



## INTERIM REPORT | 2010 JANUARY-SEPTEMBER

- Net revenue for the third quarter amounted to SEK 5.1 million (5.5) and for January-September SEK 14.9 million (18.2).\*
- The net loss for the third quarter totaled SEK 5.2 million (4.7) and for January-September SEK 15.0 million (13.2).
- Earnings per stock unit for the third quarter amounted to SEK -0.09 (-0.08) and for January-September SEK -0.25 (-0.22).
- Artimplant's own sales continued to increase and were equivalent to 65% (40) of product sales for the third quarter and 59% (30) for January-September.
- Artimplant's own sales in the USA have tripled at the same time that revenue from license sales halved compared with January-September 2009.
- Artimplant's strategy has been focused on marketing with increased intensity in own sales in the USA.
- Artimplant has implemented staff cutbacks equivalent to an annual saving of approximately SEK 5 million once the periods of notice have come to an end.
- Study data has been presented which supports the use of Artelon® in a number of treatment applications.

### Events after the period-end

- Artimplant's rights issue was oversubscribed by 89% and, as planned, has generated capital input for the Company of approximately SEK 38.5 million before issue costs.
- The issue will increase the number of Series B stocks by 59,244,790, from 58,669,790 to 117,914,580. The number of Series A stocks remains unchanged at 575,000. The total number of stocks after the issue is thus 118,489,580.
- The total number of votes following the issue is 123,664,580.

N. B. This is a translation from Swedish. The Swedish version shall always take precedence.

Artimplant will hold a telephone conference by reason of this report on October 28, 2010 at 11 am (CET). For further information see [www.artimplant.com](http://www.artimplant.com).

\* Figures in brackets refer to the corresponding period last year



## Artimplant

Artimplant's mission is to restore the health of patients by offering medical professionals degradable implants that help the body to heal.

Artimplant is a medical technology company that restores health through the development, production and marketing of degradable implants that regenerate body functions and improve quality of life. Our products are made from Artelon<sup>®</sup>, a biomaterial developed by the Company. Artimplant produces implants for the treatment of osteoarthritis and the reinforcement of weakened soft tissue. The Company's products are sold through licensees and own sales under the Artimplant brand take place through agents and distributors.

### *Artelon<sup>®</sup> CMC/STT Spacer*

Artimplant's first product, which is used to treat osteoarthritis (wearing of the cartilage) in the thumb base joint. The product has been granted regulatory clearance and has been launched in Europe, the USA and a small number of other countries.

### *Artelon<sup>®</sup> MTP Spacer*

A product for the treatment of osteoarthritis in the big toe joint. The product is in the launch phase in Europe.

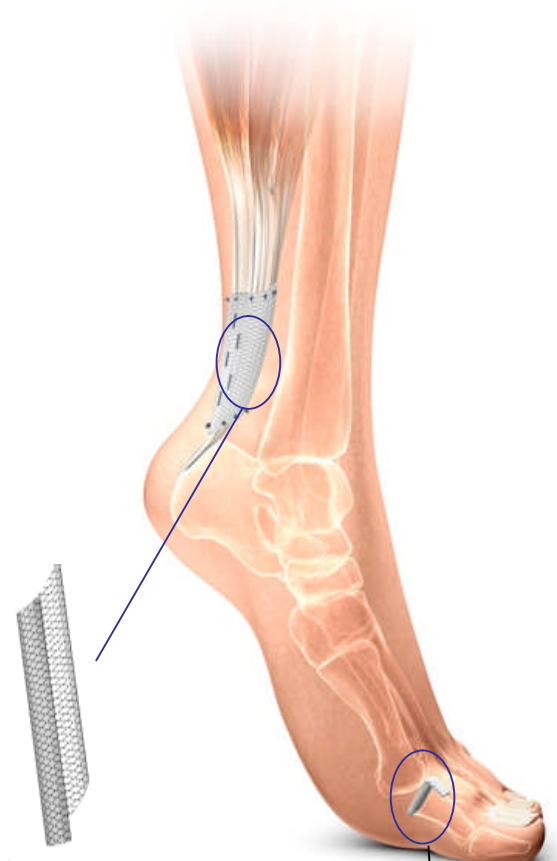
### *Artelon<sup>®</sup> Tissue Reinforcement*

The product is a mesh used as reinforcement in conjunction with the repair of soft tissue e.g. tendons. The product is currently in the market introduction phase in Europe and the USA.

### *Artelon<sup>®</sup> Cosmetic*

A product for soft tissue augmentation in the mouth. Approved for sale in Europe.

Artimplant is a public company listed on the NASDAQ OMX Stockholm Exchange in the Small Cap segment and in the Healthcare sector.



#### **Artelon<sup>®</sup> Tissue Reinforcement**

is used as reinforcement in conjunction with the repair of soft tissue, including the Achilles tendon

#### **Artelon<sup>®</sup> MTP Spacer**

is used for the treatment of wear injury in the big toe joint, *Hallux Rigidus*



## Key events

Artimplant's own sales are continuing to increase according to plan in the USA and now account for the majority of the revenue.

The Company's positive experience from the launch of Artelon<sup>®</sup> Tissue Reinforcement (ATR) through in-house activities on the US market has clearly demonstrated new potential for complementary ATR products.

During the third quarter study data was presented which supports the use of Artelon<sup>®</sup> in a number of treatment applications.

Sales by Biomet Sports Medicine to end-customers remain stable. Sales of Artelon<sup>®</sup> Spacer by Small Bone Innovations (SBI) continued to fall during the third quarter of 2010.

Artimplant's strategy has been focused on marketing with a greater presence on the strategically important USA market. At the same time, costs which are not related directly to marketing and sales have been reduced.

Artimplant has made staff cutbacks equivalent to an annual saving of approximately SEK 5 million once the periods of notice have come to an end.

After the period-end, Artimplant implemented a new stock issue, with an option right for the Company's stockholders, with the aim of financing the Company's increased marketing activities. The new issue, which will generate capital input for the Company of approximately SEK 38.5 million before issue costs, was fully subscribed with an option for holders of subscription rights.

## Financial results

Net revenue for the third quarter amounted to SEK 5.1 million (5.5) and for January-September to SEK 14.9 million (18.2). Net revenue was primarily revenue from product sales. Direct sales via agents and sales to Artimplant's local distributors (termed own

sales) continue to increase and during the third quarter were equivalent to 65% (40) of product sales and for January-September 59% (30).

The gross margin for product sales during the third quarter was 87% (82) and for January-September 82% (87). During January-September 2010 the production volume was low, which has meant that fixed production costs have had a negative impact on the gross margin.

The operating loss for the third quarter amounted to SEK 4.8 million (4.5) and during January-September to SEK 14.6 million (13.1). This has been affected by a non-recurring cost of SEK 0.8 million related to staff cutbacks in August. The non-recurring cost refers to the remaining severance pay for staff who were not required to work their notice. Operating expense for January-September, excluding the cost of goods and services sold as well as a non-recurring item of SEK 0.8 million in 2010 and SEK 0.8 million in 2009, was SEK 1.7 million lower than the corresponding period the preceding year. This can be attributed mainly to the fact that depreciation of capitalized product development costs for Artelon<sup>®</sup> CMC Spacer, totaling approximately SEK 0.5 million per quarter, was concluded during 2009.

The net loss for the third quarter was SEK 5.2 million (4.7) and for January-September SEK 15.0 million (13.2), including a currency exchange rate fluctuation of SEK -0.4 million (-0.3). Earnings per stock unit for the third quarter were SEK -0.09 (-0.08) and for January-September SEK -0.25 (-0.22).

## Seasonal effects

Artimplant has not been exposed during the reporting period to any material seasonal effects, neither in revenue nor in costs.

### Investments and cash position

Investments during January-September totaled SEK 0.3 million (0.2), of which SEK 0.2 million (0.2) was attributable to intangible assets.

At the end of the period, cash and cash equivalents amounted to SEK 7.7 million (19.6). Total cash flow for January-September amounted to SEK -7.9 million (-11.8). The improvement compared with January-September 2009 can be attributed largely to a positive change in operating capital of SEK 2.2 million (-1.7) and utilization of the operating capital facility to the amount of SEK 4.0 million.

The Company has access to an operating capital credit facility of SEK 8.0 million. During the third quarter SEK 4.0 million of the credit facility had been utilized. The remainder of the credit is available through a bank overdraft facility. A chattel mortgage for SEK 8.0 million has been furnished as collateral and the credit facility is subject to the customary conditions regarding operational development. By reason of the new issue, the Company intends to initiate renegotiation of the conditions in November.

During the period Artimplant commenced a new stock issue with an option right for the Company's stockholders. The new issue was completed after the end of the period. See also under Events after the period-end.

### Personnel

As of September 30, 2010, Artimplant had 25 employees (26), of whom 13 (15) were women and 12 (11) were men. During the period, two product specialists were employed at Artimplant USA, Inc. The remainder are employed by Artimplant AB.

As a result of a more marketing-oriented strategy, Artimplant has made staff cutbacks, mainly in positions not related directly to sales. The periods of notice for the staff vary from two to six months, calculated from the latter half of August.

Excluding staff made redundant, the number of employees as of September 30, 2010 was 17, of whom eight are women and nine are men.

### Market development

Artimplant's own sales in the USA are developing positively and sales are increasing month by month. The ATR product, which is intended for reinforcement of soft tissue, continues to convince surgeons and patients of its user-friendliness and positive treatment outcome. Sales to date have taken place mainly through a small number of the Company's own agents. Experience up to now reveals considerable potential for increased growth as existing agents gradually increase their sales and new agents are added. At the end of the second quarter, two product specialists were employed to provide training and sales support for Artimplant's agents in the USA. The foundation for the Company's planned market expansion in the USA has been laid and will now be stepped up.

During the third quarter, total own sales increased to SEK 3.3 million (2.0) and SEK 8.6 million (5.3) for January-September. Artimplant's own sales in the USA tripled during January-September compared with the same period in 2009.

Artimplant has continued to work on producing market support documentation based on reported clinical experience and publications. These activities are of major significance in supporting growth.

ATR, which has been cleared as general reinforcement for soft tissue injuries, is sold both by Artimplant USA and also non-exclusively by the licensee Biomet as SportMesh™. Biomet sales during the period were stable and took place from their own inventory. The first product delivery to Biomet for the year took place during the third quarter. Artimplant is responsible for the majority of ATR sales.

Artelon<sup>®</sup> Spacer products have been cleared for the treatment of osteoarthritis in a number of joints in the hand and foot and are sold non-exclusively by the licensee Small Bone Innovations (SBI). The licensee's sales of Artelon<sup>®</sup> CMC Spacer fell during January-September compared with the corresponding period in 2009. This can be attributed largely to reports of unsatisfactory surgical outcome, which led to a fall in sales during the third quarter of 2009. The reports referred to a small number of cases which occurred during the initial post-launch period where user instructions were not followed. SBI is working on corrective communication to the market. In co-operation with SBI, Artimplant is developing a new Artelon<sup>®</sup> CMC Spacer, which has a similar user-friendly textile design as ATR. Published studies and a new launch are key activities if the licensee is to retake lost sales volumes. SBI is responsible for the majority of Spacer sales.

Sales of Artimplant products to end-customers in Europe are stable although they

have been assigned lower priority as resources have been concentrated on the USA, which in terms of value is the most important market. Sales in Europe take place from the distributors' own inventory, explaining why invoiced sales from Artimplant vary from one quarter to another, particularly during the products' launch phase.

### **Product and business development**

Artimplant's existing focus on new applications based on the unique Artelon<sup>®</sup> platform is continuing with projects in the clinical phase. The change in the Company's strategic focus, however, means that there will be a prioritization of projects with an orthopedic link within human medicine and primarily in reinforcement of soft tissue. Other projects in the clinical phase will be implemented although with a low priority unless reported otherwise. The Company's products and product development projects are summarized in the table below.

Artimplant's products and projects can be viewed in four phases: concept evaluation/proof-of-concept (Explore), product development and documentation for market registration (Develop), launch and post-market studies (Market Introduction) and a product established on the market (Established).

| Product Concept | Intended use   | Product                       | Explore | Develop | Market Intro. | Established |
|-----------------|--|-------------------------------|---------|---------|---------------|-------------|
| Resurfacing     | Osteoarthritis in the thumb base joint                 | Artelon® CMC/STT Spacer       |         |         |               |             |
|                 | Osteoarthritis in the big toe joint                    | Artelon® MTP Spacer*          |         |         |               |             |
|                 | Osteoarthritis in the facet joints of the lumbar spine | Facet Spacer                  |         |         |               |             |
|                 | Osteoarthritis in the knee joint                       | Knee Resurfacing              |         |         |               |             |
| Reinforcement   | Soft tissue reinforcement of tendons and ligaments     | Artelon® Tissue Reinforcement |         |         |               |             |
|                 | Knee ligament reconstruction in dogs                   | Artelon® CCL                  |         |         |               |             |
| Replenishment   | Soft tissue augmentation in the upper jaw              | Artelon® Cosmetic*            |         |         |               |             |
|                 | Bone augmentation in the upper jaw                     | Bone Scaffold                 |         |         |               |             |

\* Not cleared for sale in the USA

There is a market for complementary products within the ATR family for reinforcement of soft tissue. The present ATR design that is being marketed is intended primarily for extensive soft tissue injuries. A broader product range for soft tissue reinforcement offers surgeons the opportunity to use Artelon® products on more patients. The new products are planned to be launched in spring 2011.

Artimplant and Tulsa Bone & Joint Associates, Tulsa, Oklahoma, USA, are running a post-market study of ATR for patients with rotator cuff injuries. The study comprises approximately 20 patients. The final patient underwent surgery in October 2009 and one-year follow-up is in progress.

Artimplant is supporting a study dealing with ATR for the treatment of re-ruptures of the Achilles tendon. The study is being run by the University of California Davis, USA.

The Schulthess Clinic in Zurich is conducting a clinical pilot study to demonstrate pain relief in the treatment of osteoarthritis in the facet joints in the spine using an Artelon® implant. The patients will be followed up over a two-year period. The Schulthess Clinic commenced the study during the second quarter of 2009. All patients in the first part of the study have undergone surgery and will be followed up over a six-month period, after which the Schulthess Clinic will apply for consent to expand the study. The study plan is in compliance with the permit granted to run the study. The Schulthess Clinic is planning

to continue operating on new patients from the turn of the year.

A post-market study has been conducted by the Brånemark Clinic in Gothenburg on Artelon<sup>®</sup> Cosmetic for soft tissue augmentation in the upper jaw. The study, which has been accepted for publication by Clinical Implant Dentistry and Related Research, confirms that patients with tissue defects can be treated successfully with Artelon<sup>®</sup> Cosmetic.

A laboratory study (in vitro) and an animal study, which were presented at the 9th World Congress of the International Cartilage Repair Society, demonstrate that Artelon<sup>®</sup> functions as a scaffold for cells in conjunction with cartilage repair. Both locally recruited cells obtained through bleeding as well as in vitro cultured human chondrocytes, which are currently in clinical use, have been studied. The results show that the newly formed tissue is improved with the use of Artelon<sup>®</sup>.

### Events after the period-end

Artimplant's strategy has become more market oriented with an increased presence on the strategically important USA market. Artimplant implemented a new stock issue, with an option right for the Company's stockholders, with the aim of financing the Company's increased marketing activities. The new issue, which has generated capital input for the Company of approximately SEK 38.5 million before issue costs, was fully subscribed by holders of subscription rights.

The issue will increase the number of Series B stocks by 59,244,790, from 58,669,790 to 117,914,580. The number of Series A stocks remains unchanged at 575,000. The total number of stocks after the issue is thus 118,489,580.

The total number of votes following the issue is 123,664,580.

### Future prospects

Artimplant's direct sales in the USA will account for the majority of sales, which are expected to increase gradually as new agents begin selling and building up confidence in Artimplant's products in each sales district.

In conjunction with the planning of the now completed rights issue and the formulation of a new strategic plan, the Board of Directors and the senior management have revised Artimplant's objectives. The Company is now working with the goal that a positive cash flow before changes in working capital will be achieved on a monthly basis during the second half of 2011. The previously communicated aim was: "The Company does not provide a forecast of the rate at which sales will increase although Artimplant is working towards the goal that a positive cash flow before changes in working capital will be achieved on a monthly basis by the end of 2010". The reason for the adjustment in the goal announced previously is mainly lower revenue than planned from the Company's licensees.

### Significant risks and uncertainty factors

The Company's significant risks and uncertainty factors are presented in the Board of Directors' Report in the most recent annual report and in a prospectus dated September 24, 2010 for the new stock issue. The liquidity risk presented in the six-monthly report has been modified as the Company's new stock issue was implemented according to plan.

### Parent Company

The majority of Artimplant's operations are run through the Parent Company, Artimplant AB. Artimplant USA, Inc. is the Company's only subsidiary and is at present fully funded by the Parent Company. The Parent Company is responsible for continuity at the subsidiary

and during January-September 2010 an impairment was made of receivables from Artimplant USA totaling SEK 1.5 million. Together with an impairment of SEK 9.0 million in the opening balance, the total impairment is SEK 10.5 million, which is equivalent to the subsidiary's negative equity. The impairment does not affect the Group's result. The difference in the Parent Company's equity compared with the Group's equity can be explained by the internal profit on products sold by the Parent Company to the subsidiary and amounts to SEK 9.2 million. See summary of the Parent Company Statement of Comprehensive Income and Statement of Financial Position on pages 12-13.

### Accounting principles

Artimplant applies IFRS. This interim report has been prepared in accordance with IAS 34, the Swedish Annual Accounts Act and RFR 1.3. The Parent Company's financial statements are prepared in accordance with exceptions and addenda in RFR 2.3. No new or amended IFRS, which came into effect in 2010, had any significant impact on the Group.

Further accounting principles can be found in the Company's Annual Report for 2009, which is available on the Company's website.

### Annual General Meeting and Election Committee

Artimplant AB's Annual General Meeting will be held on May 4, 2011, at 5 pm at the Company's head office, located at Hulda Mellgrens gata 5, SE-421 32 Västra Frölunda. Stockholders who wish to have a matter taken up at the Annual General Meeting can submit the proposal to the Company by e-mail at [agm2011@artimplant.com](mailto:agm2011@artimplant.com) or to Artimplant AB, Attn: Annual General Meeting 2011 at the above address. Proposals must be submitted by March 11, 2011 at the latest to ensure that they are included in the summons to the meeting and thus also in the agenda for the Annual General Meeting.

In preparation for the 2011 Annual General Meeting the Election Committee, which according to a decision reached at the Annual General Meeting in 2010 shall be elected by representatives from the three largest shareholders as of September 30, 2010, is about to be formed.

### Forthcoming information

|                      |                   |
|----------------------|-------------------|
| Year-end report      | February 10, 2011 |
| Three-monthly report | May 4, 2011       |
| Six-monthly report   | August 3, 2011    |
| Nine-monthly report  | November 1, 2011  |

Financial reports are available on the Company's website [www.artimplant.com](http://www.artimplant.com) and are also distributed to the media. For information regarding the business model, technology and products, see Artimplant's Annual Report for 2009, which is available on the Company's website.

### For further information please contact

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| Amounts in KSEK  | Jul-Sep       | Jan-Sep        | Jul-Sep       | Jan-Sep        | Jan-Dec        |
|--|---------------|----------------|---------------|----------------|----------------|
|  | 2010          | 2010           | 2009          | 2009           | 2009           |
| Net sales  | 5,130         | 14,940         | 5,480         | 18,235         | 23,998         |
| Cost of goods and services sold                        | -720          | -2,995         | -1,294        | -2,721         | -4,328         |
| <b>Gross profit/loss</b>                               | <b>4,410</b>  | <b>11,945</b>  | <b>4,186</b>  | <b>15,514</b>  | <b>19,670</b>  |
| Other income   | 228           | 358            | 81            | 379            | 451            |
| Research and development costs (1, 2)                  | -3,497        | -10,486        | -2,998        | -11,449        | -14,995        |
| Selling costs  | -4,193        | -11,766        | -4,019        | -12,584        | -17,049        |
| Administrative costs                                   | -1,336        | -4,191         | -1,233        | -4,119         | -5,729         |
| Other costs  | -416          | -473           | -467          | -855           | -861           |
| <b>Operating loss</b>                                  | <b>-4,804</b> | <b>-14,613</b> | <b>-4,450</b> | <b>-13,114</b> | <b>-18,513</b> |
| Interest income and other financial income             | -             | 74             | 3             | 289            | 311            |
| Interest expense and other financial expenses          | -440          | -473           | -219          | -409           | -431           |
| <b>Net financial items</b>                             | <b>-440</b>   | <b>-399</b>    | <b>-216</b>   | <b>-120</b>    | <b>-120</b>    |
| <b>Loss after financial items</b>                      | <b>-5,244</b> | <b>-15,012</b> | <b>-4,666</b> | <b>-13,234</b> | <b>-18,633</b> |
| Taxes  | -             | -              | -             | -              | -              |
| <b>Loss for the period*</b>                            | <b>-5,244</b> | <b>-15,012</b> | <b>-4,666</b> | <b>-13,234</b> | <b>-18,633</b> |
| Loss attributable to the Parent Company's stockholders | -5,244        | -15,012        | -4,666        | -13,234        | -18,633        |
| Earnings per stock unit, SEK                           | -0.09         | -0.25          | -0.08         | -0.22          | -0.31          |
| Earnings per stock unit after dilution, SEK            | -0.09         | -0.25          | -0.08         | -0.22          | -0.31          |

\* Same as the comprehensive income for the period

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

| Amounts in KSEK           | Jul-Sep    | Jan-Sep    | Jul-Sep    | Jan-Sep      | Jan-Dec      |
|---------------------------|------------|------------|------------|--------------|--------------|
|                           | 2010       | 2010       | 2009       | 2009         | 2009         |
| (1) Capitalized R&D cost  | 10         | 10         | 543        | 1,635        | 1,635        |
| (2) Patents and brands    | 191        | 565        | 214        | 657          | 866          |
| Machinery and equipment   | 119        | 354        | 152        | 457          | 610          |
| <b>Total depreciation</b> | <b>320</b> | <b>929</b> | <b>909</b> | <b>2,749</b> | <b>3,111</b> |

ALLOCATION OF CONSOLIDATED NET SALES

| Amounts in KSEK                                | Jul-Sep      | Jan-Sep       | Jul-Sep      | Jan-Sep       | Jan-Dec       |
|--|--------------|---------------|--------------|---------------|---------------|
|  | 2010         | 2010          | 2009         | 2009          | 2009          |
| <b>Source of revenue</b>                       |              |               |              |               |               |
| Product sales by licensees                     | 1,799        | 5,893         | 2,979        | 12,350        | 14,572        |
| Product sales by end customer and distributors | 3,296        | 8,615         | 2,027        | 5,299         | 8,680         |
| One-off and project milestone income           | -            | -             | -            | -             | -             |
| Contract product development and other sales   | 36           | 433           | 474          | 586           | 746           |
|  | <b>5,130</b> | <b>14,940</b> | <b>5,480</b> | <b>18,235</b> | <b>23,998</b> |

| Geographic areas | Jul-Sep      | Jan-Sep       | Jul-Sep      | Jan-Sep       | Jan-Dec       |
|------------------|--------------|---------------|--------------|---------------|---------------|
|                  | 2010         | 2010          | 2009         | 2009          | 2009          |
| North America    | 4,797        | 13,742        | 4,512        | 15,327        | 18,705        |
| Europe           | 333          | 1,198         | 846          | 2,786         | 5,041         |
| Other areas      | -            | -             | 122          | 122           | 252           |
|                  | <b>5,130</b> | <b>14,940</b> | <b>5,480</b> | <b>18,235</b> | <b>23,998</b> |

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| Amounts in KSEK                                 | 9/30/2010     | 9/30/2009     | 12/31/2009    |
|---|---------------|---------------|---------------|
| <b>ASSETS</b>                                   |               |               |               |
| Capitalized product development                 | 1,181         | 1,191         | 1,191         |
| Patents and brands                              | 1,146         | 1,877         | 1,587         |
| <i>Total intangible fixed assets</i>            | <i>2,327</i>  | <i>3,068</i>  | <i>2,778</i>  |
| Machinery and equipment                         | 401           | 876           | 723           |
| <i>Total tangible fixed assets</i>              | <i>401</i>    | <i>876</i>    | <i>723</i>    |
| <b>Total fixed assets</b>                       | <b>2,728</b>  | <b>3,944</b>  | <b>3,501</b>  |
| Raw materials, semi-finished and finished goods | 3,644         | 4,709         | 4,137         |
| <i>Total inventories, etc.</i>                  | <i>3,644</i>  | <i>4,709</i>  | <i>4,137</i>  |
| Accounts receivable                             | 1,859         | 2,021         | 2,946         |
| Other receivables                               | 1,524         | 1,451         | 1,014         |
| Prepaid expenses and accrued income             | 2,696         | 3,222         | 3,286         |
| <i>Total short-term receivables</i>             | <i>6,079</i>  | <i>6,694</i>  | <i>7,247</i>  |
| Cash and bank accounts                          | 7,710         | 19,600        | 15,613        |
| <b>Total current assets</b>                     | <b>17,433</b> | <b>31,003</b> | <b>26,997</b> |
| <b>TOTAL ASSETS</b>                             | <b>20,161</b> | <b>34,947</b> | <b>30,498</b> |

| Amounts in KSEK                                     | 9/30/2010     | 9/30/2009     | 12/31/2009    |
|---|---------------|---------------|---------------|
| <b>STOCKHOLDERS' EQUITY &amp; LIABILITIES</b>       |               |               |               |
| Capital stock                                       | 5,924         | 5,924         | 5,924         |
| Other capital reserves                              | 26,671        | 39,953        | 39,953        |
| Retained loss                                       | -8,574        | -3,527        | -3,390        |
| Loss for the period                                 | -15,012       | -13,234       | -18,633       |
| <b>Total equity</b>                                 | <b>9,009</b>  | <b>29,116</b> | <b>23,853</b> |
| <b>Provisions</b>                                   | <b>8</b>      | <b>67</b>     | <b>65</b>     |
| <b>Long-term interest-bearing liabilities</b>       | <b>2,800</b>  | -             | -             |
| Accounts payable                                    | 961           | 1,231         | 1,147         |
| Current interest-bearing liabilities                | 1,200         | -             | -             |
| Other current liabilities                           | 494           | 1,367         | 1,393         |
| Accrued expenses and prepaid income                 | 5,689         | 3,166         | 4,040         |
| <b>Total current liabilities</b>                    | <b>8,344</b>  | <b>5,764</b>  | <b>6,579</b>  |
| <b>TOTAL STOCKHOLDERS' EQUITY &amp; LIABILITIES</b> | <b>20,161</b> | <b>34,947</b> | <b>30,498</b> |

**CONSOLIDATED CHANGES IN STOCKHOLDERS' EQUITY DURING THE PERIOD**

| Amounts in KSEK  | Jan-Sep<br>2010 | Jan-Sep<br>2009 | Jan-Dec<br>2009 |
|--|-----------------|-----------------|-----------------|
| <b>Capital stock</b>                                   | <b>5,924</b>    | <b>5,924</b>    | <b>5,924</b>    |
| Other capital reserves at the beginning of the period* | 39,953          | 58,270          | 58,270          |
| Reduction in other capital reserves                    | -13,282         | -18,317         | -18,317         |
| <b>Total other capital reserves</b>                    | <b>26,671</b>   | <b>39,953</b>   | <b>39,953</b>   |
| Retained loss at the beginning of the period           | -22,024         | -22,229         | -22,229         |
| Reduction in other capital reserves                    | 13,282          | 18,317          | 18,317          |
| Benefit, employee stock option (IFRS 2)                | 168             | 385             | 521             |
| Loss for the period                                    | -15,012         | -13,234         | -18,633         |
| <b>Total retained loss</b>                             | <b>-23,586</b>  | <b>-16,761</b>  | <b>-22,024</b>  |
| Equity at the period-end                               | <b>9,009</b>    | <b>29,116</b>   | <b>23,853</b>   |

\* Other capital reserves have been reduced annually to cover the retained loss.

Total other capital reserves before issue costs amount to SEK 438 million.

**CONSOLIDATED CASH FLOW STATEMENTS**

| Amounts in KSEK  | Jan-Sep<br>2010 | Jan-Sep<br>2009 | Jan-Dec<br>2009 |
|--|-----------------|-----------------|-----------------|
| <b>Operating activities</b>  |                 |                 |                 |
| Net loss after financial items                                     | -15,012         | -13,234         | -18,633         |
| Adjustment for items not effecting cash flow                       | 1,151           | 3,375           | 3,974           |
| <b>Cash flow from operations before changes in working capital</b> | <b>-13,861</b>  | <b>-9,859</b>   | <b>-14,659</b>  |
| <b>Cash flow from changes in working capital</b>                   |                 |                 |                 |
| Changes in inventories etc.  | 494             | 17              | 589             |
| Changes in receivables   | 1,168           | -2,482          | -3,035          |
| Changes in liabilities   | 561             | 760             | 1,576           |
| <b>Cash flow from operations</b>                                   | <b>-11,638</b>  | <b>-11,564</b>  | <b>-15,529</b>  |
| <b>Investment activities</b>                                       |                 |                 |                 |
| Acquisition of intangible fixed assets                             | -226            | -193            | -215            |
| Acquisition of tangible fixed assets                               | -39             | -25             | -25             |
| Sale of tangible fixed assets                                      | -               | 11              | 11              |
| <b>Cash flow from investment activities</b>                        | <b>-265</b>     | <b>-207</b>     | <b>-229</b>     |
| <b>Financing activities</b>  |                 |                 |                 |
| Long-term loan   | 4,000           | -               | -               |
| <b>Cash flow from financing activities</b>                         | <b>4,000</b>    | <b>-</b>        | <b>-</b>        |
| <b>Cash flow for the period</b>                                    | <b>-7,903</b>   | <b>-11,771</b>  | <b>-15,758</b>  |
| <b>Cash and cash equivalents at beginning of period</b>            | <b>15,613</b>   | <b>31,371</b>   | <b>31,371</b>   |
| <b>Cash and cash equivalents at the period-end</b>                 | <b>7,710</b>    | <b>19,600</b>   | <b>15,613</b>   |

**CONSOLIDATED KEY RATIOS**

|   | Jul-Sep<br>2010 | Jan-Sep<br>2010 | Jul-Sep<br>2009 | Jan-Sep<br>2009 | Jan-Dec<br>2009 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Earnings per stock unit, SEK                      | -0.09           | -0.25           | -0.08           | -0.22           | -0.31           |
| Earnings per stock unit after dilution, SEK       | -0.09           | -0.25           | -0.08           | -0.22           | -0.31           |
| Equity per stock unit, SEK                        | 0.15            | 0.15            | 0.49            | 0.49            | 0.40            |
| Equity per stock unit after dilution, SEK         | 0.15            | 0.15            | 0.49            | 0.49            | 0.40            |
| No. of stock units in issue at the period-end     | 59,244,790      | 59,244,790      | 59,244,790      | 59,244,790      | 59,244,790      |
| Average no. of stock units in issue during period | 59,244,790      | 59,244,790      | 59,244,790      | 59,244,790      | 59,244,790      |
| No. of stock units in issue after dilution        | 60,840,572      | 60,840,572      | 61,366,789      | 61,366,789      | 61,346,566      |
| Cash flow per stock unit, SEK                     | -0.06           | -0.13           | -0.03           | -0.20           | -0.27           |
| Operating margin, %                               | neg             | neg             | neg             | neg             | neg             |
| Return on equity, %                               | neg             | neg             | neg             | neg             | neg             |
| Return on capital employed, %                     | neg             | neg             | neg             | neg             | neg             |
| Return on capital, %                              | neg             | neg             | neg             | neg             | neg             |
| Equity/assets ratio, %                            | 45              | 45              | 83              | 83              | 78              |

**PARENT COMPANY INCOME STATEMENTS**

| Amounts in KSEK                               | Jul-Sep<br>2010 | Jan-Sep<br>2010 | Jul-Sep<br>2009 | Jan-Sep<br>2009 | Jan-Dec<br>2009 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net sales                                     | 3,362           | 13,404          | 7,530           | 22,671          | 28,192          |
| Cost of goods and services sold               | -671            | -3,051          | -1,379          | -2,936          | -4,554          |
| <b>Gross profit/loss</b>                      | <b>2,691</b>    | <b>10,353</b>   | <b>6,151</b>    | <b>19,735</b>   | <b>23,638</b>   |
| Other income                                  | 608             | 2,561           | 91              | 1,568           | 2,151           |
| Research and development costs (1,2)          | -3,497          | -10,486         | -2,998          | -11,449         | -14,995         |
| Selling costs                                 | -2,094          | -6,630          | -3,133          | -9,379          | -12,203         |
| Administrative costs                          | -1,336          | -4,191          | -1,233          | -4,119          | -5,729          |
| Other costs                                   | -3,244          | -3,906          | -1,328          | -3,217          | -3,345          |
| <b>Operating loss</b>                         | <b>-6,872</b>   | <b>-12,299</b>  | <b>-2,450</b>   | <b>-6,861</b>   | <b>-10,483</b>  |
| Interest income and other financial income    | 181             | 835             | 3               | 1,149           | 1,360           |
| Interest expense and other financial expenses | -1,266          | -1,520          | -697            | -1,719          | -1,781          |
| Impairment of receivables subsidiaries        | 1,533           | -1,540          | 569             | -1,372          | -2,898          |
| <b>Net financial items</b>                    | <b>448</b>      | <b>-2,225</b>   | <b>-125</b>     | <b>-1,942</b>   | <b>-3,319</b>   |
| <b>Loss after financial items</b>             | <b>-6,424</b>   | <b>-14,524</b>  | <b>-2,575</b>   | <b>-8,803</b>   | <b>-13,802</b>  |
| Taxes   | -               | -               | -               | -               | -               |
| <b>Loss for the period*</b>                   | <b>-6,424</b>   | <b>-14,524</b>  | <b>-2,575</b>   | <b>-8,803</b>   | <b>-13,802</b>  |

\* Same as the comprehensive income for the period

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

| Amounts in KSEK           | Jul-Sep<br>2010 | Jan-Sep<br>2010 | Jul-Sep<br>2009 | Jan-Sep<br>2009 | Jan-Dec<br>2009 |
|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| (1) Capitalized R&D cost  | 10              | 10              | 543             | 1,635           | 1,635           |
| (2) Patents and brands    | 191             | 565             | 214             | 657             | 866             |
| Machinery and equipment   | 115             | 350             | 147             | 452             | 603             |
| <b>Total depreciation</b> | <b>316</b>      | <b>925</b>      | <b>904</b>      | <b>2,744</b>    | <b>3,105</b>    |

PARENT COMPANY BALANCE SHEETS

| Amounts in KSEK                         | 9/30/2010     | 9/30/2009     | 12/31/2009    |
|---|---------------|---------------|---------------|
| <b>ASSETS</b>                           |               |               |               |
| Total intangible fixed assets           | 2,327         | 3,068         | 2,778         |
| Total tangible fixed assets             | 387           | 866           | 715           |
| Stock and participation in subsidiaries | 10            | 10            | 10            |
| <b>Total fixed assets</b>               | <b>2,724</b>  | <b>3,944</b>  | <b>3,503</b>  |
| Total inventories, etc.                 | 3,323         | 4,415         | 3,825         |
| Accounts receivable                     | 287           | 1,501         | 1,923         |
| Receivables from affiliated companies   | 11,764        | 9,232         | 9,736         |
| Other receivables                       | 1,524         | 1,451         | 1,014         |
| Prepaid expenses and accrued income     | 2,430         | 3,222         | 3,162         |
| Total short-term receivables            | 16,005        | 15,406        | 15,835        |
| Cash and bank accounts                  | 6,617         | 18,913        | 15,020        |
| <b>Total current assets</b>             | <b>25,945</b> | <b>38,734</b> | <b>34,680</b> |
| <b>TOTAL ASSETS</b>                     | <b>28,669</b> | <b>42,678</b> | <b>38,183</b> |

| Amounts in KSEK                                     | 9/30/2010     | 9/30/2009     | 12/31/2009    |
|---|---------------|---------------|---------------|
| <b>STOCKHOLDERS' EQUITY &amp; LIABILITIES</b>       |               |               |               |
| Total equity  | 18,239        | 37,458        | 32,596        |
| Provisions  | 8             | 67            | 65            |
| Long term interest-bearing liabilities              | 2,800         | -             | -             |
| Total current liabilities                           | 7,622         | 5,153         | 5,522         |
| <b>TOTAL STOCKHOLDERS' EQUITY &amp; LIABILITIES</b> | <b>28,669</b> | <b>42,678</b> | <b>38,183</b> |

The Board of Directors and the CEO certify that this Report provides a true and fair overview of the Parent Company's and the Group's operations, financial position and results and presents the material risks and uncertainty factors facing the Parent Company and the companies that form part of the Group.

Gothenburg, October 28, 2010  
Artimplant AB (publ)

Håkan Johansson  
Board Member

Ingemar Kihlström  
Chairman of the Board

Mats Lindquist  
Board Member

Anna Malm Bernsten  
Board Member

Wenche Rolfsen Sandsborg  
Board Member

Hans Rosén  
CEO

*This information is information which Artimplant is required to publish pursuant to the Swedish Financial Instruments Act and/or the Swedish Securities Exchange and Clearing Operations Act and/or stock market agreements. The information was published on October 28, 2010 at 8 am (CET).*

## TRANSLATION OF THE SWEDISH ORIGINAL

### **Auditor's Review Report on interim financial statements**

#### **Introduction**

We have performed a review of the interim financial statements for Artimplant AB at September 30, 2010 and the nine-month period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of these interim financial statements in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express an opinion on the interim financial statements based on our review.

#### **Scope of Review**

We have conducted our review in accordance with the Standard on Review Engagements, SÖG 2410, "Review of Interim Financial Statements Performed by the Independent Auditor of the Entity", issued by the Swedish Federation of Authorized Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different purpose and a substantially less scope than an audit conducted in accordance with the Standards on Auditing in Sweden (RS) and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain such a level of assurance that would make us aware of all significant matters that might be identified in an audit. Accordingly, an opinion based on a review does not constitute the same level of assurance as an opinion based on an audit.

#### **Opinion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material aspects, for the group in accordance with IAS 34 and the Swedish Annual Accounts Act and for the parent company in accordance with the Swedish Annual Accounts Act.

Göteborg, October 28, 2010

Ernst & Young AB

Björn Grundvall  
Authorized Public Accountant

## History

**1986 – 1996** - A medical need is identified and the development of a new biomaterial commences. During subsequent years material, product and production development takes place and the technology is verified through preclinical trials.

**1997** - The Company acquires a Swedish patent for Artelon<sup>®</sup> hydrolyzable fiber polymers for use in temporary implants. The Company is floated on the Stockholm Stock Exchange. The first cruciate ligament (ACL) operations on human patients using implants from Artimplant are carried out within the framework of a pilot study.

**1998** - The Company acquires Gothenburg Medical Center, a clinic specializing in sports-related injuries.

**1999** - Pilot studies in the treatment of damaged thumb ligament and thumb base osteoarthritis are initiated. Artimplant's first multicenter trial in ACL reconstruction begins. Artimplant begins cooperation with Mölnlycke Health Care AB in the field of wound care.

**2000** - The first multicenter trial in ACL reconstruction is concluded. The second multicenter ACL reconstruction trial begins. Artimplant's Artelon<sup>®</sup> patent is approved in the USA and Europe. The marketing organization is expanded.

**2001** - Artimplant's quality assurance system is certified by Lloyds Register Quality Assurance. Artimplant's first product, the Artelon<sup>®</sup> Augmentation Device ACL is granted CE-certification and can now be marketed in Europe. The task of building up the Company's own marketing and sales organization ceased during the autumn. Products and material technology will be commercialized through the granting of licenses to leading companies with a global presence.

**2002** - Agreement on wound care signed with Mölnlycke Health Care AB. An extensive restructuring program is commenced to reduce the Company's cost base.

**2003** - The Company signs an agreement with Atlantech for sales in the UK of its Artelon<sup>®</sup> Augmentation Device ACL. Artimplant's Artelon<sup>®</sup> CMC Spacer for treating thumb base osteoarthritis receives clearance for marketing in Europe. Artelon<sup>®</sup> Surgical Suture is given clearance by the FDA for sales on the American market. The subsidiary Gothenburg Medical Center is sold.

**2004** - Artelon<sup>®</sup> CMC Spacer receives clearance for marketing from the FDA for sales on the US market. Licensing agreements signed with Small Bone Innovations. A licensing agreement is signed with Biomet Inc. for the production of SportMesh<sup>™</sup>. Cooperation with Atlantech for the sale of Artelon<sup>®</sup> Augmentation Device ACL is concluded. Cooperation between Artimplant and Mölnlycke Health Care within wound care is concluded.

**2005** - Four new licensing and development agreements are signed with Small Bone Innovations. A distribution agreement for Artelon<sup>®</sup> Surgical Suture in North America is signed with ArthroCare. Artelon<sup>®</sup> implant for reinforcing rotator cuffs is cleared for marketing in Europe. Office opened in the United States.

**2006** - The Company receives clearance for marketing by the FDA for the sale of the SportMesh<sup>™</sup> rotator cuff implant in the USA. Four new Spacer products for the treatment of osteoarthritis in the hand and foot are granted clearance for marketing in Europe. The product Artelon<sup>®</sup> Augmentation Device ACL is discontinued. Sales of Artelon<sup>®</sup> CMC Spacer to end-customers increase significantly.

**2007** - The Company's sales increase markedly and cash flow improves considerably. The FDA grants clearance to market Artelon<sup>®</sup> Tissue Reinforcement for soft tissue reinforcement in several new indications in the USA. Two new Spacer products for osteoarthritis in the hand are granted clearance by the FDA for marketing in the USA.

**2008** - Sales of Artelon<sup>®</sup> Tissue Reinforcement increase significantly whilst there is a lack of growth in sales of Artelon<sup>®</sup> Spacer. The agreement with Small Bone Innovations is renegotiated, making it non-exclusive from 2009. Artimplant is initiating new development projects for the treatment of knee joint osteoarthritis and osteoarthritis in the facet joint in the spine. Agreement signed with BioMedtrix regarding the distribution in the USA of Artelon<sup>®</sup> CCL for cruciate ligament reconstruction in dogs.

**2009** - Sales double and product sales to end-customers and distributors multiply, increasing its share of total sales to 37% (15). All patients are enrolled for the American post-market study of Artelon<sup>®</sup> Tissue Reinforcement for the treatment of patients with tears in the rotator cuff tendons. The first patients are included in a clinical study for the treatment of osteoarthritis in the facet joint in the spine with an Artelon<sup>®</sup> implant. Product design and procedure are developed further for Artelon<sup>®</sup> CCL. The first dogs in a prospective investigation in the USA undergo cruciate ligament reconstruction using Artelon<sup>®</sup> CCL.