



#### FIRST SIX MONTHS 2005

- Net revenue of 1.3 MSEK (1.0 MSEK)
- Net profit of -19.4 MSEK (-13.3 MSEK)
- Earnings per share of -0.39 SEK (-0.35 SEK)
- Artimplant raised 89 MSEK through an oversubscribed share issue

#### EVENTS AFTER THE PERIOD

- Artimplant strengthened its commercial base through CE-mark of two new products within odontology and craniomaxillofacial surgery (surgery of cranial and facial bone tissue)
- Lars-Johan Cederbrant was employed as CFO

# Upcoming information events:

Interim report Jan-Sep 2005:	10 november 2005
Release of year end results 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](http://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 site.

#### Additional information:

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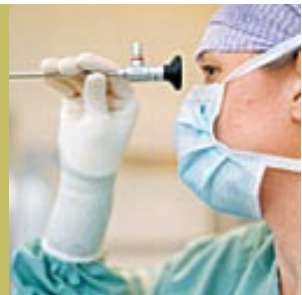
## Artimplant

Artimplant is a biomaterials company focusing 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. Artimplant's proprietary technology Artelon® 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 two licensing agreements with global partners.

Artimplant is 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.



## Business concepts

Artimplant's mission is to develop novel biodegradable materials and implants that meet the needs of patients, physicians and healthcare providers in orthopedics and other therapy areas. The company works together with global partners as a center of excellence in this development.

## 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 june 2005

## Artimplant's result January – June 2005

The net revenue during the period, 1.3 MSEK (1.0 MSEK), consists of license fees and product sales. Operating result during the period of -19.9 MSEK (-14.0 MSEK), including amortization of capitalized R&D costs of 3.0 MSEK. The net result was -19.4 MSEK (-13.3 MSEK). Earnings per share was -0.39 SEK (-0.35 SEK). The result decrease compared to same period last year is mainly attributable to increased costs in R&D and one time costs for the share issue.

Small Bone Innovations, owner of Avanta Orthopaedics, did during March 2005 initiate the launch of Artelon® Spacer CMC-I in the USA. The launch took place at the orthopedic conference AAOS in Washington DC there after that training of sales reps and regional managers has been conducted. Sales run rate is expected to increase during the fall of 2005. Artimplant's development and license agreement with Biomet Inc. regarding a product for damaged soft tissue proceeds according to plan.

## Funding

During the second quarter the Company completed a share issue, which was oversubscribed 1.5 times. Through the capital increase, which issued 19.7 million shares, the Company raised 89 MSEK, before advisory fees. The capital increase will mainly be invested in ongoing commercialisation and in development of new Artelon®-based products.

## Investments and cash position

The investments during the period totalled 1.1 MSEK (2.2), whereof 0.9 MSEK (1.8) was attributable to investments in intangible fixed assets. At the end of the period cash and cash equivalents was 118.2 MSEK (63.8).

## Personnel

The number of employees per 30th June 2005 was 26 (27).

## International accounting and financial reporting standards

Artimplant does, as of January 1, 2005, apply IFRS with the exceptions and additions listed in RR 32 – Accounting for legal entities. Accounting according to these rules have not led to any changes compared to previously applied accounting principles. This interim report has been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 20 on interim reports.

## Events after the period

CE approval of two new products, Artelon® Membrane and Artelon® Bone Scaffold within the field of odontology and craniomaxillofacial surgery.

Artimplant's initiative in odontology and craniomaxillofacial (CMF) surgery is the first step in a strategic broadening of the Company's product portfolio outside of orthopedics in order to further exploit the potential of the Artelon® material platform. Despite that the approvals were received four months later than expected due to internal problems at the notified body used by the Company, the goals of Artimplant communicated at the

annual general meeting 2005, remain. 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.

Artimplant estimates that approximately 650.000 membranes are used annually in Europe and USA, and that the market growth is around 10 percent. Most membranes on the market are manufactured of collagen (soft tissue) from animals or humans. There is a significant demand for a degradable and synthetic material like Artelon® as, among other things, the risk for disease transmission is non-existent. Additional benefits of Artelon® are its excellent handling properties, it is non-sticky and resumes its original shape after insertion.

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. The market for bone substitutes within odontology is estimated to be as big and grow as fast as the market for membranes.

To expand into odontology and CMF surgery is an attractive option as several synergies exist between these disciplines and orthopedics. Furthermore, we can cost-effectively exploit work that has been done with spacers, sutures and ligament augmentation. Artimplants development of new products is primarily focused on orthopedics. The steps now taken by entering new large markets are planned and guided by patient needs.

The Artelon® biomaterial is a patented degradable polyurethaneurea that provides a temporary support to healing tissue in the human body. The excellent biocompatibility of the material in both soft and hard tissue has been demonstrated through extensive clinical studies.

Gothenburg, August 31, 2005  
Artimplant AB (publ)



Tord Lendau  
Chief Executive Officer

This interim report has not been reviewed by Artimplants auditors.

# Income statement amounts in SEK thousands

INCOME STATEMENT	2005 Apr-Jun	2005 Jan-Jun	2004 Apr-Jun	2004 Jan-Jun	2004 Jan-Dec
Net sales	181	1 319	9	1 022	4 804
Cost of goods & services sold <sup>1)</sup>	-1 571	-3 404	-9	-1 022	-4 748
<b>Gross profit/loss</b>	<b>-1 390</b>	<b>-2 085</b>	<b>0</b>	<b>0</b>	<b>56</b>
Research and development costs <sup>2)</sup>	-5 002	- 9 216	-3 797	-6 723	-28 305
Marketing costs	-2 053	-4 392	-1 859	-3 860	-8 250
Administrative costs	-2 098	-4 163	-1 371	-3 414	-6 777
<b>Operating loss</b>	<b>-10 543</b>	<b>-19 856</b>	<b>-7 027</b>	<b>-13 997</b>	<b>-43 276</b>
Interest income and other financial income	213	419	321	714	1 228
Interest expenses and other financial expenses	-4	-11	-4	-5	-33
<b>Net financial items</b>	<b>209</b>	<b>408</b>	<b>317</b>	<b>709</b>	<b>1 195</b>
<b>Loss after financial items</b>	<b>-10 334</b>	<b>-19 448</b>	<b>-6 710</b>	<b>-13 288</b>	<b>-42 081</b>
Taxes	-	-	-	-	-
<b>Loss for the period</b>	<b>-10 334</b>	<b>-19 448</b>	<b>-6 710</b>	<b>-13 288</b>	<b>-42 081</b>

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

<sup>1)</sup> Capitalized R&D cost's*	1 513	3 026	-	-	3 827
<sup>2)</sup> Patents	248	495	271	430	1 132
Machinery and equipment	321	626	537	1 220	2 147
<b>Total depreciation</b>	<b>2 082</b>	<b>4 147</b>	<b>808</b>	<b>1 650</b>	<b>7 106</b>

\* Amortization of ACL commenced in Q3 2004 and of Spacer in Q4 2004. Remaining amortization for ACL amounts to 4.0 years, and for Spacer 4.25 years remain.

## Key ratios

KEY RATIOS	2005 Jan-Jun	2004 Jan-Jun	2004 Jan-Dec
Earnings per share, SEK	-0,39	-0,35	-1,12
Earnings per share after full dilution SEK	-0,39	-0,35	-1,12
Equity per share, SEK	2,51	2,85	2,13
Equity per share after full dilution SEK	2,51	2,85	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, %	95	93	91

# Allocation of net sales amounts in SEK thousands

ALLOCATION OF NET SALES	2005 Jan-Jun	2004 Jan-Jun	2004 Jan-Dec
<b>Source of revenue</b>			
Licensing of product applications	0	0	3 351
Product sales	608	0	453
Milestone payments for product development projects	711	1 022	1 000
	1 319	1 022	4 804
<b>Geographic areas</b>			
Scandinavia	207	1 022	1 283
USA	1 112	0	3 521
	1 319	1 022	4 804

# Balance sheet amounts in SEK thousands

BALANCE SHEET	Jun 30 2005	Jun 30 2004	Dec 31 2004
<b>ASSETS</b>			
Capitalized product development	30 088	47 301	32 414
Patents	1 743	2 309	2 016
<b>Total intangible fixed assets</b>	<b>31 831</b>	<b>49 610</b>	<b>34 430</b>
Machinery and equipment	1 247	2 497	1 699
<b>Total tangible fixed assets</b>	<b>1 247</b>	<b>2 497</b>	<b>1 699</b>
Stock and participation in subsidiaries	1 807	1 807	1 807
<b>Total financial fixed assets</b>	<b>1 807</b>	<b>1 807</b>	<b>1 807</b>
<b>Total fixed assets</b>	<b>34 885</b>	<b>53 914</b>	<b>37 936</b>
Raw materials, semimanufactures and finished goods	632	135	292
<b>Total inventories etc</b>	<b>632</b>	<b>135</b>	<b>292</b>
Accounts receivable	340	11	414
Other receivables	1 748	946	792
Prepaid expenses and accrued income	843	2 150	1 293
<b>Total short-term receivables</b>	<b>2 931</b>	<b>3 107</b>	<b>2 499</b>
Cash and bank accounts	118 158	63 840	51 277
<b>Total current assets</b>	<b>121 721</b>	<b>67 082</b>	<b>54 068</b>
<b>TOTAL ASSETS</b>	<b>156 606</b>	<b>120 995</b>	<b>92 003</b>

# Balance sheet amounts in SEK thousands

BALANCE SHEET	Jun 30 2005	Jun 30 2004	Dec 31 2004
<b>SHAREHOLDERS' EQUITY &amp; LIABILITIES</b>			
Share capital	5 924	3 950	3 950
Premium reserve	162 059	152 019	122 070
<b>Total restricted equity</b>	<b>167 983</b>	<b>155 969</b>	<b>126 020</b>
Retained losses	-	-30 199	-
Loss for the period	-19 448	-13 288	-42 081
<b>Total retained loss</b>	<b>-19 448</b>	<b>-43 487</b>	<b>-42 081</b>
<b>Total equity</b>	<b>148 535</b>	<b>112 482</b>	<b>83 939</b>
Accounts payable	2 307	2 335	2 007
Liabilities, subsidiaries	1 738	1 845	1 793
Other current liabilities	914	881	731
Accrued expenses and prepaid income	3 113	3 453	3 534
<b>Total current liabilities</b>	<b>8 071</b>	<b>8 513</b>	<b>8 065</b>
<b>TOTAL SHAREHOLDERS' EQUITY &amp; LIABILITIES</b>	<b>156 606</b>	<b>120 995</b>	<b>92 003</b>

CHANGES IN SHAREHOLDER'S EQUITY DURING THE PERIOD	2005	2004	2004
	Jan-Jun	Jan-Jun	Jan-Dec
Equity at beginning of the period	83 939	111 370	111 370
Share issue	84 044	14 400	14 650
Loss for the period	-19 448	-13 288	-42 081
<b>Equity at end of the period</b>	<b>148 535</b>	<b>112 482</b>	<b>83 939</b>

# Cash-flow analysis

CASH-FLOW ANALYSIS	2005 Jan-Jun	2004 Jan-Jun	2004 Jan-Dec
<b>Operating activities</b>			
Net loss after financial items	-19 448	-13 288	-42 081
Adjustment for non-cash items not effecting cash flow	4 147	1 579	19 226
Taxes paid	-	-	-
<b>Cash flow from operating activities before changes in working capital</b>	<b>-15 301</b>	<b>-11 709</b>	<b>-22 855</b>
<b>Cash flow from changes in working capital</b>			
Changes in inventories	-340	0	-157
Changes in receivables	-432	-270	337
Changes in liabilities	7	-4 294	-4 741
<b>Cash flow from operating activities</b>	<b>-16 066</b>	<b>-16 272</b>	<b>-27 416</b>
<b>Investing activities</b>			
Acquisition of intangible fixed assets	-923	-1893	-3 256
Acquisition of tangible fixed assets	-174	-345	-651
<b>Cash flow from investing activities</b>	<b>-1 097</b>	<b>-2 238</b>	<b>-3 907</b>
<b>Financing activities</b>			
Share issue	84 044	14 400	14 650
<b>Cash flow from financing activities</b>	<b>84 044</b>	<b>14 400</b>	<b>14 650</b>
<b>Cash flow for the period</b>	<b>66 881</b>	<b>-4 110</b>	<b>-16 673</b>
<b>Liquid funds at beginning of period</b>	<b>51 277</b>	<b>67 950</b>	<b>67 950</b>
<b>Liquid funds at end of period</b>	<b>118 158</b>	<b>63 840</b>	<b>51 277</b>

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Gothenburg August 31, 2005  
Artimplant AB (publ)

This interim report has not been reviewed by Artimplants 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.