

## ARTIMPLANT INTERIM REPORT JANUARY 1 – MARCH 31, 2006



- Net revenue amounted SEK 1.1 million (1.1)
- Net profit of SEK -10.4 million (-9.1)
- Earnings per share of SEK -0.17 (SEK -0.23)
- Artelon® implant for rotator cuff reinforcement received clearance for marketing in the US and was launched by Biomet at AAOS in Chicago
- Increased number of clinics using Artelon® products increased the underlying product sales run rate in the US and in Scandinavia
- Artelon® DRU Spacer received CE-mark
- Artelon® TMC Spacer cleared for marketing in Canada



### Events after the period

- Tord Lendau resigns as CEO for private reasons

### Upcoming information events

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

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 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<sup>®</sup>, a long-term degradable biomaterial, offers new solutions to unmet clinical needs and opens new markets.

Artimplant's business model is to license 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<sup>®</sup> 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 – March 2006

Net sales reached SEK 1.1 million (1.1) and consisted of product sales and product development contributions. The sales ramp up of Artelon<sup>®</sup> Spacer CMC-I proceeds according to plan and the Company expects the number of sold units during Q1, 2006 to exceed the number of units sold during Q4, 2005. Royalty for Q1 2006 will be recorded in Q2 2006. When comparing product sales Q1 2006 with Q1 2005 it shall be noted that SBI made an initial stocking order during Q1 2005. All product sales during Q1 2006 is underlying sales to end customers and contains no stocking orders. Due to the clearance to market the Artelon<sup>®</sup> rotator cuff product in the US, Artimplant received a product development contribution milestone from Biomet of SEK 0.8 million. Another milestone is due upon completion of Biomet's clinical study for marketing purposes. Such study will be initiated during Q2, 2006.

The operating loss was SEK 10.7 million (9.3), including depreciation of capitalized product development costs of SEK 1.5 million (1.5). Net loss amounted to SEK 10.4 million (9.1). The result per share amounted to SEK -0.17 (-0.23). The net result was negatively affected by exchange rate differences of SEK 42.5 thousand, partially attributable to operations, but mainly to currency translation of assets in USD.

The overall cost level compared to Q1 2005 was slightly higher than last year, mainly due to higher activity in product development. Cost of goods sold is lower when comparing to last year, while depreciation of capitalized product development costs as of January 2006 is recorded under research and development costs. Administration costs decreased, mainly due to lower rent.

### **Investments and cash position**

The investments during the period totaled SEK 0.6 million (0.6), whereof SEK 0.4 million (0.6) was attributable to investments in intangible fixed assets. At the end of the period cash and cash equivalents amounted to SEK 95.5 million (42.6).

### **Increased number of clinics and surgeons**

Both in the US and in Scandinavia surgeons show an increasing interest in treating osteoarthritis in the thumb base joint by using the Artelon<sup>®</sup> Spacer CMC-I. Repeated use is recorded from the majority of the clinics using the device.

Artimplant's odontology products are currently being validated at a limited number of key opinion leader clinics. Follow up of initial patients will verify safety and effectiveness of the Artelon<sup>®</sup> devices.

### **Approvals and product development**

Artelon<sup>®</sup> implant for rotator cuff reinforcement received clearance for marketing in the US and was launched by Biomet at the AAOS congress in Chicago. Artelon<sup>®</sup> DRU Spacer received CE-mark and will be launched during Q2 2006 by Artimplant's sales representatives in Scandinavia and by SBI's distributor network in other parts of Europe. Artelon<sup>®</sup> TMC Spacer was cleared for marketing in Canada where SBI distributes the product. The three other product development projects of spacer products performed for SBI are proceeding according to plan. The agreements are product specific and cover joints in the big toe, hand and an arthroscopic Spacer for thumb base osteoarthritis.

### **Personnel**

During the first quarter Artimplant employed two additional employees, one in product development and one in production. As of March 31, 2006, Artimplant AB employed 29 persons (26), whereof 14 women and 15 men.

### **Future prospects**

The ambition that the biomaterial of Artimplant 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**

- Tord Lendau resigns as CEO for private reasons

### **Change in accounting principles**

Artimplant applies IFRS. This interim report has been prepared in accordance with IAS 34. As of January 2006 Artimplant prepares consolidated financial statements. Artimplant AB (parent) and Artimplant USA, Inc. are consolidated while the dormant company Artimplant Ortopedisk Klinik AB is accounted for as a shareholding of the parent.

License income from product sales is according to the agreements with SBI due one month after calendar quarter. Accrued license income for one quarter is per January 2006 recognized the following quarter, hence no license income from product sales are recorded in Q1 2006.

Depreciation of capitalized product development costs is as of January 2006 part of research and development costs instead of part of cost of goods sold. When Artimplant receives product development contributions from third parties during a development project the research and development costs are not capitalized according to IAS 38.

## INCOME STATEMENT

Amounts in SEK thousands	jan-mar	jan-mar	jan-dec
	2006	2005	2005
Net sales	1 110	1 138	8 229
Cost of goods & services sold*	-43	-1 833	-6 535
<b>Gross profit/loss</b>	<b>1 066</b>	<b>-695</b>	<b>1 694</b>
Research and development costs (1,2)	-7 688	-4 215	-20 906
Marketing costs	-2 694	-2 339	-9 608
Administrative costs	-1 430	-2 065	-8 613
<b>Operating loss</b>	<b>-10 746</b>	<b>-9 314</b>	<b>-37 433</b>
Interest income and other financial income	418	206	1 211
Interest expenses and other financial expenses	-38	-7	-22
<b>Net financial items</b>	<b>380</b>	<b>199</b>	<b>1 189</b>
<b>Loss after financial items</b>	<b>-10 366</b>	<b>-9 115</b>	<b>-36 244</b>
Taxes	-	-	-
<b>Loss for the period</b>	<b>-10 366</b>	<b>-9 115</b>	<b>-36 244</b>

\* 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	jan-mar	jan-mar	jan-dec
	2006	2005	2005
(1) Capitalized R&D cost	1 513	1 513	6 053
(2) Patents	167	247	790
Machinery and equipment	130	305	1 447
<b>Total depreciation</b>	<b>1 810</b>	<b>2 065</b>	<b>8 290</b>

## KEY RATIOS

	jan-mar 2006	jan-mar 2005	jan-dec 2005
Earnings per share, SEK	-0,17	-0,23	-0,73
Earnings per share after full dilution SEK	-0,17	-0,23	-0,73
Equity per share, SEK	2,07	1,89	2,24
Equity per share after full dilution SEK	2,07	1,89	2,24
No. of shares at end of period	59 244 790	39 496 527	59 244 790
Average n. of shares	59 244 790	39 496 527	49 370 659
No. of shares after full dilution	60 557 961	40 829 867	61 107 012
Yield on equity, %	neg	neg	neg
Yield on capital employed, %	neg	neg	neg
Equity/assets ratio, %	95	92	95

## Amounts in SEK thousands

Source of revenue	jan-mar 2006	jan-mar 2005	jan-dec 2005
Licensing of product applications	-	-	1 841
Product sales	326	427	1 529
Milestone payments for product development projects	784	711	4 859
	<b>1 110</b>	<b>1 138</b>	<b>8 229</b>

Geographic areas	jan-mar 2006	jan-mar 2005	jan-dec 2005
Scandinavia	141	26	350
USA	968	1 112	7 879
	<b>1 110</b>	<b>1 138</b>	<b>8 229</b>

## BALANCE SHEET

Amounts in SEK thousands	2006-03-31	2005-03-31	2005-12-31
<b>ASSETS</b>			
Capitalized product development	26 573	31 301	27 949
Patents	1 180	1 981	1 264
Total intangible fixed assets	27 753	33 282	29 213
Machinery and equipment	1 676	1 405	1 394
Total tangible fixed assets	1 676	1 405	1 394
Stock and participation in subsidiaries*	1 707	1 807	1 707
Total financial fixed assets	1 707	1 807	1 707
<b>Total fixed assets</b>	<b>31 136</b>	<b>36 494</b>	<b>32 314</b>
Raw materials, semimanufactures and finished goods	538	628	944
Total inventories etc	538	628	944
Accounts receivable	376	370	204
Other receivables	1 058	1 131	1 093
Prepaid expenses and accrued income	960	413	1 275
Total short-term receivables	2 394	1 914	2 572
Cash and bank accounts	95 462	42 566	104 186
<b>Total current assets</b>	<b>98 393</b>	<b>45 108</b>	<b>107 702</b>
<b>TOTAL ASSETS</b>	<b>129 529</b>	<b>81 602</b>	<b>140 016</b>

Amounts in SEK thousands	2006-03-31	2005-03-31	2005-12-31
<b>SHAREHOLDERS' EQUITY &amp; LIABILITIES</b>			
Equity			
Share capital	5 924	3 950	5 924
Premium reserve	162 618	122 070	162 618
Total restricted equity	168 542	126 020	168 542
Retained earnings	-35 613	-42 081	548
Loss for the period	-10 366	-9 115	-36 244
Total retained loss	-45 978	-51 196	-35 696
<b>Total equity</b>	<b>122 564</b>	<b>74 824</b>	<b>132 846</b>
<b>Provisions</b>	<b>292</b>	<b>-</b>	<b>245</b>
Accounts payable	563	956	919
Liabilities, subsidiaries*	1 822	1 738	1 822
Other current liabilities	1 226	414	718
Accrued expenses and prepaid income	3 062	3 670	3 466
<b>Total current liabilities</b>	<b>6 672</b>	<b>6 778</b>	<b>6 925</b>
<b>TOTAL SHAREHOLDERS' EQUITY &amp; LIABILITIES</b>	<b>129 529</b>	<b>81 602</b>	<b>140 016</b>

\* Only for dormant companies, not Artimplant USA

## Changes in shareholders' equity during the period

Amounts in SEK thousands	jan-mar 2006	jan-mar 2005	jan-dec 2005
Equity at beginning of the period	132 846	83 939	83 939
Share issue	-	-	84 603
Benefit employee stock option (IFRS2)	84	-	548
Loss for the period	-10 366	-9 115	-36 244
Equity at end of the period	<b>122 564</b>	<b>74 824</b>	<b>132 846</b>

<b>Amounts in SEK thousands</b>	<b>jan-mar 2006</b>	<b>jan-mar 2005</b>	<b>jan-dec 2005</b>
<b>Operating activities</b>			
Net loss after financial items	-10 366	-9 115	-36 244
Adjustment for items not effecting cash flow	1 941	2 065	9 715
<b>Cash flow from operating activities</b>			
<b>before changes in working capital</b>	<b>-8 425</b>	<b>-7 050</b>	<b>-26 529</b>
Cash flow from changes in working capital			
Changes in inventories	406	-336	-652
Changes in receivables	178	585	-73
Changes in liabilities	-253	-1 287	-1 140
<b>Cash flow from operating activities</b>	<b>-8 093</b>	<b>-8 088</b>	<b>-28 393</b>
<b>Investing activities</b>			
Acquisition of intangible fixed assets	-219	-611	-2 161
Acquisition of tangible fixed assets	-412	-12	-1 141
<b>Cash flow from investing activities</b>	<b>-631</b>	<b>-623</b>	<b>-3 301</b>
<b>Financing activities</b>			
Share issue	-	-	84 603
<b>Cash flow from financing activities</b>	<b>0</b>	<b>-</b>	<b>84 603</b>
<b>Cash flow for the period</b>	<b>-8 724</b>	<b>-8 711</b>	<b>52 909</b>
<b>Liquid funds at beginning of period</b>	<b>104 186</b>	<b>51 277</b>	<b>51 277</b>
<b>Liquid funds at end of period</b>	<b>95 462</b>	<b>42 566</b>	<b>104 186</b>

Gothenburg, May 3, 2006  
Artimplant AB (publ)

The Board of Directors

## History

**1997** - The Company acquires a Swedish patent in respect of Artelon<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> 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. Tor 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<sup>®</sup> ACL Augmentation Device.

Artelon<sup>®</sup> Spacer CMC-I for treating arthritis of the thumb is granted CE certification. Artelon<sup>®</sup> Surgical Suture was cleared by the FDA. New share issues in March and December raise about SEK 62m less costs. Gothenburg Medical Center is divested.

**2004** - Artelon<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> Spacer CMC-I sent to Avanta in the US. Artelon<sup>®</sup> Surgical Suture approved for sale on the European market. Products previously approved for sale on the European market were approved for additional indications. Trial sales of Artelon<sup>®</sup> 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<sup>®</sup> ended. Directed new share issue raises SEK 14m less costs.

**2005** - Artelon<sup>®</sup> Spacer CMC-I 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<sup>®</sup> Bone Scaffold and Artelon<sup>®</sup> Membrane, approved for sale in Europe. Several sizes of Artelon<sup>®</sup> 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<sup>®</sup> Surgical Suture in North America signed with Arthrocare. Artelon<sup>®</sup> implant for reinforcing rotator cuffs approved for sale in Europe. Office opened in the United States. Artelon<sup>®</sup> TMC Spacer approved for sale in Australia.