



Interim report January–September 2006

Vitrolife AB (publ)

- Sales for the third quarter amounted to SEK 41.0 (29.2) million, corresponding to an increase of 40 percent. In total, sales for the period increased by 44 percent, to SEK 129.5 (90.0) million.
- Gross income for the third quarter increased by 41 percent to SEK 28.4 (20.2) million and the gross margin was 69 (69) percent. In total, gross income for the period amounted to SEK 87.6 (62.0) million, an increase of 41 percent, and the gross margin to 68 percent (69).
- Operating income for the third quarter amounted to SEK 6.5 (3.2) million, corresponding to an operating margin of 15.9 percent. In total, operating income for the period amounted to SEK 16.1 (9.7) million, which gives an operating margin of 12.5 percent. Adjusted for items of a one-time nature operating income was doubled. Costs of a one-time nature of SEK 2.1 million in income for this year are attributable to the acquisition of Swemed. Last year's operating income also included income of a one-time nature of SEK 3.6 million.
- Net income for the Group was SEK 6.0 (2.9) million for the third quarter, SEK 13.1 (12.0) million in total. This includes unrealized exchange effects of SEK –2.0 (3.0) million from internal receivables for the period January to September.
- The cash flow from operating activities amounted to SEK 9.9 (8.5) million for the third quarter. In total, the cash flow from operating activities for the period was SEK 18.4 (10.2) million.
- Earnings per share amounted to SEK 0.30 (0.16) for the third quarter. In total earnings per share for the period were SEK 0.66 (0.65) per share.
- The equity/assets ratio amounted to 79 percent (83).

Sales and income

Vitrolife's net sales for the first nine months of 2006 amounted to SEK 129.5 (90.0) million, which corresponds to an increase of 44 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 14 percent. Net sales during the third quarter increased by 40 percent and amounted to SEK 41.0 (29.2) million.

Fig 1. Net sales per geographic area (rolling 12 months)
Converted to a rolling 12 months, sales amounted to SEK 159.6 (114.7) million, an increase of 39 percent.

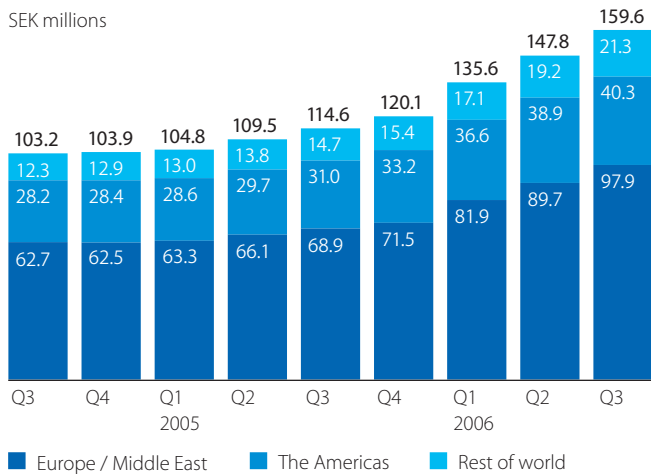
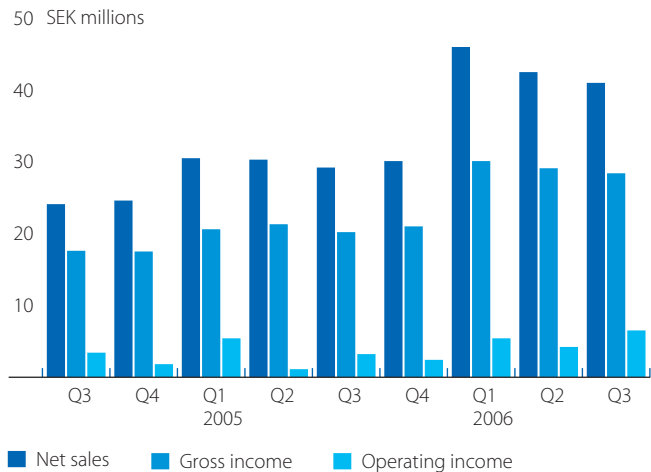


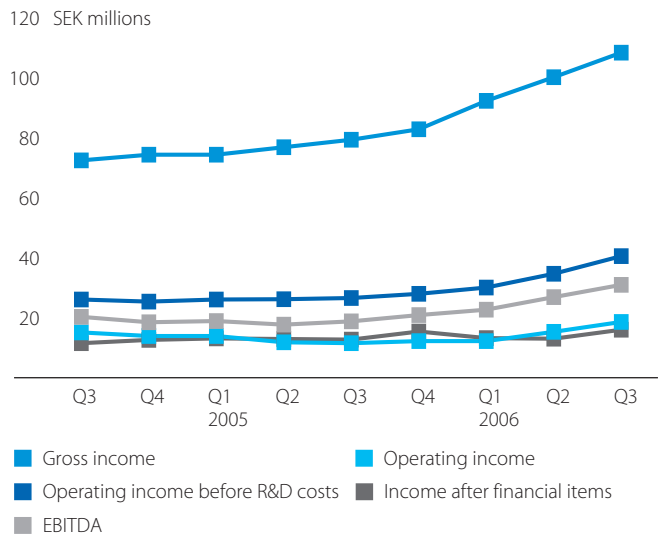
Fig 2. Sales and income per quarter



Gross income was SEK 87.6 (62.0) 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 was then in its entirety entered against the cost of goods sold for the first quarter. The gross margin during the period amounted to 68 (69) percent. Gross income for the third quarter amounted to SEK 28.4 (20.2) million and the gross margin to 69 (69) percent.

Operating income was SEK 16.1 (9.7) million, which corresponds to a margin of 12.5 (10.7) 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 and revenue of SEK 1.2 million from a settlement in the USA regarding a damaged production module. Income for the period January–September 2006 includes costs of SEK 1.0 million attributable to the integration of Swemed, consisting primarily of IT costs. Adjusted for items of a one-time nature, operating income increased by 198 percent compared with the corresponding period the previous year. Selling expenses as a percentage of sales amounted to 26.6 (32.3) percent, administrative expenses to 14.2 (17.0) percent and R&D costs to 14.0 (13.3) 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 9.7 (6.1) million has been charged against the period, including amortization of SEK 0.5 (–) million for intangible assets attributable to the Swemed acquisition. For the third quarter operating income amounted to SEK 6.5 (3.2) million. Integration costs amounted to SEK 0.2 million and depreciation and amortization to SEK 3.3 (2.6) million. Last year's operation income included a revenue of SEK 1.2 million of a one-time nature regarding the settlement in the USA.

Fig 3. Income (rolling 12 months)



Net income amounted to SEK 13.1 (12.0) million, of which SEK 6.0 (2.9) million was for the third quarter. Net financial income amounted to SEK –3.2 (2.7) million, of which SEK –0.6 (–0.2) million was for the third quarter. Net financial income includes non-realized exchange rate fluctuations regarding internal receivables and liabilities of SEK –2.0 (3.0) 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 0.1 (–0.4) 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 112.8 (76.5) million, an increase of 47 percent. This includes sales of instruments (by the former Swemed) of SEK 27.9 (–) million. For the third quarter sales amounted to SEK 35.6 (24.1) million, an increase of 48 percent. This includes sales of instruments of SEK 9.3 (–) million.
- Focus on the integration of the instrument range in marketing has paid dividends, in the form of increased sales of these products.

A positive development of sales has been noted in large parts of the Europe/Middle East region. Sales in these markets increased by 53 percent during the period (56 percent during the third quarter). The largest increase in sales was in Scandinavia, England, Spain, Belgium and Turkey. 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. Due to less beneficial rules for reimbursement and changes in the law in Germany and Italy, a transfer of patients to other nearby markets has been noted, with weak development of the total market for fertility products in these countries as a consequence. This is reflected in a weak development of sales for Vitrolife's products in these markets.

In the Rest of the World region sales increased by 48 percent (53 percent during the third 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.

In the American region sales increased by 30 percent compared with the previous year (28 percent during the third quarter). Sales of instruments are mainly conducted through a distributor, and the marketing synergies have thus not yet been utilized.

Focus has during the period been put on marketing of the product line that was acquired in January, fertility instruments. This has resulted in a 19 percent sales increase compared to last year's sales (pro forma).

Transplantation products

- Sales amounted to SEK 16.2 (13.0) million, an increase of 25 percent. For the third quarter sales amounted to SEK 5.2 (4.8) million, an increase of 8 percent.
- Clinical breakthrough for Steen Solution™ in lung transplantations.

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 globally 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.

In the middle of September Vitrolife published information that a further four lung transplantations have been performed during a short period of time using Steen Solution™. This means that a total of six people have received new lungs with the aid of this method. The transplantation group at the University Hospital in Lund is the first to have implemented the method in regular clinical use, a clinical breakthrough that makes it possible for more organs to be available for the patients waiting for transplantation.

As the technology differs considerably from what has been used previously, Vitrolife anticipates that the introduction of Steen Solution™ 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 small. During the period January – September they were SEK 0.5 (0.5) million.

Investments and cash flow

Cash flow from operating activities amounted to SEK 18.4 (10.2) million for the period January–September 2006. Accounts receivable increased by SEK 6.2 million to SEK 25.7 (19.5 pro forma at December 31, 2005) million, mainly due to the fact that September 2006 was considerably stronger than December 2005 with regard to sales. The cash flow from investing activities was SEK –76.2 (–8.9) million. Gross investments in the Group's fixed assets amounted to SEK 4.1 (6.7) million during the period and in intangible fixed assets to SEK 3.2 (3.0) million. SEK 69.1 million due to the acquisition of Swemed is included. The cash flow from financing activities was SEK 34.3 (–0.8) million, which includes the new share issue of SEK 37.1 million in connection with the acquisition. Loans of SEK –2.8 (–1.3) million were paid off, including SEK –0.6 (–0.1) million during the third quarter. In all, the cash flow for the period amounted to SEK –23.5 (0.5) million. The cash flow for the third quarter amounted to SEK 8.4 (6.2) million. The Group's liquid funds at September 30, 2006 amounted to SEK 24.6 (45.7) million. The equity/assets ratio for the group amounted to 79 (83) percent.

Acquisition of Swemed

On January 26, 2006 Swemed was acquired, with operations within high-quality medical device instruments such as needles, pipettes and catheters for ovum and embryo treatment in connection with in vitro fertilization. The products complement Vitrolife's products within the fertility field very well. The combined product portfolio therefore entails good market synergies and gives the clinics the security of being able to obtain the same high quality in all fertility products, from one and the same supplier. Swemed had sales in almost 70 countries and had a turnover of just over SEK 31 million in 2005. Vitrolife consolidates Swemed's net income as from January 1, 2006, operating income for the period was SEK 3.4 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 meant that the inventory was revaluated by SEK 1.1 million. This was then entered against the cost of sold goods as the inventory was 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 mainly attributable to the Board and to the listing of the company's shares. Income before tax amounted to SEK -1.9 (5.1) million. Liquid funds amounted to SEK 9.5 (37.0) million. Swemed was acquired during the period, see above. Otherwise no investments were made (SEK 0.2 million).

The Vitrolife share is listed on the Stockholm Stock Exchange's Nordic Small Cap list under the symbol VITR. The closing price on September 30, 2006 was SEK 27.30 (26.80).

Organization and personnel

During the third quarter, a great deal of work has been put into implementing and securing the new processes and ways of working that the acquisition and integration of Swemed has entailed. The acquisition has affected both the organizational structure and the day-to-day work of the employees. In addition to benefits from the purely business point of view, the merger has meant greater opportunities for job rotation and the chance to try new responsibilities. One part of maintaining and developing knowledge and experience in all employees irrespective of where they are employed is the starting of a more formal exchange program that has been begun between Vitrolife's organizations in Sweden and the USA.

During the first nine months of 2006 the average number of employees was 111 (82), of whom 73 (54) were women and 38 (28) were men. 92 (67) people were employed in Sweden and 19 (15) in the USA. The number of employees at the end of the period was 113 (83).

Prospects for the whole year

Integration work has been ongoing since the acquisition of Swemed, with the aim of bringing the market organizations together and taking full advantage of the synergy effects made possible by the complete combined product line within fertility. Good growth for the instrument products can already be noted and we can expect continued positive effects in the time ahead of us. The cost-saving synergies are also beginning to have an effect on the cost side and the development of the company's results has been very good, particularly bearing in mind the one-time effects which cloud the picture during 2005–2006. This year's results include costs of a one-time nature of SEK 2.1 million attributable to the acquisition of Swemed. Negative exchange effects of SEK 2.0 million have been charged against net financial income. For the same period last year this unrealized exchange effect was positive instead (SEK 3.0 million) and the results included revenues of a one-time nature of SEK 3.6 million.

The synergies' positive effects on the results and cash flow also now make it possible to gradually put more effort into Vitrolife's very interesting product development projects, with the aim of carrying out a number of product launches during 2007, at the same time as satisfactory levels of net income are maintained. The percentage of expenses that go towards marketing and administration has stabilized and even decreased, as has the cost of goods sold, which can be seen in the increased gross margins and the increased operative earnings. The strong infrastructure is robust enough to support continued sustainable expansion of markets and results, which thus stimulates continued offensive drives with regard to product development and market presence.

October 26, 2006
Kungsbacka, Sweden

Magnus Nilsson
CEO

Consolidated income statements

(SEK thousands)	January–September		July–September		Whole year
	2006	2005	2006	2005	
Net sales	129 488	90 005	41 045	29 203	120 120
Cost of goods sold	-41 917	-28 031	-12 682	-9 048	-37 193
Gross income	87 571	61 974	28 363	20 155	82 927
Selling expenses	-34 494	-29 105	-10 624	-10 193	-38 855
Administrative expenses	-18 393	-15 310	-5 176	-4 506	-20 525
Research and development costs	-18 087	-11 934	-6 096	-3 513	-15 819
Other operating revenues and expenses	-454	4 026	75	1 234	4 326
Operating income	16 143	9 651	6 542	3 177	12 054
Financial income and expenses	-3 171	2 675	-607	-166	3 204
Income after financial items	12 972	12 326	5 935	3 011	15 258
Tax on income for the period	86	-373	65	-99	-399
Net income	13 058	11 953	6 000	2 912	14 859
Earnings per share, SEK	0.66	0.65	0.30	0.16	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 9 702 thousand (6 084), of which SEK 3 314 thousand (2 559) is for the third 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–September		July–September		Whole year
	2006	2005	2006	2005	
Gross margin, %	67.6	68.9	69.1	69.0	69.0
Operating margin, %	12.5	10.7	15.9	10.9	10.0
Operating margin before R&D costs, %	39.1	34.8	44.6	33.2	33.6
Net margin, %	10.1	13.3	14.6	10.0	12.4
Equity/assets ratio, %	78.7	83.3	78.7	83.3	83.5
Shareholders' equity per share, SEK	11.21	9.37	11.21	9.37	9.59
Return on equity, %	7.7	7.5	7.7	7.5	8.8
Return on capital employed, %	9.0	8.7	9.0	8.7	8.8

Consolidated income statements per quarter

(SEK thousands)	Jul–Sep	Apr–Jun	Jan–Mar	Oct–Dec	Jul–Sep	Apr–Jun
	2006	2006	2006	2005	2005	2005
Net sales	41 045	42 461	45 982	30 115	29 203	30 284
Cost of goods sold	-12 682	-13 324	-15 911	-9 162	-9 048	-9 018
Gross income	28 363	29 137	30 071	20 953	20 155	21 266
Selling expenses	-10 624	-12 259	-11 611	-9 750	-10 193	-10 301
Administrative expenses	-5 176	-6 258	-6 959	-5 215	-4 506	-5 594
Research and development costs	-6 096	-6 066	-5 926	-3 885	-3 513	-4 540
Other operating revenues and expenses	75	-388	-140	300	1 234	249
Operating income	6 542	4 166	5 435	2 403	3 177	1 080
Financial income and expenses	-607	-1 420	-1 143	529	-166	1 808
Income after financial items	5 935	2 746	4 292	2 932	3 011	2 888
Tax on income for the period	65	35	-15	-26	-99	-65
Net income	6 000	2 781	4 277	2 906	2 912	2 823

Consolidated balance sheets

(SEK thousands)	Sept 30, 2006	Sept 30, 2005	Dec. 31, 2005
ASSETS			
Goodwill	83 265	4 011	4 011
Other intangible fixed assets	26 755	19 417	20 543
Tangible fixed assets	83 677	88 527	88 802
Financial fixed assets	5 984	5 895	6 128
Inventories	26 608	24 482	24 802
Accounts receivable	25 737	15 235	14 107
Other current receivables	5 208	3 434	4 682
Cash and bank balances	24 646	45 725	48 295
Total assets	281 880	206 727	211 370

SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity	221 894	172 299	176 450
Provisions	543	-	-
Long-term interest-bearing liabilities	36 234	16 547	15 552
Short-term interest-bearing liabilities	4 644	2 579	2 644
Accounts payable	8 023	6 855	7 263
Other short-term interest-free liabilities	10 542	8 447	9 461
Total shareholders' equity and liabilities	281 880	206 727	211 370

Change in shareholders' equity

(SEK thousands)	January–September 2006	September 2005	Whole year 2005
Amount at beginning of year	176 450	151 303	151 303
Translation difference	-4 714	8 508	9 753
New share issue	37 100	-	-
Warrants programs	-	535	535
Net income for the period	13 058	11 953	14 859
Amount at end of period	221 894	172 299	176 450

Consolidated cash flow statements

(SEK thousands)	January–September 2006	September 2005	Whole year 2005
Income after financial items	12 972	12 326	15 257
Adjustment for items not affecting cash flow	11 641	221	-650
Change in inventories	1 783	-1 892	-2 103
Change in trade receivables	-5 579	-1 795	-1 828
Change in trade payables	-2 418	1 361	3 445
Cash flow from operating activities	18 399	10 221	14 121
Cash flow from investing activities	-76 240	-8 901	-9 023
Cash flow from financing activities	34 296	-799	-2 047
Cash flow for the period	-23 545	521	3 051
Liquid funds at beginning of period	48 295	44 935	44 935
Exchange rate difference in liquid funds	-104	269	309
Liquid funds at end of period	24 646	45 725	48 295

Financial data per geographic area

(SEK thousands)	January–September 2006	September 2005	Whole year 2005
Europe / Middle East			
Net sales	80 621	54 192	71 530
Operating income	10 051	5 811	7 178
The Americas			
Net sales	31 327	24 230	33 194
Operating income	3 905	2 598	3 331
Rest of world			
Net sales	17 540	11 583	15 396
Operating income	2 187	1 242	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 report on operations for 2006 will be published on Thursday, February 8, 2007.

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 Kungälv, Sweden, and there are subsidiaries outside Gothenburg, Sweden and in Denver, USA. The Vitrolife share is listed on the Stockholm Stock Exchange's Nordic Small Cap list.

Vitrolife

Innovative Cell and Tissue Technology

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