

ARTIMPLANT INTERIM REPORT JANUARY 1 – JUNE 30, 2006



- Net revenue increased by 130% to SEK 3.0 million (1.3)*
- Net profit of SEK -30.7 million (-19.4)
- Net profit of SEK -19.1 (-19.4) if one time write-down of capitalized R&D costs relating to Artelon® Augmentation Device ACL are excluded
- Earnings per share of SEK -0.52 (SEK -0.39)
- Capitalized product development costs of the Artelon® Augmentation Device ACL was written off, but has no cash effect
- Discussions with European dental distributors commenced
- Artelon® CMC Spacer LG, a larger CMC Spacer, was introduced
- CEO Tord Lendau gave notice for private reasons
- Lars-Johan Cederbrant was appointed interim CEO, while maintaining his responsibility as CFO

Events after the period

- Artelon® MTP Spacer, Artelon® STT Spacer and Artelon® CMC Spacer Arthro for minimally invasive surgery received CE-certificates

* Numbers within brackets relate to the corresponding period last year.

Upcoming information events

Interim report Jan-Sep 2006... .. November 9, 2006
Annual accounts 2006.....February 20, 2007
Interim report Jan-Mar 2007..... May 3, 2007
Interim report Jan-Jun 2007.....August 8 2007

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 2005, which is available at the Company's website.

For more information

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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 and one distribution agreement with three global partners.

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

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.

Financial result January – June 2006

Net sales increased by 130%, reaching SEK 3.0 million (1.3) and consisted mainly of product sales with associated license revenues as well as a smaller product development compensation. The sales ramp up of Artelon[®] CMC Spacer (name changed from Artelon[®] Spacer CMC-I) proceeds according to plan. The average quarter on quarter growth in the US has exceeded 50%, since market introduction. More than 1,200 successful Artelon[®] CMC Spacer procedures have been performed since inception.

The operating loss was SEK 31.4 million (19.9), including depreciation of capitalized product development costs of SEK 13.1 million (3.0). In Q2 the capitalized product development costs of the Artelon[®] Augmentation Device ACL (ACL) were written off completely, adding a one time depreciation of SEK 11.6 million. The ACL has been subject for test sales and discussions with certain potential partners. The results show that it, as of Q2 2006, does not represent any value as a stand alone product. Nevertheless, the development of the ACL is the basis for the Artelon[®] biomaterials platform. The clinical studies performed with the ACL represent more than eight years clinical evidence of biocompatibility and degradation kinetics being tremendously valuable for the entire Artelon[®] biomaterials platform and all products developed or to be developed.

Net loss amounted to SEK 30.7 million (19.4) or 19.1 if excluding the one time write-off of the capitalized ACL development costs. The result per share amounted to SEK -0.52 (-0.39) or -0.32 if excluding the one time write-off of the ACL. The net result was negatively affected by exchange rate differences of SEK 227 thousand.

The overall fixed cost level remains relatively unchanged. More resources are used on product development and marketing than on administration compared to last year.

Investments and cash position

The investments during the period totaled SEK 1.1 million (1.1), whereof SEK 0.5 million (0.9) was attributable to investments in intangible fixed assets. At the end of the period cash and cash equivalents amounted to SEK 86.7 million (118.2).

Increased use of Artelon® products

Both in the US and in Scandinavia surgeons show an increasing interest in treating osteoarthritis in the thumb base joint by using the Artelon® CMC Spacer. The investment in trainings and meetings with many physicians start to pay off. At the end of Q2 more than 200 physicians regularly performed surgery with the device.

The rotator cuff product out-licensed to Arthrotek, Inc., a Biomet company, has to date only been used by a limited number of selected key accounts. Arthrotek's sales force has been trained and will start broader marketing activities during Q3. Rotator cuff tear is among other things a common injury among baseball players and Dr. Frosty Moore, physician and surgeon at Westlake Medical and a former Longhorn baseball player, was the first to perform reinforced rotator cuff surgery with the SportMesh™ in the US.

Artimplant's CE-marked odontology products are currently being tested at a limited number of key opinion leader clinicians in Sweden. Follow up of initial patients during Q3 and Q4 will verify safety and effectiveness of Artelon® Scaffold products in an oral environment. Initial discussions with certain European distributors have commenced.

Approvals and product development

Artelon® CMC Spacer LG, a larger CMC Spacer, was introduced in order to cover a broader patient base. It is expected to add incremental sales, since certain patients with large hands could not be operated with the regular Artelon® CMC Spacer. The new size has already been implanted in a number of patients and new shipments to SBI will occur during Q3.

Personnel

In early May Tord Lendau resigned as CEO for private reasons. CEO recruitment was immediately initiated by the board. In early June Lars-Johan Cederbrant was appointed interim CEO in addition to his CFO responsibilities. A shortlist of candidates is currently being evaluated. A new CEO is expected to be employed during Q3 or early Q4.

As of June 30, 2006, Artimplant employed 30 persons (26), whereof 15 women and 15 men.

Future prospects

The strategic ambition that Artelon® shall be used in several therapy areas remains and the long term goal is to position Artimplant as a leading company within the biomaterials sector.

Artimplant has the following operational goals for 2006:

- Increase revenue significantly
- Launch at least three new products
- Sign new development and license or distribution agreements for at least three products
- Increase manufacturing capacity to meet increased demand
- Continue reinforcing and expanding product and process development



Events after the period

The Artelon[®] MTP Spacer, Artelon[®] STT Spacer and Artelon[®] CMC Spacer Arthro for minimally invasive surgery received CE-mark in mid July. The time lapsed from signed agreement to CE-marked products was less than nine months. The cleared products are out-licensed to SBI for use in specific joints in the big toe (MTP), thumb (STT) and thumb base (Arthro). The products are, together with the recently CE-marked Artelon[®] DRU Spacer for the wrist and the Artelon[®] CMC Spacer, globally marketed by SBI and by Artimplant representatives in Sweden. As with all other products Artimplant seeks 510(k) clearance for marketing in the US of all four new spacers mentioned above. When the products receive clearance for marketing in the US, they will,

together with the recent addition of a larger CMC spacer, almost double the market potential of Artimplant's spacer products. This significantly contributes to establishing Artelon[®] as the biomaterial of choice and the spacer concept as the preferred therapy for treatment of osteoarthritis in small bones and joints.

Artimplant initiated wind-down of the two dormant subsidiaries earlier holding the operations of Gothenburg Medical Center (GMC). All assets of GMC were divested in 2003. KB Artimplant Ortopedisk Klinik will be deregistered and Artimplant Ortopedisk Klinik AB will be absorbed by Artimplant AB.

INCOME STATEMENT

Amounts in SEK thousands	apr-jun	jan-jun	apr-jun	jan-jun	jan-dec
	2006	2006	2005	2005	2005
Net sales	1 904	3 013	181	1 319	8 229
Cost of goods & services sold*	-86	-129	-1 571	-3 404	-6 535
Gross profit/loss	1 818	2 884	-1 390	-2 085	1 694
Research and development costs (1,2)	-17 908	-25 596	-5 002	-9 216	-20 906
Marketing costs	-2 960	-5 626	-2 053	-4 392	-9 608
Administrative costs	-1 611	-3 041	-2 098	-4 163	-8 613
Operating loss	-20 661	-31 379	-10 543	-19 856	-37 433
Interest income and other financial income	456	874	213	419	1 211
Interest expenses and other financial expenses	-125	-162	-4	-11	-22
Net financial items	331	712	209	408	1 189
Loss after financial items	-20 330	-30 667	-10 334	-19 448	-36 244
Taxes	-	-	-	-	-
Loss for the period	-20 330	-30 667	-10 334	-19 448	-36 244

* 2005 includes depreciation of capitalized R&D costs

The income statements include depreciation on tangible and amortization on intangible fixed assets as shown in the following table.

Amounts in SEK thousands	apr-jun	jan-jun	apr-jun	jan-jun	jan-dec
	2006	2006	2005	2005	2005
(1) Capitalized R&D cost*	13 121	14 634	1 513	3 026	6 053
(2) Patents	185	352	248	495	790
Machinery and equipment	143	273	321	626	1 447
Total depreciation	13 449	15 259	2 082	4 147	8 290

* In Q2 2006 a write-down of Capitalized R&D cost of SEK 11,608 thousand was charged against R&D costs

KEY RATIOS

	apr-jun 2006	jan-jun 2006	jan-dec 2005
Earnings per share, SEK	-0,34	-0,52	-0,73
Earnings per share after full dilution SEK	-0,34	-0,52	-0,73
Equity per share, SEK	1,73	2,51	2,24
Equity per share after full dilution SEK	1,73	2,51	2,24
No. of shares at end of period	59 244 790	59 244 791	59 244 790
Average n. of shares	59 244 790	59 244 791	49 370 659
No. of shares after full dilution	61 004 406	61 004 407	61 107 012
Yield on equity, %	neg	neg	neg
Yield on capital employed, %	neg	neg	neg
Equity/assets ratio, %	93	95	95

ALLOCATION OF NET SALES

Amounts in SEK thousands	apr-jun 2006	jan-jun 2006	apr-jun 2005	jan-jun 2005	jan-dec 2005
Source of revenue					
Licensing of product applications	446	446	-	-	1 841
Product sales	1 048	1 374	181	608	1 529
Milestone payments for product development projects	409	1 193	-	711	4 859
	1 903	3 013	181	1 319	8 229

Geographic areas	apr-jun 2006	jan-jun 2006	apr-jun 2005	jan-jun 2005	jan-dec 2005
Scandinavia	254	395	181	207	350
USA	1 649	2 618	-	1 112	7 879
	1 903	3 013	181	1 319	8 229

BALANCE SHEET

Amounts in SEK thousands	2006-06-30	2005-06-30	2005-12-31
ASSETS			
Capitalized product development	13 578	30 088	27 949
Patents	1 181	1 743	1 264
Total intangible fixed assets	14 759	31 831	29 213
Machinery and equipment	1 670	1 247	1 394
Total tangible fixed assets	1 670	1 247	1 394
Stock and participation in subsidiaries*	1 707	1 807	1 707
Total financial fixed assets	1 707	1 807	1 707
Total fixed assets	18 135	34 885	32 314
Raw materials, semimanufactures and finished goods	1 041	632	944
Total inventories etc	1 041	632	944
Accounts receivable	528	340	204
Other receivables	1 746	1 748	1 093
Prepaid expenses and accrued income	1 460	843	1 275
Total short-term receivables	3 734	2 931	2 572
Cash and bank accounts	86 714	118 158	104 186
Total current assets	91 489	121 721	107 702
TOTAL ASSETS	109 625	156 606	140 016

Amounts in SEK thousands	2006-06-30	2005-06-30	2005-12-31
SHAREHOLDERS' EQUITY & LIABILITIES			
Equity			
Share capital	5 924	5 924	5 924
Premium reserve	126 922	162 059	162 618
Total restricted equity	132 846	167 983	168 542
Retained earnings	222	-	548
Loss for the period	-30 667	-19 448	-36 244
Total retained loss	-30 445	-19 448	-35 696
Total equity	102 402	148 535	132 846
Provisions	318	-	245
Accounts payable	2 108	2 307	919
Liabilities, subsidiaries*	1 822	1 738	1 822
Other current liabilities	758	914	718
Accrued expenses and prepaid income	2 218	3 113	3 466
Total current liabilities	6 906	8 071	6 925
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES	109 625	156 606	140 016

* Only for dormant companies, not Artimplant USA

Changes in shareholders' equity during the period

Amounts in SEK thousands	jan-jun 2006	jan-jun 2005	jan-dec 2005
Equity at beginning of the period	132 846	83 939	83 939
Share issue	-	84 044	84 603
Benefit employee stock option (IFRS2)	222	-	548
Loss for the period	-30 667	-19 448	-36 244
Equity at end of the period	102 402	148 535	132 846

CASH-FLOW ANALYSIS

Amounts in SEK thousands	jan-jun 2006	jan-jun 2005	jan-dec 2005
Operating activities			
Net loss after financial items	-30 667	-19 448	-36 244
Adjustment for items not effecting cash flow	15 555	4 147	9 715
Cash flow from operating activities			
before changes in working capital	-15 112	-15 301	-26 529
Cash flow from changes in working capital			
Changes in inventories	-98	-340	-652
Changes in receivables	-1 162	-432	-73
Changes in liabilities	-19	7	-1 140
Cash flow from operating activities	-16 391	-16 066	-28 393
Investing activities			
Acquisition of intangible fixed assets	-532	-923	-2 161
Acquisition of tangible fixed assets	-549	-174	-1 141
Cash flow from investing activities	-1 081	-1 097	-3 301
Financing activities			
Share issue	-	84 044	84 603
Cash flow from financing activities	0	84 044	84 603
Cash flow for the period	-17 471	66 881	52 909
Liquid funds at beginning of period	104 186	51 277	51 277
Liquid funds at end of period	86 714	118 158	104 186

Gothenburg, August 8, 2006
Artimplant AB (publ)

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 SEK 67.5m 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. Second multicenter ACL reconstruction trial begins. Directed new share issue, first and foremost in favour of overseas corporate investors, raises SEK 143m 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 - Strategic review. 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 overhead and put in place a more efficient organization matched to its new strategy. Directed new share issue raises SEK 30m less costs.

2003 - The Company implements its new strategy and reduces 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 is cleared by the FDA. New share issues in March and December raise about SEK 62m less costs. Gothenburg Medical Center is divested.

2004 - Artelon[®] Spacer CMC-I receives approval from the FDA for sale on the US market. Licensing agreements signed with Avanta Orthopaedics (now owned by Small Bone Innovations) for sale of Artelon[®] Spacer CMC-I in the US and rest of the world. Development and licensing agreement signed with Biomet for development of a product for repairing damaged soft tissue. In December the first shipment of Artelon[®] Spacer CMC-I is sent to Avanta in the US. Artelon[®] Surgical Suture approved for sale on the European market. Products previously approved for sale on the European market are approved for additional indications. Trial sales of Artelon[®] ACL Augmentation Device in the UK is completed. Cooperation between Artimplant and Mölnlycke Health Care on the development and licensing of wound care products using Artelon[®] ends. Directed new share issue raises SEK 14m less costs.

2005 - Artelon[®] Spacer CMC-I is launched at AAOS. Oversubscribed preferential rights issue raises about SEK 89m before costs for the Company. Focus on new product areas, odontology and craniomaxillofacial surgery, initiated. Two new products in odontology, Artelon[®] Bone Scaffold and Artelon[®] Membrane, approved for sale in Europe. Several sizes of Artelon[®] Surgical Suture approved for sale in the United States and Europe. Four new licensing and development agreements signed with Small Bone Innovations. Distribution agreement for Artelon[®] Surgical Suture in North America signed with Arthrocare. Artelon[®] implant for reinforcing rotator cuffs approved for sale in Europe. Office opened in the United States. Artelon[®] TMC Spacer approved for sale in Australia.