



FIRST NINE MONTHS 2005

- Net revenue of 1.8 MSEK (1.1 MSEK)
- Net profit of -30.2 MSEK (-22.4 MSEK)
- Earnings per share of -0.61 SEK (-0.59 SEK)
- Artelon® is successfully applied as carrier for hyaluronic acid
- New study shows that Artelon® works as a dermal filler
- Electrospinning of Artelon® expands the opportunities for Artimplant within nanotechnology
- CE-mark for two new products within odontology

EVENTS AFTER THE PERIOD

- Four new development and license agreements signed with Small Bone Innovations
- Artelon® Surgical Suture receives CE-mark and clearance for marketing in the USA
- Artelon® electrospun nanofibres successfully used as coating on metal implants
- Distribution agreement for Artelon® Surgical Suture signed with ArthroCare Corporation

I N T E R I M R E P O R T

1 J A N U A R Y - 3 0 S E P T E M B E R 2 0 0 5

Upcoming information events:

Annual accounts 2005:	17 February 2006
Interim report Jan-Mar 2006:	3 May 2006
Shareholders annual general meeting:	3 May 2006
Interim report Jan-Jun 2006:	8 August 2006
Interim report Jan-Sep 2006:	9 November 2006

Financial reports are available at www.artimplant.com simultaneously as distributed to the media. For information regarding business model, technology and products see Artimplant's annual report 2004, which is available at the Company's website.

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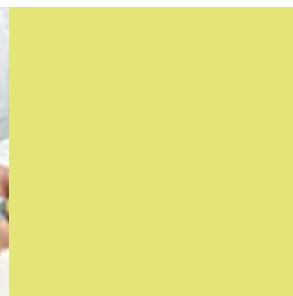
Artimplant

Artimplant is a biomaterials company focused on solutions to problems in orthopedic, odontological and reconstructive surgery. The Company is engaged in the development, production and marketing of degradable implants designed to restore active lifestyles and improve quality of life. The proprietary technology Artelon®, a long-term degradable biomaterial, offers new solutions to unmet clinical needs and opens new markets.

Artimplant's business model is that of licensing its products and technology to global partners. The Company currently has six licensing agreements with two global partners.

Artimplant is a public company, listed on the Stockholm Stock Exchange, O-list.

Nota Bene: This report is a translation from Swedish. Should there be any discrepancies the Swedish original should always take precedence.



Mission

Artimplant's mission is to develop, produce and market implants based on the biomaterial Artelon® that meet the needs of patients, physicians and healthcare providers in orthopedics and other therapy areas.

Vision

Artimplant's vision is to become the partner of choice in biomaterials for hard and soft tissue repair in multiple therapy areas.

Interim report 1 January – 30 September 2005

Artimplant's result 1 January – 30 September 2005

The net revenue during the period, 1.8 MSEK (1.1 MSEK), consists of product sales, development contributions and license fees. Half of the revenue, 0.9 MSEK (0 MSEK), was generated by approved products. Product revenue during the period is mainly attributable to the Artelon® Spacer for treatment of thumb base osteoarthritis, which during the upcoming months will be complemented by revenue from recently approved odontology and suture products. Operating result during the period of -31.0 MSEK (-23.4 MSEK), including depreciation of capitalized R&D costs of 4.5 MSEK (1.6 MSEK). Increased activity within all functions increased the cost level compared to last year. The net result amounted -30.2 MSEK (-22.4 MSEK). Earnings per share amounted -0.61 SEK (-0.59 SEK). The premium reserve has during the third quarter 2005 increased by 559 thousand SEK, attributable to VAT refund from share issues 2002-2004.

Recent developments of Artelon®

The biomaterial Artelon® is a patented degradable polyurethaneurea, which provides long term support to healing body tissue. The excellent biocompatibility of the material in both soft and hard tissue has been demonstrated in several clinical applications.

During the third quarter the Company continued the development of additional applications for its biomaterial Artelon®. According to a dissertation by Dr. Fredrik Huss at Linköping University, Sweden, it seems as the biomaterial could act as dermal filler for reconstructive surgery of skin (dermis). An in vitro study showed that fibroblasts (soft tissue cells) divided and migrated into the porous Artelon® material.

Moreover, Artelon® was successfully applied as carrier for hyaluronic acid in a soft tissue application. The results from the implantation study in an animal model showed that Artelon® had a high degree of biocompatibility, tissue ingrowth and formation of new vessels. The combination of Artelon® and hyaluronic acid resulted in a somewhat faster tissue ingrowth and formation of new vessels compared to control Artelon®.

Other applications in soft tissue engineering and reconstruction can be explored by utilizing novel electrospinning nanotechnology of Artelon®, which was developed in collaboration with IFP Research, associate Pernilla Walkenström, and Chalmers University of Technology, Professor Paul Gatenholm. The first test application of electrospun Artelon® is as coat of metal implants, with very promising results, albeit in early stage. All the progress within plastic and reconstructive applications broadens the possibility for finding global partners within this field.

CE approval of two odontology products

The CE approvals within odontology is the first step in a strategic broadening of the company's product portfolio in order to further exploit the potential in the Artelon® material platform. For the first time, a scaffold made of Artelon® - a highly porous form of Artelon® that resembles foam - is granted regulatory approval. Artelon® Membrane is used to facilitate the creation of bone in a bone void or defect by preventing ingrowth of soft tissue in the defect. The membrane can also be used to cover and keep different kinds of bone void fillers in place in the defect. Artelon® Bone Scaffold is a soft and highly porous cylinder that easily can be cut to fit the patients bone defect. The product acts as a scaffold for the body's own cells to facilitate the formation of new bone. Most bone substitutes

available on the market today are made of hard and brittle biomaterials and often come in blocks or particles. With a new soft, safe, synthetic and degradable bone void filler, new possibilities open up to treat patients with bone defects

Investments and cash position

The investments during the period totalled 2.0 MSEK (3.2), whereof 1.7 MSEK (2.7) was attributable to investments in intangible fixed assets. At the end of the period cash and cash equivalents amounted 108.8 MSEK (55.1).

Personnel

Susanne Hamilton was employed as product manager odontology and Lars-Johan Cederbrant as chief financial officer. The number of employees per September 30, 2005 was, 27 (27).

Events after the period

Four new development and license agreements with Small Bone Innovations expand Artimplant's presence in the small bones and joints market. The success of the Artelon® Spacer CMC-I implant for treatment of thumb base osteoarthritis has led to a broader spacer concept for small joints with products for other joints in the hand, wrist and foot. An arthroscopic (minimally invasive) version of the CMC-I implant is also included in the new agreements. One time payments from those agreements will positively affect the fourth quarter.

The Company received CE-mark and clearance for marketing Artelon® Surgical Suture in the USA. Artelon® Surgical Suture has a significantly longer degradation time compared to absorbable sutures currently on the market. In high demand clinical situations such as patients with slowly healing tissue or tissue exposed to high mechanical load, surgeons often use non-absorbable sutures, since the current absorbable sutures degrade too fast. These non-absorbable sutures frequently need to be removed at a second surgery. In situations like these, the unique properties of Artelon® offer new therapeutic advantages.

Artelon® nanofibers were successfully used as coating on metal implants. Percutaneous implants, i.e. implants going through the skin, are widely used in applications like fracture fixation, anchorage of hearing aids and other prostheses. They offer great value to the patient but a common clinical problem is infections around the skin-penetrating part of the metal implant. Complications like these often require local or systemic treatment with antibiotics and may in more severe cases result in failure of the entire implant. As a first step to address this unmet clinical need, electrospun Artelon® nanofibers have successfully been used to coat metal implants. This is the first time Artelon® has been combined with metal implants. By using an Artelon® coat, the skin surrounding the metal implant will have the possibility to grow in to the Artelon® coating, and by that obtaining continuity between the metal implant and surrounding skin.

In early November, a distribution agreement for Artelon® Surgical Suture was signed with ArthroCare Corporation. The new non-exclusive distribution agreement for North America covers present sizes of Artelon® Surgical Suture and is the first of its kind for the Company. ArthroCare will sell the product through its distribution channels, generating sales of finished products for Artimplant.

Income statement amounts in SEK thousands

INCOME STATEMENT	2005 Jul-Sep	2005 Jan-Sep	2004 Jul-Sep	2004 Jan-Sep	2004 Jan-Dec
Net sales	478	1 797	37	1 059	4 804
Cost of goods & services sold ¹⁾	-1 557	-4 961	-1 715	-2 737	-4 748
Gross profit/loss	-1 079	-3 164	-1 678	-1 678	56
Research and development costs ²⁾	-4 973	-14 189	-4 276	-10 999	-28 305
Marketing costs	-2 773	-7 165	-1 988	-5 848	-8 250
Administrative costs	-2 360	-6 523	-1 449	-4 863	-6 777
Operating loss	-11 185	-31 041	-9 391	-23 388	-43 276
Interest income and other financial income	421	840	272	986	1 228
Interest expenses and other financial expenses	-2	-13	-21	-26	-33
Net financial items	419	827	251	960	1 195
Loss after financial items	-10 766	-30 214	-9 140	-22 428	-42 081
Taxes	-	-	-	-	-
Loss for the period	-10 766	-30 214	-9 140	-22 428	-42 081

Note: The income statements include depreciation on tangible and amortization on intangible assets

¹⁾ Capitalized R&D cost's*	1 513	4 539	1 640	1 640	3 827
²⁾ Patents	286	781	290	825	1 132
Machinery and equipment	329	955	550	1 593	2 147
Total depreciation	2 128	6 275	2 480	4 058	7 106

* Amortization of ACL commenced in Q3 2004 and of Spacer in Q4 2004. Remaining amortization for ACL amounts to 3.75 years, and for Spacer 4.0 years remain.

Key ratios

KEY RATIOS	2005 Jan-Sep	2004 Jan-Sep	2004 Jan-Dec
Earnings per share, SEK	-0.61	-0.59	-1.12
Earnings per share after full dilution SEK	-0.61	-0.59	-1.12
Equity per share, SEK	2.33	2.62	2.13
Equity per share after full dilution SEK	2.33	2.62	2.13
No. of shares at end of period	59 244 790	39 496 527	39 496 527
Average no. of shares	49 370 659	37 696 527	37 696 527
No. of shares after full dilution	61 378 130	40 829 867	40 829 867
Return on equity, %	neg	neg	neg
Return on capital employed, %	neg	neg	neg
Equity/assets ratio, %	94	93	91

Allocation of net sales amounts in SEK thousands

ALLOCATION OF NET SALES	2005 Jan-Sep	2004 Jan-Sep	2004 Jan-Dec
Source of revenue			
Licensing of product applications	129	0	3 351
Product sales	829	0	453
Milestone payments for product development projects	839	1 059	1 000
	1 797	1 059	4 804
Geographic areas			
Scandinavia	301	1 059	1 283
USA	1 496	0	3 521
	1 797	1 059	4 804

Balance sheet amounts in SEK thousands

BALANCE SHEET	Sep 30 2005	Sep 30 2004	Dec 31 2004
ASSETS			
Capitalized product development	29 125	46 298	32 414
Patents	1 714	2 168	2 016
Total intangible fixed assets	30 839	48 466	34 430
Machinery and equipment	1 022	2 138	1 699
Total tangible fixed assets	1 022	2 138	1 699
Stock and participation in subsidiaries	1 807	1 807	1 807
Total financial fixed assets	1 807	1 807	1 807
Total fixed assets	33 667	52 411	37 936
Raw materials, semimanufactures and finished goods	778	56	292
Total inventories etc	778	56	292
Accounts receivable	297	47	414
Other receivables	1 671	1 322	792
Prepaid expenses and accrued income	2 011	2 339	1 293
Total short-term receivables	3 979	3 708	2 499
Cash and bank accounts	108 811	55 081	51 277
Total current assets	113 567	58 845	54 068
TOTAL ASSETS	147 234	111 256	92 003

Balance sheet amounts in SEK thousands

BALANCE SHEET	Sep 30 2005	Sep 30 2004	Dec 31 2004
SHAREHOLDERS' EQUITY & LIABILITIES			
Share capital	5 924	3 950	3 950
Premium reserve*	162 618	121 820	122 070
Total restricted equity	168 542	125 770	126 020
Retained losses	-	-	-
Loss for the period	-30 214	-22 428	-42 081
Total retained loss	-30 214	-22 428	-42 081
Total equity	138 328	103 342	83 939
Accounts payable	2 087	2 150	2 007
Liabilities, subsidiaries	1 738	1 844	1 793
Other current liabilities	516	1 358	731
Accrued expenses and prepaid income	4 565	2 562	3 534
Total current liabilities	8 906	7 914	8 065
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES	147 234	111 256	92 003

CHANGES IN SHAREHOLDER'S EQUITY DURING THE PERIOD	2005 Jan-Sep	2004 Jan-Sep	2004 Jan-Dec
Equity at beginning of the period	83 939	111 370	111 370
Share issue*	84 603	14 400	14 650
Loss for the period	-30 214	-22 428	-42 081
Equity at end of the period	138 328	103 342	83 939

* Includes 559 thousand SEK of VAT refund from the third quarter 2005, attributable to share issues from 2002-2004.

Cash-flow analysis

CASH-FLOW ANALYSIS	2005 Jan-Sep	2004 Jan-Sep	2004 Jan-Dec
Operating activities			
Net loss after financial items	-30 214	-22 428	-42 081
Adjustment for non-cash items not effecting cash flow	6 275	4 058	19 226
Taxes paid	-	-	-
Cash flow from operating activities before changes in working capital	-23 939	-18 370	-22 855
Cash flow from changes in working capital			
Changes in inventories	-486	79	-157
Changes in receivables	-1 480	-871	337
Changes in liabilities	841	-4 892	-4 741
Cash flow from operating activities	-25 062	-24 054	-27 416
Investing activities			
Acquisition of intangible fixed assets	-1 729	-2 680	-3 256
Acquisition of tangible fixed assets	-277	-536	-651
Cash flow from investing activities	-2 006	-3 215	-3 907
Financing activities			
Share issue	84 603	14 400	14 650
Cash flow from financing activities	84 603	14 400	14 650
Cash flow for the period	57 534	-12 870	-16 673
Liquid funds at beginning of period	51 277	67 950	67 950
Liquid funds at end of period	108 811	55 081	51 277

International accounting and financial reporting standards

Artimplant does, as of January 1, 2005, apply IFRS with the exceptions and additions to IFRS/IAS listed in RR 32 – Accounting for legal entities. Accounting according to these rules have not led to any material changes compared to previously applied accounting principles. This interim report has been prepared in accordance with IAS 34.

Gothenburg November 10, 2005
Artimplant AB (publ)

This interim report has not been reviewed by Artimplant's auditors.

The Board of directors

History

1997

The Company acquires a Swedish patent in respect of Artelon® hydrolyzable fiber polymers for use in temporary implants. New share issue raises MSEK 67,5 less costs and the Company is introduced on the Stockholm Stock Exchange. First cruciate ligament operations on human patients using implants from Artimplant carried out within the framework of a pilot study.

1998

The Company acquires Gothenburg Medical Center, a hospital specializing in sports-related injuries.

1999

Pilot studies in treatment of damaged thumb ligament and arthritis of the thumb initiated. Artimplant's first multicenter trial in ACL reconstruction begins. The Company begins cooperation with Mölnlycke Health Care AB in the field of wound care.

2000

Operations in first multicenter trial in ACL reconstruction concluded. Operations in the second multicenter trial begin. Directed new share issue, first and foremost in favour of overseas corporate investors, raises MSEK 143 less costs. Artimplant's Artelon® patent is recognized in the USA and Europe.

2001

The Company's quality assurance system is granted certification by Lloyds Register Quality Assurance. Artimplant's first product, the Artelon® ACL Augmentation Device, gains CE certification, and can now be marketed in Europe.

2002

The strategy for commercialization of the Company is changed. Products and materials technology are to be commercialized by the granting of licenses to leading partners with global presence and strong brand names.

Licensing agreement on wound care signed with Mölnlycke Health Care AB. Tord Lendau takes over as CEO in October. The Company undertakes wide-ranging measures designed to reduce overheads and put in place a more efficient organization matched to its new strategy. Directed new share issue raises MSEK 30 less costs.

2003

The Company implemented its new strategy and reduced its overheads by more than fifty percent. Its focus is now on licensing its technology, product development and creation of a balanced product development portfolio. Artimplant reinforces its biological angle of attack by pre-clinical studies in which a porous matrix is tested as a scaffold for proteins, growth factors and stem cells. The Company signs an agreement with Atlantech for trial sales in the UK of its Artelon® ACL Augmentation Device. Artelon® Spacer CMC-I for treating arthritis of the thumb is granted CE certification. Artelon® Surgical Suture was cleared by the FDA. New share issues in March and December raise some MSEK 62 less costs. Gothenburg Medical Center is divested.

2004

Artelon® Spacer CMC-I was cleared by the FDA. Artimplant signed an exclusive distribution agreement with Avanta Orthopaedics (now owned by Small Bone Innovations) for sales of Artelon® Spacer CMC-I. Artimplant and Biomet Inc. signed a development and license agreement regarding a product for damaged soft tissue. In December, Avanta Orthopaedics received the first shipment of Artelon® Spacer CMC-I. The Artelon® Surgical Suture was granted approval for marketing in Europe through CE-mark. Several products earlier granted approval for marketing in Europe received approval for extended indications. Trial sales of Artelon® ACL Augmentation Device in the UK completed. Cooperation between Artimplant and Mölnlycke Health Care on the development and licensing of wound care products using Artelon® ended.