Artimplant
Degradable Materials for Optimal Tissue Repair

ARTIMPLANT INTERIM REPORT JANUARY 1– SEPTEMBER 30, 2002

FOCUS ON COMMERCIALIZATION; NEW CEO AND LEANER ORGANIZATION

- **Tord Lendau took up his duties as the new CEO on 3 October. Tord Lendau has solid experience in commercializing projects in the med-tech industry.**
- **New organization with prioritization of short-term projects with commercial potential. Staffing is being decreased more than 40 percent, contributing to a cost reduction of nearly fifty percent.**
- **The company has signed its first licensing contract with Mölnlycke Health Care. The contract is initial confirmation of the potential of Artimplant's material technology.**
- **Global med-tech companies are currently increasingly interested in the company's material technology regarding four specific projects.**
- **The company has established a regulatory plan aiming at FDA approval, which will improve the commercial conditions for future licensing agreements.**
- **Artimplant is in the final phase of solving the company's long-term financing. The solution, including the divestiture of Gothenburg Medical Center, is intended to securing cash needs until the company is cash-flow positive.**

SCHEDULED FINANCIAL INFORMATION:

Release of year-end results:	14 February 2003
Interim report for the first quarter of 2003:	30 April 2003
Interim report for the first six months of 2003:	29 August 2003
Interim report for the first three quarters of 2003:	7 November 2003

The reports are available on Artimplant's website www.artimplant.se, and at the same time they are being distributed to the media.

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ARTIMPLANT

Artimplant is a biomaterials company concentrating on solutions to problems in the field of orthopedic surgery. Artimplant performs research and development and the manufacturing process of biologically degradable implants with the aim of restoring an active life. The company's internally developed biomaterial is based on a new technology which opens up new markets in the field of orthopedic surgery and a number of other specialist areas in which there is a great medical need.

Artimplant has developed and patented a number of different degradable ligament implants, which are undergoing clinical trials. The company's business model is to license products and technology out to global partners.

Artimplant is listed on OM Stockholmsbörsen's O-list.

NEW CEO
Tord Lendau took up his duties as the CEO of Artimplant AB on 3 October 2002. Tord Lendau, born in 1957, has long experience as a company manager in the med-tech industry, most recently as CEO of Noster System AB. Tord Lendau is also a member of a number of med-tech companies' boards, incl. Diamyd Medical AB, which is listed on the O-list, and the NASDAQ-listed ArthroCare Inc. During the first half of the 1990s he was the CEO of Synectics Medical AB, which was later acquired by Medtronic in the USA.

REDUCED COSTS AND NEW, SLIMMER ORGANIZATION
As from 1 November Artimplant has a new, more efficient organization. The new organization is concentrating on the five prioritized projects that it is deemed will provide the fastest possible contribution towards a positive cash flow. The projects are as follows:

- Artelon® Spacer CMC-I for treating thumb base arthritis
- Artelon® Augmentation Device ACL for reinforcement when reconstructing the anterior cruciate ligament
- Development of manufacturing process for producing wound-care products within the parameters of the licensing agreement with Mölnlycke Health Care AB
- Artelon® ACL Prosthesis for replacement of ruptured anterior cruciate ligament
- Artelon® Reinforcement Bands for a number of applications for orthopedic treatment of injuries to the shoulder, foot, ankle and knee

MBL negotiations have been held with the relevant union organizations, and staffing (excluding those of the subsidiary Gothenburg Medical Center) is being reduced by 15 from the present total of 34. The cuts are principally staff in the fields of administration and production, but also to a certain extent functions in the field of research and clinical trials.

Furthermore, significant savings are being made with regard to consultancy expenses, premises rental and patents. A number of consultancy contracts are being wound up. The company is leaving its present office premises and gathering all the staff in smaller premises in the same property. The patent protection is in principle restricted to covering the EU, the USA, Japan, China and Australia, which are the big, important markets for the products, which Artimplant is developing. The company anticipates cutting operating costs by close to fifty percent during 2003.

The new management group comprises the following persons:

Tord Lendau, CEO
Ulf Åkerblom, Corporate Development (incl. Investor Relations)
Elisabeth Liljensten, R&D
Anders Östin, Manufacturing Process Development
Tore Karlsson, temporary CFO

MATERIAL TECHNOLOGY COMMERCIALLY CONFIRMED
In September Artimplant signed an initial contract confirming the commercial potential of the company's material technology. It is a collaborative and licensing contract with Mölnlycke Health Care AB in the field of wound care, giving Artimplant royalty revenue when sale of the first products on the market commences in 2006. Before that, Artimplant will develop a manufacturing process for the material to be used in the products, after which Mölnlycke Health Care AB will perform clinical trials. The process development is being jointly financed, whilst the clinical trials are being financed by Mölnlycke Health Care AB.

Contacts are progressing with identified global orthopedics companies regarding licensing rights to distribute, market and sell Artimplant's internally developed products in the field of orthopedics – products based on spinning and weaving textile structures from Artelon®. A total of seven confidentiality contracts have been signed.

Furthermore, a global USA-based company has shown interest in Artelon® in the form of foam to be used for bone grafts, above all in hip reconstructions.

CLEAR FDA PLAN ESTABLISHED
Since the USA is responsible for around 60 percent of the global orthopedics market, it is of crucial significance for Artimplant's future commercial success that the company's products based on Artelon® be approved by the FDA (the American authority which approves marketing of drugs and med-tech products).

Artimplant has assessed that the fastest way to get an Artelon®-based product approved is to submit an application for Artelon® Spacer CMC-I. A dossier is currently being put together, consultations are being planned, and an initial meeting with the FDA is planned for April 2003. Immediately after this, Artimplant is taking a definitive stand on the form of the application for approval of the Artelon® Spacer CMC-I. Approval can be obtained at the earliest in the latter part of the fourth quarter of 2003.

It is estimated that it will be possible to obtain a CE certificate, i.e. approval for sale of the Artelon® Spacer CMC-I in the EU countries etc., during the first quarter of 2003.

ARTIMPLANT'S FUTURE FINANCING
Artimplant's new strategy is aimed at faster attainment of a position whereby ongoing business and investments in research and product development are financed by income from paying customers. This situation will not occur until about two years' time. Thus the board and management are working on a solution involving alternative financing to guarantee that the capital requirement is met until the company has a positive cash flow. An announcement as to the form this financing will take is expected to be released shortly.

Part of the financing solution is for the company to sell the Gothenburg Medical Center.

PROJECT PORTFOLIO AND PRODUCT PORTFOLIO
Artelon® Spacer CMC-I
Thumb base arthritis is one of the most common wear injuries in the hand, above all affecting women over the age of 40, but also affecting men. It is estimated that a total of around 10 percent of the population over the age of 55 is at risk. At present there is no satisfactory treatment. An initial step is to use analgesics. Surgical treatment involves arthrodesis, creating reduced movement, or tendon arthroplasty, which can lead to problems with strength of grip and instability. The potential market is estimated at upwards of SEK 10 billion.

Artimplant's Spacer is intended to function as a replacement for the injured cartilage between the last thumb bone and the wrist bone. The operation is less extensive than arthrodesis and arthroplasty, and can be performed under local anesthetic.

Since the spacer is a new method of treating a common complaint, the function must be confirmed through clinical tests. A multi-center study involving 108 patients has been commenced, and is being performed at six hospital departments in Sweden. The results of two-year follow-ups in the pilot study show that the spacer has a positive effect on joint stability, strength of grip and perceived pain.

Artelon® Augmentation Device ACL
Injury to the anterior cruciate ligament is the commonest ligament injury and often leads to permanent disability for the person injured and significant expense for society. Artimplant's first CE-marked product is intended to strengthen the tissue taken from the patient, often part of the patellar tendon or tissue from the back of the thigh, and it can be operated into the knee as a replacement for the damaged tendon. The global market potential is estimated at around SEK 10 billion.

The three-year results of the ongoing pilot study regarding ACL show that all patients have stable knees, that Artimplant's degradable material Artelon™ is tissue-friendly, and that connective tissue and blood vessels grow into the material.

The two-year results of the first multi-center trial show that the stability of the knee operated on is comparable to that of the non-damaged knee, which is an expected result. Furthermore, the results of the pilot study are confirmed in the first multi-center study.

Artelon® ACL Prosthesis
An ACL prosthesis is a pure implant, i.e. it is not necessary to use the body's own tissue. This project has now been commenced, and the product, which is being developed, will have considerably more potential than the reinforcement band Artelon® Augmentation Device ACL. The indications Artimplant has received in connection with licensing discussions with potential partners point to considerable interest in the ACL prosthesis, primarily in the US.

Artelon® Reinforcement Bands
The Reinforcement Band Project is a logical and cost-effective extension of Artimplant's future product portfolio, since the technology is based on the same fiber and textile development, which led to the Spacer and ACL products. There is a considerable clinical need to be able to handle ligament damage in shoulder, knee and ankle joints. The project covers a number of applications, including a rotator cuff in the shoulder joint, collateral ligaments in the knee joint and Achilles tendon, and talofibular ligaments in the foot and ankle.

Artelon® Sternum Suture
The Sternum Suture Project has been given lower priority. In the short and medium term the company is focusing on projects in the field of orthopedics, and on generating revenue as quickly as possible. The sternum suture for open-heart surgery does not fit into the strategy. The technology, which has been developed for the sternum suture project, is directly applicable to the products that are being developed for reinforcement bands.

ARTIMPLANT'S CLINICAL PROGRAM – SUMMARY

Artelon® Spacer CMC-I

Trial	2003
Pilot	3-year follow-up Q2
Multi-center I, 3-year	1- year follow-up Q4

Artelon® Augmentation Device ACL

Trial	2003
Pilot	5- year follow-up Q3
Multi-center I patellar tendon	3- year follow-up Q3
Multi-center II hamstring tendon	2- year follow-up Q3
Accelerated rehab, pilot, patellar tendon	2- year follow-up Q4

PATENT

The degradable implant polymers are protected by a number of patents, including the so-called main patent (Artelon™), which as well as in Sweden has been approved in the USA, Europe and a number of other countries. Patents are being sought for a number of variants, which come under the basic category of degradable polymers. For some application technologies, patents have been obtained both in Sweden and internationally. Patents for degradable materials for molded forms have been obtained in a number of countries, including Sweden, the USA and Europe.

Artimplant has five patents approved in Sweden and internationally. A further nine patent applications have been submitted.

For strategic reasons, the company has decided to concentrate the patent protection to cover the EU, the USA, Japan, China and Australia.

ARTIMPLANT'S EARNINGS, JANUARY–SEPTEMBER 2002

Consolidated net sales for the period January-September 2002 was SEK 18.2 million (16.2). The operating loss for the period was SEK –40.7 SEK (–40.6). The loss after tax was SEK –40.0 million (–37.3). The parent company's net turnover of SEK 0.2 million primarily refers to compensation from Mölnlycke Health Care.

The net turnover for the subsidiary Gothenburg Medical Center was SEK 18.6 million (17.0). The loss for GMC was SEK –2.0 million (0.1). Severance expenses for personnel were charged to operations during the period.

The loss increased as a result of more expenditure on research and development and increased costs associated with efforts to license the first of Artimplant's products.

INVESTMENTS AND FINANCIAL POSITION

The investments during January-September totaled SEK 10.0 million (32.4), of which SEK 9.6 million (28.6) was for intangible assets. At the end of the period, liquid assets totaled SEK 19.4 million (86.6).

STAFF

The number of staff as of September 30, 2002 was 67 (70), of whom 33 (33) were employed at the subsidiary Gothenburg Medical Center. The number of consultants associated with the company at the same time was 7 (10).

KEY RATIOS THE ARTIMPLANT GROUP

	Jan-Sep 2002	Jan-Sep 2001	Jan-Dec 2001
Result per share, SEK	-4.32	-4.03	-5.87
Result per share after full conversion, SEK	-4.10	-3.82	-5.56
Equity per share, SEK	8.12	16.75	14.91
Equity per share after full conversion, SEK	23.44	31.62	29.88
Number of shares at end of period	9,250,000	9,250,000	9,250,000
Number of shares after full conversion	9,762,500	9,762,500	9,762,500
Yield on equity, %	neg	neg	neg
Yield on capital employed, %	neg	neg	neg
Solidity, %	83	90	89

INCOME STATEMENTS ARTIMPLANT

Amounts in SEK thousands	Group July-Sep 2002	Group Jan-Sep 2002	Group July-Sep 2001	Group Jan-Sep 2001	Group Jan-Dec 2001
Net sales	5,099	18,236	4,460	16,169	23 664
Cost of goods and services sold	-4,585	-18,910	-4,159	-14,321	-21 108
Gross profit/loss	**514**	**-674**	**301**	**1,848**	**2 556**
Research and development costs	-6,147	-20,221	-5,920	-15,447	-22 706
Marketing costs	-2,262	-9,113	-8,879	-19,053	-25 855
Administrational costs	-3,793	-10,790	-2,632	-7,905	-12 203
Other operating income	-	61	-	-	30
Operating profit/loss	**-11,688**	**-40,737**	**-17,130**	**-40,557**	**-58 178**
Interest income and other financial income	237	1,157	946	3,226	3 893
Interest costs and other financial costs	-367	-400	0	-8	-48
Profit/loss from sale of subscription options	-	-	-	70	70
Net interest income/expense	**-130**	**757**	**946**	**3,288**	**3 915**
Profit/loss after financial income and expense	**-11,818**	**-39,980**	**-16,184**	**-37,269**	**-54 263**
Tax	-	-	-	-21	-19
Profit/loss for the period	**-11,818**	**-39,980**	**-16,184**	**-37,290**	**-54 282**

Note: The income statement includes depreciation of tangible and intangible fixed assets as follows:

Amounts in SEK thousands	Group July-Sep 2002	Group Jan-Sep 2002	Group July-Sep 2001	Group Jan-Sep 2001	Group Jan-Dec 2001
Balanced expenditure for research and development work	-	-	4,889	12,806	18 983
Patents	383	1,151	424	947	1 287
Goodwill	175	525	175	525	699
Equipment	889	2,617	943	2,624	3 716
Total depreciation	**1,447**	**4,293**	**6,431**	**16,902**	**24 685**

As a result of changed accounting principles, depreciation of balanced expenditure for research and development work will start when the product in question is launched.

INCOME STATEMENTS ARTIMPLANT

Amounts in SEK thousands	Parent co July-Sep 2002	Parent co Jan-Sep 2002	Parent co July-Sep 2001	Parent co Jan-Sep 2001	Parent co Jan-Dec 2001
Net turnover	0	211	4	462	1 187
Cost of goods and services sold	0	-211	-4	-462	-1 171
Gross profit/loss	**0**	**0**	**0**	**0**	**16**
Research and development costs	-6,147	-20,221	-5,920	-15,447	-22 706
Marketing costs	-2,262	-9,113	-8,879	-19,053	-25 855
Administrational costs	-3,155	-8,875	-1,857	-5,579	-9 096
Other operating income	-	-	-	-	30
Share in the group company's profit/loss	54	-1,991	-295	65	162
Operating profit/loss	**-11,510**	**-40,200**	**-16,951**	**-40,014**	**-57 449**
Interest income and other financial income	233	1,144	940	3,203	3 859
Interest expense and other financial expense	-11	-40	0	-8	-20
Net interest income/expense	**222**	**1,104**	**940**	**3,195**	**3 839**
Profit/loss after financial income/expense	**-11,288**	**-39,096**	**-16,011**	**-36,819**	**-53 610**
Tax	-	-	-	-	-
Profit/loss for the period	**-11,288**	**-39,096**	**-16,011**	**-36,819**	**-53 610**

Note: The profit/loss statement includes depreciation of tangible and intangible fixed assets as follows:

Amounts in SEK thousands	Parent co July-Sep 2002	Parent co Jan-Sep 2002	Parent co July-Sep 2001	Parent co Jan-Sep 2001	Parent co Jan-Dec 2001
Balanced expenditure for research and development work	-	-	4,889	12,806	18 983
Patents	383	1,151	424	947	1 287
Equipment	796	2,387	812	2,261	3 247
Total depreciation	**1,179**	**3,538**	**6,125**	**16,014**	**23 517**

As a result of changed accounting principles, depreciation of balanced expenditure for research and development work will start when the product in question is launched.

BALANCE SHEETS ARTIMPLANT

Amounts in SEK thousands	Group 2002-09-30	Group 2001-09-30	Group 2001-12-31	Parent company 2002-09-30	Parent company 2001-09-30	Parent company 2001-12-31
Balanced expenditure for research and development work	38,819	50,241	54,623	38,819	50,241	54 623
Patents	5,006	3,697	3,661	5,006	3,697	3 661
Goodwill	11,031	11,730	11,556	-	-	-
Total intangible fixed assets	54,856	65,668	69,840	43,825	53,938	58 284
Equipment	7,530	9,284	9,677	6,545	8,356	8 730
Total tangible fixed assets	7,530	9,284	9,677	6,545	8,356	8 730
Shares and participation in group companies	-	-	-	18,096	18,096	18 096
Total financial fixed assets	-	-	-	18,096	18,096	18 096
Total fixed assets	**62,386**	**74,952**	**79,517**	**68,466**	**80,390**	**85 110**
Raw materials and semi-finished products	227	-	8	227	-	8
Total stock etc.	227	-	8	227	-	8
Trade debtors	2,214	1,926	2,632	-	0	24
Claims from group companies	-	-	-	-	-	63
Other claims	1,132	2,470	2,370	1,123	2,461	2 370
Prepaid expenses and accrued income	4,816	5,266	2,992	4,542	4,983	2 740
Total current claims	8,162	9,662	7,994	5,665	7,444	5 197
Cash and bank	19,436	86,577	68,006	18,759	85,334	67 144
Total current assets	**27,825**	**96,239**	**76,008**	**24,651**	**92,778**	**72 349**
TOTAL ASSETS	**90,211**	**171,191**	**155,525**	**93,117**	**173,168**	**157 459**

Amounts in SEK thousands	Group 2002-09-30	Group 2001-09-30	Group 2001-12-31	Parent company 2002-09-30	Parent company 2001-09-30	Parent company 2001-12-31
EQUITY AND LIABILITIES						
Equity						
Share capital	925	925	925	925	925	925
Restricted reserves/legal reserve	116,788	193,265	193,265	116,788	193,265	193 265
Total restricted equity	117,713	194,190	194,190	117,713	194,190	194 190
Non-restricted reserves	-2,661	-1,989	-1,989	-	-	-
Profit/loss for the period	-39,980	-37,290	-54,282	-39,096	-36,819	-53 610
Total non-restricted equity	-42,641	-39,279	-56,271	-39,096	-36,819	-53 610
Total equity	**75,072**	**154,911**	**137,919**	**78,617**	**157,371**	**140 580**
Allocations for deferred tax	322	318	322	-	-	-
Other allocations	-	100	-	-	-	-
Total allocations	**322**	**418**	**322**	**-**	**-**	**-**
Trade creditors	5,997	5,104	6,425	5,062	3,910	5 465
Liabilities with regard to group companies	-	-	-	3,889	3,493	3 578
Tax liabilities	-	576	578	-	-	-
Other current liabilities	1,445	1,104	1,442	1,014	664	1 056
Accrued expenses and deferred income	7,375	9,078	8,839	4,535	7,730	6 780
Total current liabilities	**14,817**	**15,862**	**17,284**	**14,500**	**15,797**	**16 879**
TOTAL EQUITY AND LIABILITIES	**90,211**	**171,191**	**155,525**	**93,117**	**173,168**	**157 459**

Note: Change in equity during the period

Amounts in SEK thousands	Group Jan-Sep 2002	Group Jan-Sep 2001	Group Jan-Dec 2001	Parent company Jan-Sep 2002	Parent company July-Sep 2001	Parent company Jan-Sep 2001
At the beginning of the period	137,919	192,201	192,201	140,580	194,190	194 190
Change in accounting principles	-22,867	-	-	-22,867	-	-
Profit/loss for the period	-39,980	-37,290	-54,282	-39,096	-36,819	-53 610
At the end of the period	**75,072**	**154,911**	**137,919**	**78,617**	**157,371**	**140 580**

CASH-FLOW ANALYSES ARTIMPLANT

Amounts in SEK thousands	Group Jan-Sep 2002	Group Jan-Sep 2001	Group Jan-Dec 2001	Parent company Jan-Sep 2002	Parent company Jan-Sep 2001	Parent company Jan-Dec 2001
Ongoing business						
Profit/loss after financial income/expense	-39,980	-37,269	-54,263	-39,096	-36,819	-53 610
Adjustments for items not included in the cash flow	4,294	16,902	24,555	3,539	16,014	23 487
Tax paid	-	-21	-15	-	-	-
Cash flow for ongoing business before changes in operating capital	**-35,686**	**-20,388**	**-29,723**	**-35,557**	**-20,805**	**-30 123**
Cash flow from changes in operating capital						
Increase(-) Decrease(+) in stock etc.	-219	-	-8	-219	-	-8
Increase(-) Decrease(+) in claims	-168	-4,718	-3,050	-468	-4,444	-2 197
Increase(-) Decrease(+) in liabilities	-2,467	6,511	7,933	-2,379	5,880	6 962
Cash flow from ongoing business	**-38,540**	**-18,595**	**-24,848**	**-38,623**	**-19,369**	**-25 366**
Investment business						
Acquisition of intangible assets	-9,560	-28,585	-39,448	-9,560	-28,585	-39 448
Acquisition of tangible assets	-470	-3,843	-5,449	-202	-3,569	-5 050
Sale of tangible assets	-	-	151	-	-	151
Cash flow from investment business	**-10,030**	**-32,428**	**-44,746**	**-9,762**	**-32,154**	**-44 347**
Financing business						
Amortisation of liabilities	-	-100	-100	-	-100	-100
Cash flow from financing business	**0**	**-100**	**-100**	**0**	**-100**	**-100**
Cash flow for the period	**-48,570**	**-51,123**	**-69,694**	**-48,385**	**-51,623**	**-69 813**
Liquid assets at the beginning of the period	**68,006**	**137 700**	**137,700**	**67,144**	**136,957**	**136 957**
Liquid assets at the end of the period	**19,436**	**86,577**	**68,006**	**18,759**	**85,334**	**67 144**

Accounting principles

The same accounting principles have been applied as in the annual accounts for the year 2001, with the exception of the fact that as from 01.01.2002 the company has been applying the Swedish Financial Accounting Board's recommendation No. 15 with regard to intangible assets. This changed accounting principle has meant that the book value of balanced expenditure for research and development work has been reduced by SEK 22.9 million. The comparative figures for 2001 have not been translated, as the new principle is being applied as from 01.01.2002.

Gothenburg, 6 November 2002
Artimplant AB (publ)

Tord Lendau
CEO

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