



Pål Ryfors,
CEO

Message from the CEO

Significant improvement of the financial results

During the second quarter of 2017, we continued our important work of acquainting orthopaedic surgeons across Europe with the Episealer® technology. This work brings us closer to our goal of standardising patient-specific treatment alternatives for the treatment of focal cartilage and bone defects of the knee joint. During the quarter, we have continued to focus on our key markets in Germany, the UK, the Nordic region and Benelux. We have also continued our preparatory work for the US market. We are reporting on a significant improvement in the financial results, primarily driven by lower costs.

As I write this, we have just communicated that the 250th surgery with our Episealer® knee implant is scheduled for the coming weeks. More than 100 of our patients have now had their implants for over one year since surgery and almost 50 of those have had their implants for two years, 12 patients have had their implants more than three years and four patients have had their implants more

than three years since the Episealer® surgery, the patient continues to demonstrate significant improvements in pain and outcome scores that have also enabled a return to sporting activities. This patient has, after many years of severe pain and inability to work, returned to an active life. The patient's life quality increased significantly during the follow-up period and the good results did not deteriorate during these three years. In addition to the encouraging clinical results, we are also intrigued by the fact that this case report mentions the wider welfare savings that can potentially be offered by our technology, enabling patients to get back to work. Orthopaedic surgeons see this kind of patient daily, and when the Episealer® technology constitutes a natural part of the treatment algorithm, we will have achieved our goal.

Moreover, we recently communicated that we have been appointed as approved supplier to Spire Healthcare, one of the largest hospital groups in the UK. This is of great

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than four years since surgery. These numbers will continue to increase rapidly, supported by very strong clinical data.

I would like to continue by briefly summarising a recently published case study with clinical data of an Episealer® patient. I choose to focus on this report as it in many ways is representative for situations we encounter daily. The peer-reviewed case study, written by the Danish orthopaedic surgeon Jens Ole Laursen, was recently published in the Journal of Exercise, Sports and Orthopedics. The patient in focus had sustained a sporting injury that severely damaged a zone of knee cartilage. The damage led to several failed surgeries and two years of unemployment. At the age of 31, the patient underwent an Episealer® surgery, recovered quickly from the procedure and returned to work as a carpenter within three months. Now, more

importance to us, not only because of future business volumes, but also because it is a recognition of the quality of our technology and a signal about the fact that there is a need for more efficient treatment methods for this previously difficult-to-treat patient group.

Recently, we communicated that we have hired Dr. Michael Manley to the company as special strategic advisor for our US strategy. Dr. Manley has held leading positions in the orthopaedic industry in research and development for more than 30 years. Since 1987, Dr. Manley has been with Stryker Orthopaedics, one of the leading companies of the orthopaedic industry. At Stryker, Dr. Manley was Chief Scientific Adviser up to December 2016. Dr. Manley will play an important role for us in our preparatory work for a launch in the US market.

I would like to continue by addressing the financial results for the second quarter, and I can conclude that the result improved significantly compared to the previous quarter and compared to the corresponding quarter the previous year. The result is approximately SEK 3.5 million better than during the second quarter 2016 and approximately SEK 6 million better than during the first quarter 2017. During Q1 2017, the result was negatively impacted by extraordinary expenses of some SEK 3 million related to the previous CEO, however, also adjusted for these expenses, there is an evident result improvement. The sales are increasing, however, as this development is yet to fully impact the financial statements, the improvements to date are primarily generated from lower expenses. We are continuously focusing on cost control and we are looking forward to seeing continued result improvements driven by future increases in sales, both on the short- as well as long-term. Our view is that the costs for the US efforts will increase from current levels although our ambition is that we will partly off-set this increase by increased efficiency in the European operations.

On a final note, I would like to highlight a couple of organisational changes that have taken place since our last report. In June, the Board appointed me as Chief Executive Officer of Episurf Medical, and I am both very

happy and proud of this expression of confidence. I am convinced about the potential that this company has and I am determined to contribute to ensuring that this company and its technology achieve their full potential and reach the position they deserve. Following my appointment as CEO, Veronica Wallin was appointed Chief Financial Officer of Episurf Medical. Previously, Wallin held the position as Head of Finance, but she now assumes the full responsibility for our financial operations. Just after the CEO appointment, Dennis Stripe re-assumed his position as Chairman of the Board, having held the position of Executive Chairman since January 5.

We have a full team in place, the clinical results are excellent, the financial results are clearly developing in the right direction, more and more patients become aware of the opportunity of a treatment with the Episealer® implant, and the acceptance of our technology is increasing rapidly. Our full team is very enthusiastic about the future for Episurf Medical.

Stockholm, August 2017

Pål Ryfors
CEO