

# YEAR-END REPORT JANUARY-DECEMBER 2010

- Net revenue for the fourth quarter amounted to SEK 3.5 million (5.8) and for January-December SEK 18.5 million (24.0).\*
- The net loss for the fourth quarter totaled SEK 7.4 million (5.4) and for January-December SEK 22.4 million (18.6).
- Earnings per stock unit for the fourth quarter amounted to SEK -0.07 (-0.09) and for January-December SEK -0.32 (-0.31).
- Artimplant's own sales as a proportion of total sales continued to increase and were equivalent to 70% (60) of product sales for the fourth quarter, equivalent to 61% (37) for the full year.
- Compared to 2009, Artimplant's own sales in the USA more than doubled whilst revenue from license sales was halved.
- Artimplant's rights issue was subscribed up to 189% and generated capital input for the Company of approximately SEK 38.5 million before issue costs.
- Artimplant's strategy has been focused on marketing with increased intensity in own sales in the USA.
- Artimplant implemented staff cutbacks in Sweden during the fall of 2010 equivalent to an annual saving of approximately SEK 5 million once the periods of notice came to an end. At the same time the Company has employed more product specialists in the USA.
- The Board proposes that no dividend be paid for 2010.

#### Events after the period-end

- The launch of the new Artelon<sup>®</sup> Tissue Reinforcement products has commenced.

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 February 10, 2011 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.

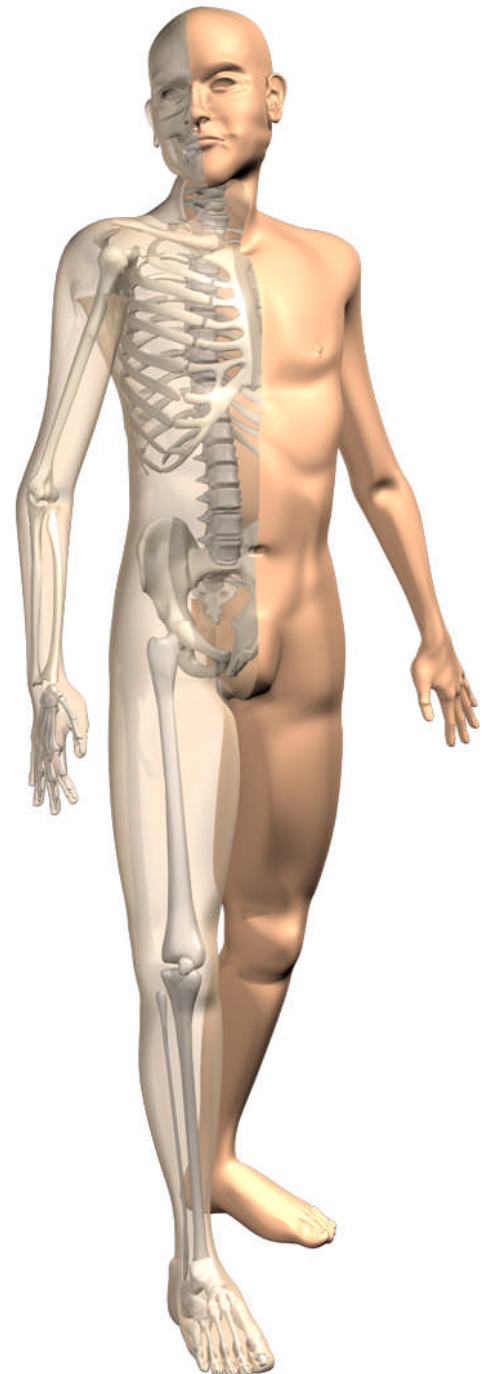
### *Artelon<sup>®</sup> Tissue Reinforcement*

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.



## Key events

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

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 fourth quarter of 2010.

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

Based on the positive experience of Artelon<sup>®</sup> Tissue Reinforcement (ATR) the Company has developed complementary ATR products which after the period-end were introduced in the USA and Europe.

During the fourth quarter a prospective clinical study was completed of ATR for patients with rotator cuff injuries. Dr. Marberry, who is responsible for the study, has found the preliminary results encouraging.

Artimplant has concluded a new stock issue, with an option right for the Company's stockholders, with the aim of financing the Company's marketing activities. The new issue, which generated capital input for Artimplant of approximately SEK 38.5 million before issue costs, was fully subscribed by holders of subscription rights.

Nine CMC patients have filed complaints in the USA against Artimplant and its licensee Small Bone Innovations, both prior to and after the reporting period. All cases were filed through the same plaintiffs' counsel. The amount of damages claimed has not yet been determined. Artimplant is fighting all

allegations and has filed a notice of loss with its insurance carrier. Artimplant deems that potential damages will be settled through insurance coverage.

## Financial results

Net revenue for the fourth quarter amounted to SEK 3.5 million (5.8) and for January-December SEK 18.5 million (24.0).

Translated using the average USD exchange rate for 2009, net revenue for the full year amounted to SEK 19.5 million. Net revenue was primarily revenue from product sales. A provision for invoicing of inventory differences to agents in the USA during 2010 affected product sales to the amount of SEK -0.6 million during the fourth quarter. Direct sales via agents and sales to Artimplant's local distributors (termed own sales) during the fourth quarter were equivalent to 70% (60) of product sales and for the full year January-December 61% (37).

The gross margin for product sales during the fourth quarter was 71% (74) and for January-December 80% (84). During January-December 2010 the production volume was low, which meant that fixed production costs had a negative impact on the gross margin. In addition, inventory provisions affected the gross result to the amount of SEK -0.5 million during the fourth quarter.

The operating loss for the fourth quarter amounted to SEK 7.3 million (5.4) and SEK 22.0 million (18.5) for January-December. The fourth quarter and the full year were affected by a non-recurring cost of SEK 0.9 million and SEK 1.7 million respectively 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. For the full year the non-recurring cost affected research and development costs to the amount of SEK 1.4 million and sales costs to the amount of SEK 0.3 million. The operating loss was also

affected by an impairment of an intangible asset for the odontology project Bone Scaffold amounting to SEK 0.6 million. The impairment affects research and development costs.

The net loss for the fourth quarter was SEK 7.4 million (5.4) and for January-December SEK 22.4 million (18.6), including a currency exchange rate fluctuation of SEK -0.4 million (-0.5). Earnings per stock unit for the fourth quarter were SEK -0.07 (-0.09) and for January-December SEK -0.32 (-0.31).

### **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-December totaled SEK 0.3 million (0.2), of which SEK 0.2 million (0.2) was attributable to intangible assets, particularly patents.

At the end of the period, cash and cash equivalents amounted to SEK 36.9 million (15.6) and net cash and cash equivalents to the amount of SEK 32.9 million (15.6). Total cash flow for January-December amounted to SEK 21.3 million (-15.8). The improvement compared with the previous year can be attributed largely to the new stock issue totaling SEK 32.6 million net and an unutilized working capital facility of SEK 4.0 million.

Artimplant's strategy was market-oriented during the third quarter with a reinforced presence on the strategically important USA market. With the aim of financing the Company's marketing initiatives, a new stock issue was implemented with an option for the shareholders. The new stock issue generated capital input for Artimplant of SEK 32.6 million after issue costs and was fully subscribed for by holders of subscription options. The issue costs comprise mainly

guarantee provisions and fees to financial and legal advisers.

The issue increased 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 shares following the issue stands at 118,489,580. The total number of votes following the issue stands at 123,664,580.

During 2010, the Company had access to a working capital credit facility of SEK 8.0 million. During the second quarter SEK 4.0 million of the credit facility had been utilized. The remainder of the credit has been 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 development of the Company and the new issue, renegotiation of the credit facility commenced during the fourth quarter. See also under Events after the period-end.

### **Personnel**

As of December 31, 2010, Artimplant had 25 employees (25), of whom 11 (13) were women and 14 (12) were men. During the period, four 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 December 31, 2010 was 20, of whom nine are women and 11 are men.

During the fourth quarter, the Company's CFO decided to step down and will leave his position in April. Recruitment of a new CFO is in the process of being concluded and the

plan is for the person appointed to begin on April 1, 2011.

### **Market development**

Artimplant's own sales in the USA are developing positively. 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. At the end of the fourth quarter two new product specialists were employed to provide training and sales support for Artimplant's agents in the USA. With four product specialists in place the foundation for the Company's planned market expansion in the USA has been laid and will now be stepped up with better support for new and existing agents.

During January-December, total own sales increased to SEK 11.1 million (8.7).

Artimplant's own sales in the USA more than doubled during January-December compared with the preceding year. Artimplant's work on producing market support documentation based on reported clinical experience and publications has continued. These activities will be 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. During the fourth quarter, the agreement with Biomet was renegotiated, whereupon Artimplant took back the exclusive right to sell ATR outside the USA in return for Artimplant meeting in full the cost of aftermarket studies for ATR.

Artelon® 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® CMC Spacer continued to fall during 2010 compared with the corresponding period in 2009. This can be attributed largely to publications regarding unsatisfactory surgical outcome, which led to a fall in sales during the third quarter of 2009. A major retrospective study in the USA, with a follow-up period of up to four years, is currently being prepared. In co-operation with SBI, Artimplant is developing a new Artelon® CMC Spacer, which has a user-friendly textile design similar to 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 during 2009-2010 varied during the build-up of the distributor organization.

### **Product and business development**

Artimplant's existing focus on new applications based on the unique Artelon® 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 lower 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). A phase marked by lines means that the Company is about to enter this phase.

Product Concept	Intended use	Product	Explore	Develop	Market Intro.	Established
<b>Resurfacing</b>	Osteoarthritis in the thumb base joint	Artelon <sup>®</sup> CMC/STT Spacer				
	Osteoarthritis in the big toe joint	Artelon <sup>®</sup> MTP Spacer*				
	Osteoarthritis in the facet joints of the lumbar spine	Facet Spacer				
	Osteoarthritis in the knee joint	Knee Resurfacing				
<b>Reinforcement</b>	Soft tissue reinforcement of tendons and ligaments	Artelon <sup>®</sup> Tissue Reinforcement				
	Knee ligament reconstruction in dogs	Artelon <sup>®</sup> CCL				
<b>Replenishment</b>	Soft tissue augmentation in the upper jaw	Artelon <sup>®</sup> 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 ATR sizes marketed at present are intended primarily for extensive soft tissue injuries. Artimplant has therefore produced complementary products that facilitate and broaden the use of ATR. See also Events after the period-end.

Artimplant and Tulsa Bone & Joint Associates, Tulsa, Oklahoma, USA, have run a post-market study of ATR for patients with rotator cuff injuries. The study comprised 17 patients. The final patient underwent surgery in October 2009 and a one-year follow-up

was concluded in December 2010. Dr. Marberry, who is responsible for the study, has found the preliminary results encouraging: "The preliminary results from the study looked promising with regard to shoulder function and patient quality of life."

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<sup>®</sup> 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 had been evaluated for six months. No complications have been reported in the study.

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 has been published electronically in *Clinical Implant Dentistry and Related Research* and confirms that patients with tissue defects can be treated successfully with Artelon<sup>®</sup> Cosmetic.

A laboratory study 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>. During 2011, Artimplant will commence the development of a product for patients suffering from arthritis of the knee.

In cooperation with Swedish veterinary experts, Artelon<sup>®</sup> has been used successfully in the treatment of cruciate ligament injuries in dogs. By using Artelon<sup>®</sup> as an artificial ligament (Artelon<sup>®</sup> CCL) conditions are created for the body to restore a functional ligament. The method presupposes that the orthopedic surgeon is familiar with operating arthroscopically in order to place the implant correctly in a joint that is difficult to access. A retrospective study of treatment results from

the first 30 dogs has been concluded and compiled.

In cooperation with American veterinary experts and Artimplant's veterinary medicine distributor BioMedtrix, Artimplant has planned a prospective investigation with Artelon<sup>®</sup> CCL in the USA. Prior to the study a biomechanical evaluation was carried out. The evaluation has led to a second-generation product design and new fixation of the implant. The first dogs subsequently underwent surgery in the CCL study. Inclusion of dogs has not continued according to plan at the US study clinic. Artimplant will revert during the spring to decide on how the study will be handled in the light of the Company's new strategic focus.

### **Summary of 2010**

The Company did not manage to achieve the objective that a positive cash flow before changes in working capital would be achieved on a monthly basis by the end of 2010. This can be attributed mainly to significantly lower revenue than planned from the Company's licensees. Consequently, the marketing strategy has been reformulated to focus on own sales. One-third of the staff in Sweden were made redundant and a new stock issue was carried out, primarily to increase market presence in the USA. During the year Artimplant employed four market specialists in the USA. The foundation of the Company's planned market expansion in the USA has been established and will be stepped up with improved support for new and existing agents. Based on the positive experience of Artelon<sup>®</sup> Tissue Reinforcement (ATR), the Company has developed complementary ATR products.

### **Events after the period-end**

Artimplant has commenced the launch of the complementary ATR products, which will facilitate and broaden use in conjunction with reinforcement of soft tissue.

ATR is used in conjunction with repairs where soft tissue has become weakened. ATR is thus not used primarily for every soft tissue operation. Artimplant's long-term plan is to demonstrate the benefit of using ATR as a general method when repairing soft tissue. This will take place via accumulated clinical experience and the development of a larger product range, including entry products on different price levels.

After the period-end an agreement was reached on advance repayment, without an interest supplement, of the SEK 4.0 million of the working capital facility utilized by the Company. In conjunction with this, the remainder of the credit facility was terminated.

### **Future prospects**

Artimplant's direct sales in the USA will account for the majority of ATR sales during 2011. With four product specialists in place, the foundation of the Company's planned market expansion in the USA has been established and will be stepped up with more powerful support for new and existing agents. At the same time Artimplant will launch a broader range of products.

It is difficult today to assess the degree to which the complaints in the USA could affect sales by the Company and the licensees. Artimplant will not provide any forecast regarding the rate at which sales will increase, but works towards that a positive cash flow before changes in working capital will be achieved on a monthly basis during the second half of 2011.

### **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. Apart from

the above-mentioned complaints in the USA, these have not changed to any material extent. The liquidity risk presented in the six-monthly report has been reduced 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-December 2010 an impairment was made of receivables from Artimplant USA totaling SEK 3.2 million. Together with an impairment of SEK 9.0 million in the opening balance, the total impairment is SEK 12.2 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 9.6 million. See summary of the Parent Company Statement of Comprehensive Income and Statement of Financial Position on pages 13-14.

### **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.

The Election Committee for the 2011 Annual General Meeting comprises

- John Arnold, J&C Arnold Revocable Trust
- Anders Cedronius, former CEO of Artimplant
- Lars Peterson, founder
- Ingemar Kihlström, Chairman, Artimplant AB

The Election Committee can be contacted through the Chairman of the Board, Ingemar Kihlström, on +46 733 82 11 02.

The Board proposes that no dividend be paid for 2010.

## Forthcoming information

Annual Report 2010	March 29, 2011
Three-monthly report	May 4, 2011
Annual General Meeting	May 4, 2011
Six-monthly report	August 3, 2011
Nine-monthly report	November 1, 2011
Year-end report	February 9, 2012

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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Reg. No. 556404-8394

Reg. office: Municipality of Gothenburg,  
County of Västra Götaland

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Amounts in KSEK	Oct-Dec	Jan-Dec	Oct-Dec	Jan-Dec
	2010	2010	2009	2009
Net sales	3,526	18,466	5,763	23,998
Cost of goods and services sold	-1,029	-4,024	-1,607	-4,328
<b>Gross profit/loss</b>	<b>2,497</b>	<b>14,442</b>	<b>4,156</b>	<b>19,670</b>
Other income	589	947	72	451
Research and development costs (1, 2)	-4,151	-14,637	-3,546	-14,995
Selling costs	-4,151	-15,917	-4,465	-17,049
Administrative costs	-1,640	-5,831	-1,610	-5,729
Other costs	-493	-966	-6	-861
<b>Operating loss</b>	<b>-7,349</b>	<b>-21,962</b>	<b>-5,399</b>	<b>-18,513</b>
Interest income and other financial income	81	155	22	311
Interest expense and other financial expenses	-85	-558	-22	-431
<b>Net financial items</b>	<b>-4</b>	<b>-403</b>	<b>0</b>	<b>-120</b>
<b>Loss after financial items</b>	<b>-7,353</b>	<b>-22,365</b>	<b>-5,399</b>	<b>-18,633</b>
Taxes	-	-	-	-
<b>Loss for the period*</b>	<b>-7,353</b>	<b>-22,365</b>	<b>-5,399</b>	<b>-18,633</b>
Loss attributable to the Parent Company's stockholders	-7,353	-22,365	-5,399	-18,633
Earnings per stock unit, SEK	-0.07	-0.32	-0.09	-0.31
Earnings per stock unit after dilution, SEK	-0.07	-0.32	-0.09	-0.31

\* Same as the comprehensive income for the period

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

Amounts in KSEK	Oct-Dec	Jan-Dec	Oct-Dec	Jan-Dec
	2010	2010	2009	2009
(1) Capitalized R&D cost	621	631	-	1,635
(2) Patents and brands	190	755	209	866
Machinery and equipment	120	474	153	610
<b>Total depreciation</b>	<b>930</b>	<b>1,859</b>	<b>362</b>	<b>3,111</b>

## ALLOCATION OF CONSOLIDATED NET SALES

Amounts in KSEK	Oct-Dec	Jan-Dec	Oct-Dec	Jan-Dec
	2010	2010	2009	2009
<b>Source of revenue</b>				
Product sales by licensees	1,073	6,966	2,222	14,572
Product sales by end customer and distributors	2,449	11,064	3,381	8,680
One-off and project milestone income	-	-	-	-
Contract product development and other sales	4	436	160	746
	<b>3,526</b>	<b>18,466</b>	<b>5,763</b>	<b>23,998</b>
<b>Geographic areas</b>				
North America	3,062	16,804	3,378	18,705
Europe	464	1,662	2,255	5,041
Other areas	-	-	130	252
	<b>3,526</b>	<b>18,466</b>	<b>5,763</b>	<b>23,998</b>

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

<b>Amounts in KSEK</b>	<b>12/31/2010</b>	<b>12/31/2009</b>
<b>ASSETS</b>		
Capitalized product development	559	1,191
Patents and brands	957	1,587
<i>Total intangible fixed assets</i>	<i>1,516</i>	<i>2,778</i>
Machinery and equipment	281	723
<i>Total tangible fixed assets</i>	<i>281</i>	<i>723</i>
<b>Total fixed assets</b>	<b>1,797</b>	<b>3,501</b>
Raw materials, semi-finished and finished goods	3,210	4,137
<i>Total inventories, etc.</i>	<i>3,210</i>	<i>4,137</i>
Accounts receivable	1,794	2,946
Other receivables	916	1,014
Prepaid expenses and accrued income	2,297	3,286
<i>Total short-term receivables</i>	<i>5,007</i>	<i>7,247</i>
Cash and bank accounts	36,890	15,613
<b>Total current assets</b>	<b>45,107</b>	<b>26,997</b>
<b>TOTAL ASSETS</b>	<b>46,904</b>	<b>30,498</b>

<b>Amounts in KSEK</b>	<b>12/31/2010</b>	<b>12/31/2009</b>
<b>STOCKHOLDERS' EQUITY &amp; LIABILITIES</b>		
Capital stock	11,849	5,924
Other capital reserves	53,387	39,953
Retained loss	-8,469	-3,390
Loss for the period	-22,365	-18,633
<b>Total equity</b>	<b>34,402</b>	<b>23,853</b>
<b>Provisions</b>	<b>12</b>	<b>65</b>
Accounts payable	2,342	1,147
Current interest-bearing liabilities	4,000	-
Other current liabilities	548	1,393
Accrued expenses and prepaid income	5,600	4,040
<b>Total current liabilities</b>	<b>12,490</b>	<b>6,579</b>
<b>TOTAL STOCKHOLDERS' EQUITY &amp; LIABILITIES</b>	<b>46,904</b>	<b>30,498</b>

## CONSOLIDATED CHANGES IN STOCKHOLDERS' EQUITY

Amounts in KSEK	Jan-Dec 2010	Jan-Dec 2009
Capital stock at the beginning of the period	5,924	5,924
Issue new stock	5,924	-
<b>Capital stock</b>	<b>11,849</b>	<b>5,924</b>
Other capital reserves at the beginning of the period*	39,953	58,270
Issue new stock	32,585	-
Expenses issue new stock	-5,869	-
Reduction in other capital reserves	-13,282	-18,317
<b>Total other capital reserves</b>	<b>53,386</b>	<b>39,953</b>
Retained loss at the beginning of the period	-22,024	-22,229
Reduction in other capital reserves	13,282	18,317
Benefit, employee stock option (IFRS 2)	273	521
Loss for the period	-22,365	-18,633
<b>Total retained loss</b>	<b>-30,834</b>	<b>-22,024</b>
Equity at the period-end	<b>34,402</b>	<b>23,853</b>

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

Total other capital reserves before issue expenses amount to SEK 477 million.

## CONSOLIDATED CASH FLOW STATEMENTS

Amounts in KSEK	Jan-Dec 2010	Jan-Dec 2009
<b>Operating activities</b>		
Net loss after financial items	-22,365	-18,633
Adjustment for items not effecting cash flow	2,189	3,974
<b>Cash flow from operations before changes in working capital</b>	<b>-20,176</b>	<b>-14,659</b>
<b>Cash flow from changes in working capital</b>		
Changes in inventories etc.	928	589
Changes in receivables	2,240	-3,035
Changes in liabilities	1,910	1,576
<b>Cash flow from operations</b>	<b>-15,098</b>	<b>-15,529</b>
<b>Investment activities</b>		
Acquisition of intangible fixed assets	-226	-215
Acquisition of tangible fixed assets	-39	-25
Sale of tangible fixed assets	-	11
<b>Cash flow from investment activities</b>	<b>-265</b>	<b>-229</b>
<b>Financing activities</b>		
Long-term loan	4,000	-
Share issue	32,640	-
<b>Cash flow from financing activities</b>	<b>36,640</b>	<b>-</b>
<b>Cash flow for the period</b>	<b>21,277</b>	<b>-15,758</b>
<b>Cash and cash equiv. at beginning of the period</b>	<b>15,613</b>	<b>31,371</b>
<b>Cash and cash equivalents at the period-end</b>	<b>36,890</b>	<b>15,613</b>

### CONSOLIDATED KEY RATIOS

	Oct-Dec 2010	Jan-Dec 2010	Oct-Dec 2009	Jan-Dec 2009
Earnings per stock unit, SEK	-0.07	-0.32	-0.09	-0.31
Earnings per stock unit after dilution, SEK	-0.07	-0.32	-0.09	-0.31
Equity per stock unit, SEK	0.29	0.29	0.40	0.40
Equity per stock unit after dilution, SEK	0.29	0.29	0.40	0.40
No. of stock units in issue at the period-end	118,489,580	118,489,580	59,244,790	59,244,790
No. of stock units in issue after dilution	120,532,181	120,532,181	61,346,566	61,346,566
Average no. of stock units in issue during period	98,741,317	69,118,922	59,244,790	59,244,790
Av. no. of stock units in issue during period after dilution	100,783,918	71,161,523	61,346,566	61,346,566
Cash flow per stock unit, SEK	0.30	0.31	-0.10	-0.27
Operating margin, %	neg	neg	neg	neg
Return on equity, %	neg	neg	neg	neg
Return on capital employed, %	neg	neg	neg	neg
Return on capital, %	neg	neg	neg	neg
Equity/assets ratio, %	73	73	78	78

### PARENT COMPANY INCOME STATEMENTS

Amounts in KSEK	Oct-Dec 2010	Jan-Dec 2010	Oct-Dec 2009	Jan-Dec 2009
Net sales	3,634	17,038	5,521	28,192
Cost of goods and services sold	-1,155	-4,206	-1,618	-4,554
<b>Gross profit/loss</b>	<b>2,479</b>	<b>12,832</b>	<b>3,903</b>	<b>23,638</b>
Other income	837	3,398	583	2,151
Research and development costs (1,2)	-4,151	-14,637	-3,546	-14,995
Selling costs	-2,191	-8,821	-2,824	-12,203
Administrative costs	-1,640	-5,831	-1,610	-5,729
Other costs	-653	-4,559	-128	-3,345
<b>Operating loss</b>	<b>-5,319</b>	<b>-17,618</b>	<b>-3,622</b>	<b>-10,483</b>
Interest income and other financial income	270	1,105	211	1,360
Interest expense and other financial expenses	-231	-1,751	-62	-1,781
Impairment of receivables subsidiaries	-1,722	-3,262	-1,526	-2,898
<b>Net financial items</b>	<b>-1,683</b>	<b>-3,908</b>	<b>-1,377</b>	<b>-3,319</b>
<b>Loss after financial items</b>	<b>-7,002</b>	<b>-21,526</b>	<b>-4,999</b>	<b>-13,802</b>
Taxes	-	-	-	-
<b>Loss for the period*</b>	<b>-7,002</b>	<b>-21,526</b>	<b>-4,999</b>	<b>-13,802</b>

\* Same as the comprehensive income for the period

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

Amounts in KSEK	Oct-Dec 2010	Jan-Dec 2010	Oct-Dec 2009	Jan-Dec 2009
(1) Capitalized R&D cost	621	631	-	1,635
(2) Patents and brands	190	755	209	866
Machinery and equipment	118	468	151	603
<b>Total depreciation</b>	<b>928</b>	<b>1,853</b>	<b>361</b>	<b>3,105</b>

## PARENT COMPANY BALANCE SHEETS

Amounts in KSEK	12/31/2010	12/31/2009
<b>ASSETS</b>		
<i>Total intangible fixed assets</i>	1,516	2,778
<i>Total tangible fixed assets</i>	270	715
Stock and participation in subsidiaries	10	10
Receivables from affiliated companies	6,177	-
<i>Total financial fixed assets</i>	6,187	10
<b>Total fixed assets</b>	<b>7,973</b>	<b>3,503</b>
<i>Total inventories, etc.</i>	2,870	3,825
Accounts receivable	530	1,923
Receivables from affiliated companies	5,243	9,736
Other receivables	911	1,014
Prepaid expenses and accrued income	2,036	3,162
<i>Total short-term receivables</i>	8,720	15,835
Cash and bank accounts	35,853	15,020
<b>Total current assets</b>	<b>47,443</b>	<b>34,680</b>
<b>TOTAL ASSETS</b>	<b>55,416</b>	<b>38,183</b>

Amounts in KSEK	12/31/2010	12/31/2009
<b>STOCKHOLDERS' EQUITY &amp; LIABILITIES</b>		
<b>Total equity</b>	<b>43,982</b>	<b>32,596</b>
<b>Provisions</b>	<b>12</b>	<b>65</b>
Accounts payable	2,288	1,103
Current interest-bearing liabilities	4,000	-
Other current liabilities	477	1,377
Accrued expenses and prepaid income	4,657	3,042
<b>Total current liabilities</b>	<b>11,422</b>	<b>5,522</b>
<b>TOTAL STOCKHOLDERS' EQUITY &amp; LIABILITIES</b>	<b>55,416</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, February 10, 2011  
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 report has not been reviewed by the Company's auditors*

*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 February 10, 2011 at 8 am (CET).*

## 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.