

ARTIMPLANT IS A
BIOMATERIAL COM
ANY THAT FOCUSE
ON ORTHOPEDIC
RGERY SOLUTION
ANNUAL REPORT

Artimplant Annual Report 2002

Artimplant 2002

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Milestones

1986

An interdisciplinary group of researchers in Gothenburg, lead by professors Lars Peterson, Per Flodin and Bengt Edberg begin developing a biocompatible and degradable material to use as an implant in anterior cruciate ligament (ACL) reconstruction.

1990

The company Artimplant (publ) is incorporated (Artimplant) is formed to carry on with the activities under commercial forms.

1991

A patent is granted in Sweden for a technology for connecting a growth factor to polymer materials.

1995

The first pre-clinical studies using Artimplant's ACL implant begin.

1997

A Swedish patent is granted for hydrolyzable fiber polymers for use in temporary implants.

Artimplant raises SEK 67.5 million (before underwriting expenses) through its initial public offering. The Company is listed on the Stockholm Stock Exchange.

Pilot studies begin that include the first operations on humans using Artimplant's ACL implant.

1998

Artimplant acquires Gothenburg Medical Center (GMC), a hospital specializing in sports medicine. GMC is internationally renowned for cartilage cell transplantations and reconstructive joint surgery.

1999

Pilot studies begin on the treatment of thumb ligament injuries and thumb-base arthritis (carpometacarpal arthritis).

The Company's first multicenter study of ACL reconstruction begins.

Follow-up data from the pilot study on ACL reconstruction is presented at the annual meeting of the Swedish Medical Association.

2000

Operations in the first multicenter study on ACL reconstruction are completed. Operations begin in the second multicenter study on ACL reconstruction.

The Company raises SEK 143 million (before underwriting expenses) via a directed share issue, primarily to non-Swedish institutions.

Six-month follow-up data are presented from the pilot study on chronic instability in thumb joints that started in 1999.

The Artelon patent for the Company's fiber material is granted in the United States and Europe.

Annual general meeting

Artimplant AB's annual meeting of shareholder will be held on Tuesday, April 29, 2003 at 5.00 p.m. at Artimplant AB (publ), Hulda Mellgrens gata 5, Gothenburg, Sweden. Registration will begin at 4.30 p.m.

Shareholders who intend to participate must notify the Company no later than April 24, 2003, in one of the following ways:

- Send an **E-mail** to bolagsstamma2003@artimplant.se
 - Send a **fax** to + 46 (0)31-764 56 60
 - **Phone** + 46 (0)31-746 56 38
 - **Write** to Artimplant AB
Hulda Mellgrens gata 5
421 32 Västra Frölunda
- Please include your name, personal identification number or VAT registration, address,

telephone number and the number of shares in the share register as per April 17, 2003.

To vote at the annual general meeting, a shareholder must be entered by name in the share register maintained by Värdepapperscentralen VPC AB by April 17, 2003. Shareholders whose shares are held beneficially by a trustee, such as a bank or brokerage, must temporarily re-register their shares in their own names to take part in the meeting. This should take place well in advance of the date specified.

2001

Artimplant's quality assurance system is certified by Lloyds Register Quality Assurance. Artimplant's first product, Artelon Augmentation Device ACL receives CE approval, allowing it to be sold in Europe.

The first key opinion leader education (KOLED) seminars on Artelon Augmentation Device ACL are held in Europe.

2002

Artimplant refines its strategy. Products and material technology are to be commercialized via licensing to leading companies with global distribution and strong trademarks.

A license agreement within wound care is signed with Mölnlycke Health Care AB.

Tord Lendau becomes the new CEO. The Company implements extensive cost reductions in order to create a more efficient organization adapted to the strategy of the Company.

The Company raises MSEK 30 before underwriting expenses from a directed share issue. A decision is made to provide the Company with an additional and minimum amount of MSEK 15 via a rights issue.



Business concept Artimplant is a biomaterial company that focuses on orthopedic surgery solutions. The Company runs R&D operations for biodegradable implants and develops production processes for the implants. Its goal is to enable active lives. Artimplant's biomaterial is based on a new technology that is opening new markets within orthopedic surgery and related areas that have extensive med-tech needs.

Vision Artimplant's vision is to become the partner of choice for the development of biomaterial applications for the treatment of damaged and defective tissue in the human body.

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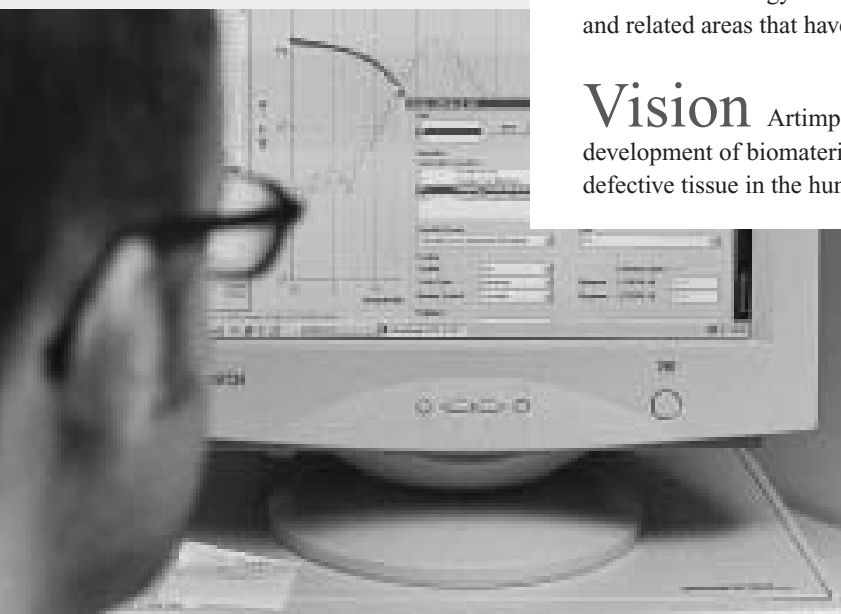
Financial information

Three-month reportApril 30, 2003

Six-month report.....August 29, 2003

None-month report.....November 7, 2003

(Corporation identity no. 556404-8394)



Letter from the CEO

2002 – A year of change

At Artimplant, 2002 was a year of change. We carried out an extensive program of restructuring to reduce the Company's cost base and to make operations more efficient. We expect that this program will reduce the Company's level of costs by almost half when all the measures we have implemented take their full effect. We have not only reduced the use of external consultants, but also the number of permanent employees. The program also entails a general overhaul of costs, which identified additional opportunities for savings. Based on a strategic decision taken in 2001, the Company's marketing organization was discontinued. Discussions with potential collaboration partners that have the marketing and distribution channels required to successfully commercialize Artimplant's products have commenced. In our opinion, after these changes, Artimplant is now well prepared for a new phase in its development, the commercial launch of the product platform.

2002 was also a breakthrough year for Artimplant. In September, we signed a licensing agreement with Mölnlycke Health Care, one of the world's leading manufacturers of wound care products. Together we will develop products for the treatment of chronic wounds and burns based on Artimplant technology. Mölnlycke will pay royalties on future sales. The agreement implies recognition of quality for Artimplant's material technology and demonstrates a significant commercial potential for our products. We are very hopeful that we will be able to present similar licensing agreements within other product fields during 2003.

Product strategy

On the eve of 2003, we have focused our activities around product applications for orthopedic surgery where we will be concentrating on four products which we believe have the greatest commercial potential and in fields where Artimplant's products have reached the most advanced stage



– The treatment of thumb-base arthritis, Artelon Spacer CMC-1 (Spacer), Reinforcement bands for ACL reconstruction, Artelon Augmentation Device ACL (ACL Augmentation) and prostheses for the replacement of anterior cruciate ligaments, ACL Prosthesis and Reinforcement Bands for a number of the body's different ligaments. In addition, Artimplant will be developing wound care products together with Mölnlycke Health Care. There are more possibilities for other products based on the Artelon technology, but, as in the case of wound care products, these will only be developed to the extent that customer financing is available.

FDA Approval

In collaboration with consultants, we have drawn up a plan to attain an FDA approval as soon as possible. Our goal is to obtain this approval during 2003.

Product licensing

At Artimplant, we are working towards being able to present new collaboration agreements for Artelon™-based products during 2003. Our primary focus, and that which is closest at hand, is the outlicensing of Spacer followed by a collaboration and licensing agreement for ACL Prosthesis. We also aim to arrive at a licensing agreement for ACL Augmentation during 2003.

Financing

Our financial plan to achieve a positive cash flow is based on several steps. The first and most important step consisted of the program of actions that was launched during the fall with the purpose of lowering the cost base. Step 2 consisted of the directed share issue, primarily to current private and institutional

shareholders, which was carried out during the month of December and yielded MSEK 30. Step 3 will comprise the process we have initiated to divest Gothenburg Medical Center. This is a natural consequence of the change in strategy that has shifted our focus from having our own sales and marketing force to the licensing out of products. We hope that all our shareholders will take part in the impending rights issue, the final step in Artimplant's financial plan. The rights issue offers those shareholders who were unable to take part in the directed share issue an opportunity to participate in the future development of Artimplant on the same terms that applied for the directed share issue.

A glance ahead

Now that we have 2002 behind us, we can observe that a large part of the extensive program of actions has been implemented. We have achieved the desired effects and can once again concentrate our efforts on the future. Today, Artimplant can offer a unique product platform that will be commercialized in gradual stages. We have received a great amount of interest from potential collaborative partners and this, in combination with a plan for FDA approval, encourages us to believe that we will already be able to present new agreements during 2003. However, in order to boost financial resources and secure room for manoeuvring, Artimplant will need to strengthen its balance sheet. Together with other measures that have been implemented and announced, the impending rights issue will provide Artimplant with the resources it requires to carry this plan into effect. We strongly hope that you, our shareholders, will see the favorable opportunities facing Artimplant, and that you will subscribe to shares in the rights issue.

Finally, I would like to take this opportunity to express my thanks for the confidence exhibited by shareholders, personnel, former employees and our collaboration partners.

Tord Lendau
Chief Executive Officer, Artimplant

Biomedical material in focus

In the last 50 years, average live expectancy (ALE) has increased significantly in many parts of the world. The increase in ALE has also resulted in a shift in the age structure. In the USA, between 1960 and 1990, the number of people over the age of 65 increased by 90 percent, and the category over the age of 85 increased by 230 percent while the population as a whole only grew by 40 percent. The change in the age structure is similar all over the Western World and in most industrialized countries. We not only get citizens that are older. Older people also endeavor to continue with normal daily activities such as sports and exercising even in their latter years, which leads to an increased risk for injuries. More and more people are taking part in sporting activities such as recreational activities and professional sports, and the number of sport-related injuries is also increasing.

Swedish companies have established themselves as world-leaders within certain segments of the biomedical materials industry, e.g. dental implants. Swedish research within biocompatible materials is also at the forefront and has received long-term assistance from the Swedish Foundation for Strategic Research. One of the objectives with this research has been to develop new generations of functional biomaterials. Optimal biological and clinical results will be obtained via a systematic combination of surgical techniques, new biomaterials and post-surgical treatment providing reconstructions with more rapid healing and a patient with improved function.

Earlier, biotechnology for the development of drugs, diagnostic and medical devices was the focus of our work at Kabi and Pharmacia, and in recent years at AProPos Research where we have followed the development within a few newly established research-oriented companies. One of these is Artimplant, which has an interesting technology that we believe can develop important new products.

Different polyurethane polymers have been used as biomedical materials for a long time. One characteristic in focus for the earlier generations of these materials was the fact that they were biologically inactive. The requirement for good compatibility with biological tissue and minimal risk for immunological reaction against a foreign body still applies. Controlled degradation and biocompatibility are required for new biomaterials. As a consequence, these biomaterials aid the regeneration of tissue, which is also the ultimate aim of the implant.

Different properties such as strength, elasticity and rate of degradation that comply with the requirement in different applications can be modified via variations of the chemical structure in Artimplant's polyurethane ureas as well as the design of the fibers and textile construction. Artimplant has developed patented technological platforms – a synthesis of polymers, the spinning of fibers and tissue from biomaterials – in order to produce biodegradable materials suitable for different types of implants based on the same basic polymer.

Information from the Mayo Clinic (September 2002) shows that an injury to the anterior cruciate ligament (ACL) in the knee is one of the most common sports-related injuries. In the USA alone, approximately 250,000 people suffer from split or torn anterior cruciate ligaments (ACL). A large share of these undergo surgical reconstructions where the ligament is replaced with an autograft.

The need for a synthetic biomaterial as an implant is evident, but earlier materials have had a high degree of failure. Artimplant's biomaterial – Artelon™ – exhibits such properties that a successful anterior cruciate ligament reconstruction is highly probable.

The human hand is a unique organ for gripping and touch with a construction that enables a great amount of movement, providing both grip strength and a finely balanced sense of touch at the same time. Joint injuries and damaged cartilages (arthritis) are common, especially in women. Often, arthritis occurs in the joint between the metacarpal bone in the thumb and the adjacent saddle-shaped bone in the wrist. This results in impaired movement of the thumb, grip strength and often pain. Today, we try to alleviate these problems or eliminate them via an operation with an autograft from the region of the thumb. However, an autograft is often associated with problems at the graft donor site, which indicates the need for a synthetic implant with biocompatible characteristics. In this context, the versatility and flexibility in construction of the Artelon fiber should present interesting possibilities. Spacer, a T-shaped textile device, can be implanted to replace the damaged or completely destroyed cartilage in the joint.

Berndt Sjöberg Ulf Lundkvist

APROPOS RESEARCH AB
Uppsala
February 12, 2003.

AProPos Research is an independent firm of consultants working with the evaluation of medical research. The firm was founded by Berndt Sjöberg (PhD) and Ulf Lundkvist (PhD) in 1996. Berndt and Ulf both have solid research and development backgrounds from leading positions in such companies as Astra and Pharmacia. Collectively, they have almost 80 years of work experience from the life science sector, primarily with research-related assignments. They have been elected members of several boards in both listed and privately held life science companies. Berndt Sjöberg has published approximately 150 articles in scientific periodicals and has board experience from the venture capital industry.

Market

The Orthopedic Market

In 2002, the orthopedic market amounted to approximately \$14 billion and is expected to double to \$27 billion in 2006¹. The market is dominated by a few major companies – the ten largest companies control 70 percent of the market. There are also a number of small and medium-sized players. The USA is the single largest market for orthopedic products and represents approximately 60 percent of world market sales.

The margins for large established companies are high; a rough estimate of the average gross margin for the industry is 70 percent.

Reconstruction products (found in most indication fields in the diagram below), the segment within which Artimplant primarily operates, is the largest seg-

ment within the market for orthopedic products and represents approximately 50 percent of the total sales. During recent years, price increases of up to five percent per year have been implemented, and this, together with increases in volumes, has contributed to strong growth within the segment. We expect this development to continue in the next few years. Growth in the next five years is expected to run at more than ten percent per year. Artimplant believes that reconstruction products made from biomaterials will exhibit a rate of growth that will exceed this level.

Market participants

Biomet, Centerpulse, Depuy Orthopaedics (a subsidiary to Johnson & Johnson), Innomed, Medtronic, Smith & Nephew,

Stryker and Zimmer are some of the major participants in the industry.

Trends

During 1999, the sector was characterized by a period of significant consolidation. Significant transactions include Johnson & Johnson's acquisition of DePuy for approximately \$3.5 billion and Medtronic's acquisition of Sofamor Danek for \$3.3 billion.

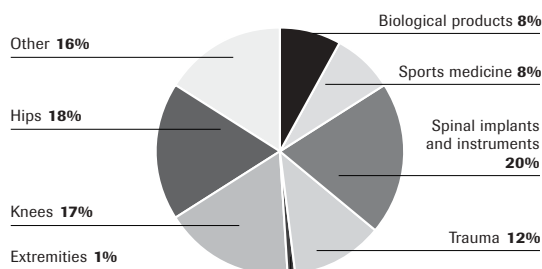
More and more, the orthopedic market is beginning to resemble the biotechnology/pharmaceutical market, where the large pharmaceutical companies feel the need to license products from smaller companies or acquire smaller players in order to gain access to new products and to increase growth.

¹ UBS Warburg, September 9, 2002

The Orthopedic Market 2001

Revenues 2001: US\$ 14 Billion

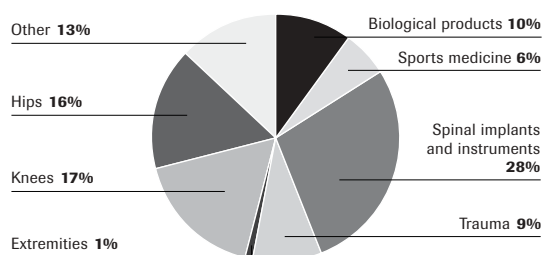
Source UBS Warburg



The Orthopedic Market (Forecast)

Revenues 2006: US\$ 27 Billion

Source UBS Warburg



Business model

Artimplant is a biomaterial company that focuses on orthopedic surgery solutions. The Company runs R&D operations for biodegradable implants and develops production processes for the implants. Its goal is to enable active lives. Artimplant's biomaterial, Artelon™, is based on a new technology that is opening new markets within orthopedic surgery and related areas that have extensive med-tech needs. Artimplant has developed and patented several different degradable ligament implants that are now in clinical trials.

In the fall of 2001, Artimplant decided that future market introductions of products would be implemented in collaboration with one or several partners. The market for orthopedic products is concentrated to a limited number of international companies with established sales organizations. Most of these are American. Confidential discussions have been carried out

with several of these companies during 2002 to establish collaboration for the future development of the products and future distribution agreements. During the year, an agreement was reached with Mölnlycke Health Care regarding continued research collaboration for wound care products based on Artelon™. The agreement provides Mölnlycke Health Care with a license to sell these wound care products in the future.

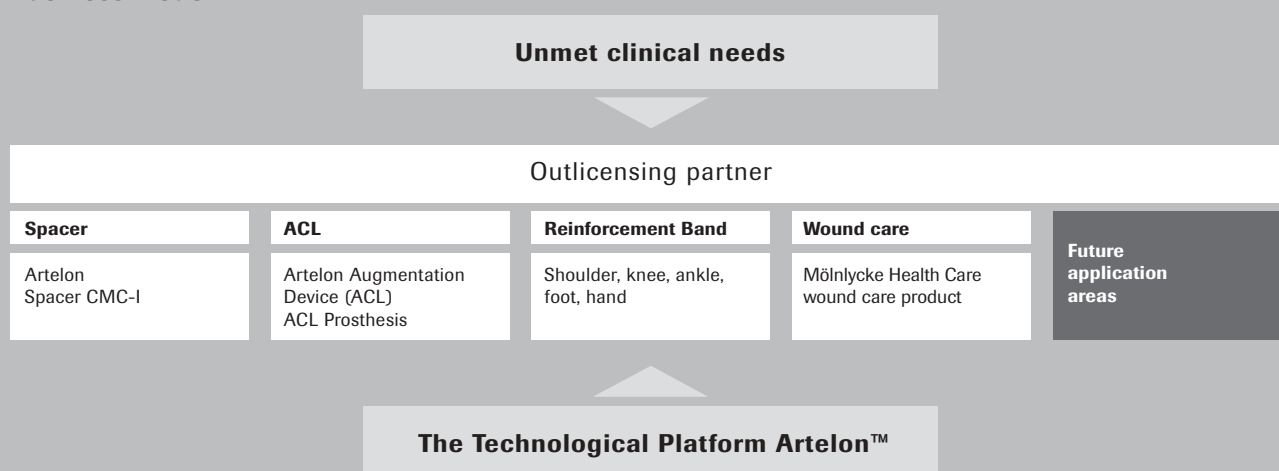
During 2002, we continued to refine our strategy by concentrating on those products that we expect will enable the most rapid commercialization and thus provide Artimplant with revenues. Overall, Artimplant is now working with five projects and development programs, of which four are oriented towards the orthopedic area. The fifth area, wound care, is directed towards the outlicensing of technology to Mölnlycke Health Care. For the time

being, other products or product ideas have been deprioritized pending additional resources to bring them to market.

A major difference compared to the previous business model is that all revenues shall be generated via upfront payments from the licensee and from royalties on sales instead of via company sales. In future, production, patient studies, registration with authorities and distribution shall be effected largely by or in collaboration with partners in order to get products to market more rapidly.

Currently, Artimplant's most important task is to generate a stream of revenue from existing products and development projects. As in the case of wound care products, additional ventures will only be developed to the extent that financing can be obtained via agreements with partners.

Business model



The technological platform

Artelon™ is a unique patented biomaterial characterized by controlled degradation, unique mechanical properties and biocompatibility in both hard and soft tissue. The material has turned out to be usable in a number of medical applications.

The original idea behind the development of Artelon™ was for it to be able to repair torn ligaments in the knee. Synthetic materials previously used for ACL reconstruction in the knee had a number of apparent deficiencies. The non-degradable materials used were often too rigid and the degradable materials degraded too quickly. Lars Peterson, Per Flodin and Bengt Edberg, three of the founders of Artimplant, began working with the problem in the 1980s.

The people behind the project

A professor in orthopedics, Lars Peterson decided that the material had to be biocompatible, degradable and have suitable mechanical properties. Per Flodin, professor in polymer technology, introduced his work with polyurethaneureas. The group of materials has previously exhibited good biocompatibility in different medical applications and by changing the chemical structure, the mechanical properties and rate of degradation can be varied to a large

extent. The work also entails the development of production processes, among other things the spinning of polymers to fibers. Bengt Edberg, professor in textile technology, developed products with different constructions in order to utilize the properties of the fibers. In so doing, the products can be adapted to the intended application and the demands of orthopedic surgeons.

Help dictated by the conditions of the body

Artelon™ is a polycaprolacton-based polyurethaneurea. The strength and flexibility of Artelon can be adjusted in the production process. By spinning fibers of polymers, the molecules are oriented and the material obtains its strength primarily in one direction. The fibers can then be woven to bands with mechanical properties comparable to the body's ligaments.

During degradation, the strength of the Artelon fibers is reduced by approximately 50 percent in two years and to almost zero

in a little more than four years. A controlled degradation rate is crucial if the body's tissue that is formed between the Artelon fibers is to take over. If the rate of degradation is too slow, the tissue will not be exposed to mechanical loads and thus will not mature. If the rate of degradation is too high, the tissue is exposed too early and there is a great risk for rupture.

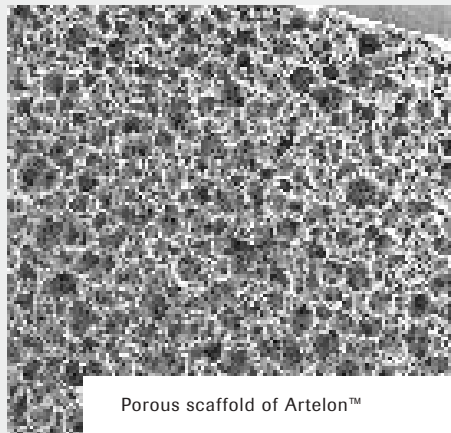
A third requirement – in addition to suitable mechanical properties and degradation – is that Artelon™ is biocompatible in both hard and soft tissue. Studies of biopsies from patients more than three years after implantation of Artelon™ showed that the patient's own tissue had grown into the implant. The tissue is in close contact with the material and the cells are oriented parallel to the Artelon fibers, which is a sign that the tissue is absorbing the load. No sign of any chronic inflammatory reactions or foreign body reactions have been observed in any of the biopsies studied.

Innovations to be expected

Artelon™ is a material that can be formed into various shapes and applications for use in the body. The polymer can be spun to a multi-filament fiber, which in turn can



Light micrograph from patient with ACL Augmentation 33 months after implantation. The biopsy shows Artelon fibers (light bands) and the patient's own tissue between the Artelon oriented in the direction of the load.



Porous scaffold of Artelon™



Fiber of Artelon™

be processed with different textile technologies. Artelon™ can also be formed into porous scaffolds with varying degrees of porosity and pore size distribution as well as into thin films with varying degrees of permeability.

Thanks to its great variation, Artelon™ will be able to help the body help itself in different ways.

Alternative materials and methods of treatment

In different manufactured forms, Artelon™ can be used in a number of medical applications. The competition facing products of Artelon™ comes partly from traditional treatment, and partly from different types of biological and synthetic implants. In order to compete with traditional treatment, implants with properties that provide better results are required, something Artelon™ has illustrated in the ongoing clinical studies.

Biological implants can consist of the patient's own tissue (autograft), tissue from other people (allograft), or tissue from animals (xenograft). Use of autograft involves an extra surgical procedure which results in a longer operation and can also give rise to problems at the graft donor

site. Both allografts and xenografts are possible rivals to autografts since problems arising at the graft donor site are eliminated and it is possible to obtain tissue of varying size and shape. However, there are major disadvantages with these tissues. The immune response resulting in rejection and the risk for the transfer of illnesses are serious problems beside the greatly limited availability of allografts.

Alternative synthetic materials are non-degradable and degradable polymers. Synthetic non-degradable polymers that were previously used when replacing tendons and ligaments have been lacking relevant mechanical properties. The materials have been too rigid, or have resulted in a permanent extension during protracted loading. Another serious problem has been the formation of particles in connection with wear of the polymer. Most polymers are not intended to degrade in the body, but age and in so doing lose their intended function. Most common among the synthetic degradable polymers are polyglycol acid (PGA), polylactic acid (PLA) and polydioxanon (PDS), which is primarily used as a material in sutures. They have the same shortcomings when it comes to mechanical properties as the non-degrad-

able polymers and in comparison with Artelon™, they lose their mechanical properties quite quickly. The degradation products from PGA and PLA are very acidic. If the surrounding tissue cannot eliminate acidic degradation products from the rapidly degrading implant, this can result in an unnecessary biological response, which is not the case with Artelon™.



Preparation of analysis in Size Exclusion Chromatography



Material testing in tensile tester

Products and development projects

Artelon Spacer CMC-I



Without comparison, our thumb is our most important digit. An impairment or loss of function in the thumb is a serious handicap. Thumb-base arthritis implies wear in the cartilage between the final bone in the thumb and the wrist bone at the base of the thumb. This wear is often very painful and also results in impaired function. Thumb-base arthritis affects 16–25 percent of women after menopause and approximately ten percent of the population over 55 years of age.

At present, there is no satisfactory treatment of thumb-base arthritis. In the early stages of the arthritis, the patient takes analgesics. The surgical treatments available consist of joint fusion, tendon arthroplasty or the insertion of a prosthesis. None of these types of treatment are satisfactory. Joint fusion involves a reduced range of motion, implying a handicap for the patient. A reconstruction of the joint using tendon arthroplasty involves the removal of a bone from the thumb, shortening the digit by approximately one centimeter after the operation. Tendon arthroplasty often results in joint instability and impaired grip strength. When using a conventional prosthesis, problems like instability, subluxation and insufficient biocompatibility are common.

Artimplant's Spacer stabilizes the joint and also works as a shock absorber. The operation differs in many ways from the methods used today. For example, it is a much smaller operation and can be carried

out under local anesthesia. When a Spacer is inserted, only a small part of the surface of the joint is removed. The effects on the joint are small and the thumb is not shortened or permanently immobilized.

Spacer – commercial benefits and market potential

Available treatment options

General disadvantages

- Limited effect for operated patients
- Complicated operation techniques
 - Only performed by specialist/ in specialist clinics
 - More complicated anesthesia/ anesthesia is often required
 - Postoperative treatment in hospital is required

Specific disadvantages with traditional methods.

- Joint fusion
 - reduced range of motion
- Tendon arthroplasty
 - shortened thumb
 - instability
 - limited grip strength
- Prosthesis
 - instability
 - subluxation
 - insufficient biocompatibility

Treatment with Spacer

- Improved grip strength and regained stability
- Reduced pain and retained mobility
- Simple operational procedure
 - No need for specialist clinics. A surgeon with good experience of hand surgery is sufficient
 - Local anesthesia
 - Reduced nursing in the form of: possibility of shorter operations and little need for postoperative treatment in hospital

The market potential is estimated to be greater than MSEK 10 billion.

The pilot study that was started in 1999 already showed promising results after one year. The patients treated with Spacer had regained their grip strength and experienced less pain. Results from a follow-up after two years show that the pain that patients experience has continued to abate and that their grip strength has continued to increase. Patients in the control group who were treated with tendon arthroplasty have still not regained grip strength after two years. A supple-

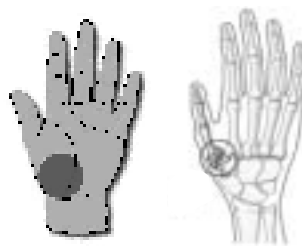
mentary multicenter study has been initiated to verify the results in the pilot study.

Artelon Augmentation Device (ACL)

The anterior cruciate ligament, the lateral ligament, the posterior cruciate ligament and meniscus are responsible for passive stability in the knee-joint. If any of these structures are damaged, there is great risk that the knee-joints will become unstable. Almost a million people in the Western World suffer torn anterior cruciate ligaments each year, often in connection with sporting activities. Usually young people are injured. Problems with instability and pain due to wear and tear will remain without adequate treatment.

The injuries can be treated using physiotherapy or reconstruction of the anterior cruciate ligament. If an operation is necessary, it is virtually impossible to surgically join the ends of the ruptured ligament. Today, the normal procedure is to use an autograft – patella tendon or hamstring. Those methods, however, are not without

Spacer
Thumb-base
affected by arthritis



problems. When the patella tendon is used, there are different problems at the graft donor site. In addition, the tendon tissue inserted by operation will never be as strong as a healthy anterior cruciate ligament. Reduced elasticity increases the risk for stretching and tears. After a little less than five years, complications appear in up to 40 percent of the cases in the form of pain or limited mobility.

ACL Augmentation is intended for strengthening an autograft during the reconstruction of the anterior cruciate ligament. An important function for ACL Augmentation is to relieve load on the autograft during the sensitive initial healing period and thus achieve long-term stability. The product, which is woven from Artelon fibers, permits the growth of tissue in the implant. ACL Augmentation's mechanical properties are comparable with healthy ligament tissue. In time, the strength of the implant is reduced in a controlled way, which enables newly formed tissue to take over the function from ACL Augmentation.

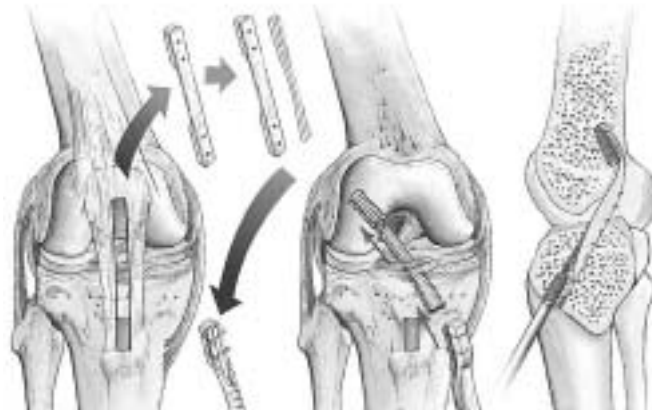
Artimplant's ongoing studies show that Artelon™ is biocompatible and that tissue grows into the implant. A follow-up after three years from a pilot study indicates stable knees with full mobility. Multicenter studies have been started to verify these results. Interim results after two years show comparable stability in the operated and healthy knee. Another aspect is to assess the possibility for patients to return quickly to training and a high level of physical activity with preserved stability in the knee-joints.

ACL Augmentation is the first product from Artimplant that has been approved for medical use (CE marking, Spring 2001)

ACL Prosthesis

A natural follow-up of ACL Augmentation is the development of a prosthesis for the anterior cruciate ligament. The product has obvious advantages since problems with the graft donor site are eliminated and the length of the operation is reduced. Other benefits are that patient groups lacking a suitable autograft can be helped with prosthesis.

Insertion of ACL Augmentation in the knee



Follow-ups of studies on animals show that anterior cruciate ligament prostheses of Artelon™ work well with regard to functionality and histology.

Reinforcement Bands

Ligaments stabilize joints in the body and prevent excessive deviations in movement. It is normal that these ligaments are damaged during trauma, they are torn off or extended. This gives an instable joint that can give attendant injuries if the stability is not recreated with extra support (orthosis) or a reduced degree of activity. Some of the body's ligaments knit together or regain their original length spontaneously while others wither. These healing processes take a long time. The ligaments that wither must be recreated operatively. Even the rehabilitation period for spontaneously healed ligaments can be reduced after an operation. This kind of operative procedure means that the ligament is sewn together. Actually, this joint is weaker than the liga-

ment, and for this reason loads should be strongly reduced during rehabilitation. If the ligament is strengthened with a reinforcement band of Artelon™, there is potential for an accelerated rehabilitation. Above all, certain ligaments in the body are subjected to wear and tear and would gain from this kind of alternative therapy. An evaluation of ideas to appraise clinical needs, commercial potential and time to market is in progress.

Wound care

Development work on products for the treatment of wounds with significant loss of tissue, e.g., burns is being carried out in collaboration with Mölnlycke Health Care AB. Artimplant's primary task in the project is to be responsible for the production process for products based on Artelon™. An initial specification of requirements for products has been drawn up as a step in the direction of launching a product on the market in 2006.

ACL Augmentation – commercial benefits and market potential

Available treatment options (Autograft)

- The elasticity and strength of the autograft diminishes after a few weeks, which increases the risk for rupturing or stretching (joint instability) during rehabilitation and subsequent recovery.
- The autograft never attains the same strength as an undamaged anterior cruciate ligament.
- Problems with graft donor sites are common

Artimplant's treatment with ACL Augmentation

- Supports autograft during the sensitive initial healing period.
- Permits ingrowth of cells, vascularization and the formation of new tissue
- Enables faster rehabilitation

The market potential is estimated to be greater than MSEK 10 billion.

Clinical trials

Clinical trials are being carried out to verify the safety and efficacy of the medical product. Before starting, an investigation plan must be approved by the relevant Ethics Committee(s) and regulatory authority. The investigation plan is a document that provides a comprehensive description of the purpose of the investigation, its design, statistical layout, intended analyses, methods and execution.



Artimplant's clinical program – summary

Artelon Spacer CMC-I

STUDY	NUMBER OF PATIENTS	2003
Pilot	15	3-year follow-up Q2
Multicenter I	108	6-month follow-up*

Artelon Augmentation Device ACL

STUDY	NUMBER OF PATIENTS	2003
Pilot	22	5-year follow-up Q3
Multicenter I, patella tendon	201	3-year follow-up Q3
Multicenter II, hamstring tendon	101	2-year follow-up Q3
Accelerated rehabilitation, pilot, patella tendon	10	2-year follow-up Q4

*Estimated time for follow-up status. Patient recruitment in progress.

Spacer

The results from the two-year follow-up in the pilot study show that Spacer has a positive effect on joint stability, grip strength and experience of pain. A multicenter study with 108 patients has been started and is being carried out at six clinics in Sweden in order to verify the results from the pilot study.

ACL Augmentation

So far Artimplant has started four clinical studies with ACL Augmentation:

1. A pilot study was started in the fall of 1997 in which a part of the patient's patella tendon (kneecap tendon) was reinforced with ACL Augmentation.
2. The initial randomized multicenter study was started in the spring of 1999.

Half of the group has been operated on with a patella tendon with ACL Augmentation and half the group has only received a patella tendon without reinforcement. This study follows FDA's guidelines.

3. A second randomized multicenter study was started in the spring of 2000 at clinics in Sweden and Finland. Half the group was operated on with tendons from the rear of the thigh (hamstring) reinforced with Artimplant's implant and half the group was operated with hamstring tendons without reinforcement. This study also adheres to FDA's guidelines.
4. An accelerated rehabilitation study was started during the 3rd quarter of 2001. All patients had been operated in

November 2001. The patients have been operated on with ACL Augmentation and a patella tendon. The aim is to evaluate if the patients can be rehabilitated more rapidly with preserved stability in the knee.

The three-year results from the ongoing pilot study with ACL Augmentation show stable knees. Artelon™ is compatible with host tissue.

Patents and trademarks

Patent

In consultation with external and experienced patent consultants, Artimplant has procured a sizeable patent portfolio that provides good patent protections for commercially promising product candidates.

The patent applications are submitted to the Swedish Patent and Registration Office (PRV) who review them. After this, an international application is submitted via a procedure based on the Patent Cooperation Treaty (PCT). Finally, applications are submitted in affected countries and to the European Patent Office (EPO).

In the table below you will find the eight patents that Artimplant have already been granted in Sweden. Two of these have also been given international approval. Five other patent applications that are not accounted for in the table have been sub-

mitted, one of which refers to Spacer.

The patent for Artelon™ (principal patent) has been licensed to Polyrand AB (originator Per Flodin) against future payment in the form of royalties on Artimplant sales.

Artimplant has effected a review of the patent protection with the aim of reducing costs. By concentrating the protection to the larger international markets, Artimplant will have adequate protection at the same time as costs are reduced by 50 percent.

Trademarks

Artimplant has submitted an application for the registration of the trademark, Artelon™ in the EU and the USA etc.



Artelon™

Artelon™ is the trademark for Artimplant's polyurethaneurea.

Artimplant's patent portfolio

PCT = Patent Cooperation Treaty EPO = European Patent Office

DESIGNATION	DESCRIPTION	STATUS	COVER EMPTY
Linear block polymer (principal patent)	Linear degradable polyurethaneureas for use as temporary implants Protects Artelon™	Patent protection in Sweden, USA and Europe	2015-16
Shaped bodies	Cross-bound degradable polyurethanes that can be used for such things as fixing fractures, securing ligaments. Also protects the production methods for these shaped bodies.	Patent protection in Sweden, USA and Europe	2017-18
Linear block polymer with handles	Linear degradable polyurethane ureas for use as temporary implants. By building in functional groups in the polymer chain, biologically active substances can be bound covalently to the material.	Patent in Sweden PCT application submitted	2020-21
Porous films	Degradable films of polyurethaneurea for medical applications and the method for producing these. The porosity of the films can be varied depending on requirements. For example, they can be used as a barrier to prevent different tissues from growing together.	Patent in Sweden PCT application submitted	2019-20
Porous material	Porous polymer material with an open pore structure and the technology for producing this. Material produced from Artelon™ with this technology is used as a filler for large losses of tissue in collaboration with Mölnlycke Health Care.	Patent in Sweden PCT application submitted	2020-21
Ligament	Textile construction of degradable polymer fiber for use as implant. The protection includes ACL Augmentation as well as as future woven ligament products.	Patent in Sweden PCT application submitted	2018-19
Suture anchors	Device for fixation of soft tissue or an implant onto a groove in bone tissue.	Patent in Sweden PCT application submitted	2020-21
Milling tool	A surgical instrument for internal treatment of holes when applying suture anchors.	Patent in Sweden PCT application submitted	2020-21

Organization and human resources

Internal and external specialist competence

Artimplant is a knowledge-intensive company that needs to draw on expertise inside as well as outside the Company. As a Research and Development (R&D) company for orthopedic products, our own employees must command leading expertise in our specialties: orthopedic surgery, polymer chemistry, biomaterials, and biology. Several leading researchers in orthopedic surgery have been involved in the Company since the beginning and their work has aroused interest among prominent researchers, within and outside the organization. Five of the employees have doctor's degrees.

The introduction of a new organization

During the latter part of 2002, Artimplant implemented a major organizational restructuring by reducing its workforce (excluding the GMC subsidiary) by 15 employees to a total of 23 in the parent company. This was a part of the Compa-

ny's new strategy to create a more cost efficient organization. Cutbacks primarily affected employees within administration and production, but to a certain extent even functions within research and clinical testing. Because of the restructuring, the three previous departments, R&D, Medicine and Production were merged into a single Development Department. After the above changes, the Development Department consists of 17 people and central functions of 6 employees. Artimplant now believes that it has the organization required to implement the new strategy.

Artimplant's new management group consists of the following persons:

Tord Lendau, CEO. Elisabeth Liljensten, Product Development Jonas Ström, Economy and Finance, Ulf Åkerblom, Business Development and Investor Relations, Anders Östin, Production and Process Development, Quality Assurance.

Karin

What are you working on at Artimplant?

Primarily I work as project leader for Artelon Spacer CMC-I, which now involves the gathering in and holding together of a number of documents from clinical trials, construction and manufacturing. That which is closest at hand during the first quarter is the submission of an application for CE approval. I am also a support to corporate management in negotiations with various prospective licensees.

What is your background?

I have a Master of Science in Chemical engineering from Chalmers University of Technology. I completed my studies in 1997 and then worked at AstraZeneca in Lund with product development. I have been at Artimplant for three years. During this period, I have had different assignment within product and process development.

Why are you working at Artimplant?

An important reason is that I have had the opportunity to constantly develop in my

A few words from employees



Elisabeth Liljensten
Head of Development Department

Elisabeth

What are you working on at Artimplant?

I have been working at Artimplant since 1999 and became head of the development department in April 2002. Before that I was responsible for Artimplant's biological and pre-clinical research, the aim of which is to document the safety of our biomaterial Artelon™ and increase the understanding of the material's biocompatibility.

What is your background?

I am a dentist but have only worked in the profession for a couple of years. During



Karin Wilhelmsson
Project Manager

work, something that is characteristic for smaller companies. As a person, I am not primarily a brainstormer, but see myself more as a developer or “finisher”

What is your goal for 2003?

We are preparing an application for FDA approval in the USA at the same time as the work with licensing companies is continuing. Furthermore, my goal is to get Spacer CE marked.

my dentistry studies, I began research in biomaterial science and defended my doctor's thesis a couple of years later. During that period, I came into close contact with companies that were working with different types of biomaterials.

Why are you working at Artimplant?

The field of degradable biomaterials is extremely attractive from a biological point of view – supporting and stimulating the body's own healing process is an great challenge and signifies entirely new possibilities to help a number of different cate-



Katrin Gisselfält
Project Manager

Katrin

What are you working on at Artimplant?

I have worked with polymer research since I began working at Artimplant in 1995. Now I am also project manager partly for ACL Augmentation and ACL Prosthesis for the anterior cruciate ligament, and partly for our collaboration with Mölnlycke Health Care. My many years of experience in the Company have been a good starting point for my work as a project manager. It is about being a spider in the web, of establishing schedules, of ensuring that these are followed and of filling

everyone in the group with enthusiasm for the common goal of the project. In addition, I assist corporate management with documentation for the work with licensing.

What is your background?

I have a Master of Science in Chemical Engineering from Chalmers and have defended my thesis in Materials Science, Polymer Chemistry, in the same field that Artimplant is active in. Before I started at Artimplant, I was a research student in Physical Chemistry at Chalmers.

Why are you working at Artimplant?

The possibility of working in a multi-disciplinary environment is one reason. In addition, our products can help to give people a better life. This is important.

What is your goal for 2003?

One goal as project manager is to obtain licensing and collaboration agreements for ACL Augmentation and ACL Prosthesis for the anterior cruciate ligament. In my role as a researcher, my goals are an FDA approval and scientific publications. Consequently, work with further examining and documenting the properties of our material and our products will constitute an important task.

gories of patients. In addition, there are so many capable people in this company. Such an environment is stimulating.

What is your goal for 2003?

To obtain a license agreement for one of our orthopedic products would be extremely satisfying. An approval from the American FDA would reinforce our position even more as an attractive partner and probably open opportunities for more new material development projects. Naturally, it would also be an incentive to present the results of our work in scientific publications.

Shares, share capital and ownership structure

Artimplant's B shares are quoted on the OM Stockholm Stock Exchange's O-List. The closing price for the B share on the last day of the year was SEK 4.95. Shares of Class A are not quoted on the share exchange, but can be re-registered as B shares. Artimplant's market cap on the stock exchange on December 31, 2002 amounted to approximately MSEK 95 (including 10 million shares that were issued in December). The number of shares amounts to 19,250,000 of which 18,495,750 are B shares and are 754,250 A shares. The nominal price per share is

SEK 0.1 During 2002, 21,750 A shares were re-registered as B shares. A and B shares have the same right to the assets and results of the Company.

The A share has 10 votes and the B share has 1 vote. Artimplant has no plans to pay out any dividend or repurchase shares in the foreseeable future. The number of shareholders amounted to 6,900 on December 31, 2002, distributed in accordance with the table below. Artimplant's extraordinary general meeting in December 2002, decided to effect a directed issue of 10 million new B shares with a sub-

scription price of SEK 3 per share. In addition, the meeting authorized the Board of Directors to effect a rights issue of another 19,250,00 B shares with a subscription price of SEK 3 per share.

The extra shareholders' meeting in December agreed to set up an option program, targeting management and other personnel in the Company. The option program entails the issue of warrants to Höghuset AB. Höghuset AB then issued call options to key executives and other personnel at Artimplant. Each call option allows the holder to acquire a B share in

Category of share

Category of share	NUMBER OF SHARES	NUMBER OF VOTES	CAPITAL %	VOTES %
A-shares	754,250	7,542,500	3.92	28.97
B-shares	18,495,750	18,495,750	96.08	71.03
Total	19,250,000	26,038,250	100.00	100.00

Shareholders

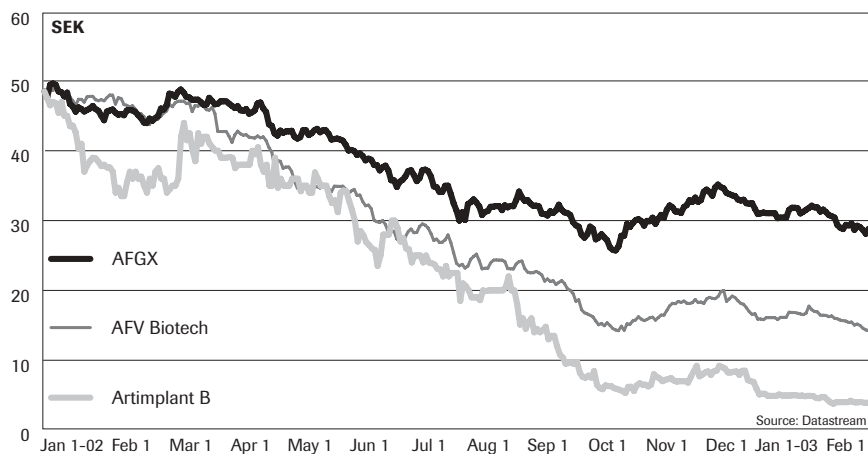
Shareholders	TOTAL NUMBER OF SHARES	NUMBER OF A-SHARES	NUMBER OF B-SHARES	CAPITAL %	VOTES %
SEB Emissioner ¹⁾	2,153,280		2,153,280	11.19	8.27
Banco Fonder	1,664,162		1,664,162	8.64	6.39
Banque Carnegie Luxembourg S.A.. Funds	1,563,628		1,563,628	8.12	6.01
John & Claire Arnold Revocable Trusts	1,505,600	207,000	1,298,600	7.82	12.94
Livförsäkringsbolaget Skandia	1,489,886	45,000	1,444,886	7.74	7.28
Fonden Pecunia	1,000,000		1,000,000	5.19	3.84
Länsförsäkringar Småbolagsfonden	838,000		838,000	4.35	3.22
Anders Cedronius and family	736,000	99,000	637,000	3.82	6.25
JP Nordiska	700,000		700,000	3.64	2.69
Lars Peterson family, and company	592,474	18,750	573,724	3.08	2.92
Svante Rasmuson and family	507,677	91,750	415,927	2.64	5.12
Other	6,499,293	292,750	6,206,543	33.76	35.08
Total	19,250,000	754,250	18,495,750	100.00	100.00

Source: VPC Analys, December 30, 2003

¹ Relates to shares held by the issue department in connection with the directed share issue. Shares held in custody on behalf of: John & Claire Arnold Revocable Trusts 753 333 B-shares, Nordea Bank S.A. 650 000 B-shares, Verdipapirfondet Holberg Norden 350 000 B-shares, and other shareholders 399 947 B-shares.

the Company. The allocation of call options was effected during January 2003. The allocation can be seen on page 34. Other employees received 10,000 warrants each. The Company's potential costs for the program have been guaranteed by the issue of a requisite number of warrants to Höghuset AB and an agreement to this effect was reached between the Company and Höghuset AB with regard to the sale of newly subscribed shares. The conditions for the agreed option program and for earlier programs are summarized below:

Share Price Development



Options program

EXERCISE DATE OF INCEPTION	NUMBER OF OPTIONS	STRIKE PRICE SEK	STRIKE PERIOD	NUMBER OF NEW B SHARES UPON FULL EXERCISE	INCREASE IN SHARE CAPITAL UPON FULL EXERCISE, %	INCREASE IN EQUITY UPON FULL EXERCISE
May 2000	512,500	300	Oct 1, 2003 – Mar 30, 2004	512,500	2.7	153,750,000
Dec 2002	666,670	10	Dec 1, 2005 – April 30, 2006	666,670	3.5	6,666,700
Dec 2002	666,670	20	Dec 1, 2007 – April 30, 2008	666,670	3.5	13,333,400

Development of Shareholders' Equity

YEAR	ACTIVITY	PRICE SEK	CHANGE IN NUMBER OF SHARES	TOTAL NUMBER OF SHARES	INCREASE IN SHARE CAPITAL, SEK	TOTAL SHARE CAPITAL, SEK
1990	Company was formed	—	1,000	1,000	100,000	100,000
1995	Directed share issue	2,050	2,000	3,000	200,000	300,000
1996	Directed share issue	5,500	1,000	4,000	100,000	400,000
1997	Issue of bonus shares 1:4	—	1,000	5,000	100,000	500,000
1997	Split 1000:1	—	4,995,000	5,000,000	—	500,000
1997	Initial Public Offering	45	1,500,000	6,500,000	150,000	650,000
1999	Exercise of warrants	16	1,750,000	8,250,000	175,000	825,000
2000	Directed share issue	143	1,000,000	9,250,000	100,000	925,000
2002	Directed share issue	3	10,000,000	19,250,000	1,000,000	1,925,000

Key ratios

Key ratios	2002	2001	2000	1999 ¹⁾	1998
Equity per share, SEK	4.10	14.91	20.78	9.38	9.77
Equity per share after full dilution ⁴⁾	4.81	29.88	35.44	9.38	11.09
Net asset value per share, SEK	4.10	14.91	20.78	9.38	9.77
Net asset value per share after full dilution, SEK ⁴⁾	4.81	29.88	35.44	9.38	11.09
Net earnings per share, SEK	-3.22	-5.87	-2.30	-1.72	-0.53
Equity per share after full dilution, SEK ⁴⁾	-3.22	-5.87	-2.30	-1.72	-0.53
Number of shares at year-end	19,250,000	9,250,000	9,250,000	8,250,000	6,500,000
Average number of shares during year	10,050,000	9,250,000	8,975,000	6,910,500	6,500,000
Number of shares after full dilution ⁴⁾	20,583,340	9,762,500	9,762,500	8,250,000	8,250,000
Cash flow per share, SEK	-1.86	-7.53	10.60	0.26	-3.53
Dividend per share, SEK ²⁾	0	0	0	0	0
Highest share price 2002, SEK	49	96	178	58	73
Lowest share price 2002, SEK	4.20	35	41.7	31	34
Share price at start of year, SEK	48.50	93	46.1	48	50
Share price at end of year, SEK	4.95	48.5	93	47.5	48
Return on equity, %	-57	-33	-16	-20	-5
Return on capital employed, %	-57	-33	-15	-20	-5
Equity/assets ratio, %	79	89	95	90	87
Degree of interest coverage, times	-142	-1,129	-307	-44	-89
Interest-bearing liabilities	0	0	0	0	0
Financial net assets, SEK thousand	32,274	68,006	137,700	39,660	37,524
Gross investments					
Research and development, SEK thousand	9,393	36,697	27,125	16,885	11,177
Patent, SEK thousand	3,054	2,751	1,867	423	855
Goodwill, SEK thousand	0	0	0	0	13,986
Fixed assets, ongoing construction, SEK thousand	596	5,449	6,479	1,694	3,866
Number of employees at the end of the period ³⁾	68	69	60	48	46
Number of consultants with retainer agreements at the end of the year	0	9	11	11	11

¹⁾ All key ratios per share for 1999 are calculated including 621,000 paid-in but not registered shares.

²⁾ For 2002 refers to Board's proposal.

³⁾ Number for 2002 contains 13 employees given notice to be laid off.

⁴⁾ When calculating full dilution, the option program from May 2000 has been excluded due to the strike price being SEK 300 and that it is therefore unlikely that the options will be exercised.

Definitions

Equity per share

Reported shareholders' equity divided by the number of shares outstanding.

Equity per share after full dilution

As above, taking into account full dilution after exercise of all share options.

Net asset value per share

Adjusted shareholders' equity plus hidden reserves in assets that have a fair value, less deductions for deferred tax at the current tax rate, divided by the number of shares outstanding.

Net asset value per share after full dilution

As above, taking into account full dilution after exercise of all share options.

Earnings per share

Profit/Loss for the period divided by the number of shares outstanding.

Earnings per share after full dilution

As above, taking into account full dilution after exercise of all share options.

Cash flow per share

Cash flow for the year divided by the number of shares outstanding.

Return on equity

Profit/Loss before extraordinary items, divided by average adjusted shareholders' equity.

Return on capital employed

Profit/Loss after financial items plus financial expenses, divided by the average capital employed. Capital employed comprises total assets, less non-interest-bearing liabilities, including deferred tax liabilities in untaxed reserves.

Equity/assets ratio

Shareholders' equity divided by total assets.

Interest coverage rate

Profit/Loss after financial items plus financial expenses, divided by financial expenses.

Net financial assets

Cash and bank accounts less interest-bearing liabilities.

Economic five-year summary

Summary Income Statement

Amount in SEK thousand	2002	2001	2000	1999	1998
Net sales	25,659	23,664	22,360	20,032	11,426
Costs of goods and services sold	-25,466	-21,108	-19,189	-16,267	-10,051
Gross income	193	2,556	3,171	3,765	1,375
R&D expenses	-30,518	-22,706	-15,189	-9,187	-5,127
Marketing expenses	-13,618	-25,855	-6,857	-1,892	0
Administration expenses	-19,113	-12,203	-8,221	-7,338	-4,726
Other operating income	61	30	0	0	0
Operating profit/loss	-62,995	-58,178	-27,096	-14,652	-8,478
Interest income and other financial revenue	1,279	3,893	4,120	753	1,961
Interest expenses and other financial costs	-435	-48	-67	-314	-39
Proceeds from sale of warrants	-	70	2,434	0	3,063
Profit after financial items	-62,151	-54,263	-20,609	-14,213	-3,493
Taxes	99	-19	-694	60	26
PROFIT/LOSS FOR THE YEAR	-62,052	-54,282	-21,303	-14,153	-3,467

Summary Balance Sheets

Amount in SEK thousand	021231	011231	001231	991231	981231
Total fixed assets	61,170	79,517	59,426	40,996	32,611
Total current assets	39,176	76,008	142,644	44,786	40,518
of which cash and bank	32,274	68,006	137,700	39,660	37,524
Total assets	100,346	155,525	202,070	85,782	73,129
Total restricted equity	143,622	194,190	216,568	93,715	66,974
Total retained losses	-64,713	-56,271	-24,367	-16,361	-3,467
Total equity	78,909	137,919	192,201	77,354	63,507
Total provisions and long-term liabilities	223	322	518	579	840
Total current liabilities	21,214	17,284	9,351	7,849	8,782
Total shareholders' equity and liabilities	100,346	155,525	202,070	85,782	73,129

Summary Cash Flow Statement

Amount in SEK thousand	2002	2001	2000	1999	1998
Cash flow from operating activities	-48,660	-24,848	-2,669	-2,762	3,220
Cash flow from investing activities	-12,981	-44,746	-35,341	-23,002	-26,042
Cash flow from financing activities	25,909	-100	136,050	27,900	-100
CASH FLOW FOR THE YEAR	-35,732	-69,694	98,040	2,136	-22,922
Liquid funds at beginning of year	68,006	137,700	39,660	37,524	60,446
Liquid funds at end of year	32,274	68,006	137,700	39,660	37,524

Directors' report

Operations

Artimplant is a biomaterial company that focuses on orthopedic surgery solutions. The Company developed Artelon™, a unique, patent-protected polymer-based material whose properties are characterized by the following and other functions, features, and benefits:

- Controlled degradation in the body.
 - Mechanical properties that in different preparations can temporarily replace, and over time, enable the body to build its own tissue when injuries occur.
 - Biocompatibility with hard and soft tissue.
- Using material technologies and its clinical requirements expertise, Artimplant develops new products and applications in close cooperation with physicians and global strategic partners.

The Company's business concept is to use material technology for developing products within tissue regeneration, primarily for orthopedic applications. Licensees, regionally or globally, will market and distribute Artimplant's products. The Company develops its own products in cooperation with strategic partners, for example, the Artelon Spacer CMC-I for thumb base arthritis, which is a common condition, and the Artelon Augmentation Device ACL for reconstructing anterior cruciate

ligaments in knees. In 2002, Artimplant experienced its commercial breakthrough via a cooperation and licensing contract for developing wound care products with Mölnlycke Health Care AB in Sweden. The contract covers an upfront payment of SEK 1 million during 2003.

In 2001, the Company launched a new strategy that was implemented in 2002. On 3 October 2002, Tord Lendau became the new CEO. Restructuring was carried out to focus operations on activities and projects that quickly generate revenue through upfront and milestone payments and future royalties from product sales. The Company's marketing organization was closed down; instead focus was put on rapid commercialization of Artimplant's products through licensing via partners. Close contacts and commercial discussions with several global companies, which were judged particularly suitable for commercializing Artimplant's products, characterized the licensing initiative during 2002. Licensing discussions have top priority in 2003, and dialogues with potential partners will be further intensified. Artimplant's goal is to be able to present new contracts during 2003.

During 2002, the R&D department was transformed into a Development

Department that is responsible for all projects, clinical trials, and production processes development. Artimplant now focuses on five projects:

- Artelon Spacer CMC-I.
- Artelon Augmentation Device ACL.
- ACL Prosthesis – development of stand alone prosthesis for the ACL.
- Reinforcement bands for orthopedic applications.
- Development of wound care products, in cooperation with Mölnlycke Health Care AB.

Earlier projects that lie outside the scope of the new strategy have been deprioritized, e.g., the sternum suture project. The Company is focusing on the short- and mid-term projects, primarily orthopedic projects, which will generate revenue as quickly as possible. Resources for development of other applications will only be allocated to projects that are financed via partnership or licensing contracts with strategic partners, similar to the case of wound care product development in collaboration with Mölnlycke Health Care AB.

Regulatory approval

It is important for Artimplant to obtain US Food and Drug Administration (FDA) approvals for an Artelon™ device as the US market accounts for more than 50 percent of global orthopedic products' sales. During 4Q 2002, Artimplant established



Textile products receive their final shapes in the fixation device.



Weaving of bands.

its strategy and process for submitting an application to the FDA. The Company plans to have a first contact with the FDA during 1H 2003. Artimplant has also set a target of obtaining CE-labelling for Spacer during 2003.

Financial restructuring and share issue

In 2003, Artimplant underwent comprehensive financial restructuring. The first step involved a full cost review and a staff reduction. During 4Q 2002, 15 employees were notified of layoff. After union negotiations and the notification, the reduction was completed in December; severance pay costs burdened the 2002 results. In December, the Board called an extraordinary general meeting to request shareholders' authorization for (1) implementing a directed share issue to larger institutional shareholders: 10,000,000 shares at SEK 3 per share and for (2) implementing, as soon as possible in 2003, a rights issue of up to 19,250,000 shares at the same price.

The directed share issue injected SEK 30 million into the Company, before underwriting expenses. The preferential rights issue is expected to contribute an additional SEK 15 million. Investors that participated in the directed issue agreed to refrain from using or selling subscription rights that they are entitled to use in the upcoming preferential rights issue.

The restructuring plans also include a sale of the subsidiary Gothenburg Medical Center (GMC) during the first half of 2003.

Artimplant's 2002 financial results

Group sales for the January-December 2002 period reached SEK 25.7 million (23.7). The operating loss was SEK 63 million (58.2). Loss after taxes amounted to SEK 62.1 million (54.3). At the end of the period, goodwill associated with GMC was SEK 10.9 million (11.6) and is amor-

tized over 20 years. The parent company's net sales reached SEK 0.2 million (1.2), mainly compensation from Mölnlycke Health Care. Restructuring costs (SEK 6.2 million) and one-time write-down of the value of the Company's patent portfolio (by SEK 2.5 million) burdened operating income. The write-down covers markets in which patent protection will be abandoned. For the January-December 2002 period, GMC's (the subsidiary) net sales reached SEK 26.1 million (24). GMC operating loss for the period was SEK 1.6 million (+0.1). Severance pay costs for personnel (one-time costs) primarily account for the loss.

Investments and financial position

Investments in 2002 reached SEK 13 million (44.9), of which SEK 12.4 million (39.4) were intangible assets. At year-end, liquid assets amounted to SEK 32.3 million (68.0).

Personnel

As of December 31, 2002, the Company employed 68 (69) persons, of which 32 (33) worked at the subsidiary GMC. Of the 36 employees in the parent company, 13 will leave the Company during 2003 after layoff notifications.

Board activities

The following Board members were reelected at the 22 April 2002 annual general meeting (AGM): Akbar Seddigh, Anders Cedronius, Helge Ramseng, Svante Rasmuson, and Lennart Ribohn. During 2002, the Board held 13 meetings. Board activities primarily dealt with financing needs and restructuring during the year.

Outlook

The Company's intention is that its biomaterial will be used for applications in multiple therapy areas. The long-term goal is

to position Artimplant as a leading company within the biomaterial sector. Artimplant has set the following operational targets for 2003.

- Sign partnership contracts with larger players within orthopedics, for development of ACL Prosthesis.
- Launch ACL Augmentation sales in Europe, either via distributors or license partners.
- Obtain CE labeling authorization for Spacer.
- Submit application documentation for FDA approval. Here, the goal is to obtain an approval during 2003.
- Sign licensing contracts for ACL Augmentation and for Spacer.
- Initiate negotiations for additional development partnerships based on Artelon™.

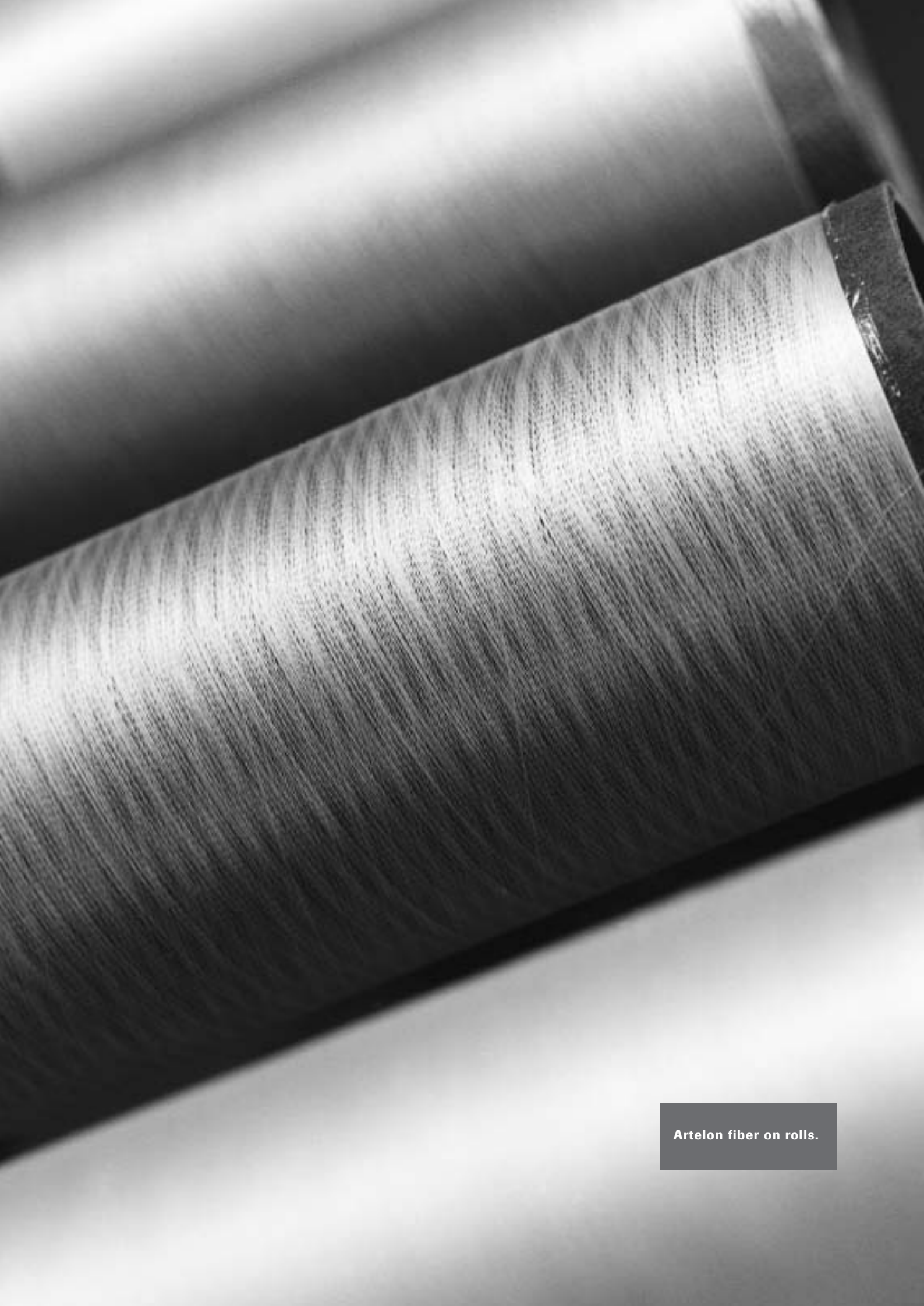
Proposed appropriations

Group

According to the 31 December 2002 consolidated balance sheet, total accumulated loss amounted to SEK 64,713,000. No provision to restricted reserves is proposed.

Artimplant AB (publ)

The Board proposes that the year's loss of SEK 61,093,422 be covered by the reserve fund.



Artelon fiber on rolls.

Income statement

SEK thousand	Note	Group 2002	Group 2001	Group 2000	Parent 2002	Parent 2001	Parent 2000
Net sales	1	25,659	23,664	22,360	211	1,187	2,396
Cost of goods and services sold	2, 3	-25,466	-21,108	-19,189	-211	-1,171	-2,396
Gross income		193	2,556	3,171	0	16	0
R&D expenses	2, 3	-30,518	-22,706	-15,189	-30,518	-22,706	-15,189
Marketing expenses	2	-13,618	-25,855	-6,857	-13,618	-25,855	-6,857
Administration expenses	2, 3	-19,113	-12,203	-8,221	-16,561	-9,096	-5,146
Other operating income		61	30	-	-	30	-
Share of operating profit/loss - of Group companies		-	-	-	-1,589	162	846
Operating profit/loss		-62,995	-58,178	-27,096	-62,286	-57,449	-26,346
Interest income and other financial revenue	4	1,279	3,893	4,120	1,261	3,859	4,033
Interest expenses and other financial costs	4	-435	-48	-67	-68	-20	-65
Proceeds from sale of warrants	4	-	70	2,434	-	-	-
Net financial items		844	3,915	6,487	1,193	3,839	3,968
Profit/loss after financial items		-62,151	-54,263	-20,609	-61,093	-53,610	-22,378
Current taxes		-	-15	-555	-	-	-
Deferred taxes		99	-4	-139	-	-	-
PROFIT/LOSS FOR THE YEAR		-62,052	-54,282	-21,303	-61,093	-53,610	-22,378

Balance sheets

SEK thousand	Note	Group 021231	Group 011231	Group 001231	Parent 021231	Parent 011231	Parent 001231
ASSETS							
Capitalized R&D expenses	5	41,148	54,623	36,909	41,148	54,623	36,909
Patent	6	2,425	3,661	2,197	2,425	3,661	2,197
Goodwill	7	10,857	11,556	12,255	–	–	–
Total intangible assets		54,430	69,840	51,361	43,573	58,284	39,106
Tangible assets	8	6,740	9,677	8,065	5,846	8,730	7,048
Total tangible assets		6,740	9,677	8,065	5,846	8,730	7,048
Shares in Group companies	9	–	–	–	18,096	18,096	18,096
Total financial fixed assets		–	–	–	18,096	18,096	18,096
Total fixed assets		61,170	79,517	59,426	67,515	85,110	64,250
Raw materials and semi-manufactures		132	8	–	132	8	–
Total inventories, etc.		132	8	–	132	8	–
Accounts receivable		1,807	2,632	1,602	–	24	–
Receivables from Group companies		–	–	–	–	63	–
Other receivables		3,081	2,370	1,770	3,075	2,370	1,670
Prepaid expenses and accrued income	10	1,882	2,992	1,572	1,566	2,740	1,330
Total short-term receivables		6,770	7,994	4,944	4,641	5,197	3,000
Cash and bank accounts		32,274	68,006	137,700	31,428	67,144	136,957
Total current assets		39,176	76,008	142,644	36,201	72,349	139,957
TOTAL ASSETS		100,346	155,525	202,070	103,716	157,459	204,207

Balance sheets

SEK thousand	Note	Group 021231	Group 011231	Group 001231	Parent 021231	Parent 011231	Parent 001231
EQUITY AND LIABILITIES							
Equity	11						
Share capital		1,925	925	925	1,925	925	925
Restricted reserves/legal reserve		141,697	193,265	215,643	141,697	193,265	215,643
<i>Total restricted equity</i>		143,622	194,190	216,568	143,622	194,190	216,568
Retained losses		-2,661	-1,989	-3,064	-	-	-
Net profit/loss for the year		-62,052	-54,282	-21,303	-61,093	-53,610	-22,378
<i>Total retained losses</i>		-64,713	-56,271	-24,367	-61,093	-53,610	-22,378
Total equity		78,909	137,919	192,201	82,529	140,580	194,190
Provision for deferred tax		223	322	318	-	-	-
Other provisions	12	-	-	100	-	-	-
<i>Total provisions</i>		223	322	418	-	-	-
Other long-term liabilities	13	-	-	100	-	-	100
<i>Total long-term liabilities</i>		-	-	100	-	-	100
Accounts payable		4,900	6,425	2,058	4,078	5,465	1,638
Liabilities, Group companies		-	-	-	3,547	3,578	3,568
Tax liability	14	-	578	555	-	-	-
Other current liabilities		1,548	1,442	1,104	933	1,056	654
Accrued expenses and prepaid income	15	14,766	8,839	5,634	12,629	6,780	4,057
<i>Total current liabilities</i>		21,214	17,284	9,351	21,187	16,879	9,917
TOTAL EQUITY AND LIABILITIES		100,346	155,525	202,070	103,716	157,459	204,207
Assets pledged		none	none	none	none	none	none
Contingent liabilities		none	none	none	3,575	3,559	2,661

Contingent liabilities in the parent company consist of the liability as general partner in the limited partnership Gothenburg Medical Center KB, on behalf of Group companies.

Notes to the financial statements

Accounting principles

The annual report is prepared according to generally accepted accounting principles in Sweden and according to the Annual Accounts Act and Swedish Financial Accounting Standards Council statements and recommendations.

Change in accounting principles

As from this financial year, Swedish Financial Accounting Standards Council recommendations took effect and are applied as of 1 January 2002. Accordingly, Artimplant has applied the following new recommendations starting this year: RR 9 on corporate income tax, RR 11 on revenue recognition, RR 12 on tangible fixed assets, RR 15 on intangible assets, RR 18 on earnings per share, and RR 20 on interim reporting. The accounting principles changes had no effect on the 2002 results except for application of RR 15, intangible assets, i.e., for R&D expenses.

Consolidated financial statements

The consolidated financial statements include subsidiaries for which the parent company directly or indirectly has controlling influence. Final accounts for the Group were prepared according to the purchase method, so the subsidiaries' equity at the time of acquisition, which was calculated as the difference between actual values of assets and liabilities, has been eliminated in its entirety. Hence, consolidated shareholders' equity includes only that portion of each subsidiary's shareholders' equity that was earned after the subsidiary was acquired.

Revenue recognition

Revenue from the sale of goods is recognized upon delivery, according to the conditions for the sale and delivery. Revenues related to services are recognized when the service is rendered.

R&D expenses

RR 15, intangible assets, recommends that all companies analyze and distribute their R&D expenses into (1) research costs, which are continuously booked, and (2) development costs, which can be capitalized under certain circumstances and amortized during the assets' estimated usage period. Artimplant's R&D expenses are salaries, materials, and general expenses in conjunction with R&D. Development costs are capitalized and amortization is started when it's likely that the product can be sold commercially with profit.

Reporting income tax

Reported corporate income tax includes current tax, adjustments to tax reported in previous years, and changes in deferred tax. All prepaid tax and tax liabilities or claims are valued at nominal amounts based on current tax regulations and rates.

Receivables

After individual evaluation, a receivable is carried at the amount that is expected to be paid.

Inventories

Inventory is valued at the lesser of acquisition value, according to the first in, first out (FIFO) principle, or fair value at the closing date.

Fixed assets

Fixed assets are reported at purchase cost less accumulated depreciation or amortization according to plan. Write-downs are charged when a permanent deterioration in value occurs. Depreciation and amortization are charged on a straight-line basis, based on the purchase cost of each asset and its estimated service life. The following depreciation/amortization schedules apply:

Intangible assets

Patent	5 years
Goodwill	20 years

Once a product can be sold commercially with profit, R&D cost amortization is started.

Tangible assets

Machinery and equipment	5 years
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Goodwill

Goodwill is reported as a fixed asset and amortized according to plan. Goodwill on GMC is amortized over a 20-year period.

Software costs

Costs incurred for development and support of software are normally expensed as they arise.

Notes

Note 1 Net sales by operation and geographic market.

SEK thousand	Group 2002	Parent 2002
Health care and medical services	25,448	–
Research services	211	211
Med-tech products		
Net sales	25,659	211

Net sales by the group and parent company are generated solely in Sweden.

Note 2 Information on employees and remuneration to the Board and auditors

Principles

The AGM sets the Chairman of the Board's and Board members' compensation; no additional remuneration is paid for committee work. Compensation for the CEO and other executives consists of base salaries, pensions, and financial instruments. Variable compensation does not apply. Other executives are the four individuals who, with the CEO, make up the Group's executive team, which is presented on page 34. The Board, in consultation with the Chairman of the Board, determined the CEO's compensation for the 2002 financial year. The CEO, in consultation with the Chairman of the Board, determined compensation for the other executives. The Company has no compensation committee due to lack of need.

Average number of employees	Group 2002	Group 2001	Group 2000	Parent 2002	Parent 2001	Parent 2000
Women	49	48	38	22	20	10
Men	20	19	15	14	14	10
Total	69	67	53	36	34	20

Salaries, other remuneration, and social fees, amount in SEK thousand	Group 2002	Group 2001	Group 2000	Parent 2002	Parent 2001	Parent 2000
Board and CEO	5,720	2,679	2,341	5,017	2,019	1,681
of which bonuses and such	0	0	0	0	0	0
Other employees	26,810	25,404	16,696	14,939	16,078	8,071
of which bonuses and such	0	0	0	0	0	0
Total salaries and other remuneration	32,530	28,083	19,037	19,956	18,097	9,752
Social security expenses, according to law and agreement	10,534	8,971	6,039	6,524	5,675	2,982
Pension expenses	5,094	3,361	2,121	4,177	2,194	1,173
(of which CEO and Board)	957	301	283	932	301	283
Total	48,158	40,415	27,197	30,657	25,966	13,907

Comments on the table

Salaries and remuneration apply to employees in Sweden only. The amounts shown above include all severance pay to laid-off employees. Salary paid to the CEO totaled SEK 1,530,000 (1,469,000). Severance pay for the CEO was SEK 3.9 million. For other executives, salaries and compensation totaled 3,984,000, and pension expenses reached SEK 789,000. Compensation paid to the Board totaled SEK 450,000 (550,000) of which SEK 150,000 (150,000) went to the chairman. A consulting fee was paid to Per Flodin, former Board member amounting to SEK 375,000. The work consisted of acting as a scientific advisor, involved in initiating, developing, and supporting explorative R&D.

Consultants associated with the Group or parent company	2002	2001	2000	1999
Number at year-end	0	9	11	11
Number of full-time positions	6	6	6.5	5
Cost in SEK million	5.1	5.2	4.1	3.0

Pension benefits and contracts

All employees in the Company have pensions based on an individual pension plan, with premium levels comparable to Sweden's ITP- and SPP-pension premiums. In 2002, the CEO had a combined pension and health insurance policy with annual premiums worth 2.1 monthly salaries. The CEO's retirement age is 65. The pension premium is 35% of the base salary up to 30 "basbelopp" (basbelopp is a basic amount set annually in Sweden and used when calculating taxes, social fees, and such, at present a basbelopp is approx. 38,000 SEK). The retirement age for the business development manager is 65. The pension premium is 29% of the vacation-base salary. Retirement age for other executives is 65.

Severance pay

Termination of the CEO's contract may occur 24 months after notice is given. At any time within the 24 months, the CEO may be asked to fulfill certain obligations. Reduction of severance pay is made after 12 months if the CEO starts a new job. The CEO may terminate his or her contract 6 months after notice is given. Termination of executives' contracts may occur within 3-12 months after notice is given, and they may be asked to fulfill certain obligations. Executives may terminate their contracts 3-6 months after notice is given. Salaries paid during the termination period are not reduced if executives earn other income.

Compensation for auditors, fees, and reimbursements, amount in SEK thousand	Group 2002	Group 2001	Group 2000	Parent 2002	Parent 2001	Parent 2000
KPMG						
Audit assignments	224	217	210	181	180	180
Other assignments	66	55	55	66	18	55
PM Revision						
Audit assignments	10	20	20	10	20	20
Total	300	292	285	257	218	255

"Audit assignments" refers to the audit of the annual report and bookkeeping records as well as a review of the CEO and Board of Directors' administration of the Company, other tasks that are the responsibility of the Company's auditors, and other advice or assistance resulting from observations in such audits or performance of other tasks. All other work is reported as "Other assignments".

Notes

Note 3 Depreciation of tangible and amortization of intangible fixed assets

Scheduled depreciation/amortization distributed by function SEK thousand	Group 2002	Group 2001	Group 2000	Parent 2002	Parent 2001	Parent 2000
Cost of goods and services sold	321	469	452	–	–	–
R&D expenses	7,180	22,706	15,189	7,180	22,706	15,189
Marketing costs	–	–	–	–	–	–
Administration costs	1,021	1,510	1,304	322	811	605
Total	8,522	24,685	16,945	7,502	23,517	15,794

Note 4 Financial income and expenses

SEK thousand	Group 2002	Group 2001	Group 2000	Parent 2002	Parent 2001	Parent 2000
Interest income and other financial revenue	1,279	3,893	4,120	1,261	3,859	4,033
Interest expenses	–38	–30	–19	–26	–2	–17
Miscellaneous financial expenses	–397	–18	–48	–42	–18	–48
Interest expenses and other financial expenses	–435	–48	–67	–68	–20	–65
Proceeds from sale of warrants	–	70	2,434	–	–	–

Note 5 Capitalized R&D expenses

SEK thousand	Group 2002-12-31	Group 2001-12-31	Group 2000-12-31	Parent 2002-12-31	Parent 2001-12-31	Parent 2000-12-31
Purchase cost at year's start	100,544	63,847	36,722	100,544	63,847	36,722
Changed accounting principles	–68,789	–	–	–68,789	–	–
Expenditure capitalized for the year	9,393	36,697	27,125	9,393	36,697	27,125
Purchase cost at year-end	41,148	100,544	63,847	41,148	100,544	63,847
Accumulated amortization at year's start	–45,921	–26,938	–14,435	–45,921	–26,938	–14,435
Changed accounting principles	45,921	–	–	45,921	–	–
Scheduled amortization for the year	–	–18,983	–12,503	–	–18,983	–12,503
Accumulated amortization at year-end	–	–45,921	–26,938	–	–45,921	–26,938
Book value	41,148	54,623	36,909	41,148	54,623	36,909

The same accounting principles used in the 2001 annual report are used in this report, except that on 1 January 2002, the Company applied RR 15, intangible assets. A change in the accounting principle led to the book value of capitalized R&D expenses being reduced by SEK 22.9 million. The comparable figures for 2001 were not recalculated because the new principle took effect on 1 January 2002.

Note 6 Patents

SEK thousand	Group 2002-12-31	Group 2001-12-31	Group 2000-12-31	Parent 2002-12-31	Parent 2001-12-31	Parent 2000-12-31
Purchase cost at year's start	7,217	4,466	2,599	7,217	4,466	2,599
Expenditure capitalized for the year	3,054	2,751	1,867	3,054	2,751	1,867
Purchase cost at year-end	10,271	7,217	4,466	10,271	7,217	4,466
Accumulated amortization at year's start	–3,556	–2,269	–1,400	–3,556	–2,269	–1,400
Scheduled amortization for the year	–1,790	–1,287	–869	–1,790	–1,287	–869
One-time write-down ¹⁾	–2,500	–	–	–2,500	–	–
Accumulated amortization at year-end	–7,846	–3,556	–2,269	–7,846	–3,556	–2,269
Book value	2,425	3,661	2,197	2,425	3,661	2,197

¹⁾ A one-time write-down of the amount that is comparable to booked residual value of patents for markets where protection will not be maintained.

Notes

Note 7 Goodwill

SEK thousand	Group 2002-12-31	Group 2001-12-31	Group 2000-12-31
Purchase cost at year's start	13,986	13,986	13,986
Acquisitions for the year	–	–	–
Purchase cost at year-end	13,986	13,986	13,986
Accumulated amortization at year's start	-2,430	-1,731	-1,032
Scheduled amortization for the year	-699	-699	-699
Accumulated amortization at year-end	-3,129	-2,430	-1,731
Book value	10,857	11,556	12,255

Note 8 Equipment

SEK thousand	Group 2002-12-31	Group 2001-12-31	Group 2000-12-31	Parent 2002-12-31	Parent 2001-12-31	Parent 2000-12-31
Purchase cost at year's start	21,825	16,527	10,753	17,285	12,386	6,939
Purchases for the year	596	5,449	6,479	328	5,050	5,447
Assets divested or retired during the year	-279	-151	-705	–	-151	–
Reclassifications	–	–	–	–	–	–
Purchase cost at year-end	22,142	21,825	16,527	17,613	17,285	12,386
Accumulated depreciation at year's start	-12,148	-8,462	-6,197	-8,555	-5,338	-2,916
Assets divested or retired during the year	279	30	609	–	30	–
Depreciation for the year	-3,533	-3,716	-2,874	-3,212	-3,247	-2,422
Accumulated depreciation at year-end	-15,402	-12,148	-8,462	-11,767	-8,555	-5,338
Book value	6,740	9,677	8,065	5,846	8,730	7,048

Note 9 Shares and participations in Group companies

SEK thousand	Parent 2002-12-31	Parent 2001-12-31	Parent 2000-12-31
Purchase cost at year's start	18,096	18,096	17,996
Acquisitions for the year	–	–	100
Purchase cost at year-end	18,096	18,096	18,096
Book value	18,096	18,096	18,096
Specification of parent company's shareholdings and participations in group companies	No. of shares /participations	Ownership, %	Book value in SEK thousands
GMC AB, org. no. 556301-3902. Base: Gothenburg, Sweden	1,000	100	17,995
Limited partnership company, Kommanditbolaget GMC, org. no. 916832-2387. Base: Gothenburg (Limited partnership owner is the GMC AB subsidiary)	Komplementärandel		1
Artimplant Drug Delivery Systems AB, org. no. 556596-4664. Base: Gothenburg	1,000	100	100
Total book value			18 096

Note 10 Prepaid expenses and accrued income

SEK thousand	Group 2002-12-31	Group 2001-12-31	Group 2000-12-31	Parent 2002-12-31	Parent 2001-12-31	Parent 2000-12-31
Rent	1,245	1,309	1,269	1,081	1,150	1,116
Costs incurred for research services	–	650	–	–	650	–
Other	637	1,033	303	485	940	214
Total	1,882	2,992	1,572	1,566	2,740	1,330

Notes

Note 11 Shareholders' equity

Group SEK thousand	Share capital	Restricted equity	Accumulated loss
At year's start	925	193,265	-56,271
Changed accounting principle		-22,867	
Appropriation of earnings	–	-53,610	53,610
New issue	1,000	24,909	
Profit/loss for the year	–	–	-62,052
At year-end	1,925	141,697	-64,713
Parent company SEK,thousand	Share capital	Legal reserve	Profit/loss for the year
At year's start	925	193,265	-53,610
Changed accounting principle		-22,867	
AGM's appropriation of earnings	–	-53,610	53,610
New issue	1,000	24,909	
Profit/loss for the year	–	–	-61,093
At year-end	1,925	141,697	-61,093

During the year, 21,750 A shares were converted to the same number of B shares. At year-end, the parent company's share capital totalled SEK 1,925,000, represented by 754,250 A shares and 18,495,750 B shares at a par value of SEK 0.10/share.

Note 12 Other provisions

The amount refers to a provision for future costs of repeat operations on patients in the daily activities of the GMC.

Note 13 Long-term liabilities

No liabilities will fall due more than five years after the balance date.

Note 14 Taxes

Non-capitalized accumulated loss carryforwards in the parent company reached SEK 166.1 million.

Note 15 Accrued expense and prepaid income

SEK thousand	Group 2002-12-31	Group 2001-12-31	Group 2000-12-31	Parent 2002-12-31	Parent 2001-12-31	Parent 2000-12-31
Accrued salaries and vacation pay	2,204	1,807	990	1,917	1,557	717
Social security expenses	1,872	1,603	1,022	1,327	982	671
Restructuring costs	6,229	1,810	–	6,229	1,810	–
Other	4,461	3,619	3,622	3,156	2,431	2,669
Total	14,766	8,839	5,634	12,629	6,780	4,057

Gothenburg, 21 February 2003

Akbar Seddigh
Chairman of the Board

Tord Lendau
Chief Executive Officer

Anders Cedronius

Helge Ramseng

Svante Rasmuson

Lennart Ribohn

Auditor's report

To the annual meeting of shareholders in Artimplant AB (publ), corporate ID number 556404-8394.

We audited the annual report, consolidated financial statements, bookkeeping, and the administration by the Board and CEO of Artimplant AB (publ) for fiscal 2002. The Board and CEO are responsible for the accounting records and administration. Our responsibility is to express an opinion on the annual report, consolidated financial statements, and administration based on our audit. Our audit was done according to generally accepted auditing standards in Sweden. So we planned and performed our audit to obtain reasonable assurance that the annual report and consolidated financial statements do not contain any material misstatements. An audit entails examining a selection of the underlying documentation to verify amounts

and other information reported in the accounting records.

An audit also includes an evaluation of the accounting principles and the Board's and CEO's application of these principles as well as an overall assessment of the information in the annual report and consolidated accounts. For our statement about discharging officers from liability for the year, we examined material decisions, actions, and the conditions in the Company to be able to determine if any Board member or the CEO could be liable to pay compensation to the Company. We also examined whether or not any Board member or the CEO has, in some other way, acted in contravention of the Swedish Companies Act, the Annual Accounts Act,

or the Company's articles of incorporation. We believe that our audit provides a reasonable basis for our opinions stated below. The annual report and consolidated financial statements were prepared according to the Annual Accounts Act and thus provide a true and fair view of the Company's and the Group's earnings and financial position, according to generally accepted accounting principles in Sweden.

We recommend that the annual meeting adopt the income statements and balance sheets for the parent company and the Group, appropriate the profit of the parent company as proposed in the Board's report, and discharge the CEO and Board members from liability for the fiscal year.

Gothenburg, 25 February 2003

Anders Ivdal

Certified public accountant

Per Mod er

Certified public accountant

Board and auditors



Akbar Seddigh

(1943), Chairman of the Board, Board member since 1997. In 1985, Seddigh founded Medical Invest AB, a med-tech company, now Ortivus AB. Chairman of the Board of Elekta AB, Neovanta Medical AB, Cascade Computing AB, and Ortivus AB.

Artimplant holdings:
71,667 B shares, 0 options.



Svante Rasmuson

(1955), Board member since 1997. A medical doctor, Rasmuson has worked in international marketing and as a pharmaceuticals analyst at Alfred Berg Fondkommission AB, a brokerage firm. Chairman of the Board of ViscoCheck AB. CEO of Index Pharmaceuticals.

Artimplant holdings: 91,750 A shares, 415,927 B shares with family, 0 options.



Lennart Ribohn

(1943), Board member since 2001. During 1963-2000, Ribohn held various management positions at AB Electrolux, including Group controller, senior vice president and director of new markets, components and direct sales. Chairman of the Board of Norfoods AB, Invekta Green AB, and Wowern Gruppen AB. Board member of SEB Fondförvaltning, FPG Försäkringsbolaget Pensionsgaranti, AB Segulah, Ortivus AB, and Compatec AB. Member of Aktiemarknadsnämnden.

Artimplant holdings:
25,000 B shares, 0 options.



Helge Ramseng

(1942), Board member since 1997. CEO of GlaxoSmithKline in Norway (1993-2002). Responsible for "Entrepreneurship in marketing" in GlaxoSmithKline's "Senior management" program at the INSEAD, the London Business School, and Duke University in the US. In 2000, he received GlaxoSmithKline's prize for the best product launches in Europe during the 1990s. From 1969-1992, he was employed by Organon International where he held management positions in Europe and the US. Assignment: advise management trainees in GlaxoSmithKline.

Artimplant holdings:
28,614 B shares, 0 options.



Anders Cedronius

(1942). Board member since 1990. Work experience from management and marketing positions in the international pharmaceutical and medical technology industries. Has held management positions at Erco, Organon (Akzo Nobel), Cilag (Johnson & Johnson) and Bota. From 1988, management consultant within business development and international marketing. CEO of Artimplant between 1992-2002. Board member of GMC AB and A. Cedronius AB.

Artimplant holdings: 99 000 A shares, 637 000 B shares with family, 40 000 options (from the option program decided in May 2000).

Auditors

Anders Ivdal

CPA, KPMG Bohlins AB, auditor for Artimplant since 1997.

Per Modéer

CPA, PM Revision AB, auditor for Artimplant since 1990.

Executive management



Tord Lendau

(1957) CEO.

Employed at Artimplant since 2002.
Board member in ArthroCare Inc., Diamyd AB, and Noster System AB.

Artimplant holdings: 293 333 B shares and 350,000 call options.



Elisabeth Liljensten

(1969) DDS, Ph.D.

Development department.
Employed at Artimplant since 1999.

Artimplant holdings: 0 shares, 112,500 call options. Also 1000 options from the May 2000 warrant program.



Jonas Ström

(1964) MBA.

CFO.
Employed at Artimplant since 2002.

Artimplant holdings: 0 shares, 112,500 call options.



Anders Östin

(1965) M.Sc. Engineering

Director of Production and Process development and QA,
Employed at Artimplant since 1999.

Artimplant holdings: 100 B shares and 112,500 options. Also holds 5000 options from the May 2000 warrant program.



Ulf Åkerblom

(1944) B.A. Business

Business development and investor relations.
Employed at Artimplant since January 2002; from March 2001 as a consultant.

Artimplant holdings: 104,000 B shares and 112,500 call options.

Glossary

Anterior cruciate ligament (ACL)

The anterior ligament of the two cruciate ligaments that stabilize the front and back of the knee joint.

Arthritic joint inflammation

Arthritis; chronic deterioration of the joint cartilage.

Autograft Tissue taken from a healthy site on a patient and implanted at a site where similar tissue is required.

Biocompatible, tissue friendly

A characteristic, i.e., the body accepts the material, which does not cause inflammation. The body does not reject the material.

Biomaterial Substitute material that's used in a biological context.

Biopsy A tissue specimen used for microscopical examination of tissue morphology.

Carpometacarpal joint (CMC-I)

The joint in the thumb's base.

Cartilage Tissue surrounding and protecting bone-joint surfaces and functioning as a slippery surface that dissipates pressure.

Catalysts Substances that contribute to reactions without being consumed.

CE certification Certification from a European Union (EU) regulatory agency for a specific product that enables marketing of the product.

CE labeled Labeling of products that fulfill EU standards.

Certification A process that follows EU standards for quality assurance and standardization.

Clinical investigation Study of medical devices on humans according to a specific investigation plan (protocol). Before the study can start, the plan must be approved by relevant Ethics Committee(s) and national regulatory agency.

European Economic Cooperation Area (EEC) Iceland, Liechtenstein, Norway, Switzerland, and all countries in the European Union.

European Patent Office (EPO)

A European patent authority. A patent application that applies to many European countries may be submitted to the EPO, according to the European patent convention. This simplifies and cuts costs, because companies need not apply separately in each country.

Femur Thigh bone.

Fibula Bone behind the shin bone (tibia) that connects the knee and the ankle.

Histology The study of tissue; referred to as microscopic tissue studies or biopsies in this document.

Hydrolysis A chemical reaction in which a compound is split into smaller molecules in the reaction with water.

Implant Foreign material surgically inserted into the body to support or replace a body part.

Life science Science relating to biological life and its conditions.

Multicenter study A clinical trial that involves healthcare institutions in more than one geographic location.

Orthopedics Specialized medical field that deals with diseases and injuries of the musculoskeletal system.

Patella Knee cap; small bone in front of the knee.

Patent Cooperation Treaty (PCT)

An international cooperation convention with about 100 member countries.

Polymer Long-chain molecules that consist of a number of smaller repeating units.

Polyurethane urea An organic polymer containing urethane and urea groups.

Preclinical research Research done on medications and med-tech products before clinical trials on humans.

Randomize To assign individuals to groups (in a clinical trial) by chance.

Spacer Implant for the thumb base, developed to stabilize the joint and absorb shocks.

Subluxation Dislocation of the joint in which the joint surfaces still touch each other.

Thumb ligament The ligament on the inside of the thumb, which stabilizes the thumb.

Thumb-base arthritis Arthritis in the thumb's CMC-I joint, common among older and middle-aged women.

Tibia Shin bone.

Tissue Group of cells with similar functions in an organism.

US Food and Drug Administration (FDA) The regulatory agency responsible for approving pharmaceuticals and med-tech products.



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