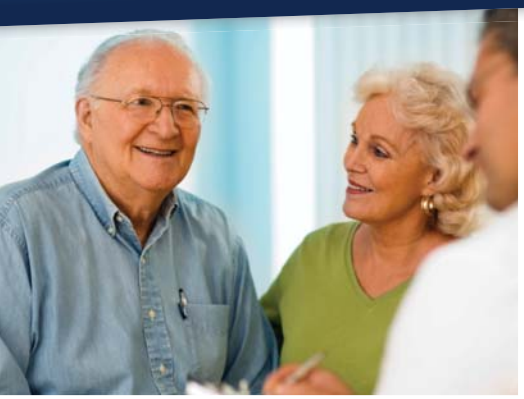
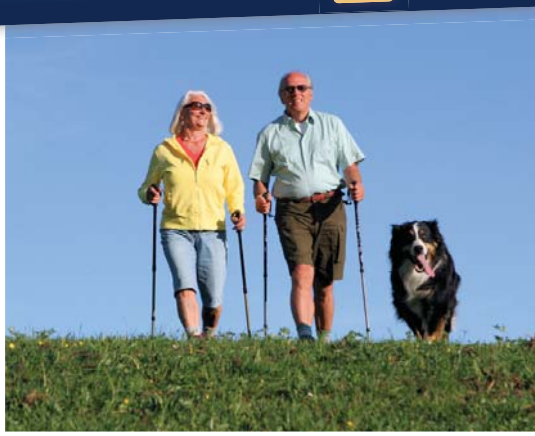
# YEAR-END REPORT





# JANUARY - DECEMBER 2012

- Net revenue increased by 15 percentage points and amounted to SEK 21.1 million (18.3).
- The net loss after tax totaled SEK 16.5 million (17.9). This represented an improvement in result of SEK 1.4 million compared to the corresponding period the previous year.
- Earnings per stock unit amounted to SEK -0.03 (-0.15).
- The aim of achieving a positive cash flow before changes in working capital on a monthly basis was moved forward to the second half of 2013 due to low sales growth in the USA. The sales development is still weak and therefore the Board can at present not determine when the cash flow will be positive.
- The Board proposes that no dividend be paid for 2012.
- The license agreement with Biomet Sportsmedicine was terminated in April.
- The USA study of Artelon® Tissue Reinforcement for rotator cuff injuries has been published. The study shows positive results with regard to functioning of the shoulder and patients' perceived improved quality of life.

## FOURTH QUARTER

- Net revenue amounted to SEK 5.5 million (4.0) an improvement with 1.5 MSEK. European sales increased by 247 percentage points and the US sales by 25 percentage points compared to previous period.
- The net loss after tax totaled SEK 6.4 million (6), a decreased by 0.4 MSEK compared to previous period due to higher legal costs in terms of increased legal costs caused by the ongoing insurance dispute .
- Earnings per stock unit amounted to SEK -0.01 (-0.05).
- Preliminary positive results presented from a two-year study of Artelon® CMC Spacer.

## EVENTS AFTER THE YEAR-END

- Artimplant prolongs its funding agreement regarding costs for trials in USA and recovers previous legal costs of SEK 5 million.
- Artimplant has requested arbitration in the insurance dispute.
- The Company is in need of a capital injection, the Board has therefore decided to review its strategic options

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

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

Artimplant

Degradable Materials for Optimal Tissue Repair

# ABOUT ARTIMPLANT

Artimplant is a biomaterials company where the focus is on innovative, orthopedic solutions.

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

The products, which are made from Artelon®, a patented biomaterial developed by the Company, satisfy clinical needs and are used in a number of different treatment areas. The first implants using Artelon® were carried out in 1997, which means that there is 15 years of clinical experience of the material.

### Artelon® Tissue Reinforcement, ATR

The product is a degradable mesh used as reinforcement in conjunction with the repair of soft tissue, e.g. Achilles tendon ruptures, rotator cuff injuries and severe sprains. The product has been granted regulatory clearance in Europe and the USA.

Artelon® Tissue Reinforcement is available in a range of formats and sizes to cover the needs of the market.

### Artelon® Spacer

Artelon® Spacer is intended for the treatment of osteoarthritis (wearing of the cartilage) and helps the body to build up a new joint surface.

The implants for the thumb basal joint (CMC) and the STT joint in the wrist have been granted regulatory clearance in Europe, the USA and a number of other countries.

An implant is available for the treatment of osteoarthritis in the big toe joint (MTP) which has also been granted regulatory clearance in Europe.

Company operations are carried on through the Parent Company, Artimplant AB, and the Company's wholly owned subsidiary Artimplant USA Inc. Production, administration, clinical affairs and sales and marketing are conducted at the Parent Company in Gothenburg, Sweden. The US subsidiary is responsible for sales and marketing activities on the North American market, based at the office in Dallas, Texas.

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

> Artimplant's products function as scaffolding for the body cells and helps the body to heal.

# STATEMENT BY THE CEO

Another year is now behind us. A year marked by turbulence and a year in which, due mainly to the complaints in the USA and the current insurance dispute, we have been compelled in part to focus on the wrong things. We can see positive sales trends in Europe and in the USA although sales have unfortunately not increased at the rate we had expected. The result is an improvement on the previous year but not according to plan. To live up to our expectations, a considerably higher growth in sales on all markets is required, coupled with a continued reduction in costs.

Under normal circumstances, sales growth in the USA would have been satisfactory but as Artimplant is currently at an important stage in its development, we need more rapid growth than has been achieved to date. As I wrote in the previous interim report, this will take longer than we had anticipated at the beginning of the year. We have made a change in the management team for our US subsidiary Artimplant USA Inc. The former president has left the company with immediate effect and Peter Lindroos has been appointed as acting president. Peter Lindroos has extensive experience from leading positions at US medical technology companies. Since April 2012, all sales take place under our own auspices following termination of the agreements with our two licensees.

Sales in Europe gathered momentum during the year. We have opted to focus our resources on a small number of growing markets, allowing us to develop a closer relationship with distributors and their customers. This strategy has proved successful and will be intensified further during 2013. For a number of years, sales in the Nordic Region have taken place via a distributor. Since the turn of the year, sales have been handled directly by Artimplant, which has given us closer contact with end-customers and the opportunity to build up collaboration with reference clinics. An area manager for the Nordic Region was employed at the end of last year to increase prospecting on the Nordic market during 2013.

The cost reductions that have been achieved during the year have not had full impact due to increased legal costs resulting from the complaints against Artimplant in the USA, the associated insurance dispute and increased insurance costs.

Up to and including May 2012, all costs for proceedings in the USA were met by Artimplant and reported in the balance sheet as a receivable from the insurance companies. In summer 2012, an agreement was signed between the parties with the result that all costs will be covered by the insurance companies and the brokers. The agreement was subsequently extended at the end of February 2013. The agreement also means that Artimplant is entitled to reimbursement from the insurance companies of legal costs already incurred in the USA. This is confirmation that Artimplant has adequate insurance cover and that we have continued funding for the proceedings in the USA. In conjunction with the extension of the agreement, the parties came to the realization that it was not possible to reach agreement on how the legal costs should be divided between the insurance companies and the insurance broker. They have therefore agreed that this should be resolved through arbitration. Artimplant has convened arbitration proceedings in this matter.

During the two years that discussions have been taking place with the two insurance companies, day-to-day operations have suffered. Many of the members of the management team have been involved in finding solutions and several key decisions have been postponed pending a solution to the insurance issue. The cost for legal advice has increased substantially and the insurance cost has reached an unrealistic level. Artimplant can therefore at present not determine when the cash flow will be positive.

The need for external capital input is an extremely important issue for the Board of Directors and executive management. My assessment is that we need to find a solution to the insurance dispute before the financing issue can be resolved.

We should not forget that the Company has incredibly strong products, which with the right conditions have good market potential. It is now a case of creating these conditions, putting the Company on an even keel, creating a strong, solid financial foundation on which to build. I am firmly convinced that this is possible although it will also mean that the Company must change in terms of structure and the way it prospects the market. This work is about to commence and is now the main priority of the Board of Directors and the executive management.

Västra Frölunda, February 27, 2013

Kjell Thörnbring

# YEAR-END REPORT

## REVENUE AND FINANCIAL RESULTS

*January – December*

Net revenue for the year amounted to SEK 21.1 million (18.3) and was primarily revenue from product sales. During the same period the previous year, sales to licensees accounted for approximately 23 percent of net sales whilst all sales during 2012 referred to own sales. The gross margin during the period January-December was 89 percent (88).

Sales costs increased during the period by SEK 2.1 million compared to the same period the previous year due to increased marketing initiatives in the USA. Research and development costs fell by SEK 2.1 million, which is in line with the previously adopted market-oriented strategy. Administration costs increased by SEK 0.5 million and refer to extraordinary legal costs in conjunction with negotiations regarding insurance cover.

The operating loss in total improved by SEK 1.5 million and amounted to SEK 16.8 million (18.3) due to an increase in revenue and a reduction in personnel costs. The result has been affected negatively during the period by an increase in costs totaling SEK 3.1 million for insurance premiums and legal expenses compared to the previous period. See also under Future prospects below. The result also includes costs of a non-recurring nature totaling SEK -0.2 million (-0.2) in respect of a provision for doubtful receivables and stock impairment totaling SEK -0.5 million (-0.2).

The result after tax for the period was SEK -16.5 million (-17.9). Earnings per stock unit were SEK -0.03 (-0.15).

As of January 1, 2012, the Company changed functional currency to USD for translation of the American subsidiary. As the subsidiary now has its own administration and its own staff, it can no longer be regarded as an integral part of the Parent Company and is instead an independent company. With the change in functional currency, the operating result for the Group and the Parent Company has been affected negatively to the amount of SEK -0.2 million in respect of translation differences for the Parent Company's current receivables from the subsidiary.

The Parent Company has also reclassified SEK 10 million from a current to a non-current receivable from the subsidiary as this is considered a long-term investment in the subsidiary.

*Fourth quarter*

Net revenue during the fourth quarter amounted to SEK 5.5 million (4.0) and referred mainly to revenue from product sales. Turnover increased compared to the previous period by SEK 0.9 million in the USA and SEK 0.6 million in Europe.

The result for the fourth quarter was SEK -6.4 million (-6.0).

The result after tax for the fourth quarter was SEK -6.4 million (-6.0) and the earnings per stock unit for the fourth quarter were SEK -0.01 (-0.05).

## INVESTMENTS AND CASH POSITION

During the period, financial assets were acquired at a value of SEK 0.1 million (-) and refer to the acquisition of Artimplant Intressenter AB (the company administers Artimplant's former personal stock option programs). SEK 2.6 million (-) was also acquired for intangible assets in the form of sales rights on the North American market from the former licensee Biomet. The acquisitions affected liquidity during the period to the amount of SEK 0.8 million.

At the end of the period, cash and cash equivalents amounted to SEK 10.4 million (11.0). The new stock issue during the first quarter generated capital input for the Company of SEK 19.4 million following issue costs of approximately SEK 4.3 million. The issue increased the number of Series B stock units by 395,492,676. The number of Series A stock units remained unchanged at 575,000. Following the issue, the total number stock units was 513,982,256.

Cash flow has also been affected negatively to the amount of SEK -4.8 million in respect of legal costs attributable to the complaints in the USA, and which have yet to be settled through the Company's insurances, and the current insurance dispute.

## PERSONNEL

As of December 31, 2012, Artimplant had 17 employees (19), of whom 8 (9) were women and 9 (10) were men. Four people are employed at Artimplant USA, Inc. The remainder are employed by Artimplant AB. In the USA, there are also three people working as consultants.

The former president in the USA has left the subsidiary with i mmediate effect and Peter Lindroos has been appointed as acting president of the company. Peter Lindroos has extensive experience from leading positions at US medical technology companies.

## MARKET DEVELOPMENT

The market for orthopedic products is largest in the developed part of the world with Europe, the USA and Japan accounting for around 80 percent of the total market. The market is driven by a number of factors linked to demography and standard of living, where increasing welfare is a strong driving force for growth.

Previously, Artimplant's sales took place largely through two

licensees, SBi and Biomet. The trend in sales by licensees has been negative in recent years, due mainly to the renegotiation of the license agreements, which resulted in a decline in interest in Artimplant products among the licensees.

As part of the new strategy of assuming direct responsibility for sales of the Company's products on all markets, Artimplant chose to terminate the license agreements. The agreement with SBi ceased in December 2011 and the agreement with Biomet ceased in April 2012.

With effect from the middle of April 2012, sales in the USA will take place entirely through agents. This is common on the medical technology market in the USA. Artimplant delivers directly from its own inventory, bills the end-customer and pays sales-based commission to the 35 or so agents. The local distributor has an important role to play as sales are founded largely on relationships. This makes the recruitment of distributors extremely important and they are chosen with great care.

In Europe, there are country-specific distribution agreements and the distributor maintains its own inventory of products and bills the end-customer. The 20 or so European distributors are supported by the head office in Sweden. With effect from January this year, sales will take place directly to customers in the Nordic region.

*Sales during 2012*

Sales during 2012 increased by 15 percentage points on the same period last year. With the termination of the two license agreements in the USA, no sales took place to our licensees during the period and sales are entirely own sales.

On other markets, where Europe is by far the most dominant, sales increased by 84 percentage points on last year. The increased focus on a small number of markets in Europe and taking over responsibility for sales in the Nordic Region from the turn of the year has had a positive effect on sales figures.

## CLINICAL AFFAIRS

Clinical Affairs is responsible for clinical documentation of Artimplant's products and has close collaboration with the Sales and Marketing Department. The departments work together to disseminate and utilize to a greater extent the clinical knowledge and experience that already exists regarding Artelon® products. With 15 years' clinical experience of Artelon®, it can be stated that the Artelon® material is safe for use both in joints and soft tissue on condition that the products are used in the manner intended.

A clear trend within the healthcare sector throughout the world is an increase in demand for evidence-based medicine/care, which means awareness and systematic use of treatment based on the best available scientific evidence, i.e. clinically relevant research/trials, coupled with clinical experience and patient preferences. The aim is for the healthcare sector to use the methods that offer the best outcome. Despite thousands of treated patients and up to 15 years' clinical experience of Artelon® implants, Artimplant needs to conduct further clinical trials and demonstrate the benefit of the products in order to meet the increasing demand for evidence-based medicine/care. Conducting trials that demonstrate the clinical benefit of Artimplant products is time-consuming and a long-term undertaking.

| STUDIES/ PRODUCT | FOCUS AREA | STUDY | STUDY SITE | NO. OF PATIENTS | FOLLOW-UP | STATUS | FINALIZED |
|---|---|---|---|---|---|---|---|
| ATR II | Foot and ankle | Chronic injuries and re-ruptures of tendons (Achilles) | UC Davis Sports Medicine, Sacramento, USA | 10 | 2 year | Clinical follow-up in progress | 2012/2013 |
| ATR III | Foot and ankle | Chronic injuries and re-ruptures of tendons (Achilles) | Orthopedic Foot & Ankle Center, Westerville, USA | 10 | 1 year | Patient recruitment in progress | 2013 |
| ATR IV | Foot and ankle | Lateral ankle stabilization | Community Medical Center, Scranton, USA | 20 | 1 year | Patient recruitment in progress | 2014/2015 |
| ATR V | Foot and ankle | Posterior tibial tendon dysfunction | Community Medical Center, Scranton, USA | 30 | 1 year | Patient recruitment in progress | 2014/2015 |
| CMC | Hand | Treatment of thumb base joint osteoarthritis | Sahlgrenska University Hospital, Gothenburg, Sweden | 15 | 10 years | Clinical follow-up planned for 2012 | 2013 |

All studies are what are termed post-studies, referring to products that have been approved for marketing.

An important study trial for Artimplant in the shoulder area refers to ATR for patients with rotator cuff injuries (ATR 1) has been concluded and compiled during 2012. The study, which has been published in the journal Shoulder & Elbow, included 17 patients with complicated rotator cuff ruptures and poor tissue quality and where reinforcement of the primary suturing ("repair") was required. Following surgical reinforcement with ATR, the patients were followed up over a 12-month period. During this period, the patients reported a marked reduction in pain, increased mobility and a return to daily activities. The physician responsible for the study feels that the results are positive with regard to shoulder function and the patient's quality of life following treatment with ATR.

The table, page 5, shows the studies that are currently in progress. All studies are post-studies, which means that the physician responsible is currently studying and documenting the clinical outcome of a product that has been cleared for marketing. At present, there are five studies at different phases. Two ATR studies of patients with chronic Achilles tendon injuries (ATR II and ATR III) are in progress and two further post-studies related to the foot and ankle have commenced (ATR IV and ATR V). The two latter studies are being conducted by a physician, who is also an opinion leader. The aim is to document the use of the new sizes of ATR. All the studies described above are what are termed case series, initiated and conducted by physicians in the USA. A Swedish, long-term follow-up of patients treated with Artelon® CMC Spacer has been granted ethical approval and clinical follow-up is planned for 2012.

In summary, Artimplant feels secure with regard to the safety of Artelon® materials and products. Artimplant has intensified efforts to document the benefit of the products, in the first instance through case series compiled by prominent opinion leaders although in time also through our internally initiated, prospective clinical trials.

Clinical Affairs became a priority area at Artimplant in June 2011 when the Department was separated from Research & Development to work with the sales and marketing organization. The aim was to focus more closely on clinical trials as a market support resource. The focusing of resources on Clinical Affairs reflects the realization on the part of Artimplant that clinical documentation is one of the most important factors in achieving market success.

## QUALITY

Quality work at Artimplant involves following up and improving customer-perceived quality and that the Company is satisfying the requirements laid down by different authorities regarding working methods and other aspects in order to be permitted to supply Artelon® products on their respective markets. If the Company satisfies the stipulations in the EU, USA and Canada, this offers considerable scope to secure easy access to other markets.

To check that stipulations in the EU and Canada are being satisfied, an independent certification body, Lloyds Register Quality Assurance (LRQA), conducts regular audits. The most recent audit was conducted in May 2012 with a successful outcome.

In the USA, the regulatory authority is the Food and Drug Administration (FDA). Instead of conducting regular audits, they make random checks of selected companies.

The assessment of the Company is that the products and the Artelon® material are of high quality. The first Artelon® implants took place in 1997. With a follow-up period of 15 years, the Company has good knowledge of the safety of the material and the products.

In summary, our ongoing quality program has simplified and improved many of our working processes, resulting in a very high level of internal quality in day-to-day operations. Using this as a foundation, the focus can now be switched to customer satisfaction.

## PRODUCT DEVELOPMENT

There is a strong trend within orthopedics towards biological solutions with the aim of regenerating tissue instead of replacing it with permanent replacement parts. The Company's extensive expertise within Artelon® related to clinical benefit, biocompatibility, material properties and processability, allows continued expansion of the product portfolio in the medium to long term. At present, minimum resources are being devoted to product development.

## EVENTS AFTER THE YEAR-END

In February 2013, a new agreement was signed with the insurance companies and the insurance broker regarding continued financing of the legal costs for the proceedings in the USA. The agreement also means that Artimplant will receive reimbursement of approximately SEK 5 million for legal costs incurred in the USA before this agreement was signed.

Artimplant has on February 25 2013 requested arbitration in the insurance dispute with the Arbitration Institute of the Stockholm Chamber of Commerce..

## FUTURE PROSPECTS

It is difficult at present to assess the extent to which the complaints being handled by the Company in the USA will affect sales of the Company's products. We have noted an increase in sales, both in the USA and Europe. It is our firm belief that there is a good market for the Company's products but that in recent years there have been many others things that have made demands on the Company's time and attention.

During the two years that discussions regarding financing have been taking place with the two insurance companies, day-to-day operations have suffered. Many of the members of the management team have been involved in finding solutions and several key decisions have been postponed pending a solution to the insurance issue. The cost of legal advice has increased significantly and insurance costs have risen to an entirely unrealistic level for the Company. To carry on normal operations under these conditions is challenging.

The proceedings in the USA are continuing. The first four cases will be the subject of a court hearing during late autumn/winter 2013/2014. Artimplant stands by its belief that the outcome from the hearings will be positive for the Company.

Due to the Company's weak development, the financial situation is under pressure. To ensure its survival, the Company is in need of further external financing of current operations. The Board of Directors and the President are working intensively to find solutions to the situation that has arisen.

The aim of achieving a positive cash flow before changes in working capital on a monthly basis was moved forward to the second half of 2013 due to low sales growth in the USA. The sales development is still weak and the impact of the litigations it is uncertain and therefore the Board can at present not determine when the cash flow will be positive.

## 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 for a new stock issue dated February 14, 2012. They are also presented on the Company's website www.artimplant.com.

Up to now, the current proceedings in the USA involve 48 complaints, all directed against the product CMC Spacer, intended for the treatment of osteoarthritis in the thumb base joint. The first four cases will be the subject of a court hearing during late autumn/winter 2013/2014. The first cases were initially planned to be heard during summer 2013 but as an attempt at mediation is now due to commence, the starting date has been pushed ahead by approximately three months. Artimplant stands by its belief that the outcome from the hearings will be positive for the Company.

As of January 1, 2010, Artimplant changed insurance carrier following a procurement process via its insurance broker. Due to negligence on the part of the broker, the procurement process resulted in a gap in the insurance cover for 2008 and 2009, which was discovered in conjunction with the filing of the first four complaints in the USA in November 2010. Following consultation with Artimplant, the broker, which has confirmed the negligence, has taken out retroactive insurance with the insurance carrier for 2008 and 2009. The insurance carrier is of the opinion that CMC Spacer has been excluded from the retroactive insurance whilst Artimplant and the broker maintain that CMC Spacer is included in the retroactive insurance. Of the 48 complaints filed up to now with the courts in the USA, approximately 20 are attributable to 2008 and 2009. There is thus uncertainty about whether Artimplant's losses attributable to 2008 and 2009 are to be compensated under the retroactive insurance with the new insurance carrier or through damages from the broker.

In other respects, the insurance companies have confirmed insurance cover for losses that have occurred up to and including December 31, 2007 and from and including January 1, 2010 through to December 31, 2011.

During summer 2012, an agreement was reached between Artimplant, the broker and the two insurance companies. The outcome is that the new insurance carrier had a further four months to adopt a position on the matter of compensation under their insurance and that Artimplant, in the event that the compensation issue cannot be resolved, has the opportunity to convene arbitration proceedings against the other parties. The agreement also means that the two insurance companies and the broker have made a total provision of SEK 10 million to cover the current costs of proceedings in the USA. The new insurance carrier has conducted an insurance inquiry and has announced that it still maintains that Artelon CMC Spacer is excluded from the retroactive insurance.

The agreement regarding financing of legal costs in the USA was extended at the end of February 2013. The agreement also includes a right for Artimplant to have its previously paid legal costs in the USA reimbursed by the insurance companies. This is important, as it confirms that Artimplant has adequate insurance cover and that we have continued financing for the proceedings in the USA.

In conjunction with the extension of the agreement, the parties came to the realization that it was not possible to reach agreement on how the legal costs should be divided between the insurance companies and the insurance broker. They have therefore agreed that this should be resolved through arbitration. Artimplant has convened arbitration proceedings in this matter.

## PARENT COMPANY

The majority of Artimplant's operations are run through the Parent Company, Artimplant AB. Artimplant USA, Inc. is the Company's only operating subsidiary. During the period the Parent Company made a reversal of receivables from Artimplant USA Inc totaling SEK -13.5 million. Together with an earlier impairment of SEK 21.4 million in the opening balance, the total impairment is SEK 34.9 million.

## ACCOUNTING PRINCIPLES

Artimplant applies IFRS. This Year-End Report has been prepared in accordance with IAS 34, the Swedish Annual Accounts Act and RFR 1. The Parent Company's financial statements are prepared in accordance with exceptions and addenda in RFR 2. No new or amended IFRS that came into effect in 2011 or 2012 had any significant impact on the Group.

Further accounting principles can be found in the Company's Annual Report for 2011, 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 7, 2013, 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 agm2013@artimplant.com or to Artimplant AB, Attn: Annual General Meeting 2012, at the above address. Proposals must be submitted by March 15, 2013 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 2013 Annual General Meeting comprises

- Lars Peterson, private stockholder and chairman of the Election Committee
- John Arnold, private stockholder
- Bo Kaunitz, private stockholder
- Anders Cedronius, private stockholder and Chairman of the Board of Directors

Stockholders who wish to contact the Election Committee can do so by e-mail to Susan Linke at susan.linke@artimplant.com or by phone on +46 (0)746 56 00.

## DIVIDEND

The Board proposes that no dividend be paid for 2012.

## FORTHCOMING INFORMATION

| | |
|---|---|
| Interim Report, January-March 2013 | May 7, 2013 |
| Annual General Meeting | May 7, 2013 |
| Interim Report, April-June 2013 | Aug 14, 2013 |
| Interim Report, July-September 2013 | Nov 20, 2013 |

Financial reports are available on the Company's website 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 2011, 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 | OCT-DEC 2012 | JAN-DEC 2012 | OCT-DEC 2011 | JAN-DEC 2011 |
|---|---|---|---|---|
| Net sales | 5,515 | 21,067 | 3,983 | 18,287 |
| Cost of goods and services sold | -475 | -2,248 | -599 | -2,201 |
| Gross profit | 5,040 | 18,819 | 3,384 | 16,086 |
| | | | | |
| Other income | 89 | 601 | 8 | 619 |
| Research and development costs | -2,515 | -7,237 | -2,169 | -9,384 |
| Selling costs | -6,860 | -21,382 | -5,699 | -19,305 |
| Administrative costs | -1,644 | -6,361 | -1,494 | -5,868 |
| Other costs | -541 | -1,191 | -65 | -413 |
| Operating loss | -6,431 | -16,751 | -6,035 | -18,265 |
| | | | | |
| Interest income and other financial income | 74 | 369 | 102 | 565 |
| Interest expense and other financial expense | -6 | -140 | -94 | -236 |
| Net financial items | 68 | 229 | 8 | 329 |
| Loss after financial items | -6,363 | -16,522 | -6,027 | -17,936 |
| | | | | |
| Tax | - | - | - | - |
| Loss for the period | -6,363 | -16,522 | -6,027 | -17,936 |
| Exchange differences arising on translation of foreign operations | 402 | 395 | - | - |
| Total comprehensive loss for the period | -5,961 | -16,127 | -6,027 | -17,936 |
| | | | | |
| Loss attributable to the Parent Company's stockholders | -6,363 | -16,522 | -6,027 | -17,936 |
| Earnings per stock unit, SEK | -0.01 | -0.03 | -0.05 | -0.15 |
| Earnings per stock unit after dilution, SEK | -0.01 | -0.03 | -0.05 | -0.15 |

The statements include depreciations and amortization of tangible assets and intangible non-current assets as shown in the following table:

| Amounts in KSEK | OCT-DEC 2012 | JAN-DEC 2012 | OCT-DEC 2011 | JAN-DEC 2011 |
|---|---|---|---|---|
| (1) Capitalized R&D costs | 30 | 120 | 30 | 120 |
| (2) Patents and brands | 32 | 128 | 177 | 708 |
| Sales rights | 132 | 132 | - | - |
| Machinery and equipment | 22 | 89 | 40 | 160 |
| Total depreciation | 216 | 469 | 247 | 988 |

# CONSOLIDATED ALLOCATION OF NET SALES

| Amounts in KSEK | OCT-DEC 2012 | JAN-DEC 2012 | OCT-DEC 2011 | JAN-DEC 2011 |
|---|---|---|---|---|
| SOURCE OF REVENUE | | | | |
| Product sales to licensees | - | - | 579 | 4,469 |
| Product sales to end-customers and distributors | 5,332 | 20,790 | 3,398 | 13,652 |
| Contract product development and other sales | 183 | 277 | 6 | 166 |
| Total | 5,515 | 21,067 | 3,983 | 18,287 |
| | | | | |
| GEOGRAPHIC AREAS | | | | |
| North America | 4,682 | 16,688 | 3,743 | 15,979 |
| Europe | 833 | 4,243 | 240, | 2,308 |
| Other areas | - | 136 | - | - |
| Total | 5,515 | 21,067 | 3,983 | 18,287 |

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Amounts in KSEK

| ASSETS | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Capitalized product development costs | 320 | 440 |
| Patents and brand names | 121 | 249 |
| Sales rights | 2,501 | - |
| Total intangible non-current assets | 2,942 | 688 |
| | | |
| Machinery and equipment | 32 | 121 |
| Total tangible non-current assets | 32 | 121 |
| | | |
| Total non-current assets | 2,974 | 809 |
| | | |
| Raw materials, semi-finished and finished goods | 4,144 | 3,570 |
| Total inventories etc. | 4,144 | 3,570 |
| | | |
| Accounts receivable | 3,377 | 2,840 |
| Other receivables | 12,758 | 4,238 |
| Prepaid expenses and accrued income | 1,905 | 1,771 |
| Total current receivables | 18,040 | 8,848 |
| | | |
| Cash and bank accounts | 10,386 | 11,042 |
| Total current assets | 32,570 | 23,460 |
| | | |
| TOTAL ASSETS | 35,544 | 24,269 |

| STOCKHOLDERS' EQUITY & LIABILITIES | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Capital stock | 10,280 | 11,849 |
| Other capital reserves | 74,361 | 53,387 |
| Other contributed capital | -49,330 | -31,354 |
| Loss for the period | -16,127 | -17,936 |
| Total equity | 19,184 | 15,946 |
| | | |
| Provisions | - | - |
| | | |
| Accounts payable | 2,415 | 3,078 |
| Other current liabilities | 8,898 | 945 |
| Accrued expenses and prepaid income | 5,047 | 4,300 |
| Total current liabilities | 16,360 | 8,323 |
| | | |
| TOTAL STOCKHOLDERS' EQUITY & LIABILITIES | 35,544 | 24,269 |

# CONSOLIDATED CHANGES IN EQUITY

| Amounts in KSEK | JAN-DEC 2011 | JAN-DEC 2011 |
|---|---|---|
| Capital stock at the beginning of the period | 11,849 | 11,849 |
| Reduction | -9,479 | - |
| New stock issue | 7,910 | - |
| Total equity | 10,280 | 11,849 |
| | | |
| Other capital reserves at the beginning of the period | 53,387 | 53,387 |
| New stock issue | 15,817 | - |
| New stock issue costs | -4,325 | - |
| Reduction | 9,479 | - |
| Other capital reserves | 3 | - |
| Total, other capital reserves | 74,361 | 53,387 |
| | | |
| Other equity at the beginning of the period | -49,290 | -30,834 |
| Benefit, employee stock option | -40 | -520 |
| Loss for the period | -16,127 | -17,936 |
| Total, other equity | -65,457 | -49,290 |
| | | |
| Total equity at period end | 19,184 | 15,946 |

* Other capital reserves have been reduced annually to cover the retained loss. Total other capital reserves before issue costs amount to SEK 486 MSEK.

# KEY RATIOS

| | OCT-DEC 2012 | JAN-DEC 2012 | OCT-DEC 2011 | JAN-DEC 2011 |
|---|---|---|---|---|
| Gross margin, % | 91 | 89 | 85 | 88 |
| Loss per stock unit, SEK | -0.01 | -0.03 | -0.05 | -0.15 |
| Loss per stock unit after dilution, SEK[1] | -0.01 | -0.03 | -0.05 | -0.15 |
| Equity per stock unit, SEK | 0.04 | 0.04 | 0.13 | 0.13 |
| Equity per stock unit after dilution, SEK | 0.03 | 0.03 | 0.13 | 0.13 |
| No. of stock units at the period-end | 513,982,256 | 513,982,256 | 118,489,580 | 118,489,580 |
| No of stock units at the period-end after dilution | 714,410,507 | 714,410,507 | 119,078,102 | 119,078,102 |
| Average no. of stock units during the period | 513,982,256 | 448,066,810 | 118,489,580 | 118,489,580 |
| Average no. of stock units during period after dilution | 714,410,507 | 614,608,010 | 119,078,102 | 119,078,102 |
| Cash flow per stock unit, SEK | -0.01 | 0.00 | -0.04 | -0.22 |
| 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, % | 54 | 54 | 66 | 66 |

[1] The impact of dilution has not been reported in those cases where dilution would have resulted in an improvement in the key ratios.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| Amounts in KSEK | JAN-DEC 2012 | JAN-DEC 2011 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net loss after financial items | -16,522 | -17,936 |
| Adjustment for items not affecting cash flow | 976 | 306 |
| Cash flow from operating activities before changes in working capital | -15,546 | -17,630 |
| CASH FLOW FROM CHANGES IN WORKING CAPITAL | | |
| Changes in inventories etc. | -574 | -360 |
| Changes in receivables | -9,378 | -3,842 |
| Changes in liabilities | 6,322 | -166 |
| Cash flow from operating activities | -19,176 | -21,988 |
| INVESTMENT ACTIVITIES | | |
| Acquisition of intangible non-current assets | -819 | - |
| Acquisition of tangible non-current assets | - | - |
| Sale of tangible non-current assets | - | 150 |
| Cash flow from investment activities | -819 | 150 |
| FINANCING ACTIVITIES | | |
| Loan | - | -4,000 |
| New stock issue | 19,405 | - |
| Cash flow from financing activities | 19,405 | -4,000 |
| Cash flow for the period | -591 | -25,848 |
| Cash and cash equivalents at beginning of the period | 11,042 | 36,890 |
| Translation of foreign cash | -65 | - |
| Cash and cash equivalents at end of the period | 10,386 | 11,042 |

# PARENT COMPANY INCOME STATEMENTS

Amounts in KSEK

| | OCT-DEC 2012 | JAN-DEC 2012 | OCT-DEC 2011 | JAN-DEC 2011 |
|---|---|---|---|---|
| Net sales | 2,605 | 18,414 | 5,132 | 20,586 |
| Cost of goods and services sold | -682 | -3,310 | -770 | -2,836 |
| Gross profit | 1,923 | 15,104 | 4,362 | 17,750 |
| | | | | |
| Other income | 89 | 601 | 2,318, | 6,423 |
| Research and development costs (1,2) | -2,515 | -7,237 | -2,169 | -9,384 |
| Selling costs | -2,407 | -7,700 | -2,927 | -9,366 |
| Administrative costs | -1,644 | -6,353 | -1,494 | -5,868 |
| Other costs | -541 | -1,191 | -1,966 | -5,061 |
| Operating profit/loss | -5,095 | -6,776 | -1,876 | -5,506 |
| | | | | |
| Interest income and other financial income | 109 | 532 | 465 | 1,571 |
| Interest expense and other financial expense | -1 | -131 | -409 | -1,128 |
| Impairment of receivable, subsidiary | -11,288 | -13,451 | -2,097 | -9,117 |
| Net financial items | -11,180 | -13,050 | -2,041 | -8,674 |
| Profit/loss after financial items | -16,275 | -19,826 | -3,917 | -14,180 |
| | | | | |
| Tax | - | - | - | - |
| Loss for the period* | -16,275 | -19,826 | -3,917 | -14,180 |

* Equals total comprehensive income

The statements include depreciations and impairment of of tangible assets and intangible non-current assets as shown in the following table:

| Amounts in KSEK | OCT-DEC 2012 | JAN-DEC 2012 | OCT-DEC 2011 | JAN-DEC 2011 |
|---|---|---|---|---|
| (1) Capitalized R&D costs | 30 | 120 | 30 | 120 |
| (2) Patents and brand names | 32 | 128 | 177 | 708 |
| Sales rights | 132 | 132 | - | - |
| Machinery and equipment | 18 | 85 | 39 | 155 |
| Total depreciation | 212 | 465 | 246 | 983 |

# PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

Amounts in KSEK

| ASSETS | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Total intangible non-current assets | 2,942 | 688 |
| Total tangible non-current assets | 29 | 115 |
| Stock and participation in subsidiaries | 110 | 10 |
| Receivables from subsidiaries | 9,483 | 4,040 |
| Total financial non-current assets | 9,593 | 4,050 |
| Total non-current assets | 12,564 | 4,853 |
| Total, inventory etc. | 2,995 | 2,796 |
| Accounts receivable | 756 | 667 |
| Receivables from subsidiary | 3,635 | 12,605 |
| Other receivables | 12,758 | 3,934 |
| Prepaid expenses and accrued income | 1,408 | 1,444 |
| Total current receivables | 18,557 | 18,650 |
| Cash and bank accounts | 9,399 | 9,654 |
| Total current assets | 30,951 | 31,100 |
| TOTAL ASSETS | 43,515 | 35,953 |

| STOCKHOLDERS' EQUITY & LIABILITIES | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Total equity | 28,825 | 29,284 |
| Provisions | - | - |
| Accounts payable | 2,407 | 3,004 |
| Other current liabilities | 8,778 | 931 |
| Accrued expenses and prepaid income | 3,505 | 2,734 |
| Total current liabilities | 14,690 | 6,669 |
| TOTAL STOCKHOLDERS' EQUITY & LIABILITIES | 43,515 | 35,953 |

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 27, 2013
Artimplant AB (publ)

Anders Cedronius
Chairman of the Board

| | | |
|---|---|---|
| John Arnold<br>Board Member | Lars Peterson<br>Board Member | Rickard Brånemark<br>Board Member |
| Håkan Johansson<br>Board Member | Anders Strid<br>Board Member | Kjell Thörnbring<br>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 27, 2013 at 8.55 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® 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® 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® 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® Augmentation Device ACL. Artimplant's Artelon® CMC Spacer for treating thumb base osteoarthritis receives clearance for marketing in Europe. Artelon® Surgical Suture is given clearance by the FDA for sales on the American market. The subsidiary Gothenburg Medical Center is sold.

2004 - Artelon® 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™. Cooperation with Atlantech for the sale of Artelon® 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® Surgical Suture in North America is signed with ArthroCare. Artelon® 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™ 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® Augmentation Device ACL is discontinued. Sales of Artelon® 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® 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® Tissue Reinforcement increase significantly whilst there is a lack of growth in sales of Artelon® Spacer. 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® CCL for cruciate ligament reconstruction in dogs.

2009 – Sales have doubled and product sales to end-customers and distributors have multiplied, increasing its share of total sales to 37% (15). The agreement with Small Bone Innovations was renegotiated, making it non-exclusive from 2009. All patients enrolled for the American post-market study of Artelon® 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® implant. Product design and procedure are developed further for Artelon® CCL. The first dogs in a prospective investigation in the USA underwent cruciate ligament reconstruction using Artelon® CCL

2010 – Own sales have doubled and account for 61% (37) of total product sales whilst license revenue has halved. Artimplant's strategy is market oriented with a focus on the strategically important USA market and Artelon® Tissue Reinforcement. Four product specialists are employed in the USA and costs not related directly to marketing and sales are reduced in Sweden. The American post-market study on Artelon® Tissue Reinforcement for the treatment of the rotator cuff in the shoulder is concluded.

2011 - In the USA, a new marketing and sales initiative commenced with the recruitment of a person to head the subsidiary Artimplant USA Inc., which also acquires a number of new co-workers. Administration and market support are brought together at Artimplant's newly opened office in Denver to create considerably better conditions for building up relationships with agents and customers. Own sales continue to increase, both in absolute numbers and as a proportion of total product sales, albeit from low levels, and account for 76 per cent of total product sales.

2012 With effect from January, Artimplant takes over the sale of the Spacer product group from the former licensee Small Bone Innovations. The agreement with the Nordic distributor was terminated on January 1. On April 1, the agreement with the licensee Biomet was terminated with the result that all sales take place on the company's own auspices.

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Artimplant
Degradable Materials for Optimal Tissue Repair