Interim report January–June 2006

Vitrolife AB (publ)

- Sales increased by 45 percent, to SEK 88.4 (60.8) million. During the second quarter sales amounted to SEK 42.5 (30.3) million, corresponding to an increase of 40 percent. The product line that was acquired during the first half of the year, fertility instruments, increased by 20 percent compared with the previous year (pro forma).
- Gross income amounted to SEK 59.2 (41.8) million, an increase of 42 percent, and the gross margin to 67 percent (69). Gross income for the second quarter increased by 37 percent to SEK 29.1 (21.3) million and the gross margin was 69 (70) percent.
- Operating income amounted to SEK 9.6 (6.5) million, which includes costs of a one-time nature attributable to the acquisition of Swemed of SEK 1.9 million. Last year's operating income also included a capital gain of a one-time nature of SEK 2.4 million. Adjusted for these items operating income increased by 180 percent. For the second quarter operating income amounted to SEK 4.2 (1.1) million.
- Net income for the Group was SEK 7.1 (9.0) million, of which SEK 2.8 (2.8) million was for the second quarter. This includes unrealized exchange rate effects from internal receivables of SEK –1.8 (3.1) million.
- The cash flow from operating activities amounted to SEK 8.5 (1.7) million, of which SEK 8.0 (2.5) was for the second quarter.
- Earnings per share amounted to SEK 0.36 (0.49).
- The equity/assets ratio amounted to 78 percent (82).

Innovative Cell and Tissue Technology

Sales and income

Vitrolife's net sales for the first six months of 2006 amounted to SEK 88.4 (60.8) million, which corresponds to an increase of 45 percent compared to the corresponding period the previous year. Adjusted for positive exchange-rate effects the increase was 43 percent. Compared with pro forma sales for 2005, including Swemed, the increase was 16 percent. Net sales during the second quarter increased by 40 percent and amounted to SEK 42.5 (30.3) million.

Fig 1. Net sales per geographic area (rolling 12 months)
Converted to a rolling 12 months, sales amounted to SEK 147.8 (109.5) million, an increase of 35 percent.

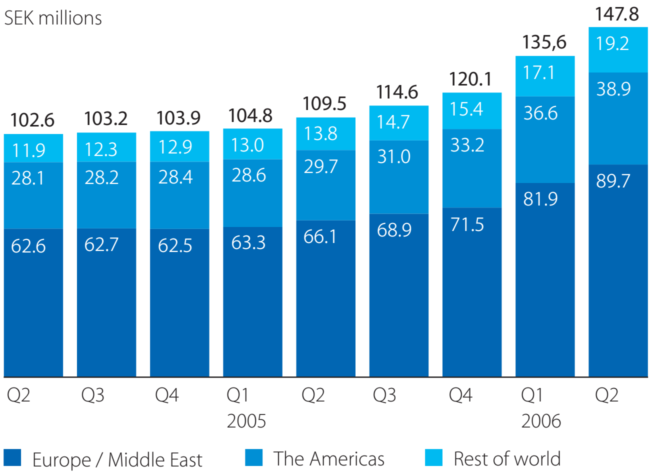
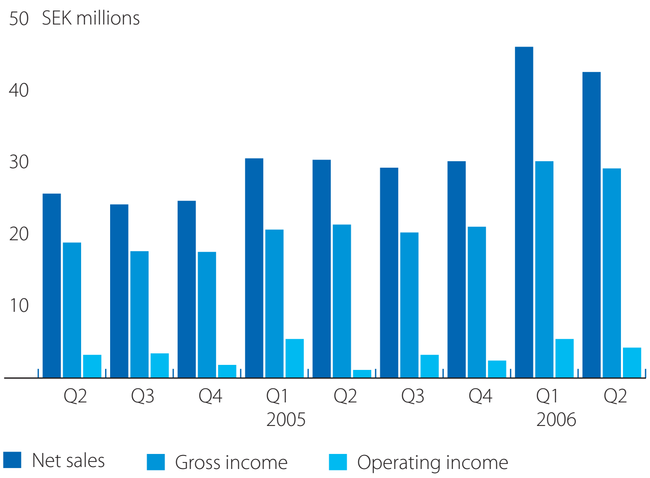


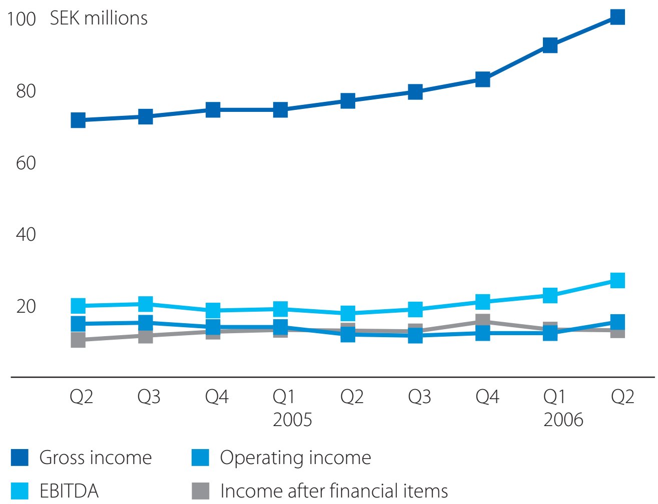
Fig 2. Sales and income per quarter



Gross income was SEK 59.2 (41.8) 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 revaluated by SEK 1.1 million. This was then in its entirety entered against the cost of goods sold for the first quarter. The gross margin during the period amounted to 67 (69) percent. Gross income for the second quarter amounted to SEK 29.1 (21.3) million and the gross margin to 69 (70) percent.

Operating income was SEK 9.6 (6.5) million, which corresponds to a margin of 10.9 (10.6) 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. Income for the period January–June 2006 includes costs of SEK 0.8 million attributable to the integration of Swemed, consisting primarily of IT costs. Adjusted for items of a one-time nature, operating income increased by 180 percent compared with the corresponding period the previous year. Selling expenses as a percentage of sales amounted to 27.0 (31.1) percent, administrative expenses to 14.9 (17.8) percent and R&D costs to 13.6 (13.9) percent. R&D costs for the period include costs for increased activity vis-à-vis competitors concerning the securing of Vitrolife's intangible assets. Depreciation and amortization of SEK 6.4 (3.5) million has been charged against the period, including amortization of SEK 0.3 (–) million for intangible assets attributable to the Swemed acquisition. For the second quarter operating income amounted to SEK 4.2 (1.1) million. Integration costs amounted to SEK 0.4 million and depreciation and amortization to SEK 3.2 (2.0) million.

Fig 3. Income (rolling 12 months)



Net income amounted to SEK 7.1 (9.0) million, of which SEK 2.8 (2.8) million was for the second quarter. Net financial income amounted to SEK –2.6 (2.8) million, of which SEK –1.4 (1.8) million was for the second quarter. Net financial income includes non-realized exchange rate fluctuations regarding internal receivables and liabilities of SEK –1.8 (3.1) 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 –0.7 (0.8) million net. Tax for the period amounted to SEK 0.0 (–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 77.1 (52.5) million, an increase of 47 percent. This includes sales of instruments (by the former Swemed) of SEK 18.6 (–) million. For the second quarter sales amounted to SEK 36.4 (25.7) million, an increase of 42 percent. This includes sales of instruments of SEK 9.3 (–) million.
- The largest activity of the year, product presentations at the ESHRE fertility conference which was held in Prague this year, was carried out during the period and great customer interest was noted.

Sales in the Europe/Middle East region increased by 52 percent during the period (46 percent during the second quarter). 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. Sales in Italy and Germany had weaker development, as did the total market for fertility products in these countries.

In the Rest of the World region sales increased by 51 percent (56 percent during the second quarter). 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 30 percent compared with the previous year (22 percent during the second quarter). The marketing group has been strengthened during the period by an experienced sales director and a sales person with embryological competence, based in and responsible for eastern USA and Canada.

Large focus has during the period been put on marketing of the product line that was acquired during the first half of the year, fertility instruments. This has resulted in a 20 percent sales increase compared to last year's sales (pro forma).

The largest activity of the year, the European fertility conference arranged by ESHRE (European Society of Human Reproduction and Embryology), was carried out at the end of June in Prague. Vitrolife had a great market presence and for the first time exhibited the new complete product line within fertility. Vitrolife also arranged a well-attended seminar on new research results for future products.

Transplantation products

- Sales amounted to SEK 11.0 (8.2) million, an increase of 34 percent. For the second quarter sales amounted to SEK 5.9 (4.6) million, an increase of 28 percent.
- The start of the study on Steen Solution™ in North America is proceeding according to plan.

Continued great interest has been noted for the new technology for organ evaluation outside the body using Steen Solution™ (a patent has been applied for in all large markets). 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 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 January–June they were SEK 0.3 (0.1) million.

Investments and cash flow

Cash flow from operating activities amounted to SEK 8.5 (1.7) million for the period January–June 2006. Accounts receivable increased by SEK 5.5 million to SEK 25.0 (19.5 pro forma at December 31, 2005) million, mainly due to the fact that June 2006 was considerably stronger than December 2005 with regard to sales. The cash flow from investing activities was SEK –75.3 (–6.2) million. Gross investments in the Group's fixed assets amounted to SEK 3.4 (5.0) million during the period and in intangible fixed assets to SEK 2.8 (2.3) million. SEK 69.1 million due to the acquisition of Swemed is included. The cash flow from financing activities was SEK 34.9 (–1.2) million, which includes the new share issue of SEK 37.1 million in connection with the acquisition. Loans of SEK –2.2 (–1.2) million were paid off, including SEK –1.6 (–1.2) million during the second quarter. In all, the cash flow for the period amounted to SEK –31.9 (–5.7) million. The cash flow for the second quarter amounted to SEK 2.3 (–1.3) million. The Group's liquid funds at June 30, 2006 amounted to SEK 16.2 (39.5) million. The equity/assets ratio for the group amounted to 78 (82) 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. Swemed's operating income for the period was SEK 3.2 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 revaluated 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 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 –1.4 (4.9) million. Liquid funds amounted to SEK 2.4 (37.0) 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 June 30, 2006 was SEK 24.70 (19.70).

Organization and personnel

The acquisition of Swemed and its integration with Vitrolife has made its mark on the first half of the year, with the focus above all on the amalgamation of the two marketing departments, including comprehensive training of the sales force with regard to the company's total product range of media and instruments. All the co-workers at Vitrolife, however, have been involved in the integration work, as ways of working and routines have been questioned and reworked during the period. This development has resulted in synergy effects in the form of more effective processes in the whole company, which has involved, amongst other things, making better use of resources and increased production capacity.

During the first six months of 2006 the average number of employees was 110 (81), of whom 73 (52) were women and 37 (29) were men. 92 (67) people were employed in Sweden and 18 (14) in the USA. The number of employees at the end of the period was 113 (82).

Prospects for the whole year

A great challenge and opportunity during 2006 is to continue to make use of the good offensive synergy opportunities from the acquisition of Swemed. These are to be found within marketing and product development and in cost savings, primarily within administration. The integration work during the period has gone well and at a rapid pace. Sales and results have developed well. Income for this year includes costs of a one-time nature of SEK 1.9 million attributable to the acquisition of Swemed. Net financial income includes negative exchange rate effects of SEK 1.8 million. For the same period the previous year this non-realized exchange rate effect was instead positive, SEK 3.1 million. Income also included a capital gain of a one-time nature of SEK 2.4 million. Adjusted for these items there was a very positive development of income.

The work on the marketing organization is continuing, though at a gentler pace cost-wise than in 2005. The need for investments in media production is decreasing with the completion of the transfer of volume products to Denver. This shift from a heavy investment period in infrastructure to increased depreciation and amortization means a strengthening of the cash flow. Going forward, the investments will primarily focus on drives within product development, with the focus on a number of product launches within the coming year. These investments together with Vitrolife's proven capacity for successful global marketing widens the possibilities to use the potential in the very strong infrastructure that Vitrolife has created within the niche of advanced (aseptically manufactured) medical devices. This gives good opportunities to secure continued expansive development, both in the short and long run.

July 14, 2006
Kungsbacka, Sweden

Magnus Nilsson
CEO

Consolidated income statements

(SEK thousands)	January–June 2006	January–June 2005	April–June 2006	April–June 2005	Whole year 2005
Net sales	88 443	60 802	42 461	30 284	120 120
Cost of goods sold	–29 235	–18 983	–13 324	–9 018	–37 193
Gross income	**59 208**	**41 819**	**29 137**	**21 266**	**82 927**
Selling expenses	–23 871	–18 911	–12 259	–10 301	–38 855
Administrative expenses	–13 217	–10 804	–6 258	–5 594	–20 525
Research and development costs	–11 991	–8 422	–6 066	–4 540	–15 819
Other operating revenues and expenses	–528	2 792	–388	249	4 326
Operating income	**9 601**	**6 474**	**4 166**	**1 080**	**12 054**
Financial income and expenses	–2 564	2 841	–1 420	1 808	3 204
Income after financial items	**7 037**	**9 315**	**2 746**	**2 888**	**15 258**
Tax on income for the period	21	–274	35	–65	–399
Net income	**7 058**	**9 041**	**2 781**	**2 823**	**14 859**
Earnings per share, SEK	0.36	0.49	0.14	0.15	0.81
Average number of outstanding shares	19 790 157	18 390 157	19 790 157	18 390 157	18 390 157
Number of shares at closing day	19 790 157	18 390 157	19 790 157	18 390 157	18 390 157

Depreciation and amortization has reduced income for the period by SEK 6 388 thousand (3 524), of which SEK 3 191 thousand (2 042) is for the second quarter.
Outstanding option programs (2 programs of 44,490 and 550,000 options, respectively) 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–June 2006	January–June 2005	April–June 2006	April–June 2005	Whole year 2005
Gross margin, %	66.9	68.8	68.6	70.2	69.0
Operating margin, %	10.9	10.6	9.8	3.6	10.0
Net margin, %	8.0	14.9	6.5	9.3	12.4
Equity/assets ratio, %	78.2	82.1	78.2	82.1	83.5
Shareholders' equity per share, SEK	10.92	9.19	10.92	9.19	9.59
Return on equity, %	6.6	7.9	6.6	7.9	8.8
Return on capital employed, %	6.8	9.3	6.8	9.3	8.8

Consolidated income statements per quarter

(SEK thousands)	Apr–Jun 2006	Jan–Mar 2006	Oct–Dec 2005	Jul–Sep 2005	Apr–Jun 2005	Jan–Mar 2005
Net sales	42 461	45 982	30 115	29 203	30 284	30 518
Cost of goods sold	–13 324	–15 911	–9 162	–9 048	–9 018	–9 965
Gross income	**29 137**	**30 071**	**20 953**	**20 155**	**21 266**	**20 553**
Selling expenses	–12 259	–11 611	–9 750	–10 193	–10 301	–8 611
Administrative expenses	–6 258	–6 959	–5 215	–4 506	–5 594	–5 210
Research and development costs	–6 066	–5 926	–3 885	–3 513	–4 540	–3 881
Other operating revenues and expenses	–388	–140	300	1 234	249	2 544
Operating income	**4 166**	**5 435**	**2 403**	**3 177**	**1 080**	**5 394**
Financial income and expenses	–1 420	–1 143	529	–166	1 808	1 033
Income after financial items	**2 746**	**4 292**	**2 932**	**3 011**	**2 888**	**6 427**
Tax on income for the period	35	–15	–26	–99	–65	–209
Net income	**2 781**	**4 277**	**2 906**	**2 912**	**2 823**	**6 218**

Consolidated balance sheets

(SEK thousands)	June 30, 2006	June 30, 2005	Dec. 31, 2005
ASSETS			
Goodwill	83 265	4 011	4 011
Other intangible fixed assets	27 573	11 179	20 543
Tangible fixed assets	85 328	97 276	88 802
Financial fixed assets	6 151	5 686	6 128
Inventories	26 151	23 560	24 802
Accounts receivable	25 033	20 317	14 107
Other current receivables	6 638	4 415	4 682
Cash and bank balances	16 242	39 546	48 295
Total assets	**276 381**	**205 990**	**211 370**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	216 149	169 073	176 450
Provisions	543	—	—
Long-term interest-bearing liabilities	36 866	16 689	15 552
Short-term interest-bearing liabilities	4 644	2 590	2 644
Accounts payable	6 167	8 635	7 263
Other short-term interest-free liabilities	12 012	9 003	9 461
Total shareholders' equity and liabilities	**276 381**	**205 990**	**211 370**

Change in shareholders' equity

(SEK thousands)	January–June 2006	2005	Whole year 2005
Amount at beginning of year	176 450	151 303	151 303
Translation difference	–4 459	8 729	9 753
New share issue	37 100	—	—
Warrants programs	—	—	535
Net income for the period	7 058	9 041	14 859
Amount at end of period	**216 149**	**169 073**	**176 450**

Consolidated cash flow statements

(SEK thousands)	January–June 2006	2005	Whole year 2005
Income after financial items	7 037	9 316	15 257
Adjustment for items not affecting cash flow	8 233	–2 400	–650
Change in inventories	2 233	–946	–2 103
Change in trade receivables	–6 281	–7 838	–1 828
Change in trade payables	–2 755	3 598	3 445
Cash flow from operating activities	8 467	1 730	14 121
Cash flow from investing activities	–75 302	–6 152	–9 023
Cash flow from financing activities	34 886	–1 245	–2 047
Cash flow for the period	**–31 949**	**–5 667**	**3 051**
Liquid funds at beginning of period	48 295	44 935	44 935
Exchange rate difference in liquid funds	–104	278	309
Liquid funds at end of period	**16 242**	**39 546**	**48 295**

Financial data per geographic area

(SEK thousands)	January–June 2006	2005	Whole year 2005
Europe / Middle East			
Net sales	55 798	37 678	71 530
Operating income	6 057	4 012	7 178
The Americas			
Net sales	21 423	15 676	33 194
Operating income	2 326	1 669	3 331
Rest of world			
Net sales	11 222	7 448	15 396
Operating income	1 218	793	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 are unchanged compared with the last Annual Report and a description is to be found in the Annual Report for 2005.

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 2006 will be published on Thursday October 26.

Queries should be addressed to:

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

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 Kungsbacka, 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

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