



Interim report January–June 2005

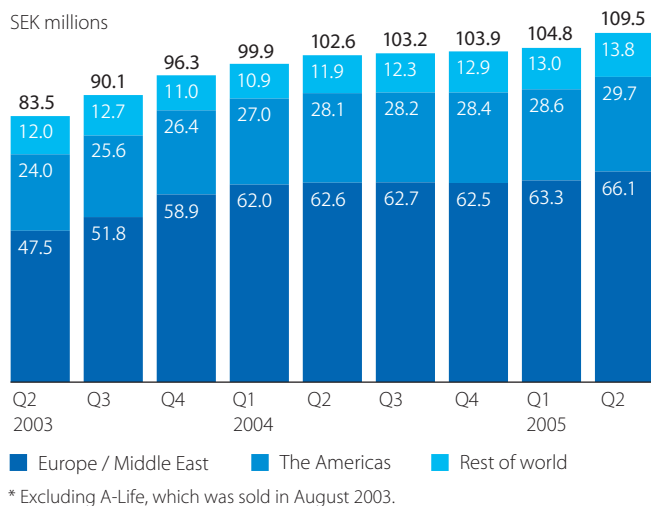
Vitrolife AB (publ)

- Sales increased by 10 percent to SEK 60.8 (55.1) million. Adjusted for exchange-rate effects the increase was 12 percent. During the second quarter sales amounted to SEK 30.3 (25.6) million, corresponding to an increase of 18 percent. Adjusted for exchange-rate effects the increase was 20 percent.
- Gross income increased by 6 percent to SEK 41.8 (39.3) million and the gross margin amounted to 69 (71) percent. Gross income for the second quarter increased by 13 percent to SEK 21.3 (18.8) million and the gross margin was 70 (73) percent.
- Operating income amounted to SEK 6.5 (8.6) million for the first six months and to SEK 1.1 (3.2) million for the second quarter.
- Net income for the Group was SEK 9.0 (9.2) million, of which SEK 2.8 million (3.0) was for the second quarter.
- Earnings per share amounted to SEK 0.49 (0.50).
- The equity/assets ratio increased to 82 percent (80).
- The validation of the GIII Series products at the Denver facility has been completed.
- All parts of the new office building and warehouse in Kungsbacka are now in use.

Sales and income

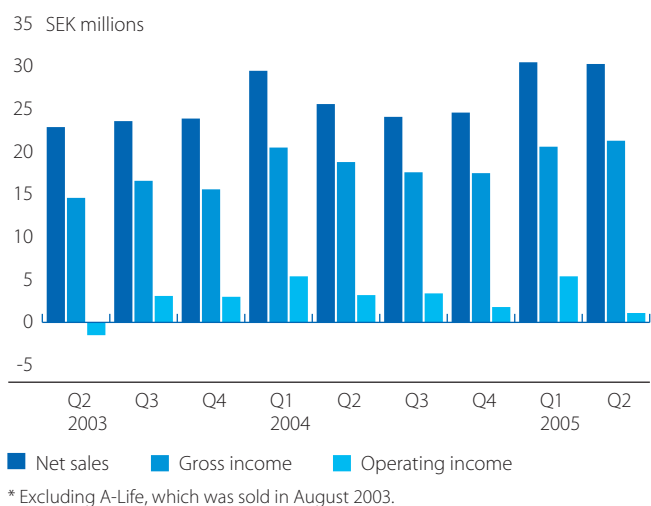
Vitrolife's net sales for the period January to June 2005 amounted to SEK 60.8 (55.1) million, which corresponds to an increase of 10 percent compared to the corresponding period the previous year. Adjusted for negative exchange-rate effects the increase was 12 percent. Net sales during the second quarter increased by 18 percent and amounted to SEK 30.3 (25.6) million. Adjusted for negative exchange-rate effects the increase was 20 percent. Sales in Europe/the Middle East increased by 19 percent during the second quarter, from SEK 15.2 million to 18.1 million (in local currencies the increase was 18 percent). The corresponding figures for America were an increase of 15 percent, from SEK 7.2 million to 8.2 million (in local currencies plus 21 percent), and for the remainder of the markets an increase of 24 percent, from SEK 3.2 to 4.0 million (in local currencies plus 23 percent).

Fig 1. Net sales per geographic area* (rolling 12 months)
Converted to a rolling 12 months, sales amounted to SEK 109.5 (102.6) million, an increase of 7 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 have been four shipments during

Fig 2. Sales and income per quarter*

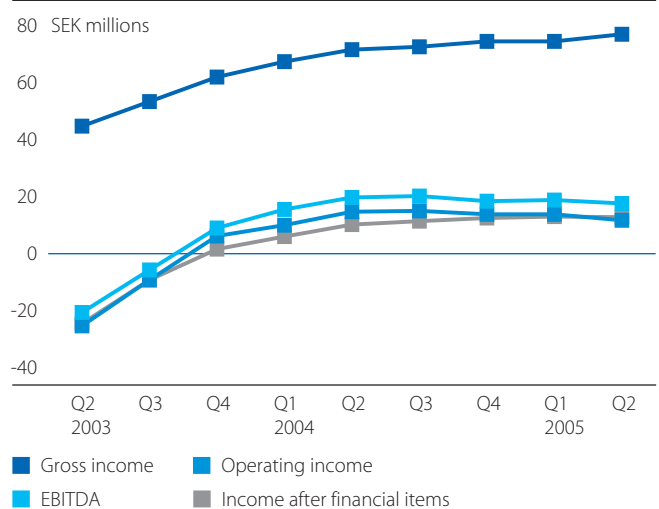


the first quarter and three during the others. As from 2005 there is a gradual transition to shipments being made directly upon order, and thus it can be anticipated that a levelling out between the quarters will begin.

The gross margin during the first six months amounted to 69 (71) percent. Gross income was SEK 41.8 (39.3) million. Gross income for the second quarter amounted to SEK 21.3 (18.8) million and the gross margin to 70 (73) percent. The gross margin varies somewhat over time, due to seasonal variations in sales. 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 during the period been by and large completed.

Operating income was SEK 6.5 (8.6) million, which corresponds to a margin of 10.6 (15.5) percent. For the second quarter operating income amounted to SEK 1.1 (3.2) million. Operating expenses for the first six months, excluding depreciation and amortization, increased from SEK 28.2 million to 34.6 million. For the second quarter they increased from SEK 14.2 million to 18.4 million. Selling expenses increased for the period January to June by 42 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, for the period an increase by 52 percent. Depreciation and amortization of SEK 3.5 (2.3) million has been charged against the first six months and SEK 2.0 (1.2) million against the second quarter. Other operating revenues contains a capital gain of SEK 2.4 million for the first quarter, from the sale of the shares in Cellartis AB.

Fig 3. Income* (rolling 12 months)



Net income amounted to SEK 9.0 (9.2) million, of which SEK 2.8 (3.0) million was for the second quarter. Net financial income amounted to SEK 2.8 (0.4) million, of which SEK 1.8 (–0.1) million was for the second quarter. Net financial income includes non-realized exchange rate fluctuations regarding internal receivables and liabilities of SEK 3.1 (0.8) million for the period January to June. 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 amounted to SEK 0.8 (0.1) million net. Tax for the period amounted to SEK –0.3 (0.2) 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 52.6 (49.7) million, an increase of 6 percent. Adjusted for exchange-rate effects sales increased by 7 percent. For the second quarter sales amounted to SEK 25.7 (22.6) million, an increase of 14 percent. Adjusted for exchange-rate effects sales increased by 15 percent.
- The largest activity of the year, product presentations at the ESHRE fertility conference which was held in Copenhagen this year, was carried out during the period and great customer interest was noted.

The development of sales was good in Europe, plus 11 percent for the first six months of the year, above all in Greece and Spain, but also in England and France. Sales are still being affected negatively in Italy by the more restrictive legislation that was introduced during the beginning of 2004. Germany, where development was negative the previous year due to considerably reduced reimbursement levels, displayed positive development for the second quarter and as far as Vitrolife is concerned is now back at the same level as before the change in the system. This means that there has been an appreciable increase in the company's market share.

In the American region sales increased by 2 percent, corresponding to the previous year in local currency, but as the translation rate was 5 percent lower than the previous year, it decreased in SEK. There has been a positive restructuring of the customer base, where the percentage of customers using Vitrolife's complete series of culture media has increased.

In the Rest of the world region sales increased by 13 percent during the first six months of the year. Australia/New Zealand, where Vitrolife has operated under its own management since the beginning of the year, displayed the greatest increase. In the perspective of the whole period sales in China decreased, but during the second quarter sales were back at the same level as the previous year. At the end of the previous year the authorities began a regulation of the market by requiring certification of the IVF clinics, which meant that a large number of clinics temporarily discontinued their business activities until they formally obtained certification.

Development was positive during the second quarter in those markets in Europe where the recently strengthened sales

organization is operating with its own sales people. Further recruitments, for Europe and the USA, are ongoing. The largest activity of the year, the fertility conference arranged by ESHRE (European Society of Human Reproduction and Embryology), was carried out at the end of June in Copenhagen. Vitrolife presented new clinical results that confirm the efficacy of the company's products and officially launched its new GIII Series Plus and ICSI containing recombinant albumin. Great customer interest was noted for both these and other products.

Transplantation products

- Sales amounted to SEK 8.2 (5.4) million, an increase of 52 percent. Adjusted for exchange-rate effects, sales increased by 56 percent. For the second quarter sales amounted to SEK 4.6 (3.1) million, an increase of 50 percent. Adjusted for exchange-rate effects sales increased by 54 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.

The interest in Vitrolife's coming product Steen Solution™ has led to an increase in the use of Perfadex® during the period. Together with Steen Solution™, Perfadex® is also part of the new method for organ preservation. 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 start-up work around the clinical studies in the USA is ongoing and the studies are planned to begin during 2005. Stig Steen's transplantation team at the university hospital in Lund has during the period successfully carried out the second lung transplantation on man using the new technology. The technology allows the lung to be tested outside the body, something which means that the functioning of organs that are initially assessed as doubtful can be determined and that organs from heart-dead patients can be tested for possible use. The number of potential organs that can be transplanted thereby increases considerably.

The Cell Therapy product area is not reported separately as it is still at the research stage and sales are still very small. During the period January to June they were SEK 0.1 (0.2) million.

Investments and cash flow

Gross investments in the Group's fixed assets amounted to SEK 6.2 (8.0) million during the period. SEK 5.0 (6.2) million has been invested in tangible fixed assets, of which SEK 1.9 (4.6) million is attributable to the starting up of the factory in Denver and SEK 2.5 million to the building of further stores and office space for the facility in Kungsbacka which was started during the third quarter 2004. The investments in intangible fixed assets apply to the American subsidiary and amounted to SEK 2.3 (1.8) million

for the period.

Vitrolife's cash flow from operating activities amounted to SEK 1.7 (6.2) million for the period January–June 2005. Accounts receivable increased by SEK 9.6 million to SEK 20.3 (10.7 at December 31, 2004) million. The increase is explained by the fact that, at the turn of the year, accounts receivable were at their lowest level during 2004, and that several large receivables were paid at the beginning of July. Compared to the same period the previous year accounts receivable increased by SEK 5.2 million and sales by SEK 5.7 million. The cash flow from investing activities was SEK –6.2 (–8.0) million and from financing activities SEK –1.2 (–0.2) million. During the second quarter USD 143 thousand (corresponding to SEK 1.1 million) of the Parent Company's loan in USD, was paid off. Instalments on this loan are paid twice a year. In all the cash flow for the period amounted to SEK –5.7 (–2.0) million. The Group's liquid funds at June 30, 2005 amounted to SEK 39.5 (49.6) million. The equity/assets ratio for the Group amounted to 82 (80) 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 4.9 (–1.0) million. Liquid funds amounted to SEK 37.0 (42.3) 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 June 30, 2005 was SEK 19.70 (24.60).

Organization and personnel

Vitrolife is a knowledge-based company and it thus has its greatest resources in its human capital. In order to secure the company's long-term objectives, it is necessary that each person contributes with his/her knowledge, competencies and commitment in the day-to-day work. The company therefore strives to create a well-functioning working environment that supports and encourages commitment and accountability. During the period specific efforts have been made to review the physical working environment. This has resulted in concrete measures such as job rotation and investments in an improved working environment.

During the first six months of 2005 the average number of employees was 81 (71), of whom 52 (47) were women and 29 (24) were men. 67 people were employed in Sweden and 14 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:

- Expanded marketing organization in order to enable increased direct contact with the customers, with the aim of increasing sales. Experience shows that the sales process for IVF media often takes six to nine months to carry out. The trend during the second quarter has been promising and new customers have been gained, which suggests that the action taken is beginning to show results.
- An ambitious drive within product development, with the aim of being able to register and launch new products within all product areas during the coming year in order to further enable expansion.
- Completion of the expansion of production capacity 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. It is expected that the measures will have an effect primarily during the latter part of the year, but it is satisfying to be able to note that sales have increased at an improved rate during the second quarter compared with the previous quarters.

July 14, 2005
Kungsbacka, Sweden

Magnus Nilsson
CEO

Consolidated income statements

(SEK thousands)	January–June		April–June		Whole year 2004
	2005	2004	2005	2004	
Net sales	60 802	55 147	30 284	25 602	103 855
Cost of goods sold	-18 983	-15 860	-9 018	-6 812	-29 481
Gross income	41 819	39 287	21 266	18 790	74 374
Selling expenses	-18 911	-13 316	-10 301	-6 675	-28 216
Administrative expenses	-10 804	-11 600	-5 594	-6 254	-20 590
Research and development costs	-8 422	-5 528	-4 540	-2 379	-11 499
Other operating revenues and expenses	2 792	-277	249	-270	-298
Operating income	6 474	8 566	1 080	3 212	13 771
Financial income and expenses	2 841	381	1 808	-85	-1 318
Income after financial items	9 315	8 947	2 888	3 127	12 453
Tax on income for the period	-274	224	-65	-103	212
Net income	9 041	9 171	2 823	3 024	12 665
Earnings per share, SEK	0.49	0.50	0.15	0.16	0.69
Average number of outstanding shares	18 390 157	18 390 157	18 390 157	18 390 157	18 390 157
Number of shares at closing day	18 390 157	18 390 157	18 390 157	18 390 157	18 390 157

Depreciation and amortization has reduced income for the period by SEK 3 542 thousand (2 276), of which SEK 2 042 thousand (1 153) is for the second quarter. Income for the period January – June 2004 has been adjusted by SEK 365 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–June		April–June		Whole year 2004
	2005	2004	2005	2004	
Gross margin, %	68.8	71.2	70.2	73.4	71.6
Operating margin, %	10.6	15.5	3.6	12.5	13.3
Net margin, %	14.9	16.6	9.3	11.8	12.2
Equity/assets ratio, %	82.1	79.6	82.1	79.6	81.2
Shareholders' equity per share, SEK	9.19	8.40	9.19	8.40	8.23
Return on equity, %	7.9	10.7	7.9	10.7	8.3
Return on capital employed, %	9.3	10.6	9.3	10.6	9.2

Consolidated income statements per quarter

(SEK thousands)	Apr–Jun 2005	Jan–Mar 2005	Oct–Dec 2004	Jul–Sep 2004	Apr–Jun 2004	Jan–Mar 2004
	Net sales	30 284	30 518	24 572	24 136	25 602
Cost of goods sold	-9 018	-9 965	-7 129	-6 492	-6 813	-9 047
Gross income	21 266	20 553	17 443	17 644	18 789	20 498
Selling expenses	-10 301	-8 611	-8 587	-6 313	-6 675	-6 641
Administrative expenses	-5 594	-5 210	-4 089	-4 902	-6 254	-5 347
Research and development costs	-4 540	-3 881	-3 124	-2 846	-2 378	-3 149
Other operating revenues and expenses	249	2 544	114	-135	-270	-7
Operating income	1 080	5 394	1 757	3 448	3 212	5 354
Financial income and expenses	1 808	1 033	-1 469	-230	-85	466
Income after financial items	2 888	6 427	288	3 218	3 127	5 820
Tax on income for the period	-65	-209	-52	40	-103	327
Net income	2 823	6 218	236	3 258	3 024	6 147

Consolidated balance sheets

(SEK thousands)	June 30, 2005	June 30, 2004	Dec 31, 2004
ASSETS			
Goodwill	4 011	4 011	4 011
Other intangible fixed assets	11 179	8 905	8 374
Tangible fixed assets	97 276	84 425	83 656
Financial fixed assets	5 686	7 154	7 143
Inventories	23 560	20 768	21 858
Accounts receivable	20 317	15 066	10 696
Other current receivables	4 415	4 119	5 594
Cash and bank balances	39 546	49 578	44 935
Total assets	205 990	194 026	186 267

SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity	169 073	154 498	151 303
Long-term interest-bearing liabilities	16 689	19 934	16 091
Short-term interest-bearing liabilities	2 590	1 395	2 245
Accounts payable	8 635	6 896	8 680
Other short-term interest-free liabilities	9 003	11 303	7 948
Total shareholders' equity and liabilities	205 990	194 026	186 267

Change in shareholders' equity

(SEK thousands)	January–June		Whole year
	2005	2004	2004
Amount at beginning of year	151 303	143 435	143 435
Translation difference	8 729	1 892	-4 797
Net income for the period	9 041	9 171	12 665
Amount at end of period	169 073	154 498	151 303

Consolidated cash flow statements

(SEK thousands)	January–June		Whole year
	2005	2004	2004
Income after financial items	9 316	8 947	11 724
Adjustment for items not affecting cash flow	-2 400	2 498	4 634
Change in inventories	-946	798	-508
Change in trade receivables	-7 838	-3 763	-2 464
Change in trade payables	3 598	-2 292	619
Cash flow from operating activities	1 730	6 188	14 005
Cash flow from investing activities	-6 152	-8 038	-17 854
Cash flow from financing activities	-1 245	-178	-2 626
Cash flow for the period	-5 667	-2 028	-6 475
Liquid funds at beginning of period	44 935	51 549	51 549
Exchange rate difference in liquid funds	278	57	-139
Liquid funds at end of period	39 546	49 578	44 935

Financial data per geographic area

(SEK thousands)	January–June		Whole year
	2005	2004	2004
Europe / Middle East			
Net sales	37 678	34 124	62 541
Operating income	4 012	5 300	8 293
The Americas			
Net sales	15 676	14 403	28 389
Operating income	1 669	2 237	3 764
Rest of world			
Net sales	7 448	6 620	12 925
Operating income	793	1 028	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–Jun	
	Operating income	Net income	Operating income	Net income
2004	13 042	11 936	8 201	8 806
Change in accordance with IFRS 3	729	729	365	365
Adjusted income	13 771	12 665	8 566	9 171
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 / Jun 30, 2004	3 282	150 574	3 646	154 133
Change in accordance with IFRS 3	729	729	365	365
Opening balance Jan 1, 2005 / Jul 1, 2004	4 011	151 303	4 011	154 498

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, and are sent to the shareholders who have registered that they would like to have this information.

The interim report for the period January – September 2005 will be published on Thursday October 27.

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

Vitrolife 

Innovative Cell and Tissue Technology

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