ARTIMPLANT AB ANNUAL ACCOUNTS JAN 1 – DEC 31, 2005

- **Net revenue increased by more than 70% and amounted 8,2 MSEK (4,8)**
- **Net profit of -36,2 MSEK (-42,4)**
- **Earnings per share of -0,73 SEK (-1,12 SEK)**
- **Four new development and license agreements signed with Small Bone Innovations during the fourth quarter**
- **Artelon® Surgical Suture received CE-mark and clearance for marketing in the USA**
- **Artelon® implant for rotator cuff reinforcement received CE-mark**
- **Distribution agreement for Artelon® Surgical Suture signed with ArthroCare Corporation**
- **Six out of the seven goals communicated in share issue prospectus in May 2005 were fulfilled**

Events after the period

- **Artelon® implant for rotator cuff reinforcement received clearance for marketing in the USA**
- **Artimplant established a small representation office in the US, Artimplant USA, Inc.**

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Registered headquarters: Västra Götaland, Gothenburg

Upcoming information events

Interim report Jan-Mar 2006…….. May 3, 2006
Interim report Jan-Jun 2006…….. August 8, 2006
Interim report Jan-Sep 2006… …. November 9, 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.

Annual general meeting

The annual general meeting of shareholders will be held at 4 p.m. on May 3, 2006 at the Company headquarters. Registration will begin at 3:30 p.m. Shareholders who intend to participate must notify the Company no later than April 25, 2005, in one of the following ways:

- Send an e-mail to agm2006@artimplant.se
- Send a fax to +46 31 746 56 60
- Call +46 31 746 56 00
- Write to Artimplant AB, AGM, Hulda Mellgrens gata 5, 421 32 Västra Frölunda, Sweden.

Please include name, personal id. number or company id. number, address, telephone number and the number of shares in the share register as per April 21, 2005. To vote at the annual general meeting, a shareholder must be part of the share register maintained by VPC AB no later than April 21, 2005. Shareholders who have shares registered through a bank or brokerage, must temporarily register their shares in their own name to take part in the meeting. This should be done well in advance of the date specified above. The annual report will be published on the Company's web site no later than April 14, 2006, and will also be available at the Company headquarters. A copy of the annual report can be ordered by writing to the above address.

For more information

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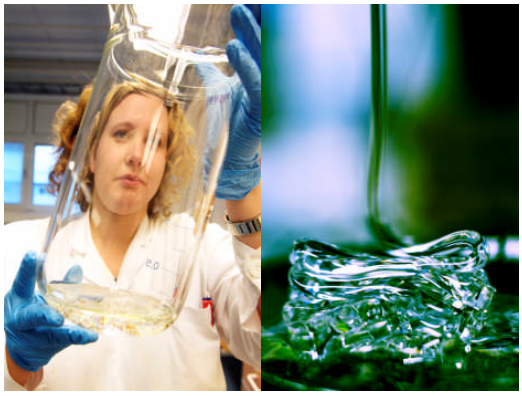

Artimplant

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 – December 2005

Net sales reached SEK 8.2 millions (4.8) and consisted of product sales, license income from product sales and product development contributions. 2005 was a breakthrough in terms of repeat sales to clinics in the US and in Scandinavia, mainly of the Company's Spacer for thumb base osteoarthritis. The operating loss was SEK 37.4 millions (43.6), including depreciation of capitalized product development costs of SEK 6.1 millions (3.8). Net loss amounted to SEK 36.2 millions (42.4). The result per share amounted to SEK -0.73 (-1.12). The net result was positively affected by exchange rate differences of SEK 70 thousand, mainly attributable to revaluation of cash at bank in USD at the end of the year. As of this closing of the books, calculated costs for employee stock options, both option value and corresponding social security fees, are booked in the financial statements according to IFRS 2 and URA 46 (statement from the Swedish Financial Accounting Standards Council's acute group # 46). Social security fees did not have any material effect during 2004. However, it shall be taken note that the Company has hedged the cost of social security fees and expects such fees payable at exercise of each option program to be fully covered by this hedge. The effect of this hedge is, however, first accounted for when realized and not split over the option period under IFRS.

Financial result October – December 2005

Net sales reached SEK 6.4 millions (3.7) and consisted of product sales, license income from product sales and product development contributions. The Company received milestone payments related to the agreements with Small Bone Innovations during the fourth quarter. The operating loss was SEK 6.4 millions (20.2). 2004 includes write-down of capitalized product development costs of SEK 12.1 millions. Net loss amounted to SEK 6.0 millions (19.9). The result per share amounted to SEK -0.10 (-1.07).

License and distribution agreements

Small Bone Innovations (SBI)

In October the Company signed four global license, delivery and distribution agreements with SBI regarding four new products of Artelon®, building on Artimplant´s Spacer concept. SBI is a market leader of products for bone, tendons and ligaments in the upper extremities and in feet. The agreements are product specific and cover four new Spacer-products for joints in the big toe, wrist and hand as well as an arthroscopic Spacer for thumb base osteoarthritis. Total revenues, to Artimplant, from the four new products are estimated to exceed 50 million SEK over the next five to six years.

ArthroCare Corporation (ArthroCare)

In November a non-exclusive distribution agreement regarding the product Artelon® Surgical Suture was signed with ArthroCare, a world leader within minimally invasive medical technology for a number of therapy areas. The product out of Artimplant´s patented biomaterial Artelon® is used to suture different kinds of tissue when degradability and good knotability are required. Since the agreement is non-exclusive, more companies within other therapy areas might distribute this product in the future.

Biomet

In November, the first result of the development, license and distribution agreement signed with Biomet in December 2004 was seen. Artimplant received CE-mark of a product reinforcing the rotator cuff of the shoulder. In January this approval was followed by clearance to market the product in the US. Biomet plans to launch the "Sportmesh™" during the first half of 2006.

License and distribution strategy

Artimplant continues its strategy to out-license products based on the Artelon® biomaterial, mainly within orthopaedics. The Company seeks licensees with strong brands and global distribution. Artimplant also evaluates to sign regional distribution agreements, mainly within odontology, but potentially also within other therapy areas.

There is a substantial potential for Artelon® to become a biomaterial that is broadly used in a number of therapies when doctors require a synthetic material with a long degradation time, and during which time the material is successively replaced by the body's own tissue. In the past, Artimplant has focused on orthopaedic applications, where the potential is large. Other

focus areas, where the potential also is significant are odontology as well as craniomaxillofacial reconstructive surgery and plastic surgery. There is room for developing a number of different products within each therapy area.

Artimplant is actively seeking application specific agreements, since more business opportunities are created and the proliferation of products using Artelon® will be enhanced. Artimplant's goal is that Artelon® will become a global standard in the use of synthetic biomaterials for the reconstruction and regeneration of human tissue. Artimplant's future revenues will likely come from a number of narrow and application specific license and distribution agreements, rather than from a few broad agreements with large upfront payments.

Approvals and product development

The Company has during 2005 obtained a number of product approvals. The odontological products Artelon® Bone Scaffold och Artelon® Membrane received CE-mark in July. Artelon® Surgical Suture received CE-mark of the USP sizes # 2-0, 2, 1, and 0, with and without needle, in October, as well as 510(k) clearance in the US. The product for reinforcement of the rotator cuff, Sportmesh™, received CE-mark in November. Artimplant obtained approval to market Artelon® TMC Spacer in Australia in December. The distribution network of SBI will market the product in Australia.

Artelon® nanofibers were during 2005 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.

Product sales

Sales of the Artelon® TMC Spacer continue in Scandinavia. Several hospitals are using the product and regular replenishing gets more and more common. Artimplant prioritizes presence at the first surgeries, both in order to train the physician in optimal handling of the product and to get direct feedback from the physician performing the surgery. In December a relatively large delivery of Artelon® Spacer CMC-I was shipped to the licensee of the product, Small Bone Innovations in the US. Artelon® Spacer CMC-I has been well received by American hand surgeons and a steadily increasing amount of clinics are now regularly replenishing the product.

Investment, divestment and liquidity

Investments amounted SEK 3.3 millions (3.9), whereof SEK 2.2 millions (3,3) intangible assets. The Company divested the dormant company Artimplant Drug Delivery Systems AB and liquidated Artimplant Ortopedisk Klinik KB, which did not materially affect the result. Cash at bank at the end of the period was SEK 104.2 millions (51.3).

Dividend

The Board of Directors suggests no dividend.

Personnel

As of December 31, 2005, Artimplant AB employed 27 persons (26), whereof 13 women and 14 men.

Future prospects

During 2005 Artimplant fulfilled six out of the seven goals communicated in share issue prospectus in May 2005. The Company did not sign any agreement within craniomaxillofacial surgery, but continues focusing on finding new licensees within this area. 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

In January 2006 Artimplant obtained US clearance to market an implant of Artelon® reinforcing the rotator cuff of the shoulder. Arthrotek Inc., a Biomet company, will market the product under the name of Sportmesh™.

Artimplant established a small representation office in the US, Artimplant USA, Inc. The company is operational as of January 1, 2006.

The main purpose of the new office is to support Artimplant's American licensees and to develop new business. It will also provide a platform for improved market presence and launch of odontology products through American distributors once regulatory approval has been achieved.

International accounting and reporting standard

Artimplant does not prepare consolidated financial statements. Effective January 1 2005 Artimplant applies IFRS with the additions and exceptions to IFRS/IAS set out in the Swedish Financial Accounting Standards Council's recommendation RR 32 – Accounting for legal entities. Accounting according to these rules has not led to any material changes compared to previously applied accounting principles. This interim report has been prepared in accordance with IAS 34.

However, financial statements for full year 2005 and later include calculations for cost accounting of employee stock options according to IFRS 2 and URA 46 (statement from the Swedish Financial Accounting Standars Council's acute group # 46). Comparable numbers for 2004 was also recalculated for employee stock options.

INCOME STATEMENT

Amounts in SEK thousands	okt-dec 2005	jan-dec 2005	okt-dec* 2004	jan-dec* 2004
Net sales	6 432	8 229	3 745	4 804
Cost of goods & services sold (1)	-1 574	-6 535	-2 011	-4 748
Gross profit/loss	**4 858**	**1 694**	**1 734**	**56**
Research and development costs (2)	-6 717	-20 906	-17 501	-28 500
Marketing costs	-2 443	-9 608	-2 428	-8 276
Administrative costs	-2 090	-8 613	-1 984	-6 847
Operating loss	**-6 392**	**-37 433**	**-20 179**	**-43 567**
Interest income and other financial income	371	1 211	242	1 228
Interest expenses and other financial expenses	-9	-22	-7	-33
Net financial items	**362**	**1 189**	**235**	**1 195**
Loss after financial items	**-6 030**	**-36 244**	**-19 944**	**-42 372**
Taxes	-	-	-	-
Loss for the period	**-6 030**	**-36 244**	**-19 944**	**-42 372**

** 2004 recalculated according to IFRS2*

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

Amounts in SEK thousands	okt-dec 2005	jan-dec 2005	okt-dec 2004	jan-dec 2004
(1) Capitalized R&D cost	1 513	6 053	2 187	3 827
(2) Patents	10	790	307	1 132
Machinery and equipment	491	1 447	554	2 147
Total depreciation	**2 014**	**8 290**	**3 048**	**7 106**

KEY RATIOS

	okt-dec 2005	jan-dec 2005	okt-dec* 2004	jan-dec* 2004
Earnings per share, SEK	-0,10	-0,73	-1,07	-1,12
Earnings per share after full dilution SEK	-0,10	-0,73	-1,07	-1,12
Equity per share, SEK	2,24	2,24	2,13	2,13
Equity per share after full dilution SEK	2,24	2,24	2,13	2,13
No. of shares at end of period	59 244 790	59 244 790	39 496 527	39 496 527
Average n. of shares	59 244 790	49 370 659	39 496 527	37 696 527
No. of shares after full dilution	61 107 012	61 107 012	40 829 867	40 829 867
Yield on equity, %	neg	neg	neg	neg
Yield on capital employed, %	neg	neg	neg	neg
Equity/assets ratio, %	95	95	91	91

** 2004 recalculated according to IFRS2*

ALLOCATION OF NET SALES

Amounts in SEK thousands **Source of revenue**	okt-dec 2005	jan-dec 2005	okt-dec 2004	jan-dec 2004
Licensing of product applications	1 712	1 841	3 351	3 351
Product sales	770	1 529	394	453
Milestone payments for product development projects	3 950	4 859	0	1 000
	6 432	**8 229**	**3 745**	**4 804**

Geographic areas	okt-dec 2005	jan-dec 2005	okt-dec 2004	jan-dec 2004
Scandinavia	65	350	224	1 283
USA	6 367	7 879	3 521	3 521
	6 432	**8 229**	**3 745**	**4 804**

Artimplant
Degradable Materials for Optimal Tissue Repair

BALANCE SHEET

Amounts in SEK thousands	2005-12-31	2004-12-31*	2004-12-31
ASSETS			
Capitalized product development	27 949	32 414	32 414
Patents	1 264	2 016	2 016
Total intangible fixed assets	29 213	34 430	34 430
Machinery and equipment	1 394	1 699	1 699
Total tangible fixed assets	1 394	1 699	1 699
Stock and participation in subsidiaries	1 707	1 807	1 807
Total financial fixed assets	1 707	1 807	1 807
Total fixed assets	**32 314**	**37 936**	**37 936**
Raw materials, semimanufactures and finished goods	944	292	292
Total inventories etc	944	292	292
Accounts receivable	204	414	414
Other receivables	1 093	792	792
Prepaid expenses and accrued income	1 275	1 293	1 293
Total short-term receivables	2 572	2 499	2 499
Cash and bank accounts	104 186	51 277	51 277
Total current assets	**107 702**	**54 068**	**54 068**
TOTAL ASSETS	**140 016**	**92 003**	**92 003**

Amounts in SEK thousands	2005-12-31	2004-12-31*	2004-12-31
SHAREHOLDERS' EQUITY & LIABILITIES			
Equity			
Share capital	5 924	3 950	3 950
Premium reserve	162 618	122 070	122 070
Total restricted equity	168 542	126 020	126 020
Retained earnings	548	291	
Loss for the period	-36 244	-42 372	-42 081
Total retained loss	-35 696	-42 081	-42 081
Total equity	**132 846**	**83 939**	**83 939**
Provisions	**245**	**-**	**-**
Accounts payable	919	2 007	2 007
Liabilities, subsidiaries	1 822	1 793	1 793
Other current liabilities	718	731	731
Accrued expenses and prepaid income	3 466	3 534	3 534
Total current liabilities	**6 925**	**8 065**	**8 065**
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES	**140 016**	**92 003**	**92 003**

Changes in shareholders' equity during the period

Amounts in SEK thousands	jan-dec 2005	jan-dec* 2004	jan-dec 2004
Equity at beginning of the period	83 939	111 370	111 370
Share issue	84 603	14 650	14 650
Benefit employee stock option (IFRS2)	548	291	-
Loss for the period	-36 244	-42 372	-42 081
Equity at end of the period	**132 846**	**83 939**	**83 939**

** 2004 recalculated according to IFRS2*

CASH-FLOW ANALYSIS

Amounts in SEK thousands	jan-dec 2005	jan-dec* 2004	jan-dec 2004
Operating activities			
Net loss after financial items	-36 244	-42 372	-42 081
Adjustment for items not effecting cash flow	9 715	19 517	19 226
Cash flow from operating activities before changes in working capital	**-26 529**	**-22 855**	**-22 855**
Cash flow from changes in working capital			
Changes in inventories	-652	-157	-157
Changes in receivables	-73	337	337
Changes in liabilities	-1 140	-4 741	-4 741
Cash flow from operating activities	**-28 393**	**-27 416**	**-27 416**
Investing activities			
Acquisition of intangible fixed assets	-2 161	-3 256	-3 256
Acquisition of tangible fixed assets	-1 141	-651	-651
Cash flow from investing activities	**-3 301**	**-3 907**	**-3 907**
Financing activities			
Share issue	84 603	14 650	14 650
Cash flow from financing activities	**84 603**	**14 650**	**14 650**
Cash flow for the period	**52 909**	**-16 673**	**-16 673**
Liquid funds at beginning of period	**51 277**	**67 950**	**67 950**
Liquid funds at end of period	**104 186**	**51 277**	**51 277**

** 2004 recalculated according to IFRS2*

Göteborg, February 17, 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 67.5 million 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 SEK 143 million 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 SEK 30 million 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 SEK 62 million 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 Othopaedics 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.