm	1,500	100	3,206	3,206	
Others					3	1	
					8,119	8,090	
Foreign subsidiaries and associated companies							
Gambro do Brasil Lda		Brazil	1	100	31	0	
Cobe SA		France	14,800	100	16	0	
Gambro SA		France	83,513	100	15	0	
Gambro International Holding BV		Holland	74	100	26	0	
Scandinavian Incentive Holding BV		Holland	716,850	100	3,308	3,308	
Gambro Dasco SpA		Italy	1	100	49	0	
Gambro China Ltd		China	1	100	66	0	
Gambro Medical Products Co Ltd		China	1	100	56	0	
Gambro Korea Ltd		Korea	2,350,000	100	117	117	
Gambro Investimentos SGPS Lda		Portugal	1	95	45	0	
Sopamed AG		Switzerland	42,000	100	664	0	
Gambro Taiwan Ltd		Taiwan	8,500,000	100	22	0	
Gambro GmbH		Germany	4	100	668	0	
Gambro Inc		USA	800	100	11,187	11,187	
Others					31	62	
Total Parent company					24,420	22,764	
Group holdings in associated companies							
Tandem Healthcare LLC		USA		50	45	0	
MacGREGOR International AB		Sweden	596,491	40	33	25	
HemaSure Inc		USA		33	85	0	
Swedish Aircraft Two KB		Sweden		30	3	5	
KB Air Preca		Sweden		33	2	3	
Holding St Exupery SA		France	9,621	46	24	25	
Jp Industria Farmaceutica SA		Brazil		25	7	8	
Others					69	50	
Total					268	116	
Other long-term holdings							
ABB Ltd			713,760	0,5	87	86	
Aastrom Bioscience Inc		USA	2,389,285	16	42	42	
Thoratec Laboratories Corp.		USA		18	20	0	
Group total					417	244	

Starting January 1st, 1999 the participation in MacGREGOR International AB is reported in accordance with the equity method.

The book value includes a subordinated loan and deductions are made of previous years internal profit.

14. Current receivables

	Group		Parent company	
	1999	1998	1999	1998
Receivables from Group companies ²⁾			11,926	14,702
Other receivables ³⁾	1,948	2,309	17	21
Prepaid expenses and accrued revenues ¹⁾	199	246	6	2
Total	2,147	2,555	11,949	14,725
¹⁾ – Accrued revenues	8	11		
– Rents	35	31	2	2
– Leasing fees	2	3		
– Interest	24	84	3	
– Other	130	117	1	
	199	246	6	2

²⁾ Receivables due from Group companies are interest free

³⁾ The amount includes SEK 799 M (1.105) of deferred tax receivable

15. Accruals for pension

	Group		Parent company	
	1999	1998	1999	1998
FPG/PRI-pensions	243	237	130	132
Other	389	349	117	120
Total	632	586	247	252

Accruals in excess of legal requirements, SEK 76 M.

16. Other accruals

	Group		Parent company	
	1999	1998	1999	1998
Restructuring reserve	508	1,100		
Other	500	661	9	3
Total	1,008	1,761	9	3

The financial statements for 1998 included a provision in an amount of SEK 1,100 M as a restructuring reserve to cover the costs of a planned rationalization program.

Provisions in 1998	1,100
Used up to year-end	-592
Remaining reserve	508

The program includes closures, transfer of production, cutbacks in personnel and development of systems and processes.

18. Pledged assets for own liabilities

Group	Chattel mortgages	
	1999	1998
Liabilities to credit institutions	30	33
Total	30	33
Parent company	Chattel mortgages	
	1999	1998
Liabilities to credit institutions	0	0
Total	0	0

17. Long-term liabilities

The composition of the group's long-term loans at year-end 1998 and 1999 respectively.

Bond loans	Group		Parent company	
	1999	1998	1999	1998
Currency				
SEK Bond falls due 2003				
Interest rate: 8.84%	300	800		
Total	300	800		
Liabilities to credit institutions				
SEK other			6,017	6,061
USD Promissory notes	1,716	196		
EUR Promissory notes	60	128		
HKD Promissory notes	87	79		
Other currencies	23	120		
Total	2,186	1,323	6,017	6,061
Less short-term payment	-40	-141		
Total	2,146	1,182	6,017	6,061

Of which owed to group companies			6,007	6,051
Owed to group companies not carrying interest			5,707	5,002

Duration

Long-term loans fall due for payment as follows:

1999		141
2000	40	557
2001	9	65
2002		
2003	470	493
2004	71	
Thereafter	1,596	67
Total	2,186	1,323

19. Contingent liabilities

Contingent liabilities	Group		Parent company	
	1999	1998	1999	1998
Other contingent liabilities	178	413	14,378	16,751
Of which for group companies			14,327	16,599

Gambro from time to time is involved in routine litigation incidental to the normal conduct to its business. In view of the difficulty inherent in forecasting the resolution of litigation, the Company cannot predict the outcome of pending litigation with any degree of accuracy. Subject to the following, the Company believes, based on current knowledge, that the liabilities related to the pending proceedings are not likely to be material to the result or financial conditions of the Company.

The Company is subject to an ongoing government investigation relating to billings for services rendered by its US laboratory to Medicare. As noted in footnote 21, during 1999 the government has issued letters claiming overpayments of USD 20.3 M, which amounts have been charged against operations in the accompanying financial statements. The Company intends to appeal these overpayment determinations; however, the ultimate outcome of the matter cannot be determined at this time.

Billings totaling USD 37.9 M are currently under review by HCFA (see page 87), which has indicated it will expand its review to cover billings from earlier periods totaling USD 17.6 M. Depending on the outcome of the investigations, the Company could be required to refund a substantial portion of the reviewed amounts and write off a substantial portion of the unbilled amounts.

The Company is cooperating with the government; however, there can be no assurance that the government will not assess the Company with fines and penalties related to the alleged overbillings. No provision has been made for any fines or penalties in the accompanying financial statements. Such fines, if assessed, could be material to results of operations and financial condition.

20. Current liabilities

	Group		Parent company	
	1999	1998	1999	1998
Liabilities to credit institutions	2,461	1,643	4	2
Advances from customers	40	32		
Accounts payable	1,075	1,110	13	19
Due to group companies ³⁾			16,319	17,630
Tax liabilities	2,147	4,830	63	215
Other liabilities	736	651	5	18
Accrued expense and prepaid income ¹⁾	2,056	2,278	19	10
Total	8,515	10,544	16,423	17,894
¹⁾ – Prepaid income	267	2		
– Accrued social fees	176	201	3	2
– Accrued vacation pay	287	223	6	4
– Accrued maintenance cost	19	2		
– Accrued interest expenses and prepaid interest income	112	8	4	1
– Other accrued expenses	1,195	1,842	6	3
Accrued expenses and prepaid income	2,056	2,278	19	10
Currency				
SEK	850	364		2
USD	317	436		
EUR	565	506		
JPY	127	110		
KRW	100	61		
Other	502	166	4	
	2,461	1,643	4	2
³⁾ Amount owed to group companies not carrying interest			15,819	17,169

22. Employees and personnel expenses

* KSEK	Number of employees		Remuneration to Board and Presidents *	of which bonus *	Remuneration to other employees *	Social costs *
	Total	whereof women				
Parent company						
Sweden	37	18	8.760	1.000	29.173	30.815
Subsidiaries						
Sweden	858	369	1,098	133	248,858	109,774
EU excl. Sweden	4,347	2,266	5,060	1,099	1,038,452	384,537
Rest of Europe	537	408	792	0	47,852	13,562
North America	10,345	7,499	56,888	5,005	3,371,251	634,427
South America	489	344	0	0	51,130	18,356
Asia	617	238	3,568	2,601	152,338	21,151
Oceania	124	58	1,137	123	31,763	5,035
Total	17,354	11,200	77,303	9,961	4,970,817	1,217,657

At year-end the number of employees was 17,286 (17,796). Of the average number of employees, 65% (62) were women.

In accordance with a decision by the Annual General Meeting, members of the Board who are not Gambro employees were paid a fixed fee totaling SEK 2,650,000. Chairman Claes Dahlbäck was paid SEK 1,000,000 of this amount. Remuneration in an amount of SEK 275,000 was paid to the other

21. Accounts receivable

Included in accounts receivable is SEK 513 M (USD 60.1 M) representing billed SEK 16 M (USD 1.9 M) unbilled SEK 497 M (USD 58.1 M) amounts due from Medicare for testing services provided by the Company's US laboratory. In June 1998, the Company discontinued submitting claims for its laboratory services, pending the outcome of government investigations which had been commenced as a result of Operation Restore Trust, a project conducted by multigovernment agencies that targeted numerous health care providers in a number of states.

During 1999, Health Care Financing Administration (HCFA), which is one of the agencies involved in the investigations, made overpayment claims totaling SEK 168 M (USD 20.3 M). The refunded amounts have been charged to operations. The claims cover the periods indicated below:

Laboratory	Period	Amount billed, USD M	Refund claim, USD M
Deland	June – Dec 96	1.5	1.5
	Jan 97 – June 98	22.6	4.8
Ft. Lauderdale	Jan – Dec 96	16.3	14.0
		40.4	20.3

These overpayment claims are in the process of being appealed as the Company does not believe the government has considered all relevant documentation in support of the medical necessity of the tests which were requested by independent physicians. Billed amounts totaling SEK 314 M (USD 37.9 M) covering the period from January 1997 to May 1998 for the Ft. Lauderdale laboratory are still under review. Additionally, the Company has been notified that the government intends to expend its review to cover billings in 1994 and 1995 SEK 146 M (USD 17.6 M).

In the fourth quarter, the Company charged SEK 124 M (USD 15.0 M) against operations. This amount includes SEK 12 M (USD 1.5 M) representing an overpayment claim related to the Deland laboratory which was received in December 1999 and a general reserve of SEK 112 M (USD 13.5 M). The reserve is being provided to recognize that because of statutory and regulatory requirements certain claims may not be billable since the investigation described above has not yet been resolved. The reserve also takes into consideration receivables that may not be collectible due to the ongoing dispute with the former manager of the Deland laboratory.

the pension premiums amounting to 35% of the fixed salary as long as the President is employed by the company.

- Pension due is based on the capital and related return which accumulates through the annual premiums as above during the remaining period of service and the pension benefits earned to and including 1997.

In addition to a six-month notice period, Lilius has the right, upon receiving notice from the Company, to severance pay corresponding to 12 months' compensation (fixed annual salary). If new employment has not been obtained after these 12 months, an additional 12 months' compensation will be paid calculated the same way as above. Severance pay shall be reduced by amounts corresponding to all compensation earned by Lilius as a result of employment or assignments.

The other members of Gambro's corporate management staff are required to submit a six-month notice and thereafter receive severance pay corresponding to 18 months' compensation. A staff member who has reached age 55 is entitled to additional severance corresponding to six months' compensation. Pension benefits are governed by a pension plan, with retirement at age 65.

Options to management personnel

Thirty-four senior executives were offered so-called synthetic options. A total of 321,000 options were issued, priced at market value as of December 2, 1994. The price per option was SEK 36. The redemption price is SEK 66.20 and term of maturity is seven years. The value of the options is based on the development of the Gambro series B share. Changes in the value of the options will be accounted for each year. At December 31, 1999 there were 73,500 options outstanding at a market value of SEK 108 per option (131.38). The options are valued at the highest of market value and sum paid. Accordingly, the book value amounted to SEK 8 M (15). In accordance with a decision in 1997, senior executives were offered call options in 1998. 34 persons were allotted 712,895 call options which were priced on market terms as of February 20, 1998. The price per call option was SEK 45.16, with a time to expiration of five years.

The Board of Directors decided early in 1999 to terminate this program and introduce a new remuneration system for personnel in senior management positions. These employee options have a duration of seven years, the first three years of which constitute a "lock-in period", meaning that if the employee ceases employment with Gambro during this period, the employee options have no value. The aim of the program is firstly to link the compensation paid to senior management to future growth in shareholder value and secondly to encourage senior management at Gambro to accumulate wealth long-term in the form of Gambro shares. During 1999, 956,150 options have been allotted to 87 persons. The redemption price is SEK 74.20.

Personnel costs

	Group		Parent company	
	1999	1998	1999	1998
Salaries and other remuneration	5.048	4.659	35	32
Social costs	1.217	1.124	31	67
(of which pension costs)	(346)	(330)	(13)	(52)
Total personnel costs	6.265	5.783	66	99

Cost for pension and other benefits

Current and former Board members and president(s)	8	51	4	45
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Obligations related to pensions and similar benefits

Current and former Board members and president(s)	167	170	164	164
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23. Future leasing fees distributed by period

2000	449
2001	375
2002	324
2003	281
2004	289
Thereafter	713

The group has adjusted reporting of leasing contracts to Swedish Finance Accounting Standard Council's Recommendation RR6. During 1999, the group has not entered into any contracts which are included in the Recommendations definition of financial leasing agreements.

24. Untaxed reserves

Allocated to tax equalization reserve	year 1997	269
	year 1998	160
	year 1999	94
Added through merger	year 1997	31
Total		554

25. Audit fees and charges

	Group	Parent company
OhrlingsPricewaterhouseCoopers		
Audit assignment	8	2
Other assignments	4	3
Other accounting firms	5	–
Total	17	5

Eight-year summary

Group

MSEK	1999	1998	1997	1996	1995	1994	1993	1992
Income statement								
Revenues	19,743	18,734	19,490	20,220	24,324	18,389	12,271	11,771
Operating earnings	2,304	5,374	14,135	4,050	3,239	2,677	417	557
Earnings after financial items	1,893	4,991	13,890	5,228	4,653	3,832	966	1,216
Net income	1,605	2,308	11,520	2,884	2,431	2,186	462	388
Balance sheet								
Total assets	33,920	33,406	49,881	34,696	32,035	35,703	18,909	19,010
Net debt	4,632	2,242	7,786	11,163	7,823	11,429	2,213	2,318
Shareholders' equity	19,655	17,850	25,385	14,581	12,246	10,976	9,922	9,500
Cash flow analysis								
Cash flow from operations	2,048	4,213	13,485	2,862	1,374	3,048	256	963
Investment in fixed assets, net	-1,529	-1,587	-1,258	-1,258	-1,550	-1,029	-533	-597
Change in net debt	-2,390	5,544	3,377	-3,340	3,606	-9,216	105	1,745
Key figures								
Earnings per share, SEK ⁴⁾	4.66	6.70	33.70	8.44	7.11	6.40	1.35	1.13
Shareholders' equity per share ⁴⁾	57	52	74	43	36	32	29	28
Net asset value per share, SEK ²⁾	57	52	101	70	58	51	51	28
Dividend per share, SEK	1.10 ¹⁾	1.00 ⁶⁾	2.00	2.00	1.80	1.60	1.40 ³⁾	1.20
Gambro share, total return %	-11.0	-29.3	46.9	73.8	24.7	-5.2	50.0	
Return on shareholders' equity, % ⁴⁾	8.6	10.7	57.6	21.5	20.8	21.0	4.8	4.2
Return on total capital, %	7.4	14.6	35.3	19.1	18.1	18.7	7.5	8.7
Return on capital employed, %	10.8	19.7	44.5	24.8	21.4	21.8	9.7	22.6
Interest coverage ratio	4.1	5.5	14.7	4.6	4.0	3.9	2.2	2.2
Solidity (equity/asset ratio), %	59	54	52	44	52	43	61	57
Statistical data								
Average number of employees	17,354	17,332	16,108	17,145	18,573	19,106	12,086	13,024
Wages, salaries and remuneration, incl. social costs	6,265	5,783	5,364	5,423	6,145	5,982	3,662	3,583

¹⁾ Proposed

²⁾ Shareholders' equity/share adjusted for surplus value in associated companies

³⁾ In addition, SEK 0.27/share in Orrefors subscription rights

⁴⁾ After full tax

⁵⁾ All figures per share are proforma after the split (June 1998)

⁶⁾ In addition, value transferred on sale of ABB shares

Accounting principles

Consolidated, associated company and Parent Company accounting
The annual report is prepared in accordance with the Swedish Annual Accounts Act. The consolidated financial statements are prepared in accordance with recommendations issued by the Swedish Financial Accounting Standards Council and include the Parent Company and companies in which the Parent Company directly or indirectly holds more than 50 percent of the voting rights or otherwise exercises decisive influence. The consolidated accounts are prepared in accordance with the purchase method. In the case of Gambro's acquisition of the Hospal Group in 1987, however, the pooling method was used. Companies acquired during the year are included in the consolidated financial statements from the acquisition date. Divested companies are excluded from the divestment date. However, the operating earnings, operating expenses and depreciation of divested companies are excluded from January 1, while earnings, after financial items, are reported as a separate item in the income statement from January 1 until the date of divestment.

Unrestricted shareholders' equity in the Parent Company, increased by the unrestricted shareholders' equity of all group subsidiaries, is reported as unrestricted shareholders' equity, to the extent that it can be distributed as dividends without requiring a writedown of subsidiary shares by the Parent Company and taking into account intra-Group eliminations and other Group items.

Acquired goodwill is amortized on a straightline basis in accordance with a plan prepared in each specific case. For long-term strategic acquisitions of companies, the maximum amortization period is 20 years. Vivra is an example of an acquisition of this nature.

The minority interest participation in earnings is reported after tax.

The equity method is used in preparing the financial accounts of associated companies, which are defined as companies in which the Parent Company directly or indirectly holds more than 20 percent but not more than 50 percent of voting rights. In the consolidated income statement, participations in the earnings from associated companies are booked under financial items, except for the 50/50 joint venture with Baxter (Tandem Healthcare LLC) which is included in operating earnings. Participations in associated companies' taxes are included in the corresponding item in the consolidated income statement.

Holdings in associated companies are reported in the Consolidated Balance Sheet at acquisition cost, after adjustment for dividends and participations in earnings or losses after the date of acquisition. Undistributed earnings of associated companies are reported among restricted reserves in shareholders' equity. Any discrepancies in the accounting principles of associated companies, compared with Gambro's accounting principles, are considered to have insignificant effects in estimations of Gambro's earnings, earnings trends, and financial position.

In the case of ABB, the value of the

remaining participations after the holding ceased to be an associated company has been retained at the value which existed when the associated company reporting ceased in 1998.

Revenues

Sales of products and services are reported on the delivery date. The sales value does not include excise taxes, VAT, returned goods and discounts. Provisions are made to cover all foreseeable losses in connection with orders on which a loss is incurred.

Translation of foreign currencies

Receivables and liabilities in foreign currencies are reported at year-end exchange rates. Hedged receivables and liabilities are reported at contracted rates when forward contracts do not exceed three months. For longer terms, forward contract mark-ups/mark-downs are annualized and reported as interest. Shareholders' equity in foreign subsidiaries is hedged when necessary against sharp fluctuations in exchange rates by means of loans in the corresponding foreign currency. Certain long-term financial transactions between the Parent Company and subsidiaries are treated as an extension of the Parent Company's investment and are reported at the acquisition rate. The translation differences which have occurred in both these cases are netted in the consolidated accounts, taking tax effects into account, against the translation differences arising in translations of net assets in the foreign subsidiaries.

Current exchange rates are used in translations of the financial statements of foreign group companies into Swedish kronor. Balance Sheets are translated using year-end exchange rates and income statements are translated using average exchange rates during the year. The resulting translation difference is charged directly against shareholders' equity. For companies in countries with a particularly high rate of inflation countries, accounting adjusted for inflation is applied to currency translations.

Inventories

Purchased inventories are valued at the lowest of acquisition cost, applying the first-in, first-out method, and actual value, while manufactured inventories are valued at the lowest of manufacturing cost and actual value, with adequate provision made for obsolescence.

Land, buildings, and equipment

Land, buildings, machinery and equipment are booked at acquisition cost, less accumulated depreciation. When write-ups are applied these are reported after deduction for depreciation. Buildings are depreciated according to plan in accordance with the straightline method for the estimated economic life. Machinery and equipment are also depreciated on a straightline basis.

Depreciation periods are:

- buildings, 25–50 years
- machinery and equipment, 3–15 years
- production tools (other than expendable tools), 3 years

Leased assets that are part of sales support leasing operations conducted by Gambro Credit are reported as long-term receivables, and are amortized in accordance with the proportion of the capital

included in leasing fees received, based on the annuity method.

Pension reporting

All pension commitments that have not been taken over by insurance companies, or otherwise funded externally, are reported as a liability in the Balance Sheet.

Research and development

Expenditures for research and development are reported as expenses when they occur.

Group contribution

The company has applied the statement issued by the Swedish Financial Accounting Standards Council's Urgent Issues Committee regarding Group contributions.

Taxes

Taxes are reported on a full-tax basis, including both taxes paid on earnings for the year and deferred taxes. A liability entry is made for all taxes due on reported earnings and capital. Such taxes are calculated in accordance with the tax regulations that apply in each specific country. In cases of uncertainty the liability is entered for the least favorable alternative.

In addition, provision is made for deferred taxes on income and expense items that affect annual accounting and income taxation but during different periods (tax deferral differences).

OECD guidelines

In all essential respects, Gambro conforms with the OECD guidelines concerning disclosure of information pertaining to companies that conduct international business operations.

DEFINITIONS

Earnings per share

Earnings per share is based on the Group's net income according to the Income Statements and the number of shares at the end of the year.

Total return

Price trend of the share, including reinvested dividend.

Operating margin

Operating earnings after depreciation, expressed as a percentage of total revenues.

Return on shareholders' equity

Net income expressed as a percentage of average shareholders' equity.

Return on capital employed

Earnings after financial items, plus interest expenses and exchange differences attributable to loans, expressed as a percentage of average total assets, less non-interest-bearing operating liabilities, including deferred tax liabilities.

Return on total assets

Earnings after financial items, plus interest expenses and exchange differences attributable to loans, as a percentage of average total assets.

Solidity (equity/assets ratio)

Shareholders' equity, plus minority interest and convertible debenture loans, expressed as a percentage of total assets.

Interest coverage ratio

Earnings after financial items, with recovery of interest expenses for loans and exchange differences attributable to loans, divided by interest expenses for loans. Financial items include dividends received from associated companies rather than earnings participations in these companies.

Net debt

Loan liabilities and pension provisions, less cash and marketable securities, including other financial receivables.

Stockholm, February 23, 2000

Claes Dahlbäck
Chairman

Gösta Gahrton	Peter H. Grassmann	Juha P. Kokko
Håkan Mogren	Sven Nyman	Björn Svedberg
Anitha Svensson-Grané	Karl-Olof Tell	

Mikael Lilius
President and CEO

Auditors' Report

To the General Meeting of Shareholders of Gambro AB
Corporate Registration No. 556041-8005

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Gambro AB for 1999. These accounts and the administration of the company are the responsibility of the Board of Directors and the President. 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 misstatements. 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 President, 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 or the President. We have also examined whether any Board member or the President 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 Group's financial position and result of operations in accordance with generally accepted accounting principles in Sweden.

We recommend to the General meeting of Shareholders that income statement and the balance sheets of the Parent Company and the Group be adopted, that the profit for the Parent Company be dealt with in accordance with the proposal in the Board Report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, February 24, 2000

Peter Bladh
Authorized Public Accountant

Peter Clemedtson
Authorized Public Accountant

Board of Directors' work

The Gambro Board of Directors consists of eight members elected at the Annual General Meeting and two members and two deputies elected by the employees' organizations. Apart from the employee representatives, the President is the only Board member who is an employee of the company.

Nominations of candidates for election as Board members by the Annual General Meeting take place through contact between major shareholders, coordinated by the largest shareholder, Investor AB.

The Board of Directors' working procedures establish the rules and principles for Board work, the division of duties between the Board and the President and financial reporting. The working procedures stipulate that prior to the start of a fiscal year, the Board must establish its own working agenda for the year, which must include the times for at least five scheduled Board meetings. The instructions for the President include authorization for him to issue quarterly and interim reports without prior treatment by

the Board and stipulations regarding the limits within which the President, without consulting the Board, may make decisions regarding investments, clinic acquisitions within Renal Care and an increase in the share capital of subsidiaries. To enable the Board to continuously monitor and control the group's financial performance and position, the President must issue monthly reports to the Board.

The Board held seven meetings in 1999. In January, the Board adopted the restructuring program of efficiency-enhancing measures within, primarily, Gambro Renal Products. The Board has subsequently been regularly informed of the development of the program and has decided on several investments within the framework of the program. As part of the strategy of consolidating the Gambro sales organization, the Board dealt with several issues pertaining to the assumption of dealers' sales rights. In the ongoing expansion of the Gambro Healthcare business area, the Board

examined a number of proposed acquisitions. The Board has also closely monitored the US government investigations and overpayment claims for laboratory services. It has also closely followed company Y2K preparations, via reports presented at Board meetings and special status reports.

One Board meeting was held in Lakewood, Colorado in the US, and it was followed by visits to Gambro BCT plants, which included presentations regarding all Gambro business areas.

The Board appointed two working committees. A salary committee, consisting of Chairman Claes Dahlbäck and Vice Chairman Håkan Mogren and Juha P. Kokko, prepares the Board's decisions on issues pertaining to the salaries and other benefits of senior executives. An Audit Committee consisting of Claes Dahlbäck, Håkan Mogren and Peter H. Grassmann, focuses on audit-related issues. The auditors, however, report to the Board as a whole.



Claes Dahlbäck



Gösta Gahrton



Peter H. Grassmann



Juha P. Kokko



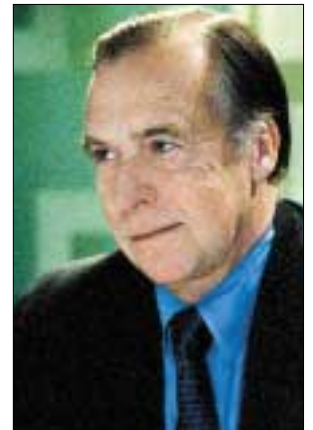
Mikael Lilius



Håkan Mogren



Sven Nyman



Björn Svedberg



Anitha Svensson-Grané



Karl-Olof Tell



Sture Hobro



Ulla-Britt Öhlin

Board of Directors

Members

Claes Dahlbäck, Chairman. Born 1947. Elected 1998. Chairman of the Boards of Stora Enso, Vin & Sprit and EQT. Vice Chairman of Investor and Skandinaviska Enskilda Banken. Shareholding in Gambro: 10,000 shares.

Gösta Gahrton. Born 1932. Elected 1998. Professor at the Karolinska Institutet. Former head of the Department of Medicine at Huddinge Hospital and Chairman of the Karolinska Institutet's Nobel Prize Committee. Vice Chairman of the International Society of Haematology. Member of the Boards of, among others, Marianne and Marcus Wallenberg's Foundation, and Deputy Member of the Board of the King Gustav V Jubilee Fund. Shareholding in Gambro: 6,100 shares, of which 1,500 belonging to his wife.

Peter H. Grassmann. Born 1939. Elected 1998. President and CEO of Carl Zeiss, Oberkochen, Germany. Member of the Board of ASM-L Holding N.V., Netherlands. Member of the Advisory Boards of Allianz and Deutsche Bank, Germany. Chairman of Carl Zeiss Co. Ltd., Tokyo and Carl Zeiss Inc., New York, among other positions. Shareholding in Gambro: 2,600 shares.

Juha P. Kokko. Born 1937. Elected 1998. Asa G. Candler Professor of Medicine and Associate Dean for Clinical Research, Emory University, Atlanta, Georgia, USA. Former Chairman of Medicine at Emory University; Chief of Nephrology, University of Texas, Dallas, Texas, USA; Past President American Society of Nephrology, and Board Member of

Discovery Therapeutics, Richmond, Virginia, USA, among other positions. Shareholding in Gambro: 2,600 shares.

Mikael Lilius. Born 1949. Elected 1991. President and CEO of Gambro. Member of the Boards of Ratos, Sweden and Huhtamäki Oy, Instrumentarium Oy and Perlos Oy, Finland. Shareholding in Gambro: 30,000 shares, 58,415 call options and 522,550 employee options.

Håkan Mogren, Vice Chairman. Born 1944. Elected 1996. Deputy Chairman of AstraZeneca PLC. Chairman of the Board of the Research Institute of Industrial Economics. Vice Chairman of the Social and Economic Council (Skandinaviska Enskilda Banken). Member of the Boards of AstraZeneca PLC, Investor and the Federation of Swedish Industries. Shareholding in Gambro: 2,600 shares.

Sven Nyman. Born 1959. Elected 1998. Managing Director of Investor. Member of the Boards of Försäkringsbolaget SPP, Diligentia and OM Gruppen. Shareholding in Gambro: 13,300 shares.

Björn Svedberg. Born 1937. Elected 1997. Member of the Boards of, among others, Investor, SAAB and Scania. Chairman of Chalmers Institute of Technology and Chairman of the Royal Swedish Academy of Engineering Sciences. Shareholding in Gambro: 2,600 shares.

Anitha Svensson-Grané. Born 1944. Elected 1998. Employee representative, Federation of Salaried Employees to Industry and Services. Board Member of the same Federation. Shareholding in Gambro: 200 shares.

Karl-Olof Tell. Born 1943. Elected 1997. Employee representative, Swedish Confederation of Trade Unions. Shareholding in Gambro: 170 shares.

Deputy members

Sture Hobro. Born 1961. Elected 1997. Employee representative, Federation of Salaried Employees to Industry and Services. Shareholding in Gambro: 0 shares.

Ulla-Britt Öhlin. Born 1942. Elected 1998. Employee representative, Swedish Confederation of Trade Unions. Shareholding in Gambro: 0 shares.

Secretary

Ingmar Magnusson. Born 1945. General Counsel, Gambro.

Auditors

Peter Bladh. Born 1949. Authorized Public Accountant. Peter Clemedtson. Born 1956. Authorized Public Accountant.

Deputy auditors

Kerstin Moberg. Born 1955. Authorized Public Accountant. Stephan Tolstoy. Born 1940. Authorized Public Accountant.



Mikael Lilius



Sören Mellstig



Brad Nutter



Mats Wahlström



Edward C. Wood



Lars Fahlén



Lars Granlöv



Bengt Modéer



Leif Smeby

Executive management

Mikael Lilius. President and Chief Executive Officer.
Born 1949. Employed 1991.
Shareholding in Gambro: 30,000 shares, 58,415 call options and 522,550 employee options.

Sören Mellstig. Executive Vice President and Head of Gambro Renal Products.
Born 1951. Employed 1994.
Shareholding in Gambro: 15,000 shares, 16,975 call options and 52,870 employee options.

Brad Nutter. Head of Gambro Healthcare (from Feb. 21, 2000).
Born 1952. Employed 2000.
Shareholding in Gambro: 150,000 employee options.

Mats Wahlström. Executive Vice President and Head of Gambro Healthcare.
Born 1954. Employed 1983 – Feb. 2000
Shareholding in Gambro: 2,000 shares and 56,315 call options.

Edward C. Wood. Head of Gambro BCT.
Born 1944. Employed 1972.
Shareholding in Gambro: 0 shares, 32,065 call options and 20,650 employee options.

Lars Fahlén. Senior Vice President, Corporate Human Resources.
Born 1943. Employed 1992.
Shareholding in Gambro: 5,000 shares, 13,865 call options (belonging to his wife) and 12,850 employee options.

Lars Granlöf. Senior Vice President, CFO.
Born 1962. Employed 1994.
Shareholding in Gambro: 200 shares and 6,810 employee options.

Bengt Modéer. Senior Vice President, Corporate Communications.
Born 1943. Employed 1991.
Shareholding in Gambro: 1,495 shares, 10,000 synthetic options, 7,310 call options and 7,920 employee options.

Leif Smeby. Senior Vice President, Research.
Born 1944. Employed 1986.
Shareholding in Gambro: 500 shares, 5,295 call options and 12,340 employee options.

Glossary

ABC

Automated Blood Collection is a lifesaving technology that enables blood centers to update their historical manual collection methods to a predictable, controllable, and more productive process designed with today's quality standards in mind. ABC also enables a blood center to collect more transfusable blood products from every donation.

Apheresis

Automated collection of large volumes of one or several specific blood components from a donor (alternatively, removal of certain blood components from the patient). The undesired components are transfused back to the donor (alternatively to the patient).

Blood Bank Technology

The products and services that enable blood centers to collect, purify and store blood components. In addition to collection of blood components, this includes methods for reducing the portion of white blood cells in collected blood (leukoreduction), pathogen inactivation, IT-applications, solutions required for, for example, therapeutic apheresis, etc.

Blood Components

Blood consists of red blood cells, white blood cells, blood platelets, blood plasma and stem cells.

Blood lines

Used to connect the patient to the dialyzer and dialysis machine.

Blood platelets (thrombocytes)

Blood platelets are cells whose main task is to check bleeding. They bind with each other to provide a natural bandage until the wound has healed.



Capitation

(USA) A type of prospective payment based on a flat rate per person paid on a regular schedule, usually monthly for a specific range of service ("full capitation" is the payment that the care provider receives for completely managing a chronic disease, see managed care), as opposed to fee-for-service, see below.

De novo

The opening of a new clinic.

Dialysis

Cleaning of the blood by artificial means; treatment provided to patients with chronic kidney failure.

Dialysis concentrate

Electrolyte solution, which after dilution with water becomes dialysis fluid.

Dialysis machine/monitor

Machine which supervises and controls the flow of blood and dialysis fluid through the artificial kidney during the treatment; the machine also prepares the dialysis fluid from water and concentrate.

Dialyzer

Often referred to as an artificial kidney; a type of filter used in dialysis treatment through which the blood flows and is cleansed.

ESRD (End Stage Renal Disease)

Failed kidney function which results in a toxic condition if the patient is not treated regularly with dialysis (about three times weekly) or receives a kidney transplant.

FDA

Food and Drug Administration, American authority that regulates the food and drug industry.

Fee-for-service

Payment system where each procedure or individual component of a treatment is billed separately.

Glomerulonephritis

Inflammation of the glomeruli of the kidney (see below).

HCFA

Health Care Financing Administration. The agency of the Department of Health and Human Services that administers the Medicare and Medicaid programs in the US.

Hemodialysis (HD)

In this form of treatment, the blood is conducted, via blood lines outside the body, through the dialyzer, where the purification takes place. In the dialyzer, the blood and the dialysis fluid flow on opposite surfaces of a thin membrane. Waste products are transported from the blood through the membrane and carried away by the dialysis fluid. The body's excess fluid is removed through the membrane by means of a pressure differential created by the dialysis machine. The entire process is monitored and controlled by the dialysis machine.

HMO

Health Maintenance Organization (USA). A health care organization that acts as both insurer and provider of comprehensive but specified medical services. A defined set of benefits is provided to a voluntarily enrolled population for a capitated payment per member per month (PMPM).

Kidney

Approximately 1,700 liters of blood normally pass through the kidneys every 24 hours. In the kidneys, the blood is distributed into about two million nephrons. The nephron is the kidney's smallest functional unit; it can independently clean the blood and produce urine. In the nephron, the blood flows first to the glomerulus, a very small global structure of minute blood capillaries. There, a large part of the liquid in the blood is squeezed out through small holes in the capillaries. The liquid contains water, waste

products, salts and many nutritive substances. The primary urine is captured in "Bowman's capsule," which surrounds the entire glomerulus. The primary urine is then concentrated. The greater part of the liquid, as well as salts and nutritive substances, are reabsorbed by the blood. What remains is urine, which is discharged to the bladder via the renal pelvis and the ureter.

Leukoreduction

Removal of contaminating white blood cells from donor red blood cells and platelets.

Managed care

A category of health care organization in the US that seeks to control cost by monitoring how member doctors and hospitals treat patients and by limiting access to specialists and costly procedures.

Medicaid

A US federal/state entitlement program that provides medical assistance for low-income persons who are aged, blind, disabled, or members of families with dependent children.

Medicare

A federally funded health insurance program that provides benefits to the elderly (over the age of 65), disabled, and those with ESRD in the US. Medicare is administered by the HCFA.

Pathogen Inactivation

A process to inactivate viruses, bacteria and other pathogens prevailing in the blood

Peritoneal dialysis (PD)

Peritoneal dialysis is a form of dialysis that differs from the more common hemodialysis in that the blood is treated without being removed from the body. Instead, the cleansing fluid is brought into the patient's abdominal cavity, where the peritoneum acts as a dialysis membrane. Dialysis fluid in plastic bags, sterile blood lines, and in some cases special machines to pump the fluid in and out of the body, are required in this form of treatment. In the most common form of peritoneal dialysis, known as CAPD (Continuous Ambulatory Peritoneal

Dialysis), the patient manually changes the dialysis fluid approximately every four hours. With APD (Automated Peritoneal Dialysis), treatment can be performed by a machine, and can thus take place even when the patient is sleeping.

Plasma

The fluid plasma transports nutrients, salts, waste products and other substances.

Red blood cells (erythrocytes)

The red blood cells, which are tiny, pliable discs, are transported through our arteries and veins 3,000 times per day. Their primary function is to deliver oxygen to tissues.

Stem cells

Stem cells are found in the bone marrow or, to a lesser extent, in the peripheral blood system. They are the blood's mother cells, which eventually develop into red or white blood cells or blood platelets.

Stem cell therapy

Stem cells are collected from the blood system and infused into the patient who is then capable of forming new blood. Cancer patients may need an infusion of various types of stem cells following treatment with cytotoxic drugs or chemotherapy.

Theurapeutic apheresis

Diseased or damaged blood cells or plasma are removed from the patient and replaced by donated or artificially produced (healthy) blood cells.

Transfusion medicine

Involves the collection of various blood components from healthy donors for transfusion to patients in need of such therapy.

White blood cells (leukocytes)

White blood cells are circulating nucleated cells that are classified into a number of sub-groups that in an overall sense function to protect the body when it is exposed to challenges such as disease, toxins, allergens etc.

Addresses

This list is not complete – all the clinics are missing, among others

HEAD OFFICE

Gambro AB

Mailing address: Box 7373
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ARGENTINA

Gambro Healthcare S.A.

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AUSTRALIA

Gambro Pty. Ltd. (Sydney)

Mailing address: P.O. Box 6604 BHBC
BAULKHAM HILLS, AU-NEW SOUTH WALES 2153
Visiting address: 3, Hudson Avenue, Castle Hill
Tel: +61-2 96 80 27 11, Fax: +61-2 96 34 13 75

Gambro Pty. Ltd. (Melbourne)

Manufacturing
27, Healey Road, DANDENONG, AU-VICTORIA 3175
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Sales offices in Brisbane (Queensland),
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AUSTRIA

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Gambro BCT Marketing

Tel: +32-2 715 05 60

Gambro BCT Sales Belgium & Holland

Tel: +32-2 715 05 50

Gambro BCT Sales International

Tel: +32-2 715 05 55

Gambro NV/SA

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Tel: +32-16 29 87 50, Fax: +32-16 22 65 21

Hospital NV/SA

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Branch Offices:

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Gambro Medical Products (Shanghai) Co Ltd.

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Gambro Meopta S.R.O.

Manufacturing

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Eurocon

Repr. Office

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Gambro A/S

Jydekrogen 8 DK-2625 VALLENSBAEK
Tel: +45-43 62 05 00, Fax: +45-43 62 07 49

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Gambro Estonia

Repr. Office

Raudtee 10-1 EE-11614 TALLINN
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FINLAND

OY Gambro

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FRANCE

COBE S.A.

1-3 Boulevard Charles de Gaulle
FR-92707 COLOMBES CEDEX
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Gambro S.A.

1-3, Boulevard Charles de Gaulle
FR-92707 COLOMBES CEDEX
Tel: +33-1 41 19 31 00, Fax: +33-1 47 81 51 85

Hospal Industrie S.A.

Manufacturing

Mailing address: B.P. 126
FR-69883 MEYZIEU CEDEX

Visiting address: 7, Av. Lionel Terray
Tel: +33-4 72 45 25 25, Fax: +33-4 72 45 24 24

Hospal International Marketing

Mailing address: P. O. Box 7315
FR-69357 LYON CEDEX 07

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Algeria and Morocco:*

Gambro Export

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GERMANY

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Zweigniederlassung der Gambro GmbH

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DE-82145 PLANEGG

Visiting address: Lochhamer Strasse 15, Martinsried
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**Gambro Dialysatoren GmbH & Co KG
and Gambro GmbH (holding company)**

Manufacturing

Mailing address: Postfach 1323
DE-72373 HECHINGEN

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Research

Visiting address: Ermelesstrasse 76
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Gambro Medizintechnik GmbH

Zweigniederlassung der Gambro GmbH
Sales office

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Hospal Medizintechnik GmbH

Sales office

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JOKA Kathetertechnik

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MTN Medizintechnik Neubrandenburg

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Biosol S.p.A.

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Gambro Dasco S.p.A.

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Gambro S.p.A.

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Gambro S.p.A.

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Hospal S.p.A.

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BCT Division

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Manufacturing

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Gambro Latvia

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Gambro Lithuania

Repr. office

Silo 50-6 LT-2055 VILNIUS

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MACEDONIA

Gambro Export

Sales Office

Bul. J. Sandanski 116/4 MK-91000 SKOPJE

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Gambro de México, S.A. de CV

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Manufacturing

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Visiting address: Blvd. Pacifico No. 10014

Parque Industrial Pacifico 2a. Seccion, TIJUANA

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Gambro BCT Europe NV/SA

see Belgium

Gambro B.V.

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NL-4800 CD BREDA

Visiting address: Franse Akker 1

Tel: +31-76 541 16 00, Fax: +31-76 541 19 68

Hospital B.V.

Mailing address: P. O Box 3245 NL-4800 DE BREDA

Visiting address: Franse Akker 1

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Gambro Pty. Ltd.

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Gambro AS

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Gambro Poland sp. z. o. o.

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Gambro –

Soceidade de Produtos Médicos, Lda.

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Gambro II –

Produtos de Hemodialise Lda.

Manufacturing

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Hospal S.A.

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SE-103 91 STOCKHOLM

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Gambro Svenska Försäljnings AB

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Gambro AG

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Manufacturing
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Gambro Healthcare, Inc.

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Gambro Healthcare, Inc.

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Gambro Healthcare, Inc.

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Gambro Renal Products, Inc.

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Gambro Renal Products, Inc.

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YUGOSLAVIA

Gambro Export

Sales Office
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Annual General Meeting

The Annual General Meeting will be held on Monday, March 27, at 6.00 p.m., at the Globe Arena Annex, Stockholm.

Notification

Shareholders who wish to participate in the Annual General Meeting must be listed in the share register maintained by the Swedish Central Securities Depository and Clearing Organization (VPC) not later than March 17, 2000.

Shareholders whose shares are registered in the names of trustees must, in ample time prior to March 17, 2000, temporarily reregister the shares in their own names in VPC's share register.

Shareholders who wish to participate in the Annual General Meeting must notify the Company by mail to Gambro AB, Box 7373, SE-103 91 Stockholm, not later than 12.00 noon on March 21, 2000. Separate invitations have been sent. Notification may also be made by telephone to +46-8-670 25 70, or by fax to +46-8-611 57 31.

Dividend

The Board of Directors has proposed March 30, 2000 as the record date. If the Annual General Meeting approves the proposal, dividends are expected to be paid from VPC on April 4, 2000.

Financial reports

Year-end report 1999: February 23
Annual General Meeting: March 27
Three month report, Jan-March: April 26
Six month report, Jan-June: July 26
Nine month report, Jan-Sept: October 26

Financial reports can be ordered from
Gambro AB
PO Box 7373
SE-103 91 Stockholm, Sweden
Tel: +46-8-613 65 00
Fax: +46-8-611 57 31
weborder@gambro.com

All financial information is published on Gambro's website, www.gambro.com, immediately after release.

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