



## Interim report January–March 2005

Vitrolife AB (publ)

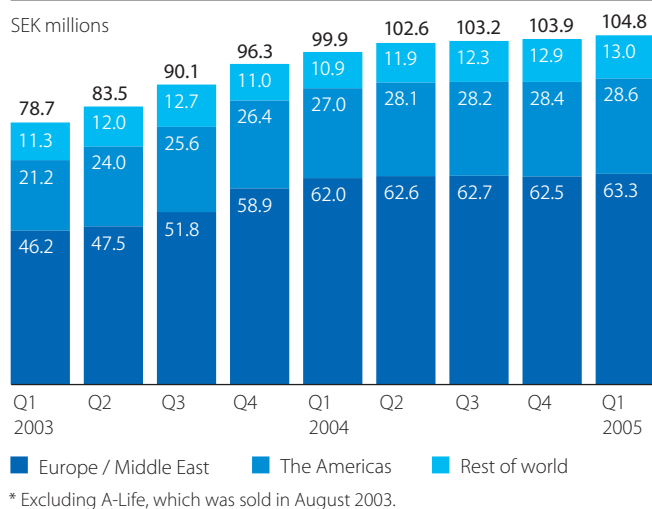
- Sales increased by 3 percent, to SEK 30.5 (29.5) million. Adjusted for exchange-rate effects the increase was 6 percent.
- Gross income amounted to SEK 20.6 (20.5) million and the gross margin to 67 percent (69).
- Operating income amounted to SEK 5.4 (5.4) million.
- Net income for the Group was SEK 6.2 (6.1) million.
- Earnings per share amounted to SEK 0.34 (0.33).
- The equity/assets ratio increased to 83 percent (78).
- Sale of the shares in Cellartis AB has led to a capital gain of SEK 2.4 million.
- Sales approval has been obtained for ICSI™ in the USA.
- A patent concerning the use of alanyl-glutamine in media for embryos and stem cells has been approved in the USA.
- Powerful measures have been taken during the period with regard to marketing, R&D and the expansion of production capacity.

## Sales and income

Vitrolife's net sales for the first quarter of 2005 amounted to SEK 30.5 (29.5) million, which corresponds to an increase of 3 percent compared to the corresponding period the previous year. Adjusted for negative exchange-rate effects the increase was 6 percent. Sales in Europe/the Middle East increased from SEK 18.9 million to 19.6 million (in local currencies the increase was 5 percent). The corresponding figures for America were an increase from SEK 7.2 million to 7.4 million (in local currencies plus 12 percent), and for the remainder of the markets an increase from SEK 3.4 to 3.5 million (in local currencies plus 3 percent).

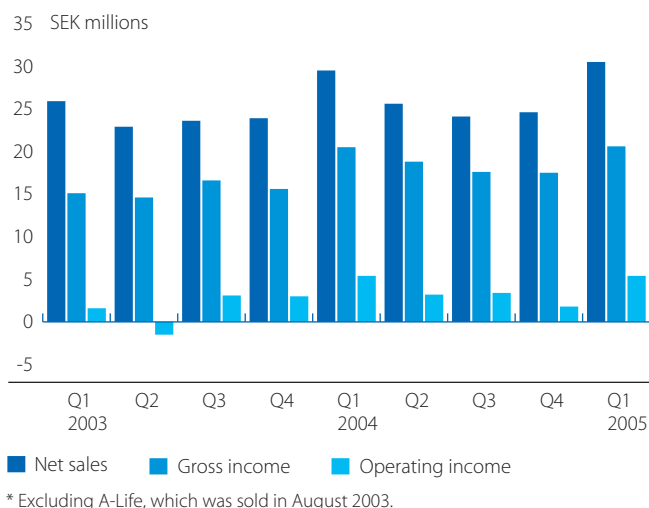
The Cell Therapy product area is not reported separately below as it is still at the research stage and sales are still very small. During the period they were SEK 0.05 (0.1) million.

**Fig 1. Net sales per geographic area\* (rolling 12 months)**  
Converted to a rolling 12 months, sales amounted to SEK 104.8 (99.9) million, an increase of 5 percent.



As can be seen in Figure 2, Vitrolife's sales have historically been higher in the first quarter than in other quarters. This is due to the fact that shipments have been made to the fertility clinics every fourth week and there has been four shipments during

**Fig 2. Sales and income per quarter\***



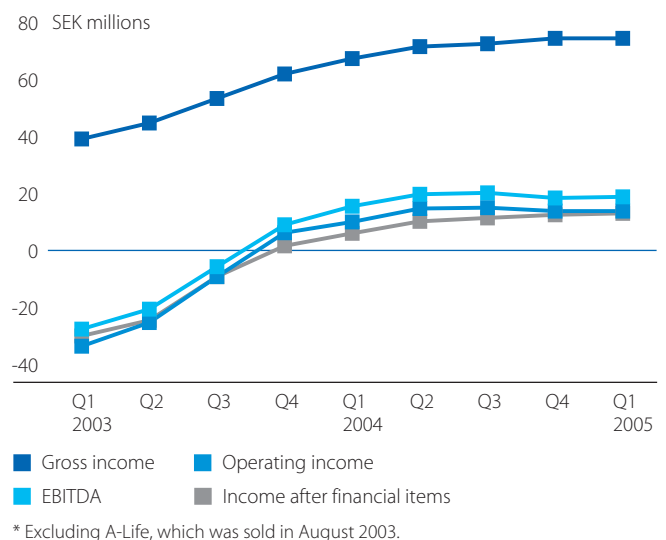
the first quarter and three during the others. As from 2005 there is a gradual transition to shipments being made directly upon order, and thus it can be anticipated that a levelling out between the quarters will begin.

The gross margin during the period amounted to 67 (69) percent. As has been communicated previously, the starting up of the factory in Denver means that the gross margin will deteriorate a couple of percentage points during a transition phase before the adaptation of costs in Kungsbacka has been fully implemented. The factory in Denver has a higher degree of automation and a substantially higher capacity, and thus economies of scale are expected to have a positive effect in time. The validation of new products and products which are being transferred from Kungsbacka has continued during the period at the factory in Denver. This work is expected to be by and large complete during the first half of 2005. Gross income was SEK 20.6 (20.5) million.

Operating expenses for the quarter, excluding depreciation and amortization, increased from SEK 14.0 million to 16.2 million. Selling expenses increased by 30 percent compared with the corresponding period the previous year, which is a reflection of the investments that have been made in a larger sales department and a higher degree of sales under company management. Administrative expenses have decreased while the focus on product development and registration activities is also reflected in increased expenses.

Depreciation and amortization of SEK 1.5 (1.1) million has been charged against the period. Other operating revenues contains earnings of SEK 2.4 million from the sale of the shares in Cellartis AB. The shares were acquired when the company was started and the reason was that Vitrolife wanted to support the development of the clinical use of stem cells and thereby the media market for these. As Cellartis has now left the start-up stage, the shareholding was divested as planned, through sale to a venture capital company. Cooperation between the companies is continuing as previously. Payment received was SEK 3.2 million, which gave a capital gain of SEK 2.4 million. Operating income including this capital gain was SEK 5.4 (5.4) million, which corresponds to a margin of 17.7 (18.1) percent.

**Fig 3. Income\* (rolling 12 months)**



Net financial income amounted to SEK 1.0 (0.5) million and net income for the period amounted to SEK 6.2 (6.1) million. Net financial income includes non-realized exchange rate fluctuations regarding internal receivables and liabilities of SEK 1.1 (0.3) million. The restatement of the Parent Company's loan and receivable regarding the American subsidiary Vitrolife, Inc. is booked directly against non-restricted equity. The restatement effect in the financial statements amounts to SEK 0.3 (0.1) million net. Tax for the period amounted to SEK 0.2 (positive item 0.3) million and is tax on the Group's internal profits on inventories. Loss carry-forward from previous years means that no tax expense has been charged against net income for the period.

### Fertility products

- Sales amounted to SEK 26.9 (27.1) million, a decrease of 1 percent. Adjusted for exchange-rate effects sales increased by 1 percent.
- 510(k) – sales approval in the USA – for ICSI™ (intracytoplasmic sperm injection, a technology for the treatment of male infertility) was obtained in January 2005.
- A patent concerning the use of alanyl-glutamine was obtained at the beginning of 2005.

Net sales for the period January-March 2005 amounted to SEK 26.9 (27.1) million, corresponding to a decrease of 1 percent. Adjusted for exchange-rate effects sales increased by 1 percent compared with the same period the previous year, which was a strong quarter.

In Europe development was good in Southern Europe, above all in Greece and Spain. In Germany and Italy sales are still being affected negatively by the change in the reimbursement system that was carried out in Germany in the middle of the first quarter the previous year and by the more restrictive legislation that was introduced in Italy.

In the American region the development of sales was in line with the previous year in local currency, but as the translation rate was 6 percent lower than the previous year, it decreased in SEK. The percentage of customers who use Vitrolife's complete series of culture media has increased in the USA, however.

In the Rest of the world region, Australia/New Zealand, where Vitrolife has operated under its own management since the turn of the year, displayed the greatest increase. Sales in China decreased. The number of fertility treatments has developed rapidly in China for some years. From having been an activity with the emphasis on research, it has become an established therapy which is paid for by the patients without any subsidies. The authorities have noted this development and have begun a regulation of the market by requiring certification of the IVF clinics, something which has meant that a large number of clinics have temporarily discontinued their business activities until they have formally obtained certification. The number of treatments has therefore decreased during the period but is expected to have reached previous levels again within a quarter or two.

A further salesman with embryological competence was employed in the USA at the turn of the year. The running in of

the sales organization that was greatly strengthened at the end of 2004 is continuing according to plan and is expected to have an effect above all during the latter part of the year. A positive trend, with more customers buying all of Vitrolife's GIII media system, has been noted. During the period a new version of the GIII series, which facilitates handling in the laboratory and saves time for the customers, was launched.

In January 2005 the Food and Drug Administration (FDA) announced that they had granted Vitrolife sales approval in the USA, so-called 510(k), for ICSI™ (intracytoplasmic sperm injection), a product that is used in the treatment of male infertility. As ICSI™ contains recombinant albumin (synthetically manufactured) instead of albumin purified from blood, ICSI™ is the first product for this technology which makes it possible to completely eliminate the risk of infection (albumin that has been purified from blood may contain a source of infection that could cause diseases, even though the risk is small). The use of recombinant albumin also gives more stable results and simplifies handling.

At the beginning of 2005 Vitrolife was also informed that the company's patent application regarding the use of alanyl-glutamine in media for embryos and stem cells has been approved in the USA. The advantage of alanyl-glutamine compared with common glutamine is that it is not broken down during storage into substances that can harm the cells.

### Transplantation products

- Sales amounted to SEK 3.6 (2.3) million, an increase of 54 percent. Adjusted for exchange-rate effects, sales increased by 59 percent.
- The process of obtaining CE approval for Steen Solution™, a solution for functional testing of lungs outside the body before transplantation, is proceeding according to plan.
- Great interest in the starting up of new clinical verification of functional testing of lungs using Steen Solution™ in the USA, for example, has led to increased use of Perfadex® as well.

Net sales for the period amounted to SEK 3.6 (2.3) million, corresponding to an increase of 54 percent. In local currencies, sales increased by 59 percent. The American market displayed a particularly good increase in sales. During the period Vitrolife took part in two important conferences in the USA, where there was great interest in Vitrolife's coming product, Steen Solution™. The application for marketing approval in Europe for this product, so-called CE marking, was submitted in October 2004. The product is to be scrutinized by Europe's Medical Products Agency, EMEA. This process is proceeding according to plan and it is estimated that approval will be obtained towards the end of 2005. The clinical studies in the USA are planned to begin during 2005 and it is estimated that sales will be able to start there in 2006, depending on authority approval. Vitrolife's product Perfadex® is also part of the new treatment and the interest has led to the use of Perfadex® having increased during the period, both clinically and for research purposes.

## Investments and cash flow

Gross investments in the Group's fixed assets amounted to SEK 4.2 (3.4) million during the period. SEK 2.9 (2.6) million has been invested in tangible fixed assets, of which SEK 1.1 (2.1) million is attributable to the starting up of the factory in Denver. During the third quarter 2004 the building of further stores and office space for the facility in Kungsbacka was begun. It is estimated that the investment will amount to approximately SEK 8 million in total. Up until balance-day the investment had amounted to SEK 7.4 million. The facility has now by and large been completed and premises rented previously have been vacated. The investments in intangible fixed assets apply to the American subsidiary and amounted to SEK 1.3 (0.8) million for the period.

Vitrolife's cash flow from operating activities amounted to SEK -0.8 (3.6) million for the period January-March 2005. Accounts receivable increased by SEK 7.7 million to SEK 18.4 (10.7 at December 31, 2004) million. At the turn of the year accounts receivable were at their lowest level during 2004 at the same time as sales in the first quarter of 2005 were 24 percent higher than the last quarter of 2004. Compared with the corresponding period the previous year, accounts receivable increased by SEK 2.0 million in spite of the fact that sales only increased by SEK 1.0 million. This was, however, a reporting date effect: several large payments were due and were paid at the beginning of April. The cash flow from investing activities was SEK -3.5 (-3.4) million and from financing activities SEK -0.1 (-0.1) million. In all the cash flow for the period amounted to SEK -4.3 (0.1) million. The Group's liquid funds at March 31, 2005 amounted to SEK 40.7 (51.7) million. The equity/assets ratio for the group amounted to 83 (78) percent.

## Parent Company

Business activities focus on company-wide management and the company has no employees. Other operating revenues in the Parent Company amounted to SEK 2.4 (-) million and comprise the sale of the shares in Cellartis AB. The costs that arise are attributable to the Board and to the Stockholm Stock Exchange and the listing of the company's shares. Income before tax amounted to SEK 3.9 (-0.3) million. Liquid funds amounted to SEK 36.7 (43.6) million. As in the corresponding period the previous year no investments were made.

The Vitrolife share is listed on the O-list of the Stockholm Stock Exchange under the symbol VITR. The closing price on March 31, 2005 was SEK 20.70 (25.50).

## Organization and personnel

In order to promote personal commitment to Vitrolife and its products in each co-worker, great emphasis is constantly placed on the spreading of information and understanding of the company's processes, strategies and short-term and long-term objectives.

The number of people at Vitrolife in Kungsbacka has been relatively constant during the period. Internal qualification and rotation opportunities have, however, involved some transferring of personnel within the company, as fewer people are involved in production and more in product development and

marketing. The production facility in Denver, USA, which has gradually taken over production from the Kungsbacka facility, has been strengthened since the beginning of the year by a number of skilled co-workers.

During the first three months of 2005 the average number of employees was 83 (70), of whom 52 were women and 31 were men. 67 people were employed in Sweden and 16 in the USA. The majority are in the 25-40 age span.

## Prospects for the whole year

In line with the strategy adopted during 2004, Vitrolife has during the period continued to put a great deal of effort into three main areas:

- Increasing direct contact with the customers, with the aim of increasing sales. The marketing organization has been expanded through the employment of co-workers with long experience of international marketing within medicine and medical devices as well as experienced embryologists and biologists with solid laboratory experience. However, the sales process for IVF media takes months to carry out as the adaptation involved when a clinic changes media system takes time and needs to be planned thoroughly in order not to put the treatment results at risk. However, this means in its turn that a further change in the immediate future is unusual.
- An ambitious drive has been started within product development, with the aim of being able to launch new products within all product areas during 2005 and 2006 in order to further enable expansion.
- Completion of the expansion of production capacity. The volume products are being gradually transferred to Vitrolife's new production facility in Denver, USA, during the first half of 2005. During a transitional stage the gross margin will deteriorate a few percentage points, before the adaptation of costs has been completed in Kungsbacka and economies of scale have been achieved in Denver. The factory in Denver has a higher degree of automation and a substantially higher capacity, and thus the economies of scale are expected to have a positive effect in time.

These three measures are being carried out with the aim of enabling long-term growth together with profitability. We can note that in spite of the measures taken Vitrolife has been able to deliver for the period a profit rate in the business in line with the average for the company's best whole year historically, 2004.

May 10, 2005  
Kungsbacka, Sweden

Magnus Nilsson  
CEO

## Consolidated income statements

(SEK thousands)	January–March		Whole year 2004
	2005	2004	
Net sales	30 518	29 545	103 855
Cost of goods sold	-9 965	-9 047	-29 481
<b>Gross income</b>	<b>20 553</b>	<b>20 498</b>	<b>74 374</b>
Selling expenses	-8 611	-6 641	-28 216
Administrative expenses	-5 210	-5 347	-20 590
Research and development costs	-3 881	-3 149	-11 499
Other operating revenues and expenses	2 544	-7	-298
<b>Operating income</b>	<b>5 394</b>	<b>5 354</b>	<b>13 771</b>
Financial income and expenses	1 033	466	-1 318
<b>Income after financial items</b>	<b>6 427</b>	<b>5 820</b>	<b>12 453</b>
Tax on income for the period	-209	327	212
<b>Net income</b>	<b>6 218</b>	<b>6 147</b>	<b>12 665</b>
Earnings per share, SEK	0.34	0.33	0.69
Average number of outstanding shares	18 390 157	18 390 157	18 390 157
Number of shares at closing day	18 390 157	18 390 157	18 390 157

Depreciation and amortization has reduced income for the period by SEK 1 500 thousand (1 305). Income for the period January – March 2004 has been adjusted by SEK 182 thousand and for the whole of 2004 by SEK 729 thousand. This is due to the reversed amortization of goodwill in accordance with the restatement of the comparative figures in accordance with IFRS. Outstanding option programs do not affect the key ratios since the issue price is considerably higher than the share price.

## Other key ratios

	January–March		Whole year 2004
	2005	2004	
Gross margin, %	67.3	69.4	71.6
Operating margin, %	17.7	18.1	13.3
Net margin, %	20.4	20.8	12.2
Equity/assets ratio, %	83.2	78.4	81.2
Shareholders' equity per share, SEK	8.74	8.24	8.23
Return on equity, %	4.0	4.6	8.3
Return on capital employed, %	3.7	4.0	9.2

## Consolidated income statements per quarter

(SEK thousands)	Jan–Mar	Oct–Dec	Jul–Sep	Apr–Jun	Jan–Mar	Oct–Dec
	2005	2004	2004	2004	2004	2003
Net sales	30 518	24 572	24 136	25 602	29 545	23 962
Cost of goods sold	-9 965	-7 129	-6 492	-6 813	-9 047	-8 342
<b>Gross income</b>	<b>20 553</b>	<b>17 443</b>	<b>17 644</b>	<b>18 789</b>	<b>20 498</b>	<b>15 620</b>
Selling expenses	-8 611	-8 587	-6 313	-6 675	-6 641	-6 278
Administrative expenses	-5 210	-4 089	-4 902	-6 254	-5 347	-5 111
Research and development costs	-3 881	-3 124	-2 846	-2 378	-3 149	-2 552
Other operating revenues and expenses	2 544	114	-135	-270	-7	1 353
<b>Operating income</b>	<b>5 394</b>	<b>1 757</b>	<b>3 448</b>	<b>3 212</b>	<b>5 354</b>	<b>3 032</b>
Financial income and expenses	1 033	-1 469	-230	-85	466	-3 779
<b>Income after financial items</b>	<b>6 427</b>	<b>288</b>	<b>3 218</b>	<b>3 127</b>	<b>5 820</b>	<b>-747</b>
Tax on income for the period	-209	-52	40	-103	327	5 787
<b>Net income</b>	<b>6 218</b>	<b>236</b>	<b>3 258</b>	<b>3 024</b>	<b>6 147</b>	<b>5 040</b>

## Consolidated balance sheets

(SEK thousands)	March 31, 2005	March 31, 2004	Dec 31, 2004
<b>ASSETS</b>			
Goodwill	4 011	4 011	4 011
Other intangible fixed assets	9 766	8 331	8 374
Tangible fixed assets	89 720	81 716	83 656
Financial fixed assets	6 123	7 258	7 143
Inventories	20 258	20 601	21 858
Accounts receivable	18 427	16 362	10 696
Other current receivables	4 369	3 253	5 594
Cash and bank balances	40 694	51 705	44 935
<b>Total assets</b>	<b>193 369</b>	<b>193 237</b>	<b>186 267</b>

### SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity	160 795	151 588	151 303
Long-term interest-bearing liabilities	16 705	20 058	16 091
Short-term interest-bearing liabilities	2 373	1 395	2 245
Accounts payable	5 846	7 226	8 680
Other short-term interest-free liabilities	7 650	12 970	7 948
<b>Total shareholders' equity and liabilities</b>	<b>193 369</b>	<b>193 237</b>	<b>186 267</b>

## Change in shareholders' equity

(SEK thousands)	January–March 2005	2004	Whole year 2004
Amount at beginning of year	151 303	143 435	143 435
Translation difference	3 274	2 006	-4 797
Net income for the period	6 218	6 147	12 665
<b>Amount at end of period</b>	<b>160 795</b>	<b>151 588</b>	<b>151 303</b>

## Consolidated cash flow statements

(SEK thousands)	January–March 2005	2004	Whole year 2004
Income after financial items	6 427	5 820	11 724
Adjustment for items not affecting cash flow	173	1 529	4 634
Change in inventories	1 880	968	-508
Change in trade receivables	-6 282	-4 163	-2 464
Change in trade payables	-2 999	-529	619
Cash flow from operating activities	-801	3 625	14 005
Cash flow from investing activities	-3 454	-3 441	-17 854
Cash flow from financing activities	-89	-89	-2 626
<b>Cash flow for the period</b>	<b>-4 344</b>	<b>95</b>	<b>-6 475</b>
Liquid funds at beginning of period	44 935	51 549	51 549
Exchange rate difference in liquid funds	103	61	-139
<b>Liquid funds at end of period</b>	<b>40 694</b>	<b>51 705</b>	<b>44 935</b>

## Financial data per geographic area

(SEK thousands)	January–March 2005	2004	Whole year 2004
<b>Europe / Middle East</b>			
Net sales	19 605	18 882	62 541
Operating income	3 465	3 422	8 293
<b>The Americas</b>			
Net sales	7 428	7 229	28 389
Operating income	1 313	1 310	3 764
<b>Rest of world</b>			
Net sales	3 485	3 435	12 925
Operating income	616	622	1 714

### Accounting principles

This interim report for the Group has been drawn up in accordance with IAS 34, Interim Financial Reporting. Vitrolife reports in accordance with IAS 14, Segment Reporting, geographic areas as primary segment.

As from January 1, 2005, Vitrolife is applying International Financial Reporting Standards (IFRS) in its consolidated accounts. This applies to all listed companies within the EU. When reporting in 2005 comparative figures for 2004 must also be restated in accordance with IFRS.

In the company's Annual Report for the financial year 2004 a description was presented of what effects the changeover has on the Group's income statements, balance sheets and additional information:

- IAS 39 Financial Instruments, Recognition and Measurement: During 2004 there were no financial instruments of such a nature that an effect on position and performance arises. IAS 39 is to be applied as of January 1, 2005 and is exempt from the requirement of restatement of the comparative year.
- IAS 19 Employee Benefits: corresponds to RR 29, which has been applied from 2004. This has not involved any effect on the reported position and performance. The pension plans that exist within the Group involve the payment of insurance premiums and after this the company does not have any pension commitments. The premiums are carried in the period they concern. The company's pensions are thus classified as a defined contribution plan. Furthermore there are no outstanding options programs where the premium has not been at the market rate.
- IAS 16: Property, Plant and Equipment: It is the company's assessment that the changeover to the application of depreciation on a component basis in accordance with IFRS does not have any tangible effects on the opening balance at January 1, 2004 and the closing balance at December 31, 2004.
- IAS 38 Intangible Assets: The company reports intangible assets as previously in accordance with RR 15, which for the most part is in agreement with IAS 38. It is the company's assessment that no tangible effects have affected the company's position and performance.
- IFRS 3: In the financial statements for 2004 goodwill has been amortized by SEK 729 thousand. The goodwill item has been valued for cash flow purposes and there is no write-down requirement. Vitrolife will not restate company acquisitions and mergers retroactively. No company has been acquired during 2004.

**Summary of the effect on position and performance for 2004 (SEK thousands):**

Income statement	Jan–Dec		Jan–Mar	
	Operating income	Net income	Operating income	Net income
2004	13 042	11 936	5 172	5 965
Change in accordance with IFRS 3	729	729	182	182
Adjusted income	13 771	12 665	5 354	6 147
Balance sheet	Shareholders' equity		Shareholders' equity	
	Goodwill		Goodwill	
Closing balance Dec 31, 2003	4 011	143 435		
Change in accordance with IFRS 3	—	—		
Opening balance Jan 1, 2004	4 011	143 435		
Closing balance Dec 31, 2004 / Mar 31, 2004	3 282	150 574	3 829	151 406
Change in accordance with IFRS 3	729	729	182	182
Opening balance Jan 1, 2005 / Apr 1, 2004	4 011	151 303	4 011	151 588

As of January 1, 2005, the Parent Company applies RR 32, Accounting for Legal Entities. The main significance of RR 32 is that IFRS shall be applied, but with certain exceptions. The application of RR 32 has no effects on the Parent Company's position and performance.

The accounting principles are otherwise unchanged compared with the last Annual Report and a description is to be found in the Annual Report for 2004.

Vitrolife is an international biotechnology/medical device group that develops, produces and markets advanced products and systems for the preparation, cultivation and storage of human cells, tissues and organs. The company has operations within three product areas: Fertility, Transplantation and Cell Therapy. The Fertility product area works with solutions (media) for treatment of human infertility. The Transplantation product area works with solutions and systems designed to keep organs in optimal shape during the required time outside the body, when waiting for a transplant. The Cell Therapy product area works with media in order to be able to use stem cells for therapeutic purposes.

Vitrolife today has approximately 80 employees and the company's products are sold in over 80 markets. The main office is in Kungsbacka, Sweden, with a subsidiary in Denver, USA. The Vitrolife share is listed on the O list of the Stockholm Stock Exchange.

**Financial reports**

Vitrolife's interim reports are published on the company's homepage, [www.vitrolife.com](http://www.vitrolife.com), and are sent to the shareholders who have registered that they would like to have this information.

**The interim report for the period January – June 2005 will be published on Thursday July 14.**

**Queries should be addressed to:**

Magnus Nilsson, CEO, phone +46 31 721 80 00 or +46 708 22 80 61.  
Anna Ahlberg, CFO, phone +46 31 721 80 13 or +46 708 22 80 13.

.....  
**This report has not been the subject of review by the company's auditors.**

**Vitrolife** 

**Innovative Cell and Tissue Technology**

[www.vitrolife.com](http://www.vitrolife.com)

**Vitrolife AB (publ)**  
**Vitrolife Sweden AB**  
Faktorvägen 13  
SE-434 37 Kungsbacka  
Sverige  
Tel +46 31 721 80 00  
Fax +46 31 721 80 90

**Vitrolife Inc.**  
3601 South Inca Street  
Englewood,  
CO 80110  
USA  
Tel +1 303 762 1933  
Fax +1 303 781 5615