



"When a needle and thread is not enough"

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Artimplant's Mission

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

- Net revenue amounted to SEK 18.5 million (24.0)*
- The net loss totaled SEK 22.4 million (18.6)
- Earnings per stock unit amounted to SEK -0.32 (-0.31)
- Artimplant's own sales as a proportion of total sales continued to increase and were equivalent to 61% (37)
- Compared with 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 as planned capital input for the Company of SEK 38.5 million before issue costs
- Artimplant's strategy has been focused on marketing with increased intensity in own sales in the USA
- During the fall of 2010, Artimplant implemented staff cutbacks in Sweden 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 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® Tissue Reinforcement products has commenced

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

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

About Artimplant

Artimplant is a medical device 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®, a biomaterial developed by the Company. Artimplant's implants are used 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.

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

*"Helping the
body to heal"*

STATEMENT BY THE CEO

2010 was a year in which major changes took place at Artimplant, which led to many questions from our stockholders. In the statement by the CEO we have opted to highlight a number of the most frequently asked questions.

Why is Artimplant focusing on own sales?

There are two reasons. Firstly, sales through our licensees have not lived up to our expectations in terms of growth. Secondly, we have in recent years demonstrated that own sales generate a more rapid increase in turnover. Through own sales we can focus on and get closer to our customer segments. We can assure the sales message and follow-up more effectively and thus generate a greater impact compared with simply being a catalogue product among hundreds of other products at a licensee.

Is this not a costly path to follow in order to increase sales?

Our personnel are mainly product specialists who support our agents' sales staff with training, being present during surgical procedures and making joint visits to customers. After an initial introduction, the agent's sales staff can work independently. The agents only receive variable payment in relation to sales of our products and in that way costs can be kept down.

Why is Artimplant focusing on the USA?

Within orthopedics, the USA often has considerably higher price levels than the majority of European countries. In addition, the level of acceptance among orthopedic surgeons to test new products is higher in the USA. It is therefore possible to earn money more quickly in the USA from our implants.

What is Artimplant doing in Europe?

In Europe we market through country-specific distributors who mainly work with Artelon® Spacer for osteoarthritis in the thumb and big toe. It has taken longer to gain acceptance among orthopedic surgeons to use reinforcements, such as Artelon® Tissue Reinforcement (ATR), as the reinforcement market is not established in the same way in Europe as it is in the USA.

Which products are you focusing on?

In the USA we are focusing on ATR, which is intended for soft tissue reinforcement, whilst Small Bone Innovations (SBI) is continuing to sell Artelon® CMC Spacer. In Europe, the emphasis will shift more and more towards ATR, due in part to the fact that we

have taken back the exclusive right to sell ATR outside the USA following renegotiation of the agreement with Biomet.

What has been the response?

ATR is continuing to convince surgeons through its user-friendliness and the positive treatment results in both the USA and in Europe. The introduction of complementary ATR products that facilitate use has met with a positive response among our customers.

How is ATR sold?

Mainly relationship-based sales i.e. the surgeon relies on what their well-versed sales contacts say about new products and how the products can ensure better treatment results. We naturally also make use of case reports, operation images and positive references. A number of investigator-initiated studies are in progress and data from these studies will be a considerable source of support when they are published.

Why are we not seeing a more rapid increase in sales?

ATR is used for the reinforcement of soft tissue that is of poor quality or in conjunction with extensive injuries. ATR is thus not used in every soft tissue operation. It takes longer to establish a customer relationship and repeat sales when the product is used less often. Artimplant's long-term plan is to demonstrate the benefits of using ATR as a general method in the reinforcement of soft tissue.

What consequences will the cost savings made during 2010 have for the different projects you are running?

Our current projects and clinical studies, which are focused on orthopedics, will not be affected at all and will continue according to plan. However, projects within odontology and veterinary medicine will be affected.

How much are you investing in new areas such as osteoarthritis in the spine and knee joint?

Projects that are of business interest will continue on condition that they do not divert too many resources from our market focus. Projects that are in line with our market strategy could be assigned higher priority, such as treatment of osteoarthritis in the knee joint.

How will the legal action taken in the USA affect Artimplant's future?

A prerequisite for the work being conducted at Artimplant is that we comply with quality and regulatory requirements in each country in which we sell

STATEMENT BY THE CEO

our products. We comply, among other things, with investigation and reporting requirements if any serious incidents occur regarding the use of the products. This takes place to each country's regulatory authority, such as the FDA in the USA or the Medical Products Agency in Sweden, which means that we have a good overview of how the products are functioning on the market. In addition, we have made an analysis of the scant information available about the patients in the legal cases in question. The evaluation has not given us reason to change our overall picture of how Artelon® CMC Spacer is functioning and thus also our communication concerning the product and sales of the product.

What will be your defense and what will it cost?

Artimplant will vigorously contest the complaints on all counts. We have filed a notice of loss with our insurance carrier and we anticipate that any damages will be settled through insurance payments, apart from Artimplant's deductible.

Will this not affect sales?

The complaints could have a negative effect on sales, particularly for Artelon® CMC Spacer and thus for our licensee SBI. It is more difficult to predict what impact it could have on ATR sales. Once we have published ATR studies, the risk exposure will be significantly lower.

What do you think about the future?

Own sales of ATR in the USA will account for the majority of sales during the coming years and will lay the foundation for Artimplant achieving a positive cash flow and subsequently becoming a profitable company.

What are the plans?

With four product specialists in place the foundation, based on support and service to existing and new agents, has been laid for future market expansion in the USA. The complementary ATR products will provide the surgeon with new reinforcement tools for soft tissue repairs, which will offer the potential to broaden the use of ATR. During 2011 we will focus on surgeons specializing in the foot and ankle. We will then, supported by study data, commence prospecting of orthopedic surgeons who carry out shoulder repairs. In addition, we have a special focus on American military and veterans hospitals, where Artimplant has satisfied supplier requirements on a national and international basis.



Hans Rosén



*“I’m convinced of
the commercial
potential of our
technology.”*

The body has a unique capacity to heal although sometimes conditions must be created for the healing process to take place. Imagine an implant that provides support for healing tissue, forming a scaffold on which to grow, giving the newly formed tissue the opportunity to mature and become functional.

Reinforcement of soft tissue

When soft tissue parts, such as tendons, are seriously injured and/or if the patient has poor tissue quality due to repeated ruptures, it is beneficial to reinforce the tissue in conjunction with repair. Artelon® Tissue Reinforcement reinforces the repair and at the same time the body's own tissue grows into the product, which also reinforces the repair in the long term.

Ruptures in tendons around the shoulder, the rotator cuff, are one of the most common causes of reduced movement of the arms, making it difficult to perform normal daily activities, such as raising a fork to your mouth, putting a plate into a cupboard, washing your hair or driving a car. In addition, there is often chronic pain and increased pain intensity when the shoulder is exposed to pressure, for example when you are asleep and turn over on to the painful shoulder. The larger the injury the greater the risk that the patient who has undergone surgery will suffer from a new rotator cuff injury. A prospective clinical study in which ATR has been evaluated as reinforcement for major rotator cuff injuries has been conducted in the USA. A total of 17 patients were included in the study, which was concluded in 2010. The preliminary results look promising in terms of shoulder function and the patients' quality of life.



The Achilles tendon is the most powerful tendon in the human body. Achilles tendon ruptures often occur among middle-aged men and frequently in conjunction with sports pursuits. The injury results in pain and limited use of the foot. If the injury is not treated or a re-rupture occurs there is a significant need to improve healing conditions by using ATR. A 57-year-old man from Sweden with a re-ruptured Achilles tendon was among those who had the opportunity to test the benefit of surgery with ATR as reinforcement. Following the operation he was free of pain and could walk without any restriction.

Restoring the joint surface

Many people take for granted being able to perform normal daily activities such as holding a pen, opening a door, buttoning a shirt and walking normally. These are activities where people with osteoarthritis experience problems every day due to pain and reduced strength and movement. The reason is that the surface of the joint, which comprises cartilage, is exposed to considerable pressure and has been worn down, resulting in bone rubbing against bone. The surgical treatment methods that have been available to date for osteoarthritis in the thumb base and base of the big toe are arthrodesis or the removal of part or the whole of the bone, thus limiting movement and affecting the patient's anatomy.

Artimplant has developed a portfolio of implants with patients suffering from osteoarthritis as the target group. During surgery, the damaged tissue is removed and replaced by an Artelon® implant into which the body's own cells can grow and form functional, cushioning tissue. The anatomy is thus retained, offering good conditions for regaining a functional joint with reduced pain and retained strength, stability and movement.

In day-to-day life we are highly dependent on our thumbs, particularly the thumb on the dominant hand. Wear and tear (osteoarthritis) in the thumb base joint generally causes pain even when just slight pressure is exerted on the thumb, for instance when lifting something, or when doing needlework or turning a key in the door. At present retrospective clinical data is being collated from all patients who underwent surgery with Artelon® CMC Spacer at a large Swedish hospital during the period 2005-2010. The preliminary results are very promising and concur with previously published data from prospective studies. Several patients are so satisfied that they request the same procedure when they have problems with their other thumb.

Artelon® MTP Spacer is used when the cartilage in the big toe joint is damaged. As with damage to the

THE MEDICAL BENEFIT OF ARTELON® PRODUCTS

cartilage in the thumb, injury to the cartilage in the big toe causes considerable pain and reduced movement. Orthopedic surgeons throughout Europe who have used Artelon® MTP Spacer report that their patients experience both a reduction in pain as well as retained or improved ability to walk following surgery and rehabilitation.

Augmentation of soft tissue volume

It is painful to take tissue from the gum and sometimes there is insufficient tissue to create the necessary volume. In oral surgery there is a need to recreate soft tissue to fill out the defects in the front upper jaw, both to recreate function and esthetics. Using Artelon® Cosmetic offers the opportunity to increase the volume of tissue without having to resort to a connective tissue transplant. This opens up the possibility of treating patients with defects in the esthetic zone of the Maxillae for improved esthetics and functional design of a dental bridge. For patients with dental implants, the esthetics can be improved by increasing the soft tissue volume around the implant to prevent shadow formation above the implant crown. The surgical procedure is simpler to perform in the fact that no incision needs to be made in the gum. In doing so, the treatment period is shortened and post-operative problems for the patient are reduced.

A published study conducted by the Brånemark Clinic in Gothenburg, Sweden confirms that patients with soft tissue defects can be treated successfully with Artelon® Cosmetic.

Artimplant is leading the way in the development of orthopedic implants that create the conditions necessary for the body to heal itself. The concept can be applied to a broad range of clinical needs, which have the potential to offer many patients significant advantages. All products are manufactured from Artelon®, Artimplant's proprietary biomaterial. The products are designed and developed with specific properties, such as shape, strength, flexibility and pore size, to match the clinical requirements for the application in question. Each implant is tailored to initially provide support for the ingrowth of the body's own tissue, which gradually matures into functional tissue. Artimplant has developed three product concepts which satisfy the demands for reinforcing soft tissue, treating osteoarthritis and building up tissue volume (Reinforcement, Resurfacing and Replenishment).

With these good preconditions and successful experience as a base, Artimplant is continuing to develop new solutions to medical problems to the benefit and delight of both doctors and patients.



Artimplant in brief

Artimplant is a medical device company whose mission is to restore the health of patients by offering medical professionals degradable implants that help the body to heal. The Company develops, produces and sells degradable implants that restore body functions and improve the quality of life. The products are produced from Artelon®, a biomaterial developed by the Company. Artimplant's implants are used for the treatment of osteoarthritis and reinforcement of damaged soft tissue. The Company's products are sold through licensees and own sales under the Artimplant brand take place through agents and distributors. Products made using Artelon® have been used clinically for over 13 years and thousands of patients have received implants. Artimplant is listed on the NASDAQ OMX Stockholm Exchange in the Small Cap segment and in the healthcare sector.

Business model

Artimplant's business model is based on the exploitation and development of the patented biomaterial platform Artelon®, from which implants in different clinical areas are being developed. Product development, production, clinical studies, central marketing documentation and sales training are handled by Artimplant. Sales and local marketing take place primarily in the USA and Europe through the following channels:

- Direct sales via agents
- Country-specific distribution agreements
- Global/regional OEM agreements (private label), at present Biomet Sports Medicine
- Global/regional license agreements, at present Small Bone Innovations

In 2010, Artimplant intensified its focus on direct sales via agents in the USA, among other things by employing four clinical product specialists with regional responsibility to provide support throughout the whole of the USA. Each product specialist is responsible for agents in their part of the USA. Their role is to train the agents' sales staff and to provide support by making joint visits, particularly in conjunction with sales to new customers. Artimplant invoices the end-customer for all sales made by agents and the month after a sale has been made the sales commission is paid. Selling via agents in the USA is very common in the medical device industry.

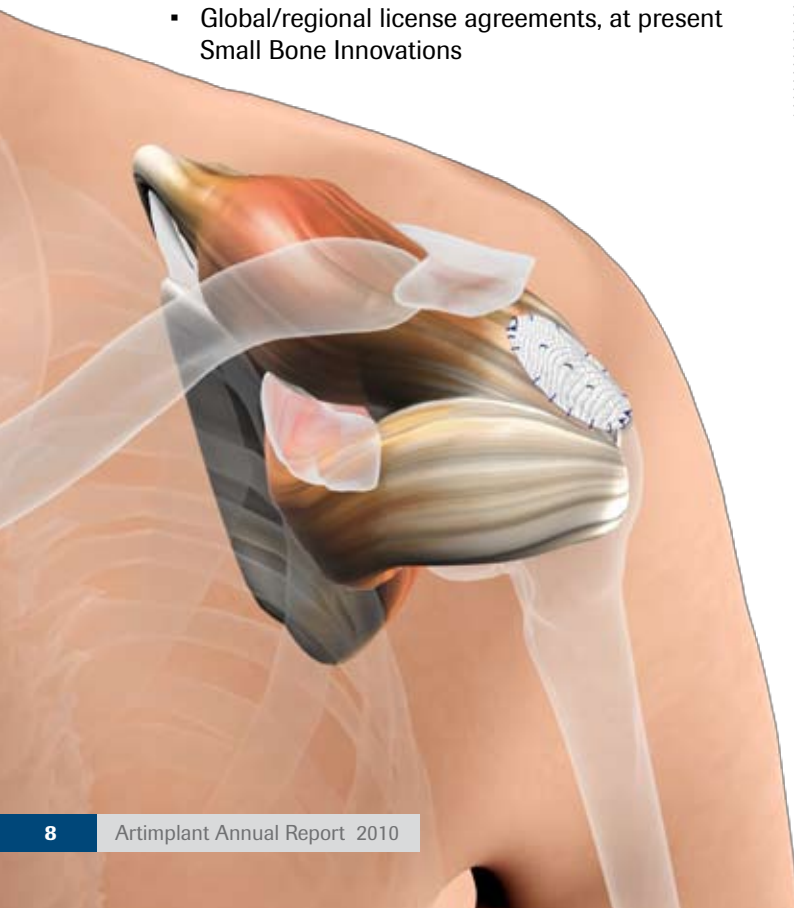
Distributors and licensees receive support from Artimplant's Swedish organization.

Product portfolio and market

Reinforcement – Reinforcement of soft tissue

Artelon® Tissue Reinforcement is intended for reinforcement of weakened soft tissue parts, which is a broad indication within which the surgeon can use the product to treat soft tissue injuries from the foot to the shoulder. Each year, around 300,000 rotator cuff operations are performed in the USA. The primary indication is patients with large and extensive rotator cuff injuries. Another indication is reconstruction of the Achilles tendon in conjunction with chronic injuries or re-ruptures. The incidence of acute Achilles tendon injuries is estimated that approximately 12 in 100,000. Available data indicates that the incidence is increasing. There is a major medical need reconstruction of the Achilles tendon in conjunction with chronic injuries and re-ruptures of a previously repaired injury, which in the literature is estimated at approximately 7 per cent of acute injuries. The product is also marketed for the treatment of tendon inju-

Repair of the rotator cuff and Achilles tendon with Artelon® Tissue Reinforcement



BUSINESS OVERVIEW

ries around the kneecap, biceps and quadriceps. The product is marketed in the USA and the EU.

Resurfacing – Restoring the joint surface

Artelon® CMC Spacer, Artelon® CMC Spacer Arthro and Artelon® STT Spacer are products for the treatment of thumb base osteoarthritis. The products can be used from an early stage when keyhole surgery can be employed, which means that patients can be treated earlier in the course of the disease than would normally be the case today and also at a later stage when both the CMC and STT joints need to be treated. Artimplant estimates that the number of patients who can be treated with Artelon® Spacer is approximately 100,000 each year. The products are marketed mainly in the USA and the EU.

Artelon® MTP Spacer is a product for the treatment of osteoarthritis in the joint in the base of the big toe, hallux rigidus. Artimplant estimates that the number of patients who can be treated with MTP Spacer is approximately 100,000 per year. The product is marketed in the EU.

Replenishment – Augmentation of soft tissue volume

Artelon® Cosmetic is a product for the augmentation of soft tissue in the oral cavity. The product is used for the augmentation of tissue around a dental implant. At present, soft tissue is commonly taken from the patient's gums and transplanted to the esthetic zone of the Maxillae. With no similar implant available on the market, it is difficult to estimate the size of the addressable market.

The product has been cleared for marketing in the EU and at present is being sold to a limited number of clinics in Sweden and Italy.

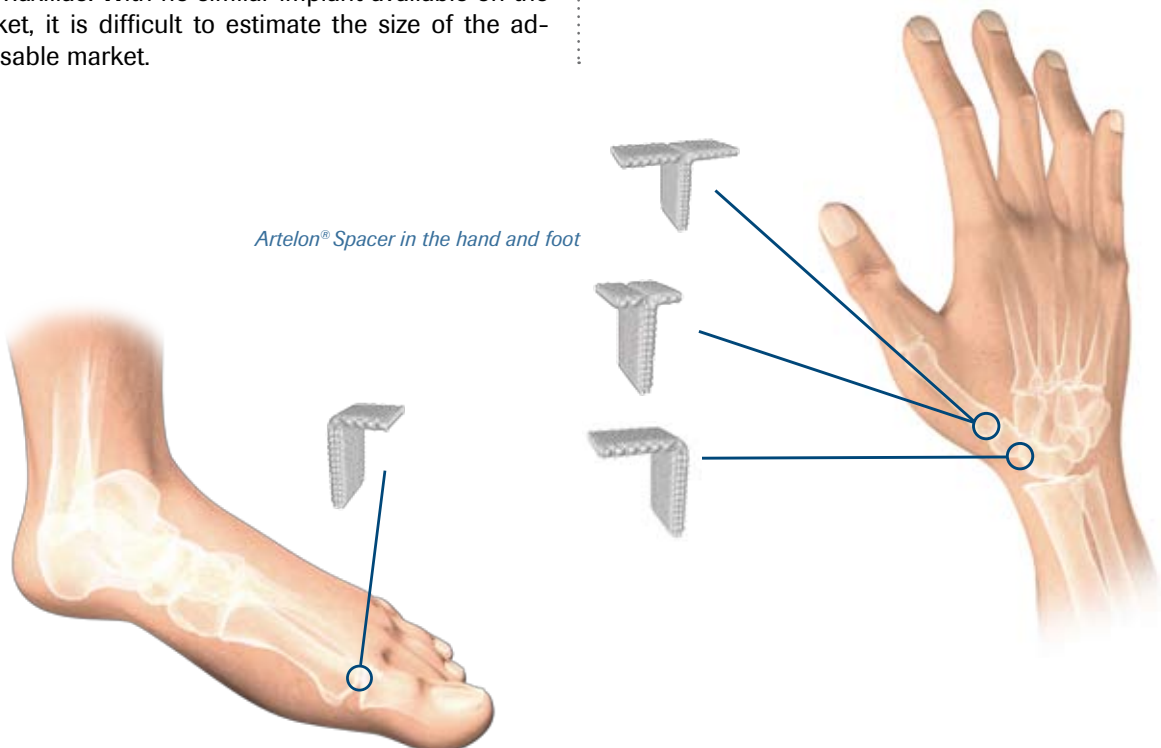
Product development

Resurfacing – Restoring the joint surface

Artelon® implants have demonstrated their capacity to restore a pain-free, functional joint surface in four joints affected by osteoarthritis in the hand, wrist and foot. The mechanical pressure on the surfaces of different joints varies although there is a basis for the use of Artelon® also in other joints. Experience from previous applications and the potential to tailor the properties of the Artelon® implant create the potential to develop new products to satisfy demands in new applications. Development of the second-generation Artelon® CMC Spacer, which has user-friendly features similar to ATR, is in progress in collaboration with Small Bone Innovations.

There is a considerable medical need for treatment of osteoarthritis in the facet joints in the lumbar region of the spine. The current treatment options are arthrodesis or cortisone injections. The results of arthrodesis are often unsatisfactory and this form of treatment is avoided if possible. At present, the market for facet joint implants is virtually non-existent although it is expected to increase rapidly.

Artelon® Spacer in the hand and foot



BUSINESS OVERVIEW

It is estimated that more than 50 per cent of patients with chronic back pain can attribute the pain, either wholly or in part, to damaged facet joints. The Schulthess Clinic in Zurich is conducting a clinical pilot study to demonstrate pain relief in the treatment of osteoarthritis in the facet joints using the Artelon® implant. The study commenced in 2009. All patients in the first part of the study have undergone surgery and were evaluated for six months. No complications have been reported in the study. The patients will be followed up over a two-year period.

Many patients suffer from osteoarthritis in the knee joint. It is estimated that one in two Americans will suffer a knee injury, which ultimately leads to osteoarthritis in the knee joint. In 2008, Artimplant commenced a proof-of-concept animal study to demonstrate that Artelon® can provide support in restoring a functional surface in the knee joint. The results of the study were presented at the World Congress of

the International Cartilage Repair Society in Barcelona in September 2010 and show that Artelon® functions well in the knee joint and offers good cartilage repair.

Reinforcement – Reinforcement of soft tissue

The most common orthopedic disorder in dogs is cruciate ligament injuries. Artelon® CCL is intended to restore a functional knee joint in dogs in conjunction with cruciate ligament reconstruction. The method presupposes that the veterinary orthopedic surgeon is familiar with operating arthroscopically in order to place the implant correctly in a joint that is difficult to access. Artimplant, together with its US distributor BioMedtrix, estimates that each year around 300,000 dogs in the USA undergo surgery for this indication. A retrospective Swedish study of treatment results from 30 dogs has been compiled and supports the product's function.

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
Resurfacing	Osteoarthritis in the thumb base joint	Artelon® CMC/STT Spacer				
	Osteoarthritis in the big toe joint	Artelon® MTP Spacer*				
	Osteoarthritis in the facet joints of the lumbar spine	Facet Resurfacing				
	Osteoarthritis in the knee joint	Knee Resurfacing				
Reinforcement	Soft tissue reinforcement of tendons and ligaments	Artelon® Tissue Reinforcement				
	Knee ligament reconstruction in dogs	Artelon® CCL				
Replenishment	Soft tissue augmentation in the upper jaw	Artelon® Cosmetic*				
	Bone augmentation in the upper jaw	Bone Scaffold				

* Not cleared for sale in the USA



FIVE-YEAR OVERVIEW Amounts in KSEK

STATEMENTS OF COMPREHENSIVE INCOME	2010*	2009*	2008*	2007*	2006*
Net sales	18,466	23,998	12,114	16,275	5,571
Cost of goods and services sold	-4,024	-4,328	-4,194	-2,603	-616
Gross profit	14,442	19,670	7,920	13,672	4,955
Other income ***	947	451	1,359	305	263
Research and development costs **	-14,637	-14,995	-15,502	-14,722	-43,177
Selling costs	-15,917	-17,049	-11,688	-9,134	-12,090
Administrative costs	-5,831	-5,729	-5,195	-5,343	-7,183
Other costs ***	-966	-861	-1,209	-408	-298
Operating loss	-21,962	-18,513	-24,315	-15,630	-57,530
Interest income and other financial income	155	311	2,284	2,251	1,841
Interest expense and other financial expense	-558	-431	-602	-71	-330
Net financial items	-403	-120	1,682	2,180	1,511
Loss after financial items	-22,365	-18,633	-22,633	-13,450	-56,019
Taxes	-	-	-	-	-
Loss for the year ****	-22,365	-18,633	-22,633	-13,450	-56,019

STATEMENTS OF FINANCIAL POSITION	12/31/10*	12/31/09*	12/31/08*	12/31/07*	12/31/06*
Total fixed assets	1,797	3,501	6,680	10,006	10,214
Total current assets	45,107	26,997	40,309	59,606	72,863
Of which cash in hand and at the bank	36,890	15,613	31,371	49,240	68,704
Total assets	46,904	30,498	46,989	69,612	83,077
Total equity	34,402	23,853	41,965	64,249	77,614
Total provisions and non-current liabilities	12	65	20	52	353
Total current liabilities	12,490	6,579	5,004	5,311	5,110
Total equity and liabilities	46,904	30,498	46,989	69,612	83,077

STATEMENTS OF CASH FLOWS	2010*	2009*	2008*	2007*	2006*
Cash flow from operations	-15,098	-15,529	-17,357	-15,632	-33,190
Cash flow from investment activities	-265	-229	-590	-3,832	-2,292
Cash flow from financial activities	36,640	-	-	-	-
Cash flow for the year	21,277	-15,758	-17,948	-19,464	-35,482
Cash and cash equivalents as of Jan 1	15,613	31,371	49,240	68,704	104,186
Translation of foreign liquid assets	-	-	79	-	-
Cash and cash equivalents as of Dec 31	36,890	15,613	31,371	49,240	68,704

* Consolidated financial statements, including Artimplant USA, Inc.

** Impairment of product development expenses brought forward is included in 2010 to the amount of KSEK 591 and in 2006 to the amount of KSEK 17,118.

*** In 2008, Artimplant switched to reporting Other income and Other costs separately. A recalculation has been made for previous years.

**** Concurs with the comprehensive income for the year.

KEY RATIOS Amounts in KSEK

	2010	2009	2008	2007	2006
Equity per stock unit, SEK	0.29	0.40	0.71	1.08	1.31
Equity per stock unit after dilution, SEK	0.29	0.40	0.71	1.08	1.31
Loss per stock unit, SEK	-0.32	-0.31	-0.38	-0.23	-0.95
Loss per stock unit after dilution, SEK	-0.32	-0.31	-0.38	-0.23	-0.95
No. of stock units in issue at year-end	118,489,580	59,244,790	59,244,790	59,244,790	59,244,790
Average no. of stock units in issue during year	69,118,922	59,244,790	59,244,790	59,244,790	59,244,790
No. of stock units in issue after dilution	120,532,181	61,346,566	60,793,246	60,446,582	60,348,628
Average no. of stock units in issue after dilution	71,161,523	61,346,566	60,793,246	60,446,582	60,348,628
Cash flow per stock unit, SEK	0.31	-0.27	-0.30	-0.33	-0.60
Dividend per stock unit, SEK ¹⁾	-	-	-	-	-
Market price, highest, SEK	2.16	2.90	3.53	6.28	8.44
Market price, lowest, SEK	0.61	1.08	1.29	2.58	2.28
Market price as of Jan 1, SEK	1.57	1.36	2.76	3.04	7.03
Market price as of Dec 31, SEK	0.66	1.57	1.36	2.76	3.04
Return on equity, %	Neg.	Neg.	Neg.	Neg.	Neg.
Return on capital employed, %	Neg.	Neg.	Neg.	Neg.	Neg.
Return on capital, %	Neg.	Neg.	Neg.	Neg.	Neg.
Equity/assets ratio, %	73	78	89	92	93
Proportion of risk capital, %	73	78	89	92	93
Interest-bearing liabilities	4,000	None	None	None	None
Interest coverage ratio	Neg.	Neg.	Neg.	Neg.	Neg.
Financial net assets	32,890	15,613	31,371	49,240	68,704
Capital expenditure					
Research and development ²⁾	-	-	-	-	480
Patents and brands	226	215	471	3,236	646
Machinery and equipment	39	25	129	627	1,165
Number of employees					
No. of employees as of Dec 31	25	25	28	25	28

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

¹⁾ For 2010, the figure refers to the proposal by the Board of Directors.

²⁾ Investment in product development according to IAS 38. With effect from 2007, product development expenses are not capitalized.

Stockholders' equity per stock unit

Stockholders' equity divided by the number of outstanding stock units.

Stockholders' equity per stock unit after dilution

As above, but recalculated to reflect full exercise of call options.

Earnings per stock unit

Profit or loss for the year divided by the average number of outstanding stock units during the period.

Earnings per stock unit after dilution

As above, but recalculated to reflect full exercise of call options.

Cash flow per stock unit

Cash flow for the year divided by the number of outstanding stock units.

Return on equity

Profit or loss, expressed as a percentage of average adjusted equity.

Return on capital employed

Loss after net financial items plus financial expenses, expressed

as a percentage of average capital employed. Capital employed refers to the Statement of Financial Position total less non-interest-bearing liabilities, including deferred tax on untaxed reserves.

Return on capital

Operating profit plus financial income as a percentage of the Statement of Financial Position total.

Equity/assets ratio

Equity expressed as a percentage of the Statement of Financial Position total.

Proportion of risk capital

Equity plus untaxed reserves expressed as a percentage of the Statement of Financial Position total.

Interest coverage ratio

Profit or loss after net financial items plus financial expenses, expressed as a percentage of financial expenses.

Financial net assets

Cash and bank balances less interest-bearing liabilities.

Company information

This Annual Report covers the financial year January-December 2010 for the Artimplant Group with the Parent Company Artimplant AB (publ), registration number 556404-8394, with its registered office in Sweden in the county of Västra Götaland, Municipality of Gothenburg, and Artimplant USA, Inc., a wholly owned subsidiary registered in Delaware, with its office in Lansdale, Pennsylvania, USA (hereinafter collectively known as Artimplant, the Company or the Group). Artimplant files consolidated accounts for Artimplant AB and Artimplant USA, Inc. The Group's primary operations are carried on in the Parent Company whilst the subsidiary is a pure sales company.

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 contributes to improved health by developing, producing and selling degradable implants that restore body functions and improve the quality of life. Our products are produced from Artelon®, a biomaterial developed by the Company. Artimplant implants are used for the treatment of osteoarthritis and reinforcement of damaged soft tissue. The Company's products are sold through licensees and own sales under the Artimplant brand take place through agents and distributors. Further information about the Company's operations can be found in the Business Overview section on pages 8-11. The Parent Company has been listed since 1997 on NASDAQ OMX Stockholm and its stock is now traded 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® Spacer by Small Bone Innovations (SBI) continued to fall during 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® 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 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 covered by insurance.

Financial results

Net revenue amounted to SEK 18.5 million (24.0). Translated using the average USD exchange rate for 2010, net revenue for 2010 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 year. Direct sales via agents and sales to Artimplant's local distributors (termed own sales) were equivalent to 61% (37).

The gross margin for product sales for 2010 was 71% (74). Production volume for 2010 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 amounted to SEK 22.0 million (18.5). The figure was affected by a non-recurring cost of SEK 1.7 million related to staff cutbacks in August. The non-recurring cost refers to the remaining pay for staff who were not required to work their notice. This 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 was SEK 22.4 million (18.6), including a currency exchange rate fluctuation of SEK -0.4 million (-0.5). Earnings per stock unit were 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 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 2010 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 the utilization of 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 implement-

ed 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 underwriting fees 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 certain key ratios. By reason of the development of the Company's business and the new issue, renegotiation of the credit facility commenced during the fourth quarter. See also under Events after the period-end.

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 2010, total own sales increased to SEK 11.1 million (8.7). Artimplant's own sales in the USA more than doubled 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 in sales.

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 post-market 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 broader retrospective study in the USA, with a patient follow-up period of up to four years, is currently being compiled. 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 sales in Europe 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 continue although with a lower priority unless reported otherwise. The Company's products and product development projects are summarized in the Business Overview section on page 10.

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 look promising with regard to shoulder function and patient quality of life."

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

The Schulthess Clinic in Zurich is conducting a clinical pilot study to demonstrate pain relief in the treatment of osteoarthritis in the facet joints in the spine using an Artelon® implant. The patients will be followed up over a two-year period. The Schulthess Clinic commenced the study during the second quarter of 2009. All patients in the first part of the study have undergone surgery and were evaluated for six months. No complications have been reported in the study.

BOARD OF DIRECTORS' REPORT

A post-market study has been conducted by the Brånemark Clinic in Gothenburg on Artelon® 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® 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® 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®. During 2011, Artimplant will commence the development of a product for patients suffering from osteoarthritis of the knee.

In cooperation with Swedish veterinary experts, Artelon® has been used successfully in the treatment of cruciate ligament injuries in dogs. By using Artelon® as an artificial ligament (Artelon® 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® 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® Tissue Reinforcement (ATR), the Company has developed complementary ATR products.

Events after the period-end

Artimplant has commenced the launch of the complemen-

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

Organization and human resources

Artimplant is certified according to the quality management standard ISO 13485 for medical device products, and works systematically to improve the quality of both personnel and products. Human resource development takes place through regular appraisal discussions, in-house exchange of know-how, the development of skills and expertise as well as preventive health care. The Company works systematically to improve the working environment and fire protection and there was only one minor occupational injury during the year.

The number of employees as of December 31, 2010 was 25 (25), of whom 11 (13) were women and 14 (12) men. During 2010, four product specialists were newly employed at Artimplant USA, Inc. The remainder are employed by Artimplant AB. The Company has 6 (6) senior managers, of whom 2 (2) are women and 4 (4) are men. The staff turnover in 2010 was 16.0% (3.7). Absence due to illness was 2.5% (2.2) and of the total number of hours absent due to illness, 42.9% (-) referred to absenteeism due to illness longer than 60 days. The Board of Directors comprises 5 (5) persons, of whom 2 (2) are women and 3 (3) are men. Further information is available under Note 2.

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 progress.

Environmental impact

The Company's activities have only had a negligible impact on the environment. The Company complies with legislation and guidelines for those chemicals that are used in operations. Environmental permits have been secured for the use of organic solvents. The Company is also affiliated to the REPA Register for recycling of packaging materials.

Related party disclosure

The Company has not been involved in any transactions with related parties other than the remuneration and other benefits received by Directors and senior management reported in Note 2.

Lease agreement

The Company has one major operational lease with Platzer for premises for office, production and laboratory purposes in Västra Frölunda at Hulda Mellgrens gata 5. The lease came into effect on July 1, 2010 and runs until June 30, 2013. It will be renewed automatically in three years unless it is terminated at least nine months before the lease comes to an end.

As of the year-end, the Company had the following commitments under this agreement:

- Cost of premises that fall due within one year totaling KSEK 2,778.
- Cost of premises that fall due later than one year but within five years totaling KSEK 4,166.

Material future risks

The Company's operations are affected by a number of factors which in certain respects are either wholly or partly beyond the control of Artimplant. Below are a number of factors which are considered to be of specific significance to future development. The following list of risk factors does not claim to be complete. Further risks which are at present unknown to the Company could be of vital significance to the Company's operations.

Intellectual property rights

Artimplant's success is to a certain extent dependent on the ability of the Company to develop comprehensive patent protection for product candidates that offer commercial promise. Even if each application were to be drafted together with consultants with experience in this area there are no guarantees that the Company would be granted the patents for which it has applied or protect patents that have been granted.

Key persons

A knowledge-based company such as Artimplant is dependent on qualified leadership and expert employees. Even if the Company's key persons hold stocks and/or have employee stock options in the Company, there is always a risk that the Company's key persons leave, which could have a negative impact on the Company's potential to achieve commercial success.

Official clearance

The Company's sales presuppose regulatory clearance of the Company's products. The Company cannot guarantee that such clearances are granted or retained.

Competition

Artimplant's existing products have been commercially available for a relatively short period of time. These products, together with the Company's products that are being developed, are designed for indications where competing products already exist and/or where other companies could have new products that are being developed, which could result in a fall in the price level.

Market acceptance

Market acceptance of Artimplant's products depends on a number of factors. Artimplant's products include new technology that has not been used previously and which must compete with more established forms of treatment which are at present accepted as standard. The Company's products could require changes in established practice within the medical fraternity, which takes time. The Company cannot guarantee the outcome of any study. Reports regarding absence of effect or failed outcome in conjunction with the use of the Company's products could affect sales of Artimplant products.

Reimbursement systems

Different countries have different reimbursement systems for medical care and the products used within the medical care system. There is no guarantee that Artimplant will have its products included in the reimbursement systems in different countries. Changes in reimbursement systems, such as the current health reform in the USA, could have a negative impact on the Company's sales and product prices.

Licensees, distributors and agents

Part of the Company's strategy is to use licensees, distributors and agents to commercialize its products. Artimplant is therefore dependent, and will continue to be dependent, on these partners for the successful commercialization of its products. There is no guarantee that the companies with which Artimplant has entered into license, distribution or agency agreements will discharge their undertakings in accordance with such agreements.

Production risks

Sale of the Company's products is reliant on, among other things, Artimplant's capacity to manufacture products in commercial quantities, in accordance with regulatory

requirements and in a cost-effective manner. Even if the Company considers that it is in compliance with quality standards for medical technology products, it cannot be guaranteed that this is actually the case. Manufacturing is subject to inspections by special supervisory companies in order to ensure that the Company meets the requisite quality standards and there is no guarantee that a stated standard will always be satisfied in the future.

Product liability and insurances

Sales of medical technology products entail a risk of product liability claims. Even if Artimplant considers that the Company is in compliance with regulatory requirements, including requirements governing product use and reporting of any complaints regarding the Company's products, it cannot be guaranteed that this is actually the case. Even if Artimplant considers that official requirements are being complied with and that the product is functioning as intended, it cannot be excluded that the Company becomes the subject of claims. Artimplant considers that it has adequate insurance cover but there is no guarantee that all losses which the Company incurs are covered by the Company's insurance. Nor can it be guaranteed that the Company in the future will be granted suitable insurance cover, at an acceptable premium, that insurance cover can be secured at all or that product liability claims or other claims do not have a material negative impact on Artimplant's operations and financial position.

Small number of large customers

The Company has a small number of large customers. In the event that any of these customers were to change its purchasing pattern, Company sales could be affected negatively.

Exchange rate fluctuations

During 2010, around 91 per cent (78) of the Company's sales derived from the USA. Artimplant mainly has costs in SEK, which is the company's reporting currency. No derivatives were used during 2010. A weaker USD in relation to SEK could have a negative effect on the Company's reported sales.

Liquidity risk

It is essential for a growth company to have sufficient liquidity in order to be able to finance future expansion. If the Company's development deviates from the forecast development, it cannot be excluded that in the future a situation will arise where the Company must secure new capital. It cannot be guaranteed that such capital can be secured on terms and conditions that are advantageous to Artimplant. If the Company fails to secure necessary capital in the future, the Company's future operations could be affected negatively.

Disruptions

The Company has one production location and would thus have difficulty supplying products to its customers if a significant disruption were to occur, e.g. fire. Even if the Com-

pany were to compensate for this risk by storing part of its finished goods inventory outside the production site there would be no guarantee that a material disruption would not constitute a risk to the Company with regard to delivery of products promised to the customer.

The Company has not made any material provisions with regard to risk in the 2010 annual accounts.

Proposed distribution of unappropriated earnings

Losses brought forward from previous years have been covered by a reduction in the statutory reserve, in accordance with resolutions passed at Annual Meetings. The financial statements of the Company will be presented for adoption at the Annual Meeting on May 4, 2011. The Board of Directors proposes that the Parent Company's non-restricted equity of KSEK 5,462 be carried forward. The Board proposes that no dividend be paid for 2010.

Parent Company

The majority of 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 the provision 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 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 Parent Company Statements of Comprehensive Income and Statements of Financial Position on pages 28-31.

Corporate governance report 2010

Corporate governance at Artimplant is based on external control, which includes Swedish legislation, primarily the Swedish Companies Act, the Articles of Association, the NASDAQ OMX Stockholm AB rules and the rules and recommendations issued by relevant organizations. Artimplant applies the Swedish Corporate Governance Code ('the Code'). The Code is based on the principle of 'comply or explain'. This means that a company that applies the Code can deviate from individual rules although in doing so it must provide explanations with reasons for each reported deviation. Artimplant follows the Code's rules and reports the explanations in those cases where Artimplant has deviated from the rules laid down in the Code during 2010. During 2010, the Company complied with stock market rules and generally accepted stock market principles and was not the subject of criticism by the Stock Market Disciplinary Board or the Swedish Securities Council. The Articles of Association and information regarding annual meetings is available on the Group's website www.artimplant.com.

Internal control of the operative work at Artimplant is based on:

- Financial and qualitative objectives
- Budget and forecasts
- Monthly reports
- Policies adopted at the Annual Meeting and by the Board of Directors
- Organizational structure
- Job descriptions
- Processes and routines in the Company's management system

Deviations from the Code

In the following case and for the reasons given, Artimplant has deviated from the guidelines in the Code.

- 7.3 The number of members of the Audit Committee is two compared to the figure of three laid down in the Code. Because of the Group's minor financial complexity, with a parent company that carries on operations supplemented by a sales subsidiary, the Board of Directors is of the opinion that two persons can satisfactorily discharge the assignments delegated to the Audit Committee by the Board of Directors.

Stockholders and stock information

At the end of 2009, Artimplant had 7,225 stockholders according to the register kept by Euroclear. No stockholder represents at least one-tenth of the total number of votes. Artimplant's total number of stock units at the end of the year was 118,489,580, of which 575,000 are A stock units and 117,914,580 are B stock units. A stock units carry 10 votes each whilst B stock units carry one vote each. The total number of votes at the end of the year was 123,664,580. A stock units can in accordance with the Articles of Association be converted into B stock units. During 2010, 18,750 A stock units were converted into B stock units.

Trade in Artimplant stocks takes place at NASDAQ OMX Stockholm AB. Artimplant's market capitalization as of December 31, 2010 was approximately SEK 78 million. Information regarding Artimplant's stockholder structure, stock price development etc. are presented on pages 42-43.

The quota value of the stock unit is SEK 0.10. Series A and Series B stock units carry equal rights to the Company's assets and profit. There are no limits on how many votes each stockholder can cast at a stockholders' meeting. The Articles of Association or Swedish law do not contain any provisions that limit the transferability of the stock units and Artimplant is not aware of any agreements between stockholders that could limit transferability.

Apart from what is stated in Note 2, there are no agreements between Artimplant and directors or employees that stipulate payments should these give notice of termination of employment, be given notice of termination of employment without reason or if their employment ceases as a result of a public purchase offer for the stock units in Artimplant. The

same applies to other significant business agreements. Employees do not have any holdings in the Company through pension foundations or similar arrangements which could affect the employees' potential to exercise a voting right.

The Company has not held any of its own shares during 2010. Information about option programs that could lead to dilution can be found in Note 2 and further information about the stock capital can be found in Note 10.

Stockholders Meeting and Articles of Association

Control and development of Artimplant is governed by decisions made by a number of company bodies, of which the Stockholders Meeting is the supreme decision-making body. At the Stockholders Meeting, stockholders exercise their voting rights in accordance with Swedish company law and the Artimplant Articles of Association. According to the Articles of Association: "The Board of Directors, which is elected each year at the Annual Meeting for the period up to the end of the next Annual Meeting, shall comprise a minimum of four and a maximum of nine members as well as a maximum of five deputies." Otherwise there are no stipulations regarding appointment and discharge of board members. The Articles of Association also stipulate: "A summons to the Annual Stockholders Meeting and a summons to an extraordinary meeting of the stockholders, at which the matter of an amendment to the Articles of Association will be dealt with, must be issued no earlier than six weeks and no later than four weeks prior to the meeting". Otherwise there are no stipulations regarding amendments to the Articles of Association.

The Annual Meeting elects the Company's Board of Directors and auditor. It is also the duty of the Annual Meeting to, among other things, adopt the Company's financial statements, to decide on allocation of unappropriated earnings and to decide on discharge from liability for Directors and the President. The director's fee, the auditor's fee, guidelines for remuneration to the management team and possible stock issues are also decided at the Annual Meeting. The Board of Directors is not authorized to decide that the Company shall issue new stock units or acquire Company shares.

Annual Meeting 2010

At the Artimplant Annual Meeting held on May 4, 2010 in Västra Frölunda, 7.0% of the total number of stock units and 9.1% of the total number of votes in the Company were represented. The Board of Directors was present at the Annual Meeting. Also present were the President and CFO as well as the Company's auditor. Directors Ingemar Kihlström, Anna Malm Bernsten, Mats Lindquist and Wenche Rolfsen Sandsborg were re-elected. Håkan Johansson was elected to the Board. Ingemar Kihlström was also re-elected as Chairman of the Board.

The Annual Meeting adopted the proposal put forward by the Board that no dividend be paid and granted the Directors and the President discharge from liability for the 2009 financial year. The Annual Meeting also decided on remuneration to the Board of Directors.

BOARD OF DIRECTORS' REPORT



neration to the Board of Directors and approved the proposal presented by the Board of Directors regarding guidelines for remuneration to the management team. Minutes from the Annual Meeting are available at www.artimplant.com.

Extraordinary stockholders meeting 2010

At the Artimplant extraordinary stockholders meeting held on September 6, 2010 in Västra Frölunda, 5.6% of the shares were represented and 7.0% of the total number of votes in the Company. Present at the meeting were Ingemar Kihlström and Håkan Johansson from the Board of Directors. Also present were the CEO and the CFO as well as the Company's general counsel. It was decided unanimously at the meeting, in accordance with the proposed decision presented by the Board of Directors, to amend the Articles of Association and implement a new stock issue with option rights for the stockholders. The issue took place during September-October and increased the number of B stock units by 59,244,790 from 58,669,790 to 117,914 580. It generated net capital input for the Company of SEK 32.6 million.

Election Committee

At the 2010 Annual Meeting, it was decided that the Company's Chairman be appointed as a member of the Election Committee and that he be commissioned, in consultation with the Company's three largest stockholders in terms of votes as of September 30, 2010, to appoint a further three members. The Election Committee shall appoint a Chairman from within its number, who may not be the Chairman of the Board. If any of the three largest stockholders should waive their right to appoint a representative on the Election Committee, or if it is no longer one of the largest stockholders in terms of votes during the period through to the Annual Meeting in 2011, this right shall pass to the stockholder which, after these stockholders, has the largest holding in terms of votes. The majority of the members of the Election Committee shall not be members of the Board of Directors and neither the CEO nor another person from the management team shall sit on the Election Committee. The composition of the Election Committee shall be made public no later than six months prior to the Annual Meeting and which was published on the Company's website on November 2, 2010. The Chairman of the Board of Directors

shall during the fourth quarter convene a meeting of the Election Committee. It is the task of the Election Committee to present proposals for election of a Chairman for the Annual Meeting, the choice of chairman and other members of the Board of Directors, the choice of auditors as well as fees for the Board of Directors and the auditors. The Election Committee makes an evaluation of the Board of Directors and its work. Thereafter a proposal is drafted for a new Board of Directors, which is enclosed with the summons to the forthcoming Annual Meeting. The Election Committee prior to the Annual Meeting for 2010 comprises John Arnold from J&C Arnold Revocable Trusts, Anders Cedronius (Chairman), who is a founder and former CEO of Artimplant, Lars Peterson, who is a founder of Artimplant and Ingemar Kihlström who is Chairman of the Board of Artimplant AB. The Election Committee can be contacted through the Chairman of the Board Ingemar Kihlström on +46 (0)733 82 11 02. The Election Committee meets as necessary although at least once a year. During 2010 and the beginning of 2011 the Election Committee held one recorded meeting and had informal contact as necessary.

Annual Meeting 2011

The Annual Meeting will be held on May 4, 2011, at 5 pm, at the Company's head office, located at Hulda Mellgrens gata 5, 421 32 Västra Frölunda. Stockholders who have a matter they wish to be dealt with at the Annual Meeting can submit the proposal to the Company by e-mail to agm2011@artimplant.com or at the above address to Artimplant AB, Attn: Annual Meeting 2011. To ensure inclusion in the summons to the meeting and thus inclusion in the agenda, proposals must be received by the Company by March 11, 2011 at the latest.

Board of Directors and the work of the Board

During the Annual Meeting, the Board of Directors is the Company's supreme administrative body. The Board of Directors is responsible for the Company's organization and its management. The Board of Directors is also required to ensure that the organization with regard to accounting and asset management is subject to satisfactory control. The Board of Directors at Artimplant shall, according to the Articles of Association, comprise a minimum of four and a maximum of nine members as well as a maximum of five deputies. The members are elected each year for

BOARD OF DIRECTORS' REPORT

the period up to the end of the next Annual Meeting. None of the members of the Artimplant Board of Directors has an operative role in the Company. The Board of Directors, President and management team are presented in more detail on pages 44-45. It is the role of the Chairman of the Board to lead the work of the Board and to ensure that the Board discharges its assignments. The work of the Board of Directors for the year is based on the rules of procedure adopted at the statutory meeting. The rules of procedure govern, among other things, the number of Board meetings, which matters are to be dealt with and the internal allocation of responsibility between the members. Each year, the Board of Directors examines its own routines and evaluates the work of the President. The allocation of tasks between the members of the Board of Directors and the President, including which matters require a decision by the Board, are decided each year in the adopted instructions to the President. The Board of Directors held 15 board meetings during 2010, of which seven were telephone meetings and two through circulation of documents. Attendance at these meetings by the Board members is presented below.

	Attendance/total number of meetings
Ingemar Kihlström	15/15
Lennart Ribohn (Stepped down at the 2010 Annual Meeting)	8/8
Håkan Johansson* (Became a member at the 2010 Annual Meeting)	7/7
Wenche Rolfsen Sandsborg	14/15
Anna Malm Bernsten	15/15
Mats Lindquist	15/15

* Håkan Johansson was a co-opted director at a further four meetings during 2010 and thus attended 11 of the 15 meetings.

The Chairman of the Board and three of the directors have, in addition to work on the Board, attended meetings of either the Remuneration Committee or the Audit Committee. Delegation of responsibility and a decision-making right to its committees is laid down in the rules of procedure for the Board of Directors, which include the rules of procedure for each Committee. At present the Committees do not have any right to make decisions other than in matters which have been delegated explicitly by the Board of Directors. The matters dealt with at the Committee meetings are recorded in the minutes and reports are submitted at the following meeting of the Board of Directors. The work of the Board of Directors has, apart from customary budget and development issues, been marked by the new stock issue as well as the Company's focused strategy for own sales in the USA. The secretary at the Board meetings has been CFO Lars-Johan Cederbrant. At the 2010 Annual Meeting, it was decided that Director's fees shall remain unchanged and shall total SEK 840,000, to be divided as follows: SEK 280,000 to the Chairman of the Board, SEK 140,000 to each of the other members. In addition, it was decided that a separate fee should be paid to the Audit Committee to the amount of SEK 40,000 to the chairman of the Committee and SEK 20,000 to the members as well as a separate fee to the Remuneration Committee amounting to SEK 20,000

to the chairman of the Committee and SEK 10,000 to each of the members. Artimplant is in compliance with the NASDAQ OMX Stockholm AB listing agreement and the Code with regard to demands for independent directors. All Directors are independent.

Remuneration Committee

Artimplant's Remuneration Committee is appointed each year by the Board of Directors and during 2010 comprised directors Wenche Rolfsen Sandsborg (Chairwoman) and Ingemar Kihlström. During 2010, the Committee held two recorded meetings and in the interim had other contact as necessary. The Committee is a body within the Board of Directors of the Company and is charged with the task of preparing matters regarding remuneration and other terms and conditions of employment for the Company management and for formulating the guidelines for remuneration to the management team which the Board of Directors presents for a decision at the Annual Meeting.

	Attendance/total number of meetings
Wenche Rolfsen Sandsborg	2/2
Ingemar Kihlström	2/2

Audit Committee

Artimplant's Audit Committee is appointed each year by the Board of Directors and during 2010 comprised directors Lennart Ribohn (Chairman), replaced at the Annual Meeting by Håkan Johansson (Chairman), and Mats Lindquist.

The Committee is a body within the Company's Board of Directors and is charged, in accordance with the Companies Act, with the task of preparing on behalf of the Board matters relating to quality assurance of the Company's financial statements and maintaining continuous contact with the auditor to remain informed about the orientation and scope of the audit. The Committee shall assist the Board of Directors in these issues and present to the Board its observations, recommendations and proposals for actions and decisions. In addition, the Audit Committee lays down guidelines for services other than audit services which the Company can procure from the Company's auditor. The Committee is also charged with the task of evaluating the audit work and presenting this information to the Election Committee and to assist the Election Committee in producing proposals for an auditor and the fee for the audit work performed. During 2010, the Committee held three recorded meetings and also had other contact in the interim as necessary. The Audit Committee also held a meeting in February 2011 dealing with the audit of the final accounts for 2010. The Company's auditor attended all the meetings of the Audit Committee. Together with the Auditor, the Committee discussed and decided on the scope of the audit as well as the impartiality of the auditor.

	Attendance/total number of meetings
Lennart Ribohn	1/1
Håkan Johansson	2/2
Mats Lindquist	3/3

BOARD OF DIRECTORS' REPORT

Financial reporting

The Board of Directors monitors the quality of financial reporting through instructions to the President and the Audit Committee and through instructions for financial reporting to establish the requirements regarding the content of reports dealing with financial conditions which are presented on an ongoing basis to the Board of Directors. The Board of Directors is presented with and assures the financial reports as well as the Year-End Report and the Annual Report and has delegated to the management team the task of assuring press releases with a financial content as well as presentation material in conjunction with meetings with the media, stockholders and financial institutions.

External auditors

Auditors are as a rule appointed at the Annual Meeting every fourth year. The auditors are commissioned, on behalf of the stockholders, to examine the Company's financial statements and accounting records as well as the administration of the Board of Directors and the President.

At the 2010 Annual Meeting the auditing company Ernst & Young AB was reappointed as auditor for Artimplant. The lead auditor is authorized public accountant Björn Grundvall. He has been the Company's auditor since 2010 and does not hold any stocks in the Company. When Ernst & Young AB is engaged to provide services other than auditing services, this takes place in accordance with the rules decided by the Audit Committee governing approval of the nature and scope of the services as well as remuneration for the services provided. Artimplant is of the opinion that performance of these services has not jeopardized Ernst & Young's or Björn Grundvall's impartiality. It mainly involves more in-depth examinations of accounting issues and advice in conjunction with preparation of the tax return. Note 2 in the Annual Report contains an account of all payments to the auditors during the past two years. The Company's auditor has attended all the meetings of the Audit Committee and one meeting of the Board of Directors. In conjunction with the meeting of the Board of Directors, the auditor had a meeting with the Board where no representatives from the management team were present.

Stock/stock-related incentive programs

There are no outstanding stock or stock-related incentive programs for members of the Board of Directors. Incentive programs for Artimplant employees which are linked to the stock price are presented on page 42 and in Note 2.

President and the management team

The President is responsible for ensuring that the ongoing administration is handled in accordance with the guidelines and instructions issued by the Board of Directors. The President shall, through a satisfactory system of controls, assure himself that the Company is in compliance with statutory requirements, the rules of NASDAQ OMX Stockholm AB and the Code. The President shall also ensure that the Board of Directors receives documentation that is as factual, comprehensive and relevant as is necessary for the Board of Directors to reach fully informed decisions.

In addition, the President maintains an ongoing dialogue with the Chairman of the Board of Directors and keeps him informed of the development and financial position of the Company and the Group.

The President and other members of the management team have meetings on a continuous basis to examine the monthly results, update forecasts and plans and discuss interfunctional issues. Artimplant's management team comprises six persons. These are presented on page 45. The Board of Directors is responsible for ensuring that there is an efficient internal control and risk management system in place. The President has been delegated responsibility for creating good conditions for working with such issues. Both the management team and the staff on different levels in the Company have this responsibility within their respective areas. Authority and responsibility are defined in policies, guidelines and job descriptions.

Remuneration to the management team

The guidelines for remuneration to the management team were adopted at the 2010 Annual Meeting. These are presented below. The proposal prior to the Annual Meeting in 2011 is that the guidelines remain unchanged.

Artimplant shall offer terms and conditions that are in line with the market and which allow the Company to recruit and retain competent personnel. Payment to senior management shall comprise a fixed salary, variable remuneration, long-term incentive programs, pension and other customary benefits. Remuneration is based on the performance of the individual in relation to preset objectives, both for the individual and for the Company as a whole.

The fixed salary shall be in line with the market and as a rule it is reviewed once a year, taking into account the performance of the individual. The amount of the variable remuneration is based on the individual's level of responsibility and the fulfillment, in percentage terms, of established objectives. The Board of Directors shall set a ceiling each year on variable remuneration, which may not exceed 30 percentage points of the fixed salary.

Artimplant has introduced stock-based incentive programs aimed to promote the Company's long-term interests. The incentive programs comprise subscription options and employee stock options. The options have a term of five years. The Board of Directors does not propose any stock-based incentive program for 2011/2011.

The members of the senior management are entitled to pensions according to employment agreements or the ITP1 system or equivalent. The retirement age is stipulated in law.

The employment agreements for senior managers include rules regarding notice of termination of employment. According to these agreements, employment can normally cease at the request of the employee subject to a period of notice of 3-6 months and at the request of the Company subject to a period of notice of 3-12 months. In addition, the CEO is entitled to one month's notice and 18 months' sever-

BOARD OF DIRECTORS' REPORT

ance pay if the whole of the Company is sold or delisted. Apart from these stipulations, there are no agreements regarding severance pay for the senior managers.

The Board of Directors is entitled to deviate from the above guidelines if the Board of Directors feels that in an individual case there are specific reasons to justify such a course of action.

Report by the Board of Directors on internal control and risk management in respect of financial reporting for the 2010 financial year

The Board of Directors is responsible under the Swedish Companies Act and the Swedish Code of Corporate Governance ("the Code") for internal control. Artimplant organizes its internal control based on "Internal Control – Integrated Framework", launched in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO comprises five components, which are related to each other, and a number of objectives must be satisfied for each component:

- Follow-up
- Information and communication
- Control structure
- Risk assessment
- Control environment

The control environment is the component that forms the basis for the other components. Through policies, instruc-

tions and organizational structure, Artimplant has documented the division of responsibility throughout the whole of the Artimplant organization. This is reflected in the fact that policies and instructions, when applicable, are based on internationally accepted standards and/or best working practice. Policies and instructions are evaluated at least once a year. Artimplant has integrated risk assessment with the business processes, such as business planning. Within the control structure, Artimplant has documented critical financial processes and controls for the Parent Company and Artimplant USA, Inc. The financial processing control documentation is examined annually. Artimplant has an information and communication system and processes in place with the aim of ensuring complete and correct financial reporting. Accounting and reporting instructions are updated as necessary and are evaluated at least once a year.

Due to the Group's minor financial complexity, with a Parent Company that conducts operations supplemented by a sales subsidiary, Artimplant does not have a separate internal audit function for financial reporting. The need for an internal audit function is evaluated annually, normally in conjunction with an examination of the year-end accounts together with an external auditor. The internal control is carried out mainly by the Company's external auditors, by the Audit Committee and by the Group's CFO. The Board of Directors receives regular financial reports and the Group's financial position and development are discussed at each meeting. The Board of Directors examines all interim reports and the year-end report before these are published externally.

The undersigned hereby certify that the Consolidated Accounts and the Annual Report have been prepared in accordance with the International Financial Reporting Standards, IFRS, as adopted by the EU, as well as generally accepted accounting principles, and provide a fair picture of the Group's and the Parent Company's position and results and that the Board of Directors' Report provides a fair overview of the development of the Group's and the Parent Company's operations, position and results and also describes material risks and uncertainties facing the companies that form part of the Group.

Gothenburg February 15, 2011

Håkan Johansson
Director

Ingemar Kihlström
Chairman of the Board

Mats Lindquist
Director

Anna Malm Bernsten
Director

Wenche Rolfsen Sandsborg
Director

Hans Rosén
President

Our audit report was submitted on February 15, 2011
Ernst & Young AB

Björn Grundvall
Authorized Public Accountant

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME Amounts in KSEK

	Note 1	2010	2009
Net sales		18,466	23,998
Cost of goods and services sold		-4,024	-4,328
Gross profit		14,442	19,670
Other income		947	451
Research and development costs	2,3,6,7	-14,637	-14,995
Selling costs	2,3,6,7	-15,917	-17,049
Administrative costs	2,3,6,7	-5,831	-5,729
Other costs		-966	-861
Operating loss		-21,962	-18,513
Interest income and other financial income	4	155	311
Interest expense and other financial expense	4	-558	-431
Net financial items		-403	-120
Loss after financial items		-22,365	-18,633
Taxes	12	-	-
Loss for the year*		-22,365	-18,633
Loss attributable to the Parent Company's stockholders		-22,365	-18,633
Earnings per stock unit, SEK		-0.32	-0.31
Earnings per stock unit after dilution, SEK		-0.32	-0.31

* Same as the comprehensive income for the year.

CONSOLIDATED ALLOCATION OF NET SALES Amounts in KSEK

	2010	2009
Source of revenue		
Product sales to licensees	6,966	14,572
Product sales to end-customers and distributors	11,064	8,680
One-off and project milestone income	-	-
Contract product development and other sales	436	746
Total	18,466	23,998
Geographic areas		
North America	16,804	18,705
Europe	1,662	5,041
Other areas	-	252
Total	18,466	23,998

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Amounts in KSEK

ASSETS	Note 1	12/31/2010	12/31/2009
Capitalized product development costs	5	559	1,191
Patents and brand names	6	957	1,587
Total intangible fixed assets		1,516	2,778
Machinery and equipment	7	281	723
Total tangible fixed assets		281	723
Total fixed assets		1,797	3,501
Raw materials, semi-finished and finished goods		3,210	4,137
Total inventories etc.		3,210	4,137
Accounts receivable		1,794	2,946
Other receivables		916	1,014
Prepaid expenses and accrued income	9	2,297	3,286
Total current receivables		5,007	7,247
Cash and bank accounts		36,890	15,613
Total current assets		45,107	26,997
TOTAL ASSETS		46,904	30,498

STOCKHOLDERS' EQUITY & LIABILITIES	Note 1	12/31/2010	12/31/2009
Capital stock	10	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
Total equity		34,402	23,853
Provisions		12	65
Accounts payable		2,342	1,147
Other current interest-bearing liabilities		4,000	-
Other current liabilities		548	1,393
Accrued expenses and prepaid income	11	5,600	4,040
Total current liabilities		12,490	6,579
TOTAL STOCKHOLDERS' EQUITY & LIABILITIES		46,904	30,498
Pledged assets		8,000	None
Contingent liabilities		None	None

CONSOLIDATED CHANGES IN EQUITY Amounts in KSEK

Amounts in KSEK	Note 1	2010	2009
As of Jan 1		5,924	5,924
New stock issue		5,924	-
Total equity*		11,849	5,924
Other capital reserves as of Jan 1**		39,953	58,270
New stock issue		32,585	-
New stock issue costs		-5,869	-
Reduction		-13,282	-18,317
Total, other capital reserves		53,386	39,953
Other equity as of Jan 1		-22,024	-22,229
Reduction		13,282	18,317
Benefit, employee stock option		273	521
Loss for the period		-22,365	-18,633
Total, other equity		-30,834	-22,024
Total equity as of Dec 31		34,402	23,853

* See also under Stock and ownership.

** Other capital reserves have been reduced annually to cover the retained loss.
Total other capital reserves before issue costs amount to SEK 470 million.

CONSOLIDATED STATEMENT OF CASH FLOWS Amounts in KSEK

	Note 1	2010	2009
Operating activities			
Net loss after financial items		-22,365	-18,633
Adjustment for items not affecting cash flow	13	2,189	3,974
Cash flow from operating activities before changes in working capital		-20,176	-14,659
Cash flow from changes in working capital			
Changes in inventories etc.		928	589
Changes in receivables		2,240	-3,035
Changes in liabilities		1,910	1,576
Cash flow from operating activities		-15,098	-15,529
Investment activities			
Acquisition of intangible fixed assets		-226	-215
Acquisition of tangible fixed assets		-39	-25
Sale of tangible fixed assets		-	11
Cash flow from investment activities		-265	-229
Financing activities			
Loans		4,000	-
New stock issue		32,640	-
Cash flow from financing activities		36,640	-
Cash flow for the period		21,277	-15,758
Cash and cash equivalents at beginning of period*		15,613	31,371
Cash and cash equivalents at end of period*		36,890	15,613

* Cash and cash equivalents consist of cash on hand and at banks which are immediately available and which earn interest based on daily bank deposit rates as agreed with the Company's banks.

PARENT COMPANY INCOME STATEMENTS Amounts in KSEK

	Note 1	2010	2009
Net sales*		17,038	28,192
Cost of goods and services sold		-4,206	-4,554
Gross profit		12,832	23,638
Other income		3,398	2,151
Research and development costs	2,3,6,7	-14,637	-14,995
Selling costs*	2,3,6,7	-8,821	-12,203
Administrative costs	2,3,6,7	-5,831	-5,729
Other costs		-4,559	-3,345
Operating loss		-17,618	-10,483
Interest income and other financial income*	4	1,105	1,360
Interest expense and other financial expense	4	-1,751	-1,781
Impairment of receivables, subsidiary		-3,262	-2,898
Net financial items		-3,908	-3,319
Loss after financial items		-21,526	-13,802
Taxes	12	-	-
Loss for the year**		-21,526	-13,802

* Of the Parent Company's total income and purchases, 7,968 (8,400) of income and 0 (-) of purchases refer to intragroup transactions.

** Concurs with the comprehensive income for the year.

ALLOCATION OF PARENT COMPANY NET SALES Amounts in KSEK

	2010	2009
Source of revenue		
Product sales to licensees	6,966	14,572
Product sales to end-customers and distributors	8,209	11,524
One-off and project milestone income	-	-
Contract product development and other sales	1,863	2,096
Total	17,038	28,192
Geographic areas		
North America	15,376	22,899
Europe	1,662	5,041
Other areas	-	252
Total	17,038	28,192

PARENT COMPANY BALANCE SHEETS Amounts in KSEK

ASSETS	Note 1	12/31/2010	12/31/2009
Capitalized product development	5	559	1,191
Patents and brand names	6	957	1,587
Total intangible fixed assets		1,516	2,778
Machinery and equipment	7	270	715
Total tangible fixed assets		270	715
Stock and participation in subsidiaries	8	10	10
Receivables from subsidiaries		6,177	-
Total financial fixed assets		6,187	10
Total fixed assets		7,973	3,503
Raw materials, semi-finished and finished goods		2,870	3,825
Total inventories etc.		2,870	3,825
Accounts receivable		530	1,923
Receivables from subsidiaries		5,243	9,736
Other receivables		911	1,014
Prepaid expenses and accrued income	9	2,036	3,162
Total current receivables		8,720	15,835
Cash and bank accounts		35,853	15,020
Total current assets		47,443	34,680
TOTAL ASSETS		55,416	38,183

STOCKHOLDERS' EQUITY & LIABILITIES	Note 1	12/31/2010	12/31/2009
Capital stock	10	11,849	5,924
Statutory reserve		26,671	39,953
Total restricted equity		38,520	45,877
Retained earnings		26,988	521
Loss for the period		-21,526	-13,802
Total non-restricted equity/Accumulated loss		5,462	-13,,281
Total equity		43,982	32,596
Provisions		12	65
Accounts payable		2,288	1,103
Current interest-bearing liabilities		4,000	-
Other current liabilities		477	1,377
Accrued expenses and prepaid income	11	4,657	3,042
Total current liabilities		11,422	5,522
TOTAL STOCKHOLDERS' EQUITY & LIABILITIES		55,416	38,183
Pledged assets		8,000	None
Contingent liabilities		None	None

PARENT COMPANY CHANGES IN EQUITY Amounts in KSEK

CHANGES IN EQUITY	Note 1	2010	2009
Capital stock*			
Opening balance		5,924	5,924
New stock issue		5,924	-
Closing balance		11,849	5,924
Statutory reserve**			
Opening balance		39,953	58,270
Reduction in statutory reserve		-13,282	-18,317
Closing balance		26,671	39,953
Non-restricted equity**			
Opening balance		-13,281	-18,318
Reduction in statutory reserve		13,282	18,317
New stock issue		32,585	-
New stock issue costs		-5,869	-
Reclassification		-2	1
Benefit, employee stock option		273	521
Loss for the year		-21,526	-13,802
Closing balance		5,462	-13,281
Total equity		43,982	32,596

* See also under Stock and ownership.

** The statutory reserve has been reduced annually to cover the retained loss. Total other capital reserves/non-restricted equity before stock issue costs amount to SEK 470 million.

PARENT COMPANY CASH FLOW STATEMENTS Amounts in KSEK

	Note 1	2010	2009
Operating activities			
Net loss after financial items		-21,526	-13,802
Adjustment for items not affecting cash flow	13	5,443	6,866
Cash flow from operating activities before changes in working capital		-16,083	-6,936
Cash flow from changes in working capital			
Changes in inventories etc.		955	718
Changes in receivables		-2,324	-10,176
Changes in liabilities		1,900	793
Cash flow from operating activities		-15,552	-15,601
Investment activities			
Acquisition of intangible fixed assets		-226	-215
Acquisition of tangible fixed assets		-29	-25
Sale of tangible fixed assets		-	11
Cash flow from investment activities		-255	-229
Financing activities			
Loans		4,000	-
New stock issue		32,640	-
Cash flow from financing activities		36,640	-
Cash flow for the period		20,833	-15,830
Cash and cash equivalents at the beginning of the year*		15,020	30,850
Cash and cash equivalents at end of the year*		35,853	15,020

* Cash and cash equivalents consist of cash on hand and at banks which are immediately available and earn interest based on daily bank deposit rates as agreed with the Company's banks.

Note 1 Accounting principles

Applicable rules

This Annual Report was prepared in compliance with the Swedish Annual Accounts Act and the EU-approved IFRS and interpretations from IFRIC as well as RFR and UFR.

During the year, the Group introduced the following new and amended standards from IASB and statements from IFRIC with effect from January 1, 2010.

- IFRS 2, Stock-based Payment. Amendment. Intra-group stock related payments settled in cash (Approved by the EU on March 23, 2010, and applied to the financial year commencing January 1, 2010 or later)
- IFRS 3R, Business Combinations and IAS 27R Consolidated and Separate Financial Statements (Approved by the EU on June 3, 2009 and applied to the financial year commencing July 1, 2009 or later)
- IAS 39, Financial Instruments: Reporting and Measurement – Amendment. Items eligible for hedge accounting (Approved by the EU on September 15, 2009 and applied to the financial year commencing July 1, 2009 or later)
- IFRIC 12, Service Concession Arrangements (Approved by the EU on March 25, 2009 and applied to the financial year commencing April 1, 2009 or later)
- IFRIC 15, Agreement for the Construction of Real Estate (Approved by the EU on July 22, 2009 and applied to the financial year commencing January 1, 2010 or later)
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation. (Approved by the EU on June 4, 2009 and applied to the financial year commencing July 1, 2009 or later)
- IFRIC 17, Distribution of Non-Cash Assets to Owners (Approved by the EU on November 26, 2009 and applied to the financial year commencing November 1, 2009 or later)
- IFRIC 18, Transfers of Assets from Customers (Approved by the EU on November 27, 2009 and applied to the financial year commencing November 1, 2009 or later).

The application of these standards and interpretations did not have any effect on the Group's financial results or position.

The Parent Company applies as far as possible the same accounting principles as the Group, but with the exceptions and additions as specified in RFR 2.

Future changes in the rules

Artimplant has chosen not to apply any of the following updates/changes in IFRS in advance. The future application of the following standards and interpretations will not have any effect on the Group's financial results or position.

- IFRS 9, Financial Instruments: Recognition and Measurement (time schedule for approval by the EU not yet available)
- IAS 24, Related Party Disclosures. Amendment.
- IAS 32, Financial Instruments: Classification. Amendment. Classification of Rights Issues
- IFRIC 14, Limit on Defined Benefit Assets, Minimum Funding Requirements and Their Interaction. Amendment.
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments
- IFRS 7, Financial Instruments: Disclosures. Amendment.

Principles for consolidation

With effect from January 2006, the Group's final accounts include the Parent Company Artimplant AB (publ) and Artimplant USA, Inc., which is wholly owned by the Parent Company. The functional currency is SEK. Since 2008, the subsidiary's operations have been included as an extension of the Parent Company's operations. This means that the exchange effects that arise from translation of the subsidiary are shown as if they had taken place in the Parent Company. Intragroup receivables and liabilities, income or costs and unrealized gains or losses arising from intragroup transactions are eliminated in full when preparing the consolidated accounts.

Revenue recognition

Revenue derived from sales of products is recognized when material risks and benefits linked to those products have been transferred to the purchaser. Revenue related to services is recognized when a service has been performed or when agreed intermediate goals are achieved. Revenue relating to fees receivable under licensing agreements is recognized for the period in which the agreement is signed and all conditions and performance aspects have been met. License income from product sales is reported preliminarily by the licensee each month, at which point it is also taken up as revenue. According to the agreement with SBi, license income falls for final reporting and payment 30 days after the calendar quarter-end. Any adjustment of licensing income generated takes place in conjunction with the final report and payment by the licensee.

Employee remuneration

Pension plan

Artimplant only has premium-based pension plans. According to IAS 19, premiums are recognized in the quarter during which they are earned.

Stock-based remuneration

As of the closing date, the Company had five employee stock option programs and their value for the period, calculated according to IFRS 2, and social security contributions for the period according to statement UFR 7 from the Swedish Financial Reporting Council, are reported in the Statement of Comprehensive Income and Statement of Financial Position. To calculate the current value of the options as a basis for calculating the provision for social security costs, the interest rate on Swedish government bonds corresponding to the remaining duration of each option was used. Daily share price data was used to estimate volatility. Future social security contributions for employee stock options are hedged by allocating 25% of the total number of options for this purpose. See the description of the respective employee stock option programs in Note 2.

Segment reporting

Artimplant has commercial products at an early phase. The Company has in principle only one place of business, located in Gothenburg. New products are developed both in cooperation with partners and solely on the Company's own account. Costs are generated mainly by the Company's Gothenburg operations and are reported as R&D expenses, Sales expenses and Administrative expenses. Income is generated by granting licenses for product applications, sales of products and payments for product development projects, and may be geographically attributable to the Nordic countries, the rest of Europe or the

USA. Artimplant is dependent on regulatory clearance for the marketing of its products and technology. The Company's access to its most important market, the USA, depends on clearance from the United States Food and Drug Administration (FDA). Products must first receive CE certification before they can be marketed in Europe. As regulatory clearance plays a decisive role in the Company's risks and opportunities, net sales are reported by geographical segment. However, costs are incurred mainly in Sweden and are reported by function.

Risks and financial instruments

Receivables and liabilities in foreign currencies are valued at the exchange rate on the closing date and unrealized exchange rate gains and losses are recognized in the Statement of Comprehensive Income. The Company had one foreign subsidiary as of the closing date. Artimplant's policy for managing financial instruments is stated in the Company's investment and currency policies, which provide guidance for handling cash, liquidity and currency risk management, with the basic premise of minimizing financial risks. A large part of the Company's revenues are denominated in USD while most costs are denominated in SEK. The Company therefore exchanges income received in foreign currencies for SEK and only maintains holdings in foreign currencies to the extent considered necessary to cover costs incurred in those currencies over the next three months. The functional currency of the Company is SEK. To date, the Company has chosen not to make use of any derivatives.

Research and development costs

IAS 38 (Intangible assets) stipulates that companies analyze and distribute their research and development costs (R&D). Research costs are expensed as they are incurred, and up to 2006 product development costs were capitalized when it was assessed that they would in all probability produce future financial benefits. With effect from 2007, the Company does not capitalize product development costs as difficulty in predicting future revenue flows is an intrinsic part of operations. Depreciation according to plan on capitalized product development costs commences when the product in question begins to be sold commercially. Artimplant's product development takes place in project form. Project costs include salaries, cost of materials and other costs directly attributable to a specific project. As of January 2006, depreciation of capitalized product development costs is recorded as research and development costs instead of under cost of goods sold.

Receivables

Receivables are reported at the amounts expected to be recovered, as decided on a case-by-case basis. The risk of non-payment from Artimplant's customers is very low. Through to the closing date the Company did not have any significant bad debt losses.

Inventory

Inventory is carried at the lower of cost or fair value on the closing date. As of the closing date, none of the inventory was valued at fair value. Raw materials and purchased finished products are valued at cost. Products and processes and finished goods produced in-house are valued at the manufacturing cost. The manufacturing cost includes costs that are directly attributable costs, such as materials and salaries as well as relevant manufacturing overheads.

Non-current assets

Non-current assets are carried at cost following a deduction for accumulated depreciation according to plan. Depreciation according to plan is applied on a straight-line basis and is based on the assets' cost and assessed useful life. Patents and brand names, capitalized for product development costs and equipment, are depreciated or amortized over 5 years.

Impairments

IAS 36 (Impairment of assets) states that impairment should be recognized whenever the carrying value exceeds the recoverable value. On each closing date Artimplant assesses whether there is reason to assume that the value of an asset has decreased. If so, the Company calculates the recoverable value. Any impairment is charged to net profit for the period.

Provisions and contingent liabilities

Provisions are based on the estimate of the management of the expected outcome and they are reported in compliance with IAS 37.

Assessments and estimates

When preparing the annual accounts, the Board of Directors and senior management make several assessments and estimates that affect the disclosed amounts in the Statement of Financial Position and the revenues and expenses in the Statement of Comprehensive Income. These assumptions have been deemed reasonable under the current circumstances although the actual outcome may deviate if other assumptions are made or if other conditions are present. The following values are considered particularly sensitive to assumptions:

- Capitalized product development costs are checked by calculating the current value of expected future cash flows. These calculations are based on a number of assumptions about factors such as the competitive situation, acceptance of the product in the market, the discount rate etc. If conditions change substantially the calculations could lead to other values. As difficulty in predicting future revenue flows from development projects is intrinsic to the nature of the business the Company has not capitalized any further product development costs since January 2007.
- Calculated values and future social security costs for the employee stock option programs affect retained earnings and provisions in the Company's Statements of Financial Position. Assumptions about the remaining number of employees at the time of redemption, estimated volatility and risk-free interest have a considerable impact on calculated values.
- Assessments of how the risks presented under the preceding section, Material future risks, could affect the Company's financial position.

Note 2 Personnel and remuneration to the Board of Directors, senior management and auditors

Average number of employees	2010	2009
Women	13	14
Men	12	13
Total	25	27

At the year-end there were 25 employees (11 women, 14 men). Four are employed by Artimplant USA Inc. and the remainder by Artimplant AB.

Absenteeism due to illness	Men		Women		Total	
	2010	2009	2010	2009	2010	2009
<30 years	-	-	-	0.8	-	0.8
30-49 years	1.3	0.8	1.9	3.6	1.7	2.5
>50 years	0.4	1.1	14.9	3.3	4.3	1.7
All employees	0.8	0.9	3.9	3.6	2.5	2.2

Of the total number of hours absent due to illness, 42.9% referred to a period of absenteeism due to illness exceeding 60 calendar days.

Staff turnover, %	2010	2009
Women	15.7	7.2
Men	16.3	15.6
All employees	16.0	3.7

Definition of staff turnover: The lowest of the number of employees who joined or left during the period divided by the average number of employees during the period.

Remuneration and other benefits 2010	Basic salary/Director's fee*	Variable remuneration	Other benefits	Pension cost	Stock-related payment	Other remuneration	Total
Chairman of the Board Ingemar Kihlström*	290	-	-	-	-	-	290
Director, Anna Bernsten*	140	-	-	-	-	-	140
Director, Mats Lindquist*	160	-	-	-	-	-	160
Director, Lennart Ribohn*	90	-	-	-	-	-	90
Director, Wenche Rolfsen*	160	-	-	-	-	-	160
Director, Håkan Johansson*	90	-	-	-	-	-	90
CEO	1,378	82	-	419	94	-	1,972
Other senior managers (5)	2,996	124	-	523	117	187	3,946
Other personnel**	8,832	34	106	796	62	-	9,830
Social security costs, salaries and pensions**	4,048	75	-	494	-53	-	4,564

* Payment to the Board of Directors refers to the period January-December 2010 where payment was made to the amount of KSEK 280 to the Chairman and KSEK 140 to each of the other directors. The remaining remuneration refers to work in the audit and remuneration committees.

** Personnel costs at the subsidiary Artimplant USA, Inc. are included to the amount of KSEK 1,174.

Remuneration and other benefits 2009	Basic salary/Director's fee*	Variable remuneration	Other benefits	Pension cost	Stock-related payment	Other remuneration	Total
Chairman of the Board Ingemar Kihlström*	295	-	-	-	-	-	295
Director, Anna Bernsten*	140	-	-	-	-	-	140
Director, Mats Lindquist*	160	-	-	-	-	-	160
Director, Lennart Ribohn*	180	-	-	-	-	-	180
Director, Wenche Rolfsen*	155	-	-	-	-	-	155
CEO	1,342	110	-	410	160	-	2,022
Other senior managers (5)	2,911	46	-	414	193	250	3,814
Other personnel**	8,464	81	-	824	168	-	9,537
Social security costs, salaries and pensions*	4,244	73	-	400	45	-	4,761

* Payment to the Board of Directors refers to the period January-December 2009 where payment was made to the amount of KSEK 280 to the Chairman and KSEK 140 to each of the other directors. The remaining remuneration refers to work in the audit and remuneration committees.

** Personnel costs at the subsidiary Artimplant USA, Inc. are included to the amount of KSEK 1,080.

Employee stock options*	Option 2005-2010	Option 2006-2011	Option 2007-2012	Option 2008-2013	Option 2009-2014	Total	% of no of stock units*
CEO	210,000	110,000	110,000	112,500	112,500	655,000	0.7%
Other senior managers	270,000	115,000	150,000	180,000	156,000	871,000	0.9%
Other employees	120,000	112,500	130,000	157,500	181,500	701,500	0.8%
Provision for social security costs	200,000	112,500	130,000	150,000	150,000	742,500	0.8%
Total, approved options	800,000	450,000	520,000	600,000	600,000	2,970,000	3.2%
Outstanding options Jan 1, 2010	209,480	282,239	494,053	562,684	579,776	2,128,232	2.3%
Allocated during the period	-	-	-	-	-	-	-
Returned/unsubscribed	-	-40,838	-54,599	-124,185	-103,348	-322,970	-
Redeemed	-	-	-	-	-	-	-
Lapsed	-209,480	-	-	-	-	-209,480	-
Outstanding options, Dec 31, 2010	0	241,401	439,454	438,499	476,428	1,595,782	1.7%
Redemption price (SEK)	7.20	6.90	5.50	3.40	2.70	-	-
Increase in equity in the event of full subscription**	0	1,666	2,417	1,491	1,286	6,860	-

Comments:

* Shares per option recalculated at 1.28 and the redemption price, recalculated for the new stock issue in 2010.

** Amounts in KSEK. Other terms and conditions for the employee stock option programs are to be found in the Stock and ownership section.

Pensions

Artimplant only has a defined contribution pension plan. The pension cost refers to the cost that has been charged to the profit for the year. The pension premium for the CEO amounts to 35% of his salary. For other personnel at Artimplant AB pension premiums are in accordance with the ITP1 collective agreement. This means 4.5% of the salary up to KSEK 32 per month and 30% of the salary thereafter.

Severance pay etc.

The CEO is entitled to 12 months' notice from the Company. The Company is entitled to four months' notice from the CEO. During such periods of notice the CEO will be entitled to continue receiving his salary, pension rights and other remuneration. The CEO is entitled to one month's notice and 18 months' severance pay if the whole of the Company is sold or delisted.

Periods of notice for other senior managers are 3-6 months from the employee and 3-12 months from the Company.

Auditors' fees	2010	2009
Audit fees, elected auditor Ernst & Young AB	200	175
Other audit work, elected auditor Ernst & Young AB	43	108
Tax consulting	14	14
Other services	82	-
Other auditors (refers to subsidiary)	89	74
Total	427	371

Note 3 Depreciation and impairment of tangible and intangible fixed assets

	Group		Parent Company	
	2010	2009	2010	2009
Depreciation of tangible fixed assets according to plan, by function				
Research and development costs	437	566	437	566
Selling costs	16	30	10	24
Administrative costs	20	13	20	13
Total	474	610	468	603
Depreciation and impairment of intangible fixed assets according to plan, by function				
Research and development costs	1,362	2,480	1,362	2,480
Selling costs	24	22	24	22
Administrative costs	-	-	-	-
Total	1,386	2,501	1,386	2,501

Note 4 Financial income and expense

	Group		Parent Company	
	2010	2009	2010	2009
Interest income	104	123	118	180
Exchange gains	51	188	987	1,180
Total financial income	155	311	1,105	1,360
Interest expense	-190	-5	-190	-5
Exchange losses	-360	-419	-1,553	-1,768
Other financial expense	-8	-8	-8	-8
Total financial expense	-558	-431	-1,751	-1,718

Note 5 Capitalized product development costs

	12/31/2010	12/31/2009
Acquisition cost as of Jan 1	44,918	44,918
Capitalizations for the year	-	-
Acquisition cost as of Dec 31	44,918	44,918
Accumulated depreciation and impairments as of Jan 1	-43,728	-42,093
Impairments for the year	-591	-
Depreciation for the year according to plan	-40	-1,635
Accumulated depreciation and impairments as of Dec 31	-44,359	-43,728
Total carrying value	560	1,191

Capitalized product development costs	Odontology
Carrying value as of Jan 1	1,191
Capital expenditure for the year	-
Impairment	-591
Depreciation according to plan	-40
Carrying value as of Dec 31	560

Note 6 Patents and brand names

	12/31/2010	12/31/2009
Acquisition cost as of Jan 1	5,406	6,315
Capital expenditure for the year	226	215
Disposal, loss of patent protection, etc.	-120	-1,124
Acquisition cost as of Dec 31	5,512	5,406
Accumulated depreciation as of Jan 1	-3,819	-3,768
Depreciation for the year according to plan	-755	-866
Disposal, loss of patent protection, etc.	18	815
Accumulated depreciation as of Dec 31	-4,556	-3,819
Total carrying value	956	1,587

Note 7 Equipment

	Group		Parent Company	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Acquisition cost as of Jan 1	14,645	14,644	14,621	14,620
Purchases during the year	39	25	29	25
Sales and disposals during the year	-24	-24	-24	-24
Acquisition cost as of Dec 31	14,660	14,645	14,626	14,621
Accumulated depreciation as of Jan 1	-13,922	-13,337	-13,906	-13,327
Depreciation for the year according to plan	-474	-610	-468	-604
Sales/disposals during the year	17	24	17	24
Adjustment	-	1	1	-1
Accumulated depreciation as of Dec 31	-14,379	-13,922	-14,356	-13,906
Total carrying value	281	723	270	715

Note 8 Parent Company's stock and participations in Group companies

	12/31/2010	12/31/2009
Acquisition cost as of Jan 1	10	10
Acquisition cost as of Dec 31	10	10
Total carrying value	10	10

Specification of stock units and participations	Number of stock units/participations	Proportion	Carrying value
Artimplant USA, Inc., EIN 20-3865384*			
Registered domicile: Delaware, USA	1,500	100%	10
Office: Lansdale, Pennsylvania, USA			
Total carrying value			10

* The company commenced operations in January 2006. EIN corresponds to the Swedish corporate identity number.

Note 9 Prepaid expenses and accrued income

	Group		Parent Company	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Rent	700	755	700	755
Pension insurances	35	153	35	153
Patents	150	167	150	167
Accrued income	978	1,818	731	1,694
Miscellaneous	434	393	420	393
Total	2,297	3,286	2,036	3,162

Note 10 Stock

Changes in number of stock units	Quota value	No. of series A units*	No. of series B units*	Total no. of units	Total stock
Total as of Jan 1	0.1 SEK	593,750	58,651,040	59,244,790	5,924,479,kr
Conversion	0.1 SEK	-18,750	18,750	-	
Rights stock issue	0.1 SEK	-	59,244,790	59,244,790	5,924,479,kr
Total as of Dec 31	0.1 SEK	575,000	117,914,580	118,489,580	11,848,958

* Series A stock units carry 10 votes each, Series B stock units carry one vote each.

Number of stock units	2010	2009
Average number of stock units	69,118,922	59,244,790
Total stock units after dilution	120,532,181	61,346,566

Note 11 Accrued expenses and prepaid income

	Group		Parent Company	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Vacation liability and accrued salaries	2,255	1,778	2,043	1,778
Social security costs	1,500	559	1,500	559
Clinical costs	472	250	472	250
Prepaid income	-	32	-	32
Accrued sales commission	526	537	24	-
Consulting costs	204	434	204	19
Collective agreement pension and sickness insurances	159	-	159	-
Miscellaneous	484	449	255	404
Total	5,600	4,040	4,657	3,042

Note 12 Taxes

Accumulated loss deductions amounted to SEK 404 million in the Parent Company and USD 1.9 million equivalent to SEK 12.8 million in Artimplant USA, Inc. The Parent Company's accumulated loss deduction is not subject to any time limit for utilization. Artimplant USA, Inc.'s loss deduction of KUSD 193 falls due in 2026, of KUSD 467 in 2028, KUSD 561 in 2029 and KUSD 661 in 2030. No deferred tax receivable has been reported in compliance with IAS 12:35. It is anticipated that a deferred tax receivable will be reported once the Company has begun to generate consistent taxable surpluses.

Note 13 Adjustment for items not included in the cash flow

	Group		Parent Company	
	2010	2009	2010	2009
Impairment, receivable from subsidiary	-	-	3,262	2,898
Depreciation, accumulated product development	631	1,635	631	1,635
Depreciation, patents and brands	755	866	755	866
Depreciation, equipment	474	610	468	604
Benefits and provisions, employee stock options	219	566	219	566
Miscellaneous	110	297	108	297
Total	2,189	3,974	5,443	6,866

To the annual meeting of the shareholders of Artimplant AB Corporate identity number 556404 - 8394

We have audited the annual accounts, the consolidated accounts, except for the corporate governance statement on pages 18 – 22, the accounting records and the administration of the board of directors and the managing director of Artimplant AB for the financial year 2010. The annual accounts and the consolidated accounts of the company are included in the printed version of this document on pages 14 – 40. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. Our opinions do not cover the corporate governance statement on pages 18 – 22. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statement and balance sheet of the parent company, the statement of comprehensive income and financial position for the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the statutory administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

It is the board of directors and the managing director who is responsible for the corporate governance statement on pages 18 – 22 and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the corporate governance statement has been prepared and is consistent with other parts of the annual accounts and the consolidated accounts, we have read the corporate governance statement and assessed its statutory content based on our knowledge of the company.

A corporate governance statement has been prepared and its statutory content is consistent with other parts of the annual accounts and the consolidated accounts.

Göteborg, February 15, 2011

Ernst & Young AB

Björn Grundvall
Authorized Public Accountant

STOCK AND OWNERSHIP

Artimplant AB's Series B stock has been listed since 1997 on NASDAQ OMX Stockholm in the Small cap segment and in the Healthcare sector. Series A stock is not listed but can be converted to Series B stock. The number of stock units and votes are presented on the next page.

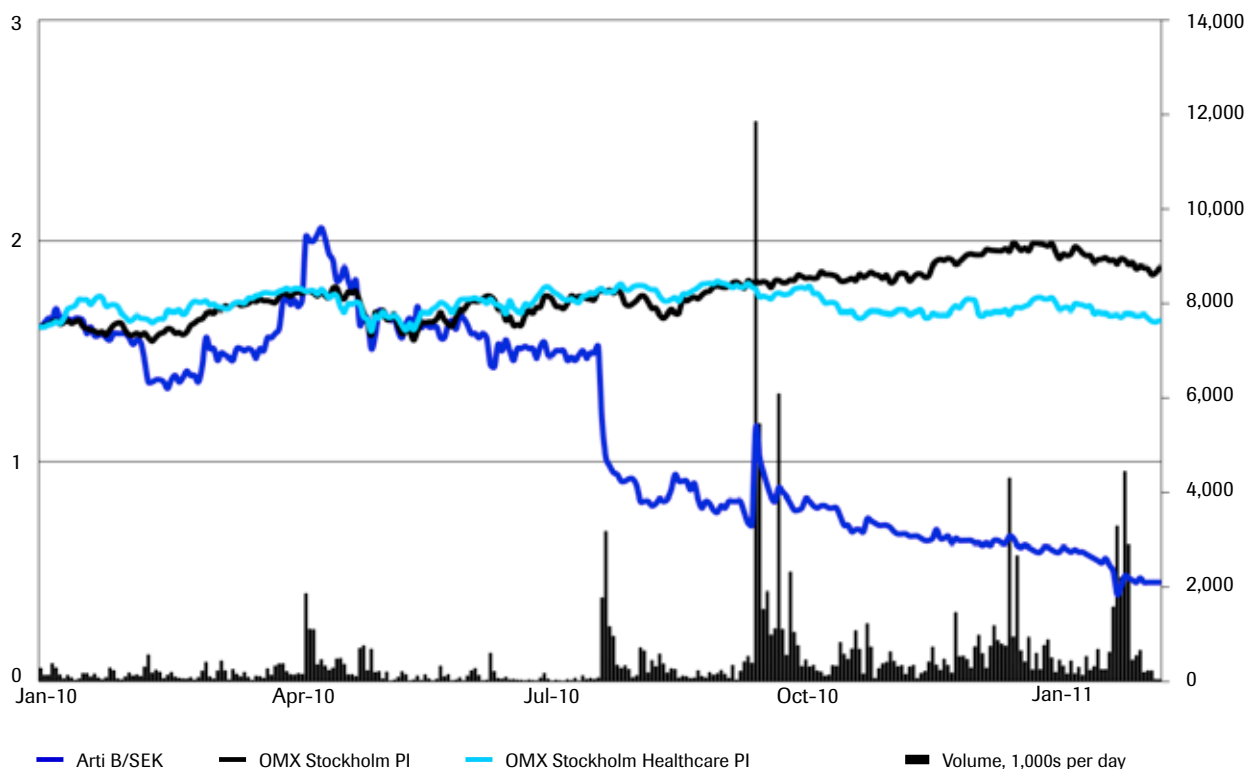
The closing price for Series B stock at the year-end was SEK 0.66. Stock price development during 2010 and at the beginning of 2011 is presented in the Development of stock price graph below. Artimplant's market capitalization as of December 31, 2010 was approximately SEK 78 million. Artimplant did not pay any dividend or repurchase any stock units during 2010.

The number of stockholders as of December 31, 2010 according to the stockholders register maintained by Euroclear Sweden AB was approximately 7,225. The largest stockholders are reported in the table, 10 largest stockholders as of December 31, 2010, on the next page.

As of the closing date, Artimplant had four employee stock option programs. The division between personnel categories, change in the number of outstanding options, redemption price, potential dilution and potential increase in equity in the event of full subscription is reported in Note 2. The main content of the terms and conditions of these programs is: Term 5 years and redemption can take place in years 3-5. The personnel must hold a certain number of stock units in Artimplant during the term of the program, otherwise the options are free of charge. An option carries entitlement to 1.28 stock units. Full terms and conditions for the option programs can be found on the Artimplant website under "Investors and media/Corporate governance/General stockholders meetings".

Further information about stockholders and stock units, e.g. quota value, limitations on transferability, entitlement to the Company's profit etc. can be found in the Board of Directors Report in the Stockholders and stock information section on page 19.

Development of stock price, Source: NASDAQ OMX



STOCK AND OWNERSHIP

10 largest stockholders as of December 31, 2010, Source: EUROCLEAR SWEDEN AB

Name	Series A	Series B	Capital (%)	Votes (%)
Nordnet Pensionsförsäkring AB	-	9,076,207	7.66	7.34
John & Claire Arnold Revocable Trusts	207,000	6,407,775	5.58	6.86
Lindberg, Per	-	5,916,665	4.99	4.78
Försäkringsaktiebolaget, Avanza Pension	-	5,279,485	4.46	4.27
Livförsäkringsaktiebolaget Skandia (Publ)	45,000	3,656,731	3.12	3.32
Cedronius, Anders	99,000	2,001,000	1.77	2.42
JP Morgan Bank	-	2,834,200	2.39	2.29
Kaunitz, Bo	-	2,000,000	1.69	1.62
Peterson, Lars (incl. family and company)	37,500	1,576,530	1.36	1.58
Handelsbanken Life & Pension Ltd.	-	1,432,000	1.21	1.16
Others (7,213)	186,500	77,733,987	65.77	64.36
Total	575,000	117,914,580	100	100

Number of stock units and votes

Category of stock unit	Number of stock units	Number of votes	Capital %	Votes %
Series A units	575,000	5,750,000	0.5	4.6
Series B units	117,914,580	117,914,580	99.5	95.4
Total	118,489,580	123,664,580	100	100

Issue History

Year	Activity	Price, SEK	Change in no. of stock units	Total no. of stock units	Increase in stock, SEK	Total stock, SEK
1990	Company founded		1,000	1,000	100,000	100,000
1995	Directed new issue	2,050	2,000	3,000	200,000	300,000
1996	Directed new issue	5,500	1,000	4,000	100,000	400,000
1997	Bonus issue 1:4		1,000	5,000	100,000	500,000
1997	Split 1000:1		4,995,000	5,000,000		500,000
1997	New issue	45	1,500,000	6,500,000	150,000	650,000
1999	Redemption, subscription options	16	1,750,000	8,250,000	175,000	825,000
2000	Directed new issue	143	1,000,000	9,250,000	100,000	925,000
2002	Directed new issue	3	10,000,000	19,250,000	1,000,000	1,925,000
2003	Option issue	3	4,681,018	23,931,018	468,102	2,393,102
2003	Option issue	4	11,965,509	35,896,527	1,196,551	3,589,653
2004	Directed new issue	4	3,600,000	39,496,527	360,000	3,949,653
2005	Option issue	4.50	19,748,263	59,244,790	1,974,826	5,924,479
2010	Conversion A => B			59,244,790		5,924,479
2010	Option issue	0.65	59,244,790	118,489,580	5,924,479	11,848,958

BOARD OF DIRECTORS



Ingemar Kihlström (1952)

Chairman of the Board since 2006. Director since 2003. Associate Professor at Uppsala University. Ingemar Kihlström has worked with preclinical and clinical research and business development at Astra AB and Pharmacia AB for more than fifteen years. He has 10 years' experience from the financial sector as a pharmaceutical analyst at companies such as Aros and ABG Sundal Collier. He is now an independent advisor to the biotech/medtech/pharmaceutical sector. Chairman of the Board of Recopharma AB, Creative Antibiotics AB and Hammercap AB, deputy chairman of the Board of DiaGenic ASA, director of Health Invest Partners AB, Kezzler AS, Miris AB, Medivir AB, Oxypharma AB and Respiratorius AB. Considered to be independent of the Company, management team and major stockholders in the Company.

Holding in Artimplant: Series B stock units 298,600. Options 0



Håkan Johansson (1955)

Director since 2010. MBA, University of Gothenburg School of Business, Economics and Law at Gothenburg University. Independent adviser. Senior partner at EQT Partners AB 1999-2009. During the period 1994-1999, Håkan Johansson worked in the Electrolux Group, first as head of Mergers & Acquisitions and then as CEO of Electrolux Wascator AB. Before his years at Electrolux he held a number of managerial positions within the Volvo below Group and he was the Group CFO during the period 1991-1994. Director of Stena Adactum AB, Volvo Technology Transfer AB and Cordovan Group AB. Considered to be independent of the Company, management team and major stockholders in the Company.

Holding in Artimplant: Series B stock units 2,000,000. Options 0



Mats Lindquist (1951)

Director since 2008. Degrees from Uppsala University in psychology and economics. Employed by the Chamber of Commerce in the County of Uppsala. Formerly Vice President, Corporate Development for the contract research company Quintiles Transnational Corp. During the period 1998-2005, Mats Lindquist was President of Quintiles AB's operations in the Nordic region and the Baltic countries. Prior to this he held a number of different managerial positions within the global and local pharmaceutical industry. Director of Biohausia AB. Considered to be independent of the Company, management team and major stockholders in the Company.

Holding in Artimplant: Series B stock units 60,000. Options 0



Anna Malm Bernsten (1961)

Director since 2007, deputy director since 2006. MScEng. She runs her own consultancy company in management and business development. Apart from experience in leading positions at GE Healthcare Life Sciences, Pharmacia, Assa Abloy, Medivir and Baxter Medical, she has also been president and CEO of Carmeda AB. Director of Biohausia AB, Cellavision AB, Fagerhult AB, Medivir AB and Nolato AB. Considered to be independent of the Company, management team and major stockholders in the Company.

Holding in Artimplant: Series B stock units 0. Options 0



Wenche Rolfsen Sandsborg (1952)

Director since 2007. PhD in pharmacy, Associate Professor and Adjunct Professor at Uppsala University. Wenche Rolfsen Sandsborg has 16 years' experience in leading positions within preclinical research and development at Pharmacia. She was responsible for the early clinical organization for Quintiles Europe and was president of Quintiles Scandinavia for a total of 11 years. Chairman of the Board of Aprea AB and Denator AB. Director of Biovitrum AB, Industrifonden AB, TFS AB and Aker Biomarine AS. Considered to be independent of the Company, management team and major stockholders in the Company.

Holding in Artimplant: Series B stock units 40,000. Options 0



Company's auditor

Ernst & Young AB

Björn Grundvall (1955).

Authorized Public Accountant

Auditor at Artimplant since 2010

MANAGEMENT TEAM



Hans Rosén (1960)

President.

MScEng, specializing in industrial economics. Employed at Artimplant since 2006. Former president of the listed company Diffchamb AB and has held leading positions in Neoventa and Chromogenix. Director of Vivolux AB.

Holdings in Artimplant: Series B stock units 140,000 (including family members). Employee stock options: 117,056, program 2006/2011; 110,000 program 2007/2012; 112,500; program 2008/2013; 112,500 program 2009/2014.



Lars-Johan Cederbrant (1971)

CFO

Employed at Artimplant since 2005. Member of Inventive Capital LLP's advisory board.

Holdings in Artimplant: Series B stock units 178,000. Employee stock options: 26,233 program 2006/2011; 44,799 program 2007/2012; 40,000 program 2008/2013; 44,000 program 2009/2014.



Kauko Haapasaari (1958)

Vice President, Sales and Marketing

Employed at Artimplant since 2007.

Holdings in Artimplant: Series B stock units 208,000. Employee stock options: 25,000 program 2007/2012; 40,000 program 2008/2013; 44,000 program 2009/2014.



Katrin Gisselfält (1969)

Vice President, Product Development. PhD.

Employed at Artimplant since 1995.

Holdings in Artimplant: Series B stock units 30,000. Employee stock options: 26,233 program 2006/2011; 44,799 program 2007/2012; 40,000 program 2008/2013; 44,000 program 2009/2014.



Maria Nyström (1964)

Vice President, Production

Employed at Artimplant since 2000.

Holdings in Artimplant: Series B stock units 9,000. Employee stock options: 29,779 program 2007/2012; 20,000 program 2008/2013; 24,000 program 2009/2014.



Bengt Furberg (1941)

Vice President, Medical Affairs. MD, PhD, Associate Professor.

Engaged by Artimplant since 2006. Director of IndDex Pharmaceuticals AB. Senior medical advisor for Bactiguard AB and a member of the scientific advisory board of LinkMed AB.

Holdings in Artimplant: Series B stock units 80,000. Employee stock options 0

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.

ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting will be held on May 4, 2011, at 5 pm, at the Company offices at the address below. The premises will be open for registration at 4 pm. Stockholders who wish to participate must register their participation with the Company no later than April 28, 2011 in one of the following ways:

- By e-mail to agm2011@artimplant.com
- By fax on +46 31-746 56 60
- By telephone on +46 31-746 56 00
- In writing to Artimplant AB, Annual Meeting 2011
Hulda Mellgrens gata 5, SE-421 32 Västra Frölunda,
Sweden

Notification should include details of name, civic registration number or company registration number, address, phone number and stockholding as recorded in the stockholders' register on April 28, 2011. To be entitled to vote at the Annual Meeting, stockholders' names must be recorded in the stockholders' register maintained by Euroclear Sweden AB. Stockholders whose shares are recorded in the names of nominees through a bank or similar institution must request to have their holdings temporarily re-registered in their own names in the register by April 28, 2011, in order to be entitled to participate at the meeting. Such notification

should take place well before that date. The Company will publish its Annual Report on its website and copies will be made available at its office.

The Board proposes that no dividend be paid for 2010.

For further information, please contact

Chief Executive Officer or Chief Financial Officer,
Tel. +46 31 746 56 00
investor.relations@artimplant.com

Forthcoming information

Three-month report	May 4, 2011
Annual Meeting	May 4, 2011
Six-month report	August 3, 2011
Nine-month report	November 1, 2011
Year-end report	February 9, 2012

Financial reports are published on the Company's website www.artimplant.com and are distributed to the media at the same time.



www.artimplant.com

Dear Colleagues,

The arthroscopic rotator cuff suture is today regarded as an established procedure. In most cases sufficient treatment of the rotator cuff no longer poses a problem for an experienced arthroscopist. Fundamental biomechanical studies have shown that with the various arthroscopic repair procedures, such as double- or triple-row sutures, transosseous procedures or single-row suture anchors, a sufficient contact surface between bone and tendon can be obtained, thus enabling the healing process. These good results have been confirmed through clinical studies.

Rotator cuff treatment has remained difficult in the presence of biological deficits. Irrespective of the surgical procedure, re-rupture rates in elderly patients, patients with massive rotator cuff tears or patients with already manifested re-rupture after primary suture of the rotator cuff are significantly higher. In the literature, re-rupture rates of up to 90% can be found in these instances!

The reason for the poor results achieved in this difficult patient population appears to reside in the underlying biological deficits of the tendon. There is without doubt enormous scope for improvement in tendon healing on the biological level. In addition to procedures such as stem cell, growth factor and enriched plasma substitution, the reinforcement of the biologically weakened tendon by means of extracellular matrices, also known as patches, offers a promising option.

As early as 2005, we started with the augmentation of biological grafts. Since 2008, we have also used the synthetic Artelon® Tissue Reinforcement (ATR) patch. In the last two years, a total of 40 tendons alone were augmented using ATR in biologically compromised initial conditions. Without exception, arthroscopy was used for the treatment. The open technique is not necessary in these cases.

We closely monitored all ATR-augmented patients through MRI follow-up examinations and other measures. There was no evidence of patch-associated complications, such as rejection or inflammatory reactions. Both from a clinical and an MRI viewpoint, massively reduced re-rupture rates were seen in comparison with the literature. The rates were found to be well below 20%. The results in terms of strength, pain reduction and function are very promising.

In the light of these highly promising findings, we are convinced that arthroscopic patch augmentation in biologically deficient initial situations certainly represents a feasible alternative. Studies over an extended period of time will show whether our approach is justified as medium- and long-term results become available.

Best regards,
Dr. Jan Leuzinger, MD

