



Interim report January–March 2006

Vitrolife AB (publ)

- Sales increased by 51 percent, to SEK 46.0 (30.5) million. Exclusive of the acquired Swemed, the increase was 20 percent.
- Gross income amounted to SEK 30.1 (20.6) million, an increase of 46 percent, and the gross margin to 65 percent (67).
- Operating income amounted to SEK 5.4 (5.4) million. Last year's operating income included an item of a one-time nature of SEK 2.4 million. Adjusted for this item operating income increased by 82 percent.
- Net income for the Group was SEK 4.3 (6.2) million.
- Earnings per share amounted to SEK 0.22 (0.34).
- The equity/assets ratio amounted to 77 percent (83).
- In January 2006 Swemed was acquired, which manufactures and markets medical device products for in vitro fertilization. Swemed has been consolidated as from January 1, 2006. The integration work is running according to plan.
- A new product within the transplantation area, Steen Solution™, was approved for sales, so-called CE marking, in Europe in January.
- ClearVision™ Embryo Transfer Catheter, for reintroduction of the embryo into the uterus, was approved for sales, so-called 510(k) approval, in the USA in February.

Sales and income

Vitrolife's net sales for the first quarter of 2006 amounted to SEK 46.0 (30.5) million, which corresponds to an increase of 51 percent compared to the corresponding period the previous year. Adjusted for positive exchange-rate effects the increase was 44 percent. Compared with pro forma sales for 2005, including Swemed, the increase was 20 percent.

Fig 1. Net sales per geographic area (rolling 12 months)
Converted to a rolling 12 months, sales amounted to SEK 135.6 (104.8) million, an increase of 29 percent.

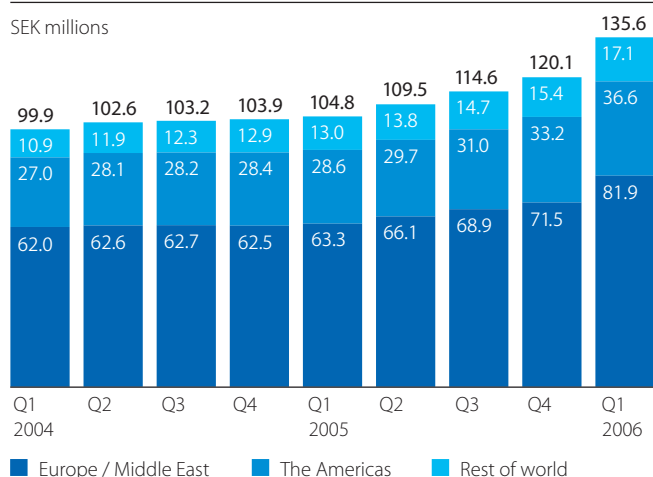
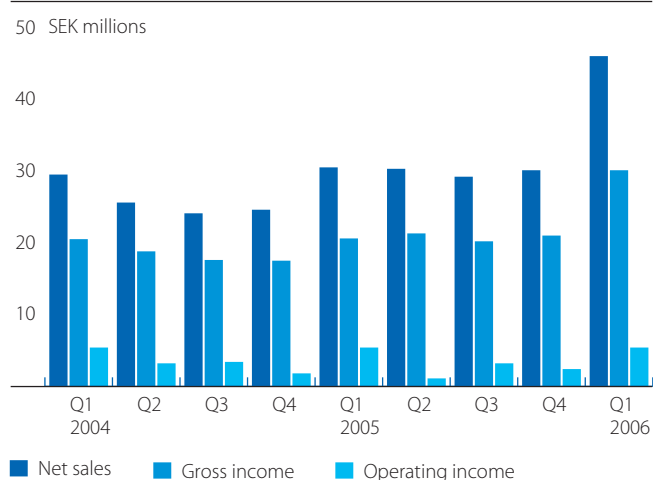


Fig 2. Sales and income per quarter

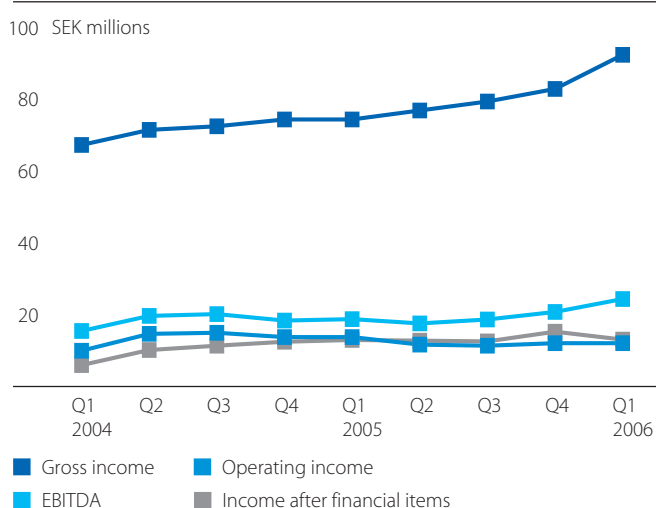


Gross income was SEK 30.1 (20.6) million. The cost of goods sold includes SEK 1.1 million attributable to the Swemed acquisition, as the valuation of Swemed's inventory at sales value with a deduction for selling expenses in connection with the acquisition meant that the inventory was revalued by SEK 1.1 million. This has then been entered in its entirety against the cost of goods sold for the first quarter. The gross margin during the period amounted to 65 (67) percent.

Operating income was SEK 5.4 (5.4) million, which corresponds to a margin of 11.8 (17.7) percent. The previous year's operating income included a capital gain of SEK 2.4 million on the sale of the shares in Cellartis AB. Adjusted for this item, operating

income increased by 82 percent compared with the corresponding period the previous year. Income for the period January – March 2006 includes costs of SEK 0.4 million attributable to the integration of Swemed, consisting primarily of IT costs. Selling expenses as a percentage of sales amounted to 25.3 (28.2) percent, administrative expenses to 15.1 (17.1) percent and R&D costs to 12.9 (12.7) percent. Depreciation and amortization of SEK 3.2 (1.5) million has been charged against the period, including amortization of SEK 0.2 (–) million for intangible assets attributable to the Swemed acquisition.

Fig 3. Income (rolling 12 months)



Net financial income amounted to SEK –1.1 (1.0) million and net income for the period amounted to SEK 4.3 (6.2) million. Net financial income includes non-realized exchange rate fluctuations regarding internal receivables and liabilities of SEK –0.5 (1.1) 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 0.2 (0.3) million net. Tax for the period amounted to SEK 0.0 (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 40.8 (26.9) million, an increase of 52 percent. This includes sales of instruments (Swemed) of SEK 9.3 (–) million.
- Swemed was acquired at the end of January. Marketing and sales of Swemed's instrument products have been integrated with the sales of Vitrolife's media products.
- ClearVision™ Embryo Transfer Catheter, for reintroduction of the embryo into the uterus, was approved for sales in the USA in February.

Sales in the Europe/Middle East region increased by 60 percent. It is primarily Scandinavia, England, Spain, Belgium and Turkey that have had positive development. For the most part

development continued to be very positive in those markets in Europe where the sales organization is operating with its own sales people. With the acquisition of Swemed the marketing organization for the Europe and the Rest of the World region has gained a further 4 sales people. In other countries in the region a review is being carried out of the possibility of coordinating the distribution channels with a view to optimizing the opportunities for sales expansion. In the Rest of the World region sales increased by 47 percent. Australia/New Zealand, where Vitrolife has operated under its own management since the beginning of 2005, displayed the greatest increase, as well as China, Japan and India.

In the American region sales increased by 37 percent compared with the previous year. During the period one further sales person with embryological competence was recruited to work in eastern USA. Furthermore, the organization was strengthened with Nils Sellbom, the former CEO of Swemed, who has taken up the post of sales director for North and South America, general manager for the Denver office and member of the Group management.

In February 2006 the U.S. Food and Drug Administration (FDA) announced that they had granted Vitrolife approval to begin marketing and sales in the USA of a product for the introduction of an embryo into the uterus after in vitro fertilization, called ClearVision™ Embryo Transfer Catheter (ETC). The transfer of the embryo is a critical step in the process and in recent years it has been shown that the properties of the embryo transfer catheters together with simultaneous use of ultrasound can improve pregnancy frequency. The total market for transfer catheters amounts to approximately SEK 140 million. With the approval the Vitrolife product range of medical instruments and solutions for in vitro fertilization is complete, which means greater customer benefit and market potential.

Transplantation products

- Sales amounted to SEK 5.1 (3.6) million, an increase of 42 percent.
- Steen Solution™, a solution for the functional testing of lungs outside the body before transplantation, obtained approval for Europe in January.

Continued great interest has been noted for the new technology for organ evaluation outside the body using Steen Solution™. This interest has also led to increased attention being paid to the good results that have been obtained using Perfadex® for traditional cold storage of the organs, which has further increased sales of Perfadex®, which is thereby estimated to have a market share of approximately 90 percent within the storage of lungs. Trials using the new Steen Solution™ method have also indirectly increased sales, as Perfadex® is also included as a part of this method. Studies on human and animal organs are ongoing at clinics in both Europe and North America. As the technology differs considerably from what has been used previously, Vitrolife anticipates that the introduction will take time

and be carried out gradually, starting with the more research-intensive and experienced clinics. However, the initial position is very favourable, as Vitrolife is known through Perfadex® in by and large all the lung transplantation centres in the world.

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 they were SEK 0.1 (0.0) million.

Investments and cash flow

Cash flow from operating activities amounted to SEK 0.5 (–0.8) million for the period January–March 2006. Accounts receivable increased by SEK 7.6 million to SEK 27.1 (19.5 pro forma at December 31, 2005) million, mainly due to the fact that March 2006 was considerably stronger than December 2005 with regard to sales. The cash flow from investing activities was SEK –71.2 (–3.5) million. Gross investments in the Group's fixed assets amounted to SEK 1.6 (2.9) million during the period and in intangible fixed assets to SEK 0.8 (1.3) million. SEK 69.1 million due to the acquisition of Swemed is included. The cash flow from financing activities was SEK 36.5 (–0.1) million, which includes the new share issue of SEK 37.1 million in connection with the acquisition. In all the cash flow for the period amounted to SEK –34.2 (–4.3) million. The Group's liquid funds at March 31, 2006 amounted to SEK 14.0 (40.7) million. The equity/assets ratio for the group amounted to 77 (83) percent.

Acquisition of Swemed

On January 26, 2006 Swemed was acquired. Swemed develops, manufactures and markets high-quality medical device instruments such as needles, pipettes and catheters for ovum and embryo treatment in connection with in vitro fertilization. The business, with 28 employees, complements Vitrolife's business within the area of fertility, which focuses on nutrient solutions (media) for the treatment of human infertility. Swemed, with sales in almost 70 countries, had a turnover of just over SEK 31 million in 2005 and operating income of SEK 5 million. The cash flow before the repayment of loans was just under SEK 3 million.

In the acquisition 100 percent of Swemed Holding AB, including subsidiaries, for example the operating company Swemed Lab International AB, was purchased. The purchase sum amounted to SEK 65.2 million and was constituted by 1 400 000 newly issued shares in Vitrolife and a cash sum of SEK 28.1 million. The newly issued shares correspond to a dilution of SEK 7.6 percent. The Board had a mandate from the Annual General Meeting of May 10, 2005 to issue a maximum of 1,800,000 shares. The value of the Vitrolife share amounted to SEK 26.50/share, which corresponds to the volume weighted average price on January 26, 2006. In addition, a net debt of SEK 28.8 million has been taken over by Vitrolife. The closing date was the same as the date of the agreement and Vitrolife consolidates Swemed's net income as from January 1, 2006.

The acquisition has the following effects on the Group's assets and debts:

(SEK millions)	Recorded value in Swemed Dec 31, 2005	Actual value adjustment	Actual value recorded in the Group
Goodwill	33.8		33.8
Other intangible fixed assets	1.8	6.2	8.0
Tangible fixed assets	2.2		2.2
Inventories	3.1	1.1	4.2
Current receivables	7.0		7.0
Liquid funds	0.7		0.7
Interest-bearing liabilities	29.5		29.5
Interest-free liabilities	5.1		5.1
Net identifiable assets and liabilities	14.0		21.3
Group goodwill			45.5
Purchase sum paid*			66.8
Acquired net debt			28.8
Total			95.6

* Including fees for legal services and advice amounting to SEK 1.6 million.

The revaluation surplus attributable to the acquisition amounted to SEK 52.8 million. There was already goodwill of SEK 33.8 million in Swemed. The share of the revaluation surplus that has been classed as other assets amounts to SEK 6.2 million, with an amortization period of 10 years. In addition, the valuation of the inventory at sales value with a deduction for selling expenses means that the inventory has been revalued by SEK 1.1 million. This has then been entered against the cost of sold goods as the inventory has been sold. All of this item has affected the consolidated income for the first quarter of 2006.

The remainder of the revaluation surplus is attributable to goodwill, which primarily consists of synergy effects in the form of increased potential sales value per customer. In addition, the goodwill consists of synergy effects in the form of more effective logistics management, quality control and administration.

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 0.0 (2.4) million. 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 -0.5 (3.9) million. Liquid funds amounted to SEK 7.5 (36.7) million. Swemed was acquired during the period, see above. Otherwise no investments were made, as was the case the previous year.

The Vitrolife share is listed on the O-list of the Stockholm Stock Exchange under the symbol VITR. The closing price on March 31, 2006 was SEK 26.10 (20.70).

Organization and personnel

The integration of Swemed into the Vitrolife Group has had a significant impact on the first period of 2006. In order to be able to immediately take advantage of the opportunities for positive coordination effects within marketing and administration, these parts of Swemed's business operations have been coordinated with Vitrolife Sweden's organization. This has meant that 7 people have so far changed company. Common activities have been prioritized and the pooling of resources for the development of products and production has begun to give results in the form of increased impetus in the development of projects.

During the first three months of 2006 the average number of employees was 109 (83), of whom 72 (52) were women and 37 (31) were men. 92 (67) people were employed in Sweden and 17 (16) in the USA. The number of employees at the end of the period was 109 (79).

Prospects for the whole year

The greatest challenge and opportunity during 2006 is to successfully integrate Swemed and Vitrolife and thereby make use of the good offensive synergy opportunities that exist within marketing and product development, as well as in cost savings, primarily within administration. The integration work has gone well during the period and at a fast pace. All administrative personnel have moved to Vitrolife's premises in Kungsbacka and sales and distribution of the Swemed products are now carried out from Vitrolife's Swedish and American subsidiaries, under the logotype "Swemed by Vitrolife".

The work on the marketing organization is continuing, though at a gentler pace cost-wise than in 2005. The drive within product development is also continuing. The need for investments in media production is decreasing with the completion of the transfer of volume products to Denver.

May 4, 2006
Kungsbacka, Sweden

Magnus Nilsson
CEO

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 – June 2006 will be published on Friday 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.

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

Consolidated income statements

(SEK thousands)	January–March		Whole year 2005
	2006	2005	
Net sales	45 982	30 518	120 120
Cost of goods sold	-15 911	-9 965	-37 193
Gross income	30 071	20 553	82 927
Selling expenses	-11 611	-8 611	-38 855
Administrative expenses	-6 959	-5 210	-20 525
Research and development costs	-5 926	-3 881	-15 819
Other operating revenues and expenses	-140	2 544	4 326
Operating income	5 435	5 394	12 054
Financial income and expenses	-1 143	1 033	3 204
Income after financial items	4 292	6 427	15 258
Tax on income for the period	-15	-209	-399
Net income	4 277	6 218	14 859
Earnings per share, SEK	0.22	0.34	0.81
Average number of outstanding shares	19 790 157	18 390 157	18 390 157
Number of shares at closing day	19 790 157	18 390 157	18 390 157

Depreciation and amortization has reduced income for the period by SEK 3 198 thousand (1 483).

Outstanding option programs do not entail any dilution effects since the net present values of the strike prices are greater than the share price.

Other key ratios

	January–March		Whole year 2005
	2006	2005	
Gross margin, %	65.4	67.3	69.0
Operating margin, %	11.8	17.7	10.0
Net margin, %	9.3	20.4	12.4
Equity/assets ratio, %	77.2	83.2	83.5
Shareholders' equity per share, SEK	10.93	8.74	9.59
Return on equity, %	7.0	4.0	8.8
Return on capital employed, %	6.9	3.7	8.8

Consolidated income statements per quarter

(SEK thousands)	Jan–Mar	Oct–Dec	Jul–Sep	Apr–Jun	Jan–Mar	Oct–Dec
	2006	2005	2005	2005	2005	2004
Net sales	45 982	30 115	29 203	30 284	30 518	24 572
Cost of goods sold	-15 911	-9 162	-9 048	-9 018	-9 965	-7 129
Gross income	30 071	20 953	20 155	21 266	20 553	17 443
Selling expenses	-11 611	-9 750	-10 193	-10 301	-8 611	-8 587
Administrative expenses	-6 959	-5 215	-4 506	-5 594	-5 210	-4 089
Research and development costs	-5 926	-3 885	-3 513	-4 540	-3 881	-3 124
Other operating revenues and expenses	-140	300	1 234	249	2 544	114
Operating income	5 435	2 403	3 177	1 080	5 394	1 757
Financial income and expenses	-1 143	529	-166	1 808	1 033	-1 469
Income after financial items	4 292	2 932	3 011	2 888	6 427	288
Tax on income for the period	-15	-26	-99	-65	-209	-52
Net income	4 277	2 906	2 912	2 823	6 218	236

Consolidated balance sheets

(SEK thousands)	Mar. 31, 2006	Mar. 31, 2005	Dec. 31, 2005
ASSETS			
Goodwill	83 265	4 011	4 011
Other intangible fixed assets	27 701	9 766	20 543
Tangible fixed assets	88 860	89 720	88 802
Financial fixed assets	5 869	6 123	6 128
Inventories	27 930	20 258	24 802
Accounts receivable	27 078	18 427	14 107
Other current receivables	5 301	4 369	4 682
Cash and bank balances	14 020	40 694	48 295
Total assets	280 024	193 369	211 370

SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity	216 296	160 795	176 450
Long-term interest-bearing liabilities	39 137	16 705	15 552
Short-term interest-bearing liabilities	4 644	2 373	2 644
Accounts payable	8 931	5 846	7 263
Other short-term interest-free liabilities	11 016	7 650	9 461
Total shareholders' equity and liabilities	280 024	193 369	211 370

Change in shareholders' equity

(SEK thousands)	January–March 2006		Whole year 2005
Amount at beginning of year	176 450	151 303	151 303
Translation difference	-1 531	3 274	9 753
New share issue	37 100	-	-
Warrants programs	-	-	535
Net income for the period	4 277	6 218	14 859
Amount at end of period	216 296	160 795	176 450

Consolidated cash flow statements

(SEK thousands)	January–March 2006		Whole year 2005
Income after financial items	4 292	6 427	15 257
Adjustment for items not affecting cash flow	3 478	173	-650
Change in inventories	845	1 880	-2 103
Change in trade receivables	-8 472	-6 282	-1 828
Change in trade payables	337	-2 999	3 445
Cash flow from operating activities	480	-801	14 121
Cash flow from investing activities	-71 233	-3 454	-9 023
Cash flow from financing activities	36 511	-89	-2 047
Cash flow for the period	-34 242	-4 344	3 051
Liquid funds at beginning of period	48 295	44 935	44 935
Exchange rate difference in liquid funds	-33	103	309
Liquid funds at end of period	14 020	40 694	48 295

Financial data per geographic area

(SEK thousands)	January–March 2006		Whole year 2005
Europe / Middle East			
Net sales	29 957	19 605	71 530
Operating income	3 541	3 465	7 178
The Americas			
Net sales	10 867	7 428	33 194
Operating income	1 284	1 313	3 331
Rest of world			
Net sales	5 158	3 485	15 396
Operating income	610	616	1 545

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. 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 accounting principles and definitions of key ratios are otherwise unchanged compared with the last Annual Report and a description is to be found in the Annual Report for 2005.

Vitrolife is a global biotechnology/medical device Group that works with developing, manufacturing and selling advanced products and systems for the preparation, cultivation and storage of human cells, tissue and organs. The company has business activities within three product areas: Fertility, Transplantation and Cell therapy. The Fertility product area works with nutrient solutions (media) and advanced one-time instruments such as needles and pipettes, for the treatment of human infertility. The Transplantation product area works with solutions and systems to maintain tissue in optimal condition outside the body for the required time while waiting for transplantation. The Cell therapy product area works with media to enable the use of stem cells for therapeutic purposes.

Vitrolife today has approximately 110 employees and the company's products are sold in more than 80 markets. The head office is in Kungälv, Sweden, and there are subsidiaries outside Gothenburg, Sweden and in Denver, USA. The Vitrolife share is listed on the O-list of the Stockholm Stock Exchange.

Vitrolife

Innovative Cell and Tissue Technology

www.vitrolife.com

Vitrolife AB (publ)
Vitrolife Sweden AB
 Faktorvägen 13
 SE-434 37 Kungälv
 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

Swemed Lab
International AB
 Billdalsvägen 2
 SE-427 36 Billdal
 Sverige
 Tel +46 31 687 777
 Fax +46 31 680 011