

## **ARTIMPLANT's year-end results, January 1 – December 31 2002**

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### **RESTRUCTURING COMPLETED**

#### **FOCUS ON COMMERCIALIZATION**

- **Artimplant issued 10 million shares in a directed issue to existing and new institutional stockholders and owners with larger stock holdings. The issue injected SEK 30 million into the company.**
- **In the next step, the company plans to raise at least SEK 15 million through a preferential rights issue in late March 2003.**
- **Tord Lendau became the new CEO on October 3.**
- **Following the new strategy the total cost of the parent company is reduced by 40 percent. The action program leads to a considerable reduction in the operative cash burn that is estimated to amount to around SEK 35 million in 2003.**
- **Preparations were launched for the sale of Gothenburg Medical Center (GMC), a subsidiary.**
- **Group sales increased 8% to SEK 25.7 million (23.7). Operating loss was SEK 63 million (58.2). Loss increased primarily because of restructuring and settlements with personnel. Restructuring cost was SEK 6.2 million.**

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#### **Forthcoming financial reports:**

Annual General Meeting:	April 29, 2003, 5 p.m.
1Q 2003 report:	April 30, 2003
January-June 2003 report:	August 29, 2003
January-September 2003 report:	November 7, 2003

Financial reports are available at [www.artimplant.se](http://www.artimplant.se) at the same time that they're distributed to the media.

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### **ARTIMPLANT**

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

*Artimplant developed and patented several different degradable ligament implants that are now in clinical trials. The company's business concept is to license products and technologies to global partners.*

*The Artimplant stock is listed on the Stockholm stock exchange's O list.*

## **NEW ISSUES**

In December, Artimplant raised SEK 30 million through a directed new stock issue to both existing and new larger institutions and private owners. The December 2002 extraordinary general meeting authorized the board to implement a preferential rights issue that's planned for March 2003. Investors who participated in the directed issue agreed to not participate in the preferential rights issue. Both issues are expected to yield a capital injection of at least SEK 45 million.

## **NEW CEO**

On October 3, 2002, Tord Lendau became the new CEO for Artimplant AB. He was born in 1957, and has extensive experience as an executive in medical technology (most recently as CEO for Noster System AB). He is on many med-tech companies' boards, for example, Diamyd Medical AB (on the Stockholm exchange's O list) and ArthroCare Inc. (on NASDAQ). During the first half of the 1990s, he was CEO for Synectics Medical AB, which Medtronic Inc. in the US later acquired.

## **REDUCED COSTS AND A NEW, SLIM ORGANIZATION**

As of November 1, 2002, Artimplant had a new, more effective and slimmer organization, which focuses on these five prioritized projects that contribute to achieving positive cash flow as quickly as possible:

- Artelon™ Spacer CMC-I: thumb-base arthritis treatment
- Artelon™ Augmentation Device ACL: reinforcement during anterior cruciate ligament (ACL) reconstruction
- ACL Prosthesis: replacing damaged ACLs
- Reinforcement Bands: many orthopedic treatment applications, e.g., shoulder, foot, ankle, and knee injuries
- Development of manufacturing processes for creating wound-care products within the scope of the license agreement with Mölnlycke Health Care

During 3Q, the staff (excluding the Gothenburg Medical Center subsidiary) was reduced by 15 persons. The parent company now employs 36 persons, of which 13 have received notification of dismissal. The reductions primarily affect employees in administration and production and in certain research and clinical trials functions.

All retainer based consulting contracts were canceled, and new agreements were reached with persons who hold key skills within, for example, the medical area. Patent protection was limited to cover Australia, China, Japan, the EU, and the US, which are the large, important markets for Artimplant products.

When organizational changes are completed, the company estimates that the operating cash burn will amount to approximately SEK 35 million during 2003. Actions and negotiations will continue during 2003 with the aim of further reducing the cost base. To considerably reduce facility cost is one such goal.



The new executive team consists of:

- Tord Lendau, CEO
- Elisabeth Liljensten, R&D
- Jonas Ström, CFO
- Ulf Åkerblom, Corporate Development (including investor relations)
- Anders Östin, Manufacturing Process Development

### **MATERIAL TECHNOLOGY CAN BE COMMERCIALIZED**

Contacts continue to be made for identifying global orthopedic companies regarding license rights for distributing, marketing, and selling Artimplant's orthopedic products that build on spinning and weaving textile structures from Artelon™. During 4Q, Artimplant signed a confidentiality agreement with a global, US-based orthopedic company.

Further discussions are ongoing with a global company that finds Artelon™ attractive for foam that can be used for bone tissue regrowth, chiefly for hip reconstruction.

### **PLANNING FOR FDA APPLICATION**

Because the US accounts for up to 60% of the global orthopedic market, US Food and Drug Administration (FDA) approval of Artimplant's Artelon-based products is crucial for Artimplant's future commercial successes. (The FDA approves pharmaceuticals and med-tech products for marketing).

Contact with the FDA is planned for April 2003. The goal is to obtain approval in 2003.

During 1Q 2003, the company expects to be granted a CE certificate, i.e., approval within EU and other countries for sales of the Artelon™ Spacer CMC-I.

### **SALE OF GMC, A SUBSIDIARY**

Part of Artimplant's long-term financing is linked to the sale of the Gothenburg Medical Center, a subsidiary. The sale process is initiated.

### **PROJECT AND PRODUCT PORTFOLIO**

#### **Artelon™ Spacer CMC-I**

Thumb-base arthritis is one of the most common repetitive-use injuries in hands; it primarily afflicts women over age 40, and it can afflict men. About 10% of the population over age 55 is at risk, and no satisfactory treatment exists. Normally, the first step is to administer painkillers. Surgical treatment can involve arthrodesis, which limits movement, or artificial tendon grafts that can lead to problems with grip strength and instability. The potential market is estimated to be at least SEK 10 billion.

Artimplant's spacer functions as a substitute for damaged cartilage between the last thumb bone and the wrist bone. The operation is less invasive, compared to arthrodesis and artificial tendon grafts, and it can be done under local anesthetic.

Because the spacer is a new method for treating a common complaint, the function must be validated in clinical tests. A multicenter study was launched and implemented at six clinics in Sweden. Results from a two-year follow-up of a pilot study show that the spacer has a beneficial effect on joint stability, grip strength, and pain.

#### **Artelon™ Augmentation Device ACL**

Anterior cruciate ligament (ACL) injury is the most common ligament injury. Often it leads to life-long problems for the injured and considerable costs for society. Artimplant's first CE certified product is for strengthening tissue that's taken from the patient, often from a part of the knee cap



tendon or from the back of the thigh. This tissue is then operated into the knee to replace the damaged ligament. Global market potential is estimated at about SEK 10 billion.

Three-year results from the ongoing ACL pilot study show stable knees, that Artimplant's biodegradable Artelon™ material is tissue friendly, and that connective tissue and blood vessels grow into the material.

Two-year results from the first multicenter study show that stability in the operated knee is comparable to the non-injured knee, which is an expected result. This study also confirmed the pilot study's results.

**ACL Prosthesis**

An ACL prosthesis is a pure implant, i.e., it's unnecessary to use the body's tissue. This project has been initiated, and the product to be developed is built on the Artelon™ Augmentation Device ACL and has a very large market potential. Signals that Artimplant received during license discussions with potential partners indicate considerable interest for the ACL prosthesis, particularly in the US.

**Reinforcement Bands**

The reinforcement band project is a logical, cost-effective expansion of Artimplant's future product portfolio because the technologies build on the same fiber and textile developments that led to the spacer and ACL products. There are many clinical requirements for treating ligament injuries in shoulder, knee, and ankle joints. The project covers several applications, such as rotator cuffs in shoulder joints, collateral ligaments in knee joints, and Achilles' tendons and fibulotalar ligaments in feet and ankles.

**Artelon™ Sternum Suture**

The sternum suture project has lower priority. The company is focusing on the short- and mid-term orthopedic projects that generate revenue as quickly as possible. Sternum sutures for open-heart surgery don't fit into the new strategy. Technology developed for the sternum suture project is directly applicable to products being developed for reinforcement bands.

**ARTIMPLANT'S CLINICAL PROGRAM – SUMMARY**

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**Artelon™ Spacer CMC-I**

<b>Study</b>	<b>2003</b>
Pilot , 15 patients	3-year follow-up, 2Q
Multicenter I, 3 year, 108 patients	6-month follow-up, 4Q*

\*) Estimated time for follow-up status. Patient recruitment ongoing.

**Artelon™ Augmentation Device ACL**

<b>Study</b>	<b>2003</b>
Pilot, 22 patients	5-year follow-up, 3Q
Multicenter I, knee tendon, 201 patients	3-year follow-up, 3Q
Multicenter II, hamstring, 101 patients	2-year follow-up, 3Q
Accelerated rehab, pilot, knee tendon, 10 patients	2-year follow-up, 4Q



## **PATENT**

Several patents protect the biodegradable implant polymers, for example, the main patent (Artelon™), which is approved in Europe, the US, and several other countries.

Artimplant has eight approved patents in Sweden and of which two internationally. An additional five patent applications were submitted.

For strategic reasons, the company decided to concentrate patent protection to cover Australia, China, Japan, the EU, and the US, which the company considers to be a satisfactory protection. A one-time write-off amounting to SEK 2.5 million has been made, which corresponds to the book value of the intangible assets relating to those markets where protection will not be maintained.

## **ARTIMPLANT'S JANUARY-DECEMBER 2002 FINANCIAL RESULTS**

Group net sales for 2002 reached SEK 25.7 million (23.7). Operating loss was SEK 63 million (58.2). Loss after taxes was SEK 62 million (54.3). The parent company's net sales reached SEK 0.2 million, mainly from compensation from Mölnlycke Health Care.

Gothenburg Medical Center's (subsidiary) net sales reached SEK 26.1 million (24). GMC loss was SEK 1.6 million (0.2). Settlement costs for personnel burdened the year's results.

The increasing loss is due to restructuring costs, severance payments, and costs associated with licensing initiatives for Artimplant's first products.

Group net sales during the fourth quarter reached SEK 7.4 million (7.5) and the operating loss was SEK 22.3 million (17.6). Restructuring costs were SEK 6.2 million.

## **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).

## **PERSONNEL**

Jonas Ström is the company's new CFO as of December 2002.

As of December 31, 2002: The group employed 68 (69) persons, of which 32 (33) worked at the Gothenburg Medical Center, a subsidiary. The number of consultants associated with the company was 0 (9). Of the 36 employees in the parent company, 13 had received notice of dismissal.

## KEY RATIOS FOR THE GROUP

	Jan-Dec 2002	Jan-Dec 2001
Earnings per share, SEK	-3,22	-5,87
Earnings per share after full dilution, SEK	-3,22	-5,87
Equity per share, SEK	4,10	14,91
Equity per share after full dilution, SEK	4,81	29,88
No. of shares at end of period	19 250 000	9 250 000
No. of shares after full dilution	20 583 340	9 762 500
Yield on equity, %	neg	neg
Yield on capital employed, %	neg	neg
Equity/assets ratio, %	79	89

In the full dilution calculations, the option program from May 2000 has been excluded. The reason is it has been considered of no value due to the high price of SEK 300. Dilution is not considered in the earnings per share calculations as the company is showing a loss for the period.

## INCOME STATEMENTS ARTIMPLANT

Amounts in SEK thousands	Group	Group	Group	Group
	Oct-Dec 2002	Jan-Dec 2002	Oct-Dec 2001	Jan-Dec 2001
Net sales	7 423	25 659	7 495	23 664
Cost of goods & services sold	-6 556	-25 466	-6 787	-21 108
<b>Gross profit/loss</b>	<b>867</b>	<b>193</b>	<b>708</b>	<b>2 556</b>
Research and development costs	-10 297	-30 518	-7 259	-22 706
Marketing costs	-4 505	-13 618	-6 802	-25 855
Administrative costs	-8 323	-19 113	-4 298	-12 203
Other operating revenues	-	61	30	30
<b>Operating loss</b>	<b>-22 258</b>	<b>-62 995</b>	<b>-17 621</b>	<b>-58 178</b>
Interest income and other financial income	122	1 279	667	3 893
Interest expenses and other financial expenses	-35	-435	-40	-48
Proceeds from sale of warrants	-	-	-	70
<b>Net financial items</b>	<b>87</b>	<b>844</b>	<b>627</b>	<b>3 915</b>
<b>Loss after financial items</b>	<b>-22 171</b>	<b>-62 151</b>	<b>-16 994</b>	<b>-54 263</b>
Taxes	99	99	-	-19
<b>Loss for the period</b>	<b>-22 072</b>	<b>-62 052</b>	<b>-16 994</b>	<b>-54 282</b>

**Note: The income statements include depreciation on tangible and amortization on intangible fixed assets as shown in the following table.**

Amounts in SEK thousands	Group	Group	Group	Group
	Oct-Dec 2002	Jan-Dec 2002	Oct-Dec 2001	Jan-Dec 2001
Capitalized research and development costs	-	-	6 177	18 983
Patents	3 139	4 290	340	1 287
Goodwill	174	699	174	699
Machinery and equipment	916	3 533	1 092	3 716
<b>Total depreciation</b>	<b>4 229</b>	<b>8 522</b>	<b>7 783</b>	<b>24 685</b>

Due to change in accounting principles, amortization of Capitalized research and development costs will start at launching of the products

## INCOME STATEMENTS ARTIMPLANT

Amounts in SEK thousands	Parent	Parent	Parent	Parent
	Oct-Dec	Jan-Dec	Oct-Dec	Jan-Dec
	2002	2002	2001	2001
Net sales	0	211	725	1 187
Cost of goods & services sold	0	-211	-709	-1 171
<b>Gross profit/loss</b>	<b>0</b>	<b>0</b>	<b>16</b>	<b>16</b>
Research and development costs	-10 297	-30 518	-7 259	-22 706
Marketing costs	-4 505	-13 618	-6 802	-25 855
Administrative costs	-7 686	-16 561	-3 517	-9 096
Other operating revenues	-	-	30	30
Share in earnings from Group companies	402	-1 589	97	162
<b>Operating loss</b>	<b>-22 086</b>	<b>-62 286</b>	<b>-17 435</b>	<b>-57 449</b>
Interest income and other financial income	117	1 261	656	3 859
Interest expenses and other financial expenses	-28	-68	-12	-20
<b>Net financial items</b>	<b>89</b>	<b>1 193</b>	<b>644</b>	<b>3 839</b>
<b>Loss after financial items</b>	<b>-21 997</b>	<b>-61 093</b>	<b>-16 791</b>	<b>-53 610</b>
Taxes	-	-	-	-
<b>Loss for the period</b>	<b>-21 997</b>	<b>-61 093</b>	<b>-16 791</b>	<b>-53 610</b>

The income statements include depreciation on tangible and amortization on intangible fixed assets as shown in the following table.

Amounts in SEK thousands	Parent	Parent	Parent	Parent
	Oct-Dec	Jan-Dec	Oct-Dec	Jan-Dec
	2002	2002	2001	2001
Capitalized research and development costs	-	-	6 177	18 983
Patents	3 139	4 290	340	1 287
Machinery and equipment	825	3 212	986	3 247
<b>Total depreciation</b>	<b>3 964</b>	<b>7 502</b>	<b>7 503</b>	<b>23 517</b>

Due to change in accounting principle, amortization of Capitalized research and development costs will start at launching of the products.

As a consequence of the change in the intellectual properties strategy, one-time write-offs of SEK 2.5 million has been made.

## BALANCE SHEETS ARTIMPLANT

	Group	Group	Parent	Parent
<b>Amounts in SEK thousands</b>	<b>2002-12-31</b>	<b>2001-12-31</b>	<b>2002-12-31</b>	<b>2001-12-31</b>
<b>ASSETS</b>				
Capitalized research and development costs	41 148	54 623	41 148	54 623
Patents	2 425	3 661	2 425	3 661
Goodwill	10 857	11 556	-	-
<b>Total intangible fixed assets</b>	<b>54 430</b>	<b>69 840</b>	<b>43 573</b>	<b>58 284</b>
Machinery and equipment	6 740	9 677	5 846	8 730
<b>Total tangible fixed assets</b>	<b>6 740</b>	<b>9 677</b>	<b>5 846</b>	<b>8 730</b>
Shares in Group companies	-	-	18 096	18 096
<b>Total financial fixed assets</b>	<b>-</b>	<b>-</b>	<b>18 096</b>	<b>18 096</b>
<b>Total fixed assets</b>	<b>61 170</b>	<b>79 517</b>	<b>67 515</b>	<b>85 110</b>
Raw materials, semimanufactures and finished goods	132	8	132	8
Total inventories etc	132	8	132	8
Accounts receivable	1 807	2 632	-	24
Receivables, Group companies	-	-	-	63
Other receivables	3 081	2 370	3 075	2 370
Prepaid expenses and accrued income	1 882	2 992	1 566	2 740
<b>Total short-term receivables</b>	<b>6 770</b>	<b>7 994</b>	<b>4 641</b>	<b>5 197</b>
Cash and bank accounts	32 274	68 006	31 428	67 144
<b>Total current assets</b>	<b>39 176</b>	<b>76 008</b>	<b>36 201</b>	<b>72 349</b>
<b>TOTAL ASSETS</b>	<b>100 346</b>	<b>155 525</b>	<b>103 716</b>	<b>157 459</b>

	Group	Group	Parent	Parent
<b>Amounts in SEK thousands</b>	<b>2002-12-31</b>	<b>2001-12-31</b>	<b>2002-12-31</b>	<b>2001-12-31</b>
<b>SHAREHOLDERS' EQUITY &amp; LIABILITIES</b>				
Equity				
Share capital	1 925	925	1 925	925
Restricted reserves/Legal reserve	141 697	193 265	141 697	193 265
<b>Total restricted equity</b>	<b>143 622</b>	<b>194 190</b>	<b>143 622</b>	<b>194 190</b>
Retained losses	-2 661	-1 989	-	-
Loss for the period	-62 052	-54 282	-61 093	-53 610
<b>Total retained loss</b>	<b>-64 713</b>	<b>-56 271</b>	<b>-61 093</b>	<b>-53 610</b>
<b>Total equity</b>	<b>78 909</b>	<b>137 919</b>	<b>82 529</b>	<b>140 580</b>
Provision for deferred tax	223	322	-	-
<b>Total provisions</b>	<b>223</b>	<b>322</b>	<b>-</b>	<b>-</b>
Accounts payable	4 900	6 425	4 078	5 465
Liabilities, Group companies	-	-	3 547	3 578
Tax liability	-	578	-	-
Other current liabilities	1 548	1 442	933	1 056
Accrued expenses and prepaid income	14 766	8 839	12 629	6 780
<b>Total current liabilities</b>	<b>21 214</b>	<b>17 284</b>	<b>21 187</b>	<b>16 879</b>
<b>TOTAL SHAREHOLDERS' EQUITY &amp; LIABILITIES</b>	<b>100 346</b>	<b>155 525</b>	<b>103 716</b>	<b>157 459</b>

#### Changes in shareholder's equity during the period

	Group	Group	Parent	Parent
<b>Amounts in SEK thousands</b>	<b>Jan-Dec</b>	<b>Jan-Dec</b>	<b>Jan-Dec</b>	<b>Jan-Dec</b>
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Equity at beginning of the period	137 919	192 201	140 580	194 190
Share issue	25 909	-	25 909	-
Change in accounting principle	-22 867	-	-22 867	-
Loss for the period	-62 052	-54 282	-61 093	-53 610
<b>Equity at end of the period</b>	<b>78 909</b>	<b>137 919</b>	<b>82 529</b>	<b>140 580</b>

The cash injection of SEK 30 million from the share issue in December 2002 has been reduced by costs for the issue of SEK 4.1 million.

## CASH-FLOW ANALYSIS ARTIMPLANT

Amounts in SEK thousands	Group	Group	Parent	Parent
	Jan-Dec 2002	Jan-Dec 2001	Jan-Dec 2002	Jan-Dec 2001
<b>Operating activities</b>				
Loss after financial items	-62 151	-54 263	-61 093	-53 610
Adjustment for items not effecting cash flow	8 461	24 555	7 502	23 487
Taxes paid	-	-15	-	-
<b>Cash flow from operating activities before changes in working capital</b>	<b>-53 690</b>	<b>-29 723</b>	<b>-53 591</b>	<b>-30 123</b>
Cash flow from changes in working capital				
Increase(-), decrease(+) in inventories	-124	-8	-124	-8
Increase(-), decrease(+) in receivables	1 224	-3 050	556	-2 197
Increase(+), decrease(-) in liabilities	3 930	7 933	4 308	6 962
<b>Cash flow from operating activities</b>	<b>-48 660</b>	<b>-24 848</b>	<b>-48 851</b>	<b>-25 366</b>
<b>Investing activities</b>				
Aquisition of intangible fixed assets	-12 446	-39 448	-12 446	-39 448
Aquisition of tangible fixed assets	-596	-5 449	-328	-5 050
Disposal of tangible fixed assets	61	151	-	151
<b>Cash flow from investing activities</b>	<b>-12 981</b>	<b>-44 746</b>	<b>-12 774</b>	<b>-44 347</b>
<b>Financing activities</b>				
Share issue	25 909		25 909	
Repayment of loans	-	-100	-	-100
<b>Cash flow from financing activities</b>	<b>25 909</b>	<b>-100</b>	<b>25 909</b>	<b>-100</b>
<b>Cash flow for the period</b>	<b>-35 732</b>	<b>-69 694</b>	<b>-35 716</b>	<b>-69 813</b>
<b>Liquid funds at beginning of period</b>	<b>68 006</b>	<b>137 700</b>	<b>67 144</b>	<b>136 957</b>
<b>Liquid funds at end of period</b>	<b>32 274</b>	<b>68 006</b>	<b>31 428</b>	<b>67 144</b>

### Accounting principles

The same accounting principles were applied as in the 2001 annual report with the exception that effective januari 1, 2002, the Company applies the Swedish Financial Accounting Standards Council's recommendation 15, on intangible assets. This change in accounting principle reduced the book value of Capitalized research and development costs by SEK 22.9 million.

Gothenburg, February 14, 2003

Artimplant AB (publ)

Tord Lendau  
CEO

This report has not been audited by Artimplant's auditors.