

ANNUAL REPORT 2016



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Our history

Vitrolife was established in Sweden in 1994 when the field of assisted reproduction (IVF) was still young. The founders of Vitrolife realised the value of using culture media with consistent and repeatable performance; the manufacturing and delivering of LOT-to-LOT consistency they developed is still significant for Vitrolife today. Through well-executed product development, consistent quality controls and the acquisition of other innovative IVF companies, Vitrolife has grown with the market globally. As a result, Vitrolife provides an unbroken chain of quality products, securing results at every step of IVF treatment. Our commitment to increasing pregnancy rates has never been more dedicated. Together with equally devoted clinics, we are improving IVF success and fulfilling more couples' greatest dream of having a baby. We are very proud to be a part of making this happen.

THE YEAR IN SUMMARY

STRONG GROWTH AND STRENGTHENED INCOME

- Sales amounted to SEK 856 (722) million, corresponding to an increase of 19% in SEK. Net sales growth was 18% in local currencies. The acquisitions of Octax and MTG had a positive impact of SEK 39 million on sales. Adjusted for this, growth amounted to 12% in local currencies.
- Operating income before depreciation and amortisation (EBITDA) amounted to SEK 303 (279) million, corresponding to a margin of 35% (39). Operating income included one-time expenses of SEK 8 million related to the consolidation of the time-lapse business. Fluctuations in exchange rates positively impacted EBITDA by SEK 3 million. Last year's results were positively impacted by a recovered additional purchase price of SEK 17 million regarding the acquisition of Cryo Innovation.
- Acquisition on 31 May of all the shares in Octax and MTG, world-leaders in the field of laser technology for IVF.
- On 1 October Vitrolife introduced EmbryoScope+ and broadened the time-lapse product portfolio.
- The transplantation lawsuits in the US were concluded.
- Net income amounted to SEK 191 (183) million, which gave earnings per share of SEK 8.77 (8.42).

SEK 856 M

Sales 2016 (722)

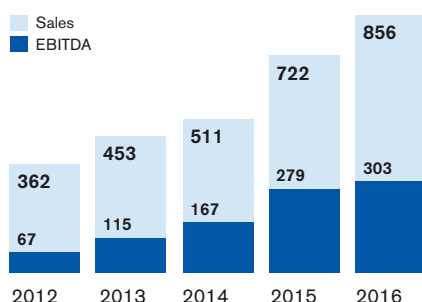
18%

Sales growth in local currencies 2016 (28%)

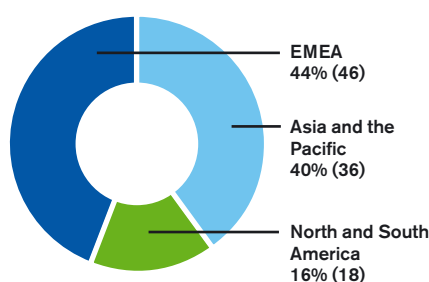
SEK 303 M

EBITDA 2016 (279)

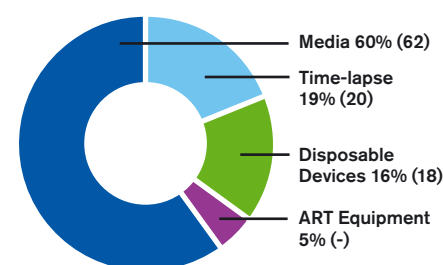
Sales and EBITDA* SEK M



Sales per region



Sales per business unit



Key figures**

	2016	2015
Net sales, SEK M	856	722
Net sales growth, local currency, %	18	28
Gross margin, %	66	67
Adjusted gross margin, %***	69	70
EBITDA, SEK M	303	279
EBITDA margin, %	35	39
Net income, SEK M	191	183
Net debt / EBITDA	-0.5	-0.5
Earnings per share, SEK	8.77	8.42
Share price at closing date, SEK	387.00	288.50
Market value at closing date, SEK M	8 402	6 263
Equity per share, SEK	46.89	38.84
Average number of employees	328	320

In this Annual Report, unless otherwise stated, the corresponding figures for the preceding year are given in parentheses.

* Continuing operations pertain to Fertility. In 2012, Vitrolife's transplantation operations were spun off to the company's shareholders and were subsequently reported as discontinued operations.

** Definitions of key figures are found on page 23. For reconciliation of alternative key figures, see Note 2.

*** Gross margin excluding amortisation of acquisition-related intangible assets.

CEO'S COMMENTS

PROFITABLE GROWTH AND BROADER PRODUCT PORTFOLIO

Profitable growth

Sales in 2016 increased by 18% in local currencies, of which 12% was organic growth. We were delighted that in 2016 all business units and market regions reported growth while maintaining good profitability.

Market continues to grow

Market growth continued in 2016. Global market growth in the IVF area, measured in monetary terms, amounts to approximately 5-10%. Vitrolife has thus taken market share in 2016 as well. Growth is driven by the expanding middle class, the trend of waiting to have a baby and greater social acceptance of IVF. On the basis of available data, Vitrolife assesses that the global market measured in terms of the number of treatment cycles now amounts to approximately 1.9 million egg retrievals and approximately 2.5 million transfers spread over approximately 5,000 IVF clinics worldwide. With an estimated average sales value of approximately SEK 2,000 per



treatment cycle, the world market for single-use medical devices amounts to approximately SEK 4 billion. Vitrolife therefore estimates that the company's global market share measured in terms of value amounts to approximately 15-20%. In addition to the market for disposable medical devices, Vitrolife also addresses parts of the market for capital goods, for example through

time-lapse, microlaser systems and quality control systems.

Market consolidating

Consolidation in the IVF market continued in 2016. Vitrolife's customers, the IVF clinics, are merging in many markets and forming chains of clinics. These mergers create economies of scale at the clinics with regard to

**"IN 2016, ALL BUSINESS
UNITS AND MARKET
REGIONS REPORTED
GROWTH WHILE
MAINTAINING GOOD
PROFITABILITY"**

marketing, the purchasing of products and the availability of competence. We see this trend, for example, in Australia, Spain, the UK and Sweden. During the year Vitrolife worked on adapting its marketing and sales so as to meet these chains' needs. There has also been consolidation in the market for a number of years regarding the suppliers of the IVF clinics. This trend continued during 2016 as well. Vitrolife takes an active part in this consolidation of suppliers and the acquisitions of Octax and MTG are an example of this.

Acquisitions broaden product portfolio

On 31 May, Vitrolife acquired all the shares in the German companies Octax and MTG, world leaders in laser technology for IVF. The acquisitions strengthen Vitrolife's market position and broaden the product portfolio in a growth area within IVF. Octax's laser systems are used in different treatment procedures in IVF, such as genetic analysis of embryos through a biopsy.

There is a trend in the market towards increased use of technologies such

as time-lapse and genetic analysis in IVF treatments. The trend towards increased technology content is driven by improved treatment results, increased earning capacity and more efficient work processes at the clinics. For more information on the acquisitions' businesses, see pages 10-11.

Development of time-lapse

During the year Vitrolife consolidated the Group's time-lapse business to Vitrolife A/S in Denmark. This change achieves synergies in production and product development, which in turn enables the company to provide a competitive and profitable time-lapse offering. Towards the end of the year the first newly launched EmbryoScope+ incubators were delivered to a customer. EmbryoScope+ has a high capacity at the same time as it takes up little space, so it offers efficient work flows and optimised use of the clinic's resources. With Embryo-Scope+ in its portfolio Vitrolife can offer customers three different time-lapse systems, so customers are offered a flexible and attractive range of products for their needs and preferences.

Outlook for 2017

Looking ahead, the market outlook is essentially unchanged and Vitrolife therefore anticipates a continuously expanding market which in monetary terms is expected to grow by approximately 5-10% per year in the foreseeable future. During 2017 the company will focus on expanding sales, broadening the product offering and achieving further synergies and economies of scale in the business.

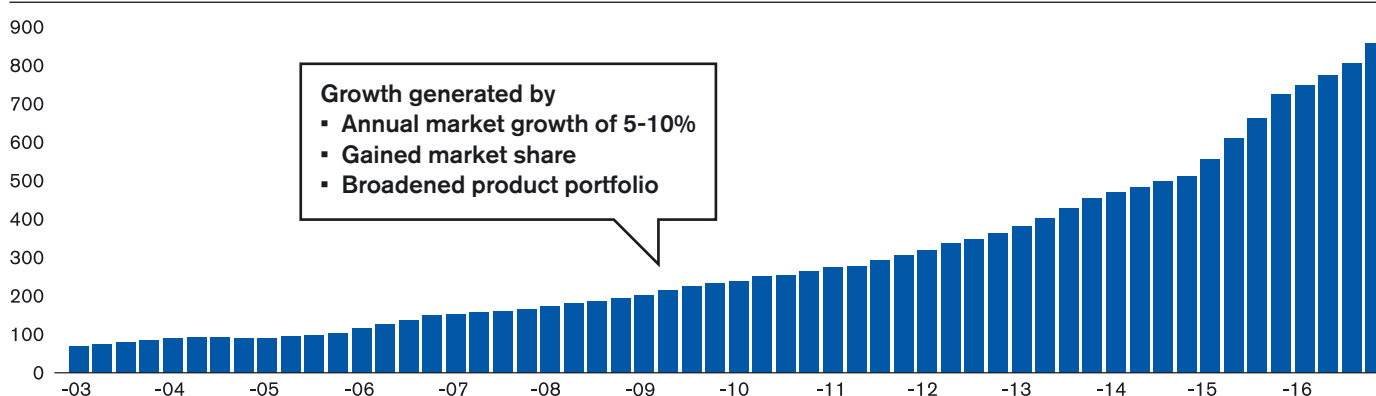
Thank you

Finally, I would like to say a big thank you to all our committed employees and business partners for their work, which resulted in yet another successful year for Vitrolife.

Gothenburg, March 2017

Thomas Axelsson
CEO

Sales (rolling 12 months), SEK M. Compound Annual Growth Rate (CAGR) 2003-2016: 20%



BUSINESS CONCEPT, GOALS AND STRATEGIES

THE GOAL IS TO BECOME THE WORLD LEADING SUPPLIER OF MEDICAL DEVICES FOR ASSISTED REPRODUCTION

Business concept

Vitrolife's business concept is to develop, produce and market advanced, effective and safe products and systems for assisted reproduction.

Business goal

Vitrolife's goal is to become the world-leading supplier of medical devices for assisted reproduction.

Strategy

Vitrolife has identified five strategic focus areas to reach this goal:

- Establish a scalable global organisation focused on common values.
- Expand sales through an improved customer offering and selling solutions.
- Broaden the product portfolio and ensure synergies between business units and market regions.
- Achieve economies of scale through increased internal efficiency.
- Take advantage of external growth opportunities such as collaborations and acquisitions.

Vitrolife's growth strategy

Vision with a purpose	Distinct business goal	Delivering financial value
"To fulfil the dream of having a baby"	"To become the world leading supplier of medical devices for assisted reproduction"	Annual growth 20% EBITDA margin 30% Net debt/EBITDA <3



Solid growth platform with global functions based on more than 20 years of IVF experience

Financial objectives

Vitrolife's Board considers that Vitrolife should have a strong capital base in order to enable continued high growth, both organically and through acquisitions. The company's net debt in relation to EBITDA should normally not exceed three times. Vitrolife targets profitable growth. The objective for Vitrolife's growth over a three year period is an increase in sales by an average of 20% per year, with an operating margin before depreciation and amortization (EBITDA) of 30%.

Achievement of financial targets

Sales growth

Over the last three years, Vitrolife's sales in the fertility area have grown

both organically and through acquisitions by an average of 18% per year. Organic growth has been driven by IVF market growth of 5-10% per year. Vitrolife has also gained market shares by expanding the sales organisation and broadening the product portfolio. The target of 20% annual growth is defined as organic and acquired growth measured in local currencies and averaged over a three-year period. Average growth between 2014 and 2016 amounted to 18% and thus growth underperformed the target.

EBITDA margin

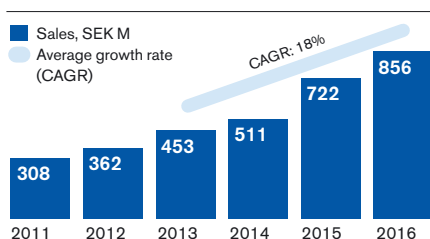
In 2016 the operating margin before depreciation and amortisation (EBITDA) amounted to 35%, which means that the margin was lower than in 2015. The decrease is explained

both by the fact that the company reported extraordinary revenue in 2015 related to a recovered additional purchase price and because the company had one-time expenses in 2016 related to consolidation of the time-lapse business. Vitrolife's objective for the EBITDA margin is 30%. The company thus reported an operating margin that outperformed the target for 2016.

Net debt/EBITDA

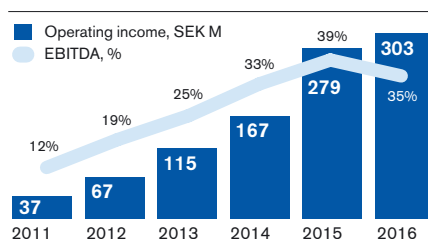
In 2016, net debt in relation to EBITDA amounted to a multiple of -0.5 (-0.5). In relation to the target, Vitrolife's debt provides scope for financing acquisitions over the coming years through increased debt.

Over the last three years the average growth rate (CAGR) has been 18% per year measured in local currencies*

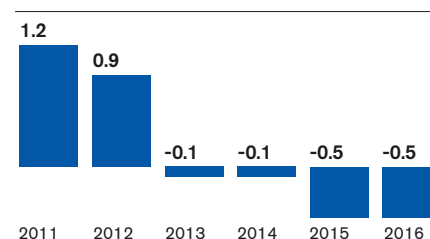


* Continuing operations

The EBITDA margin has increased during 2016*



Vitrolife's debt enables loan-financed acquisitions



(Net debt / EBITDA)

Achievement of financial objectives

Financial objectives	Objective 2016	Actual 2016	Achievement
Sales growth in local currencies	20%	18%	X
EBITDA margin	30%	35%	✓
Net debt/EBITDA	<3	-0.5	✓

IVF TREATMENT

IN VITRO FERTILISATION IS THE MOST EFFECTIVE METHOD FOR TREATING INVOLUNTARY CHILDLESSNESS

Involuntary childlessness

The World Health Organization (WHO) estimates that approximately 10% of all couples of reproductive age have difficulties in having children. This means that more than 100 million couples need some form of infertility treatment.

Treatment of infertility

There are several methods to treat human infertility. In Vitro Fertilisation (IVF), known as the test-tube baby procedure, is the most effective method. However, because the treatment is relatively expensive and often stressful, other simpler methods such as insemination are often tried prior to IVF.

The IVF process

Usually, IVF treatment starts with the use of hormones to stimulate the woman's ovaries to produce more mature eggs than usual. The eggs are then retrieved from the ovaries using an oocyte aspiration needle. In addition, the man provides sperm and fertilisation is achieved by sperm and eggs being brought together in a medium (nutrient solution) in a culture dish.

An alternative process for fertilisation is to inject sperm into the eggs using a micropipette. This process is known as ICSI and has revolutionised treatment results for male infertility.

The fertilised eggs, which are called embryos, are then cultured in nutrient solutions, known as media, in an incubator which has a controlled environment that mimics the human body in terms of temperature and pH. After culture for a period of 2-6 days, the embryo or embryos are selected which are assessed to have the greatest potential to result in pregnancy and are transferred to the uterus using a transfer catheter. Embryos can be assessed by removing them from the incubator and performing a microscopic inspection on a number of occasions during the culture process or by utilising new time-lapse technology for monitoring embryos.

Any surplus high quality eggs and embryos can be frozen so that they can be thawed and used on a later occasion if the treatment fails to result in pregnancy or if more children are desired later. There are two methods

of freezing. One of these, known as slow freezing, is based on the embryos being slowly frozen in a controlled manner, which takes about 2-4 hours. The other method is called vitrification and is based on an extremely rapid freezing of embryos. This method is also used for freezing of unfertilised eggs.

Treatment results

In the mid-1980s, the pregnancy rate after IVF treatment was on average approximately 15%, and was accompanied by an excessively high rate of multiple pregnancies, which involved higher risk for the mother and children. Toward the end of the 1990s, the corresponding figure was approximately 25-35% and certain clinics can now achieve 50% or higher.

The underlying reasons are refinement of the method and the further development of the composition of the media used. The pregnancy rate largely depends on the group being treated and how the treatment is performed – age, diagnosis and the number of embryos transferred are all crucial for the treatment result.

Vitrolife's product offering covers all the stages of the IVF process



VITROLIFE'S PRODUCT RANGE

BROAD PORTFOLIO OF QUALITY-ASSURED IVF PRODUCTS

Competitive offering

IVF treatment involves several stages: from the handling of eggs and sperm, to the culture and transfer of embryos as well as cryopreservation solutions for eggs, sperm and embryos.

Vitrolife's product range includes needles for oocyte retrieval, nutrient solutions, known as media, for culturing of embryos, micromanipulation pipettes and disposable plastic products. The culture media is developed to mimic the natural environment inside the human body and to provide the embryo with the nutrients it requires for optimal development.

Vitrolife also offers products for the cryopreservation of sperm, eggs and embryos, all of the highest quality to thereby enable excellent results at clinics.

Time-lapse technology is used by clinics worldwide to monitor the development of embryos and to select an embryo to be transferred to the woman. With the time-lapse systems Primo Vision, EmbryoScope and EmbryoScope+, Vitrolife is the market

leader in this area. The acquisitions of Octax and MTG during the year mean that Vitrolife can now also offer further equipment for better treatments, such as laser systems and quality control systems. For more information on these, see page 10-11.

Collaboration

Vitrolife's aim is to create long-term and close collaborations with dedicated customers, which has generated success and excellent treatment results. These collaborations, which also comprise Vitrolife's brand promise, are called "Together. All the way." For Vitrolife, the brand promise signifies a feeling the company wants everyone who comes into contact with Vitrolife to experience.

Service and support

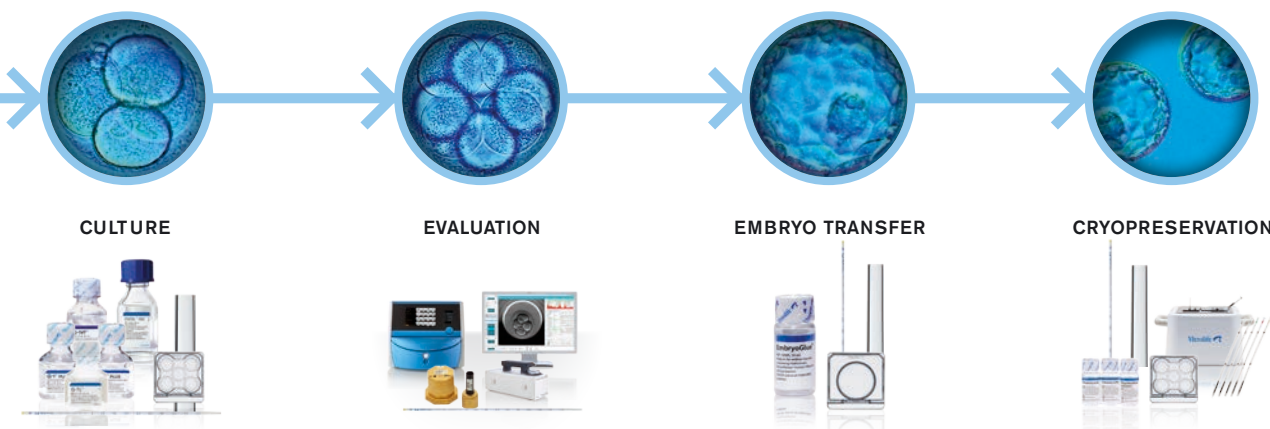
The possibility of becoming pregnant through IVF is influenced by several factors. The woman's age comprises a key factor, since a woman's fertility decreases as she ages. Not only the underlying diagnosis but also other factors, such as hormone treatment and the technique used to transfer the embryo to the woman, have an impact

on the result. The environment in which the embryo is cultured impacts the results and factors such as the correct temperature, pH and air quality are decisive. Other crucial factors for successful treatment comprise the quality, settings and correct handling of the technical equipment. Any material that the embryo comes into contact with during the procedure could negatively impact results. Therefore, in addition to a quality-assured product line, Vitrolife has a team of experienced embryologists who help customers to set up their processes and flows in an optimal manner.

Satisfied customers

Vitrolife's customers appreciate the company's product offering and the service provided. In the annual customer satisfaction survey, 86% in 2016 (84% in 2015) replied that they were very satisfied or satisfied with Vitrolife as a supplier of IVF products and services.

For more information on Vitrolife's products, visit the company's website at: www.vitrolife.com.



BUSINESS UNIT ART EQUIPMENT

OCTAX AND MTG BROADEN VITROLIFE'S PRODUCT PORTFOLIO

Vitrolife's new business unit ART Equipment consists of former partner companies Octax Microscience GmbH and MTG Medical Technology Vertriebs-GmbH, which were both acquired by Vitrolife on 31 May 2016. The purchase price for both companies amounted to SEK 127 million and the companies contributed SEK 39 million to the net sales for the Group in 2016.

The new business unit is located in Southern Germany, 70 km northeast of Munich and has approximately 30 employees with expertise in embryology, software development, electronics, physics and optics. The two partner companies have always specialised in developing, producing and providing equipment for human infertility treatment, along with the corresponding services.

The core product range is used for all laser applications within IVF (Octax LaserShot, Octax NaviLase) and related imaging technology, as well as devices for automated quality control

(Log&Guard, FertiProof). In addition, Business Unit ART Equipment produces a system for automated semen analysis (medeaLAB CASA) and a controlled-rate freezer for sperm, embryos and reproductive tissue (CTE2200).

Octax LaserShot and Octax NaviLase lasers are well known in the worldwide IVF community for their reliability, ease of use and efficiency. They are installed on existing micromanipulation stations and mainly used for embryo biopsy, an application needed to obtain embryonic cells for subsequent genetic analysis in the context of preimplantation genetic screening (PGS) or preimplantation genetic diagnosis (PGD). PGS has been shown to improve the treatment outcome in older patients whereas PGD is used to prevent the transmission of inherited diseases to the next generation. Both technologies have significant growth potential in established and new IVF markets.

Log&Guard is a monitoring and alarming system for all critical parameters involved in embryo culture and cryo-storage. It takes measurements automatically through a scalable network of external sensors and notifies staff remotely in case any of the parameters leave the predefined normal range. FertiProof is a matching and tracking system that was developed to prevent mix-ups between patients' gametes or embryos and to automatically document all critical procedures in the IVF lab. Log&Guard as well as FertiProof make relevant contributions to improved quality and safety levels in IVF treatment, helping to meet the legal and regulatory requirements in an increasing number of countries.

The devices developed and manufactured by Business Unit ART Equipment extend the technical range of Vitrolife's portfolio and combine with existing products to make complete solutions. They will benefit from the worldwide presence of Vitrolife's direct sales and distribution partners.



**THOUSANDS OF
CHILDREN HAVE BEEN
BORN AFTER SAFE
LASER TREATMENT
USING OCTAX LASER**

HOW OCTAX NAVILASE CAN SECURE PRECISION AND IMPROVE THE WORKFLOW FOR LASER PROCEDURES

Lab director and co-owner Dr. Oliver Sterthaus (Fertisuisse, Switzerland) built a completely new IVF lab in 2014 with his colleagues. They decided to use the dynamic Octax NaviLase laser system for all laser procedures, to ensure precision and an improved workflow. The clinic started operatively with approximately 100 fresh cycles in 2015 but the clinic is designed for 600 fresh cycles.

Dr. Oliver Sterthaus has been using Octax laser system for 10 years, and for the new lab they opted for the Octax NaviLase laser system. Dr. Sterthaus particularly appreciates that he can just sit down and do the treatments without needing to calibrate the system.

- "We have tried to build a really modern lab, which is why we decided



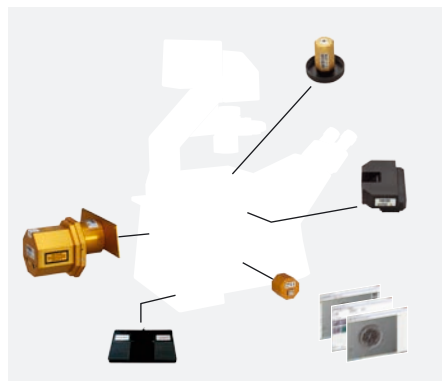
Dr. Oliver Sterthaus, Fertisuisse, Switzerland

for an electronic condenser. The benefits of this condenser are that it is really robust and as soon as you switch an objective, the condenser changes automatically. This means that the microscope will change to a semi-automatic microscope which is quite nice because in this way you really have all the time you need to get a good picture."

For fully automated quality control, Dr. Sterthaus and his colleagues decided to use the Log&Guard monitoring system.

- "This is a system integrating all kinds of sensors in one small unit. We have a good overview of what is going on and happening in our lab at all times."

The most important products within Business Unit ART Equipment



Octax laser and imaging systems

The lasers can be used for all laser applications within IVF. The systems consist of lasers, cameras and software. The main products are NaviLase and LaserShot.



Log&Guard System

Monitoring and alarm system specifically designed to meet the needs of quality control in the IVF lab. Parameters such as temperature, humidity, pH, CO₂/O₂, VOCs and power supply are continuously measured.



FertiProof System

Secure patient identification and sample handling from retrieval of eggs to cryopreservation. The system includes a barcode label printer, barcode readers and web interface based software.

MARKET AND SALES

THE IVF MARKET IS GROWING BY 5-10% PER YEAR DRIVEN BY INCREASING AVERAGE INCOMES AND AGES AMONG PROSPECTIVE PARENTS

Market size and growth

Vitrolife's customers comprise private and public clinics, hospitals and laboratories. The cost of the disposable products used in an IVF treatment (excluding hormones) amounts to approximately SEK 2,000 per treatment cycle for the clinic. Time-lapse treatment costs about SEK 500 – 1,000 per treatment cycle, depending on the technical solution used. The total cost of assisted reproduction averages about SEK 50,000 per treatment cycle, but varies considerably from country to country.

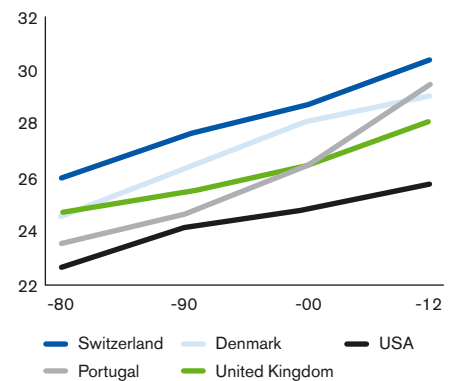
Vitrolife estimates that each year about 1.9 million oocyte retrieval procedures are carried out and about 2.5 million

transfers (embryos transferred to the woman). The reason transfers outnumber oocyte retrievals is that fertilised eggs that are not used in the first transfer are frozen and used if the first treatment fails or if siblings are desired. The amount of reliable data regarding the number of treatments worldwide is limited and, accordingly, the figures are estimated by Vitrolife on the basis of local market data and official statistics.

With disposable products valued at approximately SEK 2,000 per treatment, excluding hormones, the world market for disposable products amounts to approximately SEK 4 billion. In addition to the market for disposable medical devices, Vitrolife

also addresses parts of the market for capital goods, for example through time-lapse, laser systems and quality control systems.

Average age of first-time mothers rising



HIGH GROWTH IN ASIA AND THE PACIFIC

In 2016 the Asia and Pacific region reported growth of 29% in local currencies. Growth is driven mainly by the following global trends: a growing middle class, prospective parents choosing to have children later in life and increased social acceptance of IVF.



IN BRIEF

Customers

Private and public clinics, hospitals and laboratories

Number of customers

Approx. 5,000

Payment of treatment

Partly subsidised in most countries in Europe, private in the US and Asia

Number of treatments per year

Approx. 1.9 million egg retrievals and approx. 2.5 million transfers

Cost per treatment

Disposable products approx. SEK 2,000*

Time-lapse approx. SEK 500-1,000

Total cost treatment approx. SEK 50,000

Total size of market

Disposable medical devices approx.

SEK 4 billion*

* Excluding hormones

Market growth is estimated at 5-10% per year, with considerably higher growth in Asia and Eastern Europe than in Western Europe and North America. In the more mature markets, the focus is on price and consolidation of clinics.

Growth is mainly driven by the following global trends: a growing middle

class, prospective parents choosing to have children later in life and increased social acceptance of IVF.

In the more mature markets, value-driving factors primarily comprise public financing, laws and regulations and technological progress. Israel, where an unlimited number of treatments is offered free of charge, is the country with the highest number of treatments per capita. The Nordic countries, where the majority of patients have historically been offered subsidised treatment, are also high on the list.

Per capita, the number of treatments in countries such as the US, China, India and Russia are considerably lower. In the US, this is probably attributable to the need to finance treatment privately; in other words, because relatively few states require health insurance to include cover for assisted reproduction, treatment is very expensive for the patient. In states where the treatment is a mandatory component of health insurance, as in Massachusetts, the number of treatments per capita is appreciably higher.

In countries where few IVF treatments are performed, factors such as personal finances, technical competence, cultural limitations and availability often

affect the continued development of the market.

Vitrolife's sales in 2016

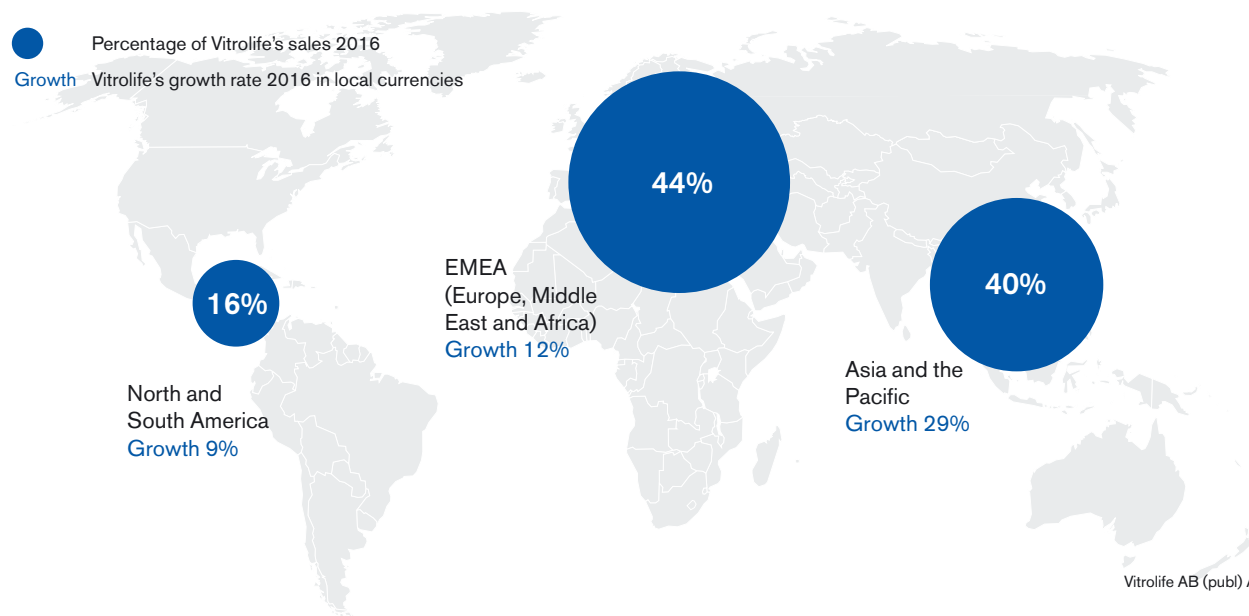
Vitrolife's sales in 2016 amounted to SEK 856 million (722), corresponding to an increase of 19% in SEK. Sales growth was 18% in local currencies. Sales were positively impacted by the acquisitions of Octax and MTG to the tune of SEK 39 million. Adjusted for this, growth amounted to 12% in local currencies.

Sales for the EMEA region increased during the period by 12% in local currencies and amounted to SEK 376 million (335). In the North and South American region sales amounted to SEK 139 million (125). The increase amounted to 9% in local currencies. Sales in the Asia and Pacific region increased by 29% in local currencies and amounted to SEK 342 million (262).

Competitors

Vitrolife's main competitors comprise global companies which, like Vitrolife, have broad IVF product ranges. Prominent examples are CooperSurgical, Cook Medical, Merck/Genea and Kitazato. There are also global competitors who have specialised in limited product groups.

Vitrolife's sales and growth per region



VALUE CHAIN

SAFETY IN THE FORM OF CONSISTENTLY HIGH QUALITY IS ONE OF VITROLIFE'S COMPETITIVE ADVANTAGES

Innovative product development based on customer benefit and scientific knowledge

Vitrolife's operations cover the product's entire value chain, from research through to distribution and sales. Together with the business units, the research function evaluates new product possibilities with a focus on customer needs, medical needs and financial prerequisites. Development work includes comprehensive testing work and collaboration with opinion leaders to ensure the best functionality and to obtain rapid market acceptance of new products.

Vitrolife develops innovative products on a solid scientific basis and, as far as possible, protects these products through product or process patents, or through confidential product formulations and manufacturing protocols. Patent applications are submitted in each product's key markets at an early stage of research.

Vitrolife also owns a number of trademarks, such as EmbryoGlue®, EmbryoScope® Time-lapse system and Primo Vision® Time-lapse Embryo Monitoring System.

Development work also comprises preclinical and clinical studies to document the products' effectiveness

and safety. These studies are often presented at scientific congresses or published in scientific journals. When a product is ready for launch, these studies comprise an excellent base for communication of the product's value.

Product approval

The majority of Vitrolife's products are classified as medical devices and are therefore subject to documentation requirements that differ from those applicable for pharmaceuticals. Product approval is required in each individual market in which the products will be sold. In the US, for example, approval is required from the Food and Drug Administration (FDA) and in the EU, the product must be marked Con-formité Européenne (CE).

Sourcing, production and quality control

Vitrolife has its own production and a large part of Vitrolife's competitiveness is attributable to its well-developed production technology. Since raw material of the specification required for assisted reproduction cannot be ordered, substantial resources are invested in locating and testing these. A large part of production is carried out in clean rooms and all operations are steered by quality systems adapted to medical device standards and regulatory frameworks. Advanced tests of raw material, semi-finished

and finished products ensure high and consistent quality and comprise a strategic competitive tool.

Sales and distribution

Vitrolife has sales in approximately 110 markets. In order to support all markets, the company has developed a customer support function where customers can quickly gain access to expert scientific support. As more advanced products are developed, the need for expert customer support also increases. The provision of customer support, both in markets served directly and through distributors, ensures that the products are used correctly thus enabling the clinics to utilise the improvements delivered by the products. In recent years, Vitrolife has arranged a number of customer training sessions, known as workshops, both locally and at the company's own facilities. The workshops are conducted by an experienced team from Vitrolife comprising embryologists and individuals with extensive IVF experience.

Distribution of medical device products is highly demanding. Media, for example, must be transported under refrigerated conditions to all parts of the world. Vitrolife has long experience of this type of transportation and the global refrigeration chain is a balance of quality requirements, environmental aspects and economy.

Vitrolife's operations cover the product's entire value chain, from Research and Development through to Sales and Distribution

Research and Development

Product approval

Sourcing, Production and Quality Control

Sales and Distribution



**VITROLIFE HAS WORLD-
LEADING PRODUCTION
WITH FIRST-CLASS
QUALITY CONTROL AND
EFFICIENCY**

**Vitrolife's Quality and
Environmental Management
Systems**

ISO 14001:2004

ISO 13485:2003/2012

ISO 9001:2008

US Quality System Regulation

Canadian Medical Device Regulations

EU Good Distribution Practice, etc.

Audits performed

DNV, BSI, Presafe, TÜV Rheinland
and TÜV SÜD



ORGANISATION

A GROWING INTERNATIONAL ORGANISATION

Organisation

Vitrolife's head office, from which its Swedish business operations are conducted, is located in Gothenburg. In addition to Sweden, Vitrolife has production in Denver and San Diego (the US), Bruckberg (Germany) and Aarhus (Denmark). The company has local offices in Australia, China, Denmark, France, Germany, Italy, Japan, the UK and the US. The organisation comprises four business units, whose products are sold through three geographic marketing organisations.

During the first half of 2016, Hungarian production was gradually transferred to Denmark. In conjunction with this, a number of employees from Hungary have been employed in the Danish and Swedish businesses. All personnel have worked hard and successfully to achieve a smooth and efficient transfer. The merger has resulted in greater efficiency and thus a reduction of personnel.

On 31 May Vitrolife acquired the companies MTG and Octax. They produce and market equipment for IVF and are located in Bruckberg in Germany. Around 30 people work in the companies.

Employees

During January to December 2016, the average number of employees was 328 (320), of whom 149 (144) were women and 179 (176) were men. Of these, 142 (128) were employed in Sweden, 61 (62) in the US, 63 (66) in Denmark and 62 (64) in the rest of the world. At the end of the period, the number of people employed in the Group was 349 (330). In 2016, 45% (45) of the employees were women and 55% (55) men and the average age was 41 (41).

Corporate culture

Vitrolife's vision is "To fulfil the dream of having a baby" and describes what is most important for us – helping people realise their dream of becoming parents. Vitrolife's goal is a decentralised and flexible organisational structure, characterised by competence, entrepreneurial spirit, management by objectives and fast decision procedures. The values guide the employees in how to act and take decisions in various situations. Detailed descriptions are available for each value, including everyday examples of their meaning, with the aim that all employees will use them as guidance in their daily work. The values are also discussed at the

performance reviews held during the year.

Since it is crucial that Vitrolife's operations comply with local legislation, international and national codes of conduct and Vitrolife's standards, all employees and business partners receive continuous training in Vitrolife's Code of Conduct. The company has a whistleblower function, comprising Human Resources and Vitrolife's Board, to which employees can report any deviations from the Code of Conduct.

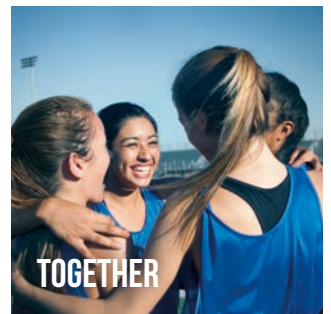
Equal opportunities and diversity

Vitrolife's equal opportunities policy and diversity activities are prioritised areas within the company and are based on the belief that operations are strengthened by having differing viewpoints and experience represented.

Vitrolife is a global organisation in which language skills and the ability to operate in different cultures are key elements for achieving success.

Each year, an employee survey is conducted that includes questions regarding perceived discrimination or harassment. In conjunction with

Vitrolife's values guide the employees in their daily work



feedback on the results, the focus is on an inclusive and tolerant work environment, and how employees should make the company aware when conditions are less satisfactory.

Vitrolife has chosen to follow up gender distribution at different levels in the company so as to be able to detect and remedy any unjustifiable imbalances. Furthermore, annual salary reviews are carried out to discover unreasonable differences.

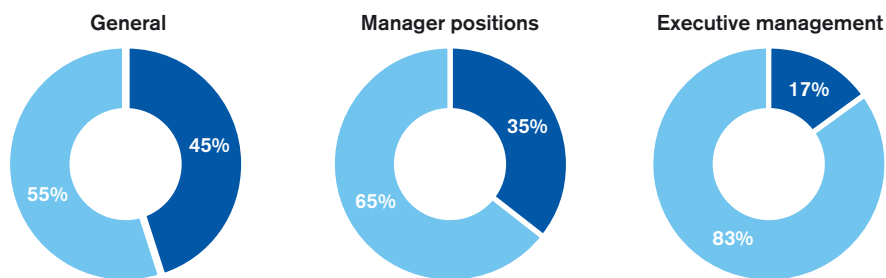
Development and training

Employees' competence is one of the company's foremost assets and is crucial for Vitrolife's future growth. Together, employees and managers identify development needs and prepare development plans in conjunction with the annual performance reviews as part of efforts to retain the right skills. In addition to personal development measures, specific job training comprising qualifications and requalification is also conducted. Moreover, internal and external programmes exist for the development of employees and management.

Another way of developing the employees and broadening competence is to stimulate internal mobility and the exchange of experience through global competence teams. By encouraging internal rotation and developing existing services, employees are challenged to develop themselves further.

Gender distribution

■ Women ■ Men



Furthermore, Vitrolife must be able to attract external competence. Recruiting and induction processes have therefore been developed to both shorten the time taken to recruit and increase the quality of the recruitments. The company's ability to attract and induct new employees is continually followed up and evaluated.

Work environment

Vitrolife's overriding objective is to create a healthy work environment and to prevent ill-health and accidents occurring. The annual employee survey follows up employee satisfaction vis-à-vis their working conditions, and dialogue and influence are used to improve the work environment. Employees are also trained to carry out work in a way that reduces risks and prevents ill-health. Flexible working hours help employees find a favourable work-life balance.

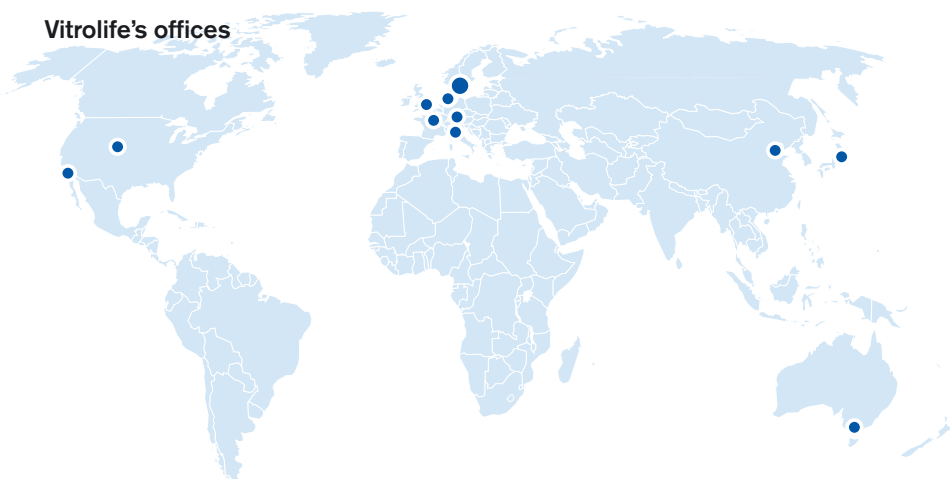
The local work environment activities are run by the managers and Human Resources, supported by collaboration partners, for example local employer

organisations and consultants. In the US, this support is provided through the suppliers included in the company's health and medical care plans. A safety committee runs organised work environment efforts for the operations in Sweden. This committee includes a safety representative appointed by the trade union together with other employee representatives and the management. Established plans are in place for responsibility and risk assessment, as are procedures for identifying, rectifying and following up any shortfalls in the work environment.

Collective agreements

Vitrolife Sweden AB follows collective agreements. The company is a member of Innovation and Chemical Industries in Sweden (IKEM) and is consequently bound by IKEM's agreement with unions including IF Metall, Unionen and Unions for Professionals. Collaboration with local unions has worked well and facilitates solutions that best take into consideration both the employees' and the employer's interests.

Vitrolife's offices



VITROLIFE IS AN INTERNATIONAL MEDICAL DEVICE GROUP WITH SALES IN ABOUT 110 MARKETS

SUSTAINABLE BUSINESS

FOCUS ON LONG-TERM COMPETITIVENESS AND PROFITABILITY

Introduction

Vitrolife's sustainability activities are aimed at strengthening the Group's long-term competitiveness and profitability. This is achieved through long-term, responsible actions vis-à-vis the company's stakeholders such as shareholders, customers, employees, suppliers and society as a whole. Vitrolife's corporate governance policies are described in the Corporate Governance Report on pages 27-29. The company's values and work with personnel-related sustainability matters are described on pages 16-17.

Environmental policy

Vitrolife's vision is to fulfil the dream of having a baby. To realise this vision, the company develops, manufactures and markets products and systems in the field of assisted reproduction (IVF). Vitrolife endeavours to improve its environmental performance by committing to the following:

- Continuous improvements and emissions prevention
- Compliance with legal and other relevant requirements
- Minimising the environmental impact of energy consumption and transportation
- Communication of our environmental policy to employees, suppliers, distributors and the general public

Environmental impact

Since 2014 the main facility in Gothenburg has been certified in line with the ISO 14001 standard. Environmental performance has been reviewed and the greatest environmental challenges are to be found in the transportation of personnel and products and in the consumption of energy. A policy for sustainable travel has been issued by Vitrolife that contains examples of how to minimise the

environmental impact of travel. One example is the use of the video conferencing equipment installed at all Vitrolife offices, which minimises the need for internal travel. Another example is that the company only purchases eco-certified company cars.

Air-freight is almost always a necessity for Vitrolife's temperature-sensitive products, even though this impacts the environment. IVF media are sensitive products that must be stored and transported under refrigerated conditions to maintain product quality. IVF media are kept cold during transportation by being packed with ice packs in well-insulated styrofoam boxes. When outside of a cold store, these styrofoam boxes have a limited time before the contents become too warm. Hence, transportation time must be minimised, making air freight the only alternative. However, the environmental impact can be reduced through

QUALITY-ASSURED PRODUCTS CONTRIBUTE TO SUSTAINABLE BUSINESS

This is achieved by ensuring that each product distributed to customers meets the promised quality standards which, in turn, enables effective treatments.



efficient packing and fewer shipments. The packing of refrigerated freight has been optimised over a long period by Vitrolife. Vitrolife strives to reduce the amount of refrigerated freight by informing customers about the CO₂ emissions generated by transportation and, thereby, to encourage customers to order larger quantities on fewer occasions. One of the company's goals is to increase sales to existing customers. This results in larger shipments and, per shipped product, more eco-friendly transportation. The company also uses professional freight carriers with efficient transportation systems that optimise shipments through bundling and transportation routes that reduce CO₂ emissions and costs.

A large proportion of electricity consumption is attributable to production equipment. Examples of ongoing initiatives to reduce electricity consumption are the reduction of losses in the compressed air system and enhancement of the efficiency of the lighting system. Since the beginning of 2016 all electricity consumed at the main facility in Gothenburg comes from renewable, green energy sources.

Quality-assured products

Vitrolife's products are sold worldwide. Customer input is compiled regularly and reported to the management. The aim is to treat customers, clinics and patients in a sustainable manner. This is achieved by ensuring that each product distributed to customers meets the promised quality standards which, in turn, enables effective treatments.

This level of quality can be assured by using quality systems that meet international requirements for medical devices, for example ISO 13485. With its quality system, Vitrolife has committed to comply with the regulations set by the authorities in each country where the products are sold or distributed. This means, inter alia, that each product is sold clearly marked for its approved range of applications, has instructions for correct use and that a system is in place to assess risk and register side-effects. For more information about Vitrolife's quality system and value chain, refer to pages 14-15.

Responsible business

All employees and business partners receive continuous training in Vitrolife's Code of Conduct to ensure that

Vitrolife's operations comply with local legislation, international and national codes of conduct, and Vitrolife's standards. The Code of Conduct is included as part of the evaluation when selecting and qualifying suppliers.

Vitrolife endeavours to make a positive impact in those countries where the company operates. Vitrolife follows the OECD's Transfer Pricing Guidelines to achieve a fair allocation of company taxes between the countries where the company operates.

Social responsibility

Helping people to have children is important as it gives parents great joy and maintains balanced birth rates. Millions of women around the world lack access to maternity care. Therefore, Vitrolife supports Läkarmissionen's efforts to create safe birthing conditions for women in Congo, which saves lives and reduces suffering.

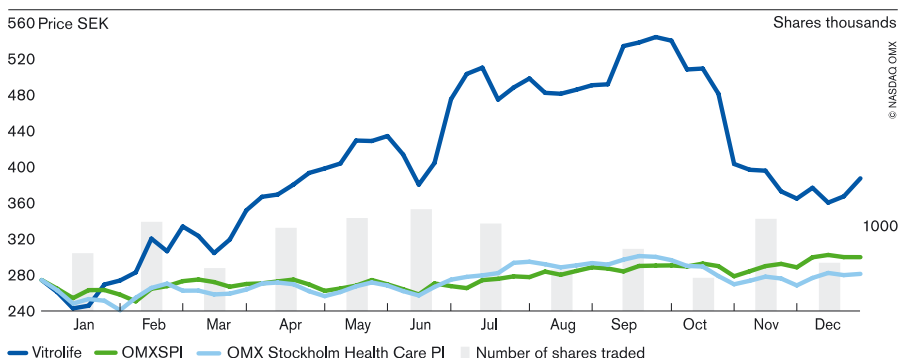
IVF media are sensitive products that must be stored and transported under refrigerated conditions to maintain product quality. However, the environmental impact can be reduced through efficient packing and fewer shipments.



THE VITROLIFE SHARE

CONTINUED INCREASE IN SHAREHOLDER VALUE

Share price performance and turnover 2016



In 2016, Vitrolife's share was listed on NASDAQ Stockholm, Mid Cap. The share has been listed since 26 June 2001, under the ticker VITR.

Share structure

On 31 December 2016, the share capital of Vitrolife AB (publ) was SEK 22,144,317 (22,144,317) allocated among 21,710,115 (21,710,115) shares with a quotient value of SEK 1.02. All shares carry the same number of votes and entitle shareholders to equal shares in Vitrolife's assets and earnings. There were no warrants outstanding as of 31 December 2016.

Share price performance and turnover

At 31 December 2016, the latest price paid for the share was SEK 387.00 per share (288.50), up 34% year-on-year. Taking into account the dividend of SEK 2.40 paid during the year, the increase was 35%. NASDAQ Stockholm's index increased 6% during the same period and the OMX Stockholm Health Care decreased 1%.

+34%
GROWTH DURING 2016

At the end of 2016, Vitrolife's market capitalization was SEK 8,402 million (6,263), based on the latest share price paid. The highest share price during the year was SEK 559.00 (288.50) on 29 September (30 December). The lowest share price during the year was SEK 217.50 (151.50) on 14 January (20 April).

During the year, Vitrolife's share turnover on NASDAQ Stockholm totalled 10,003,057 (10,661,389) shares amounting to a value of SEK 3,984 million (2,087). The total number of transactions was 154,501 (57,428). The total share turnover corresponded to 46.1% (49.1) of the number of shares outstanding at the end of the year.

Ownership structure

At 31 December 2016, the number of shareholders in Vitrolife was 6,657 (6,372), of these, 89% (88) owned 1,000 shares or less. The ten largest shareholders accounted for 60% (57) of the shares. The proportion of shareholders with registered addresses outside of Sweden was about 48% (43).

Dividend policy and dividend

Vitrolife's Board and CEO intend to propose, on an annual basis, a dividend or other corresponding distribution that on average and over time corresponds to 30% of the year's net profit after paid tax. Decisions regarding the proposed dividend or its equivalent will take into account the company's future profits, financial position, capital requirements and position in general. The company's net debt to EBITDA ratio should in normal circumstances not exceed a multiple of 3.

In 2016, a dividend was paid of SEK 2.40 per share (1.50). In accordance with the dividend policy, the Board and CEO intend to propose that the 2017 AGM resolve in favour of a dividend of SEK 2.60 per share.

Share buybacks

The Board was authorised by the 2016 AGM to repurchase the company's own shares with the aim of adjusting the company's capital structure. During the year, no purchases of own shares were made.

Share savings programme

The 2016 Annual General Meeting resolved to introduce a long-term incentive programme (LTI) with the aim of aligning the interests of executive management with those of shareholders and to encourage the purchase of Vitrolife shares. In addition to executive management, the offer was open to 7 employees, making a total of 13 of the company's employees. The aggregate cost of the programme for the company during the period may not exceed SEK 5.2 million. For more information on the programme, see the Management Report on page 26.

The company also has a share-related incentive programme outstanding pursuant to a resolution adopted by the 2015 Annual General Meeting. The conditions of this programme are essentially in line with those of the programme adopted at the 2016 Annual General Meeting. The aggregate cost of this programme for the company during the period may not exceed SEK 4.8 million.

Warrant programme

Vitrolife has no warrant programme outstanding.

Price quotes and current information

Continuous information about the share is available at: www.vitrolife.com. Press releases, interim reports and annual reports are also available there and it is possible to subscribe to receive these by email.

People discharging managerial responsibilities

Pursuant to the EU's Market Abuse Regulation, people discharging managerial responsibilities and persons closely associated with them must inform the issuer and the Swedish Financial Supervisory Authority (Finansinspektionen) of every transaction that has been carried out on their behalf regarding shares and other financial instruments issued by the issuer. The Board, the CEO and the CFO are considered to comprise the people discharging managerial responsibilities at Vitrolife.

Analysts

The following companies monitor Vitrolife on a regular basis:

- DnB Nor
- Remium
- Ålandsbanken

Six reasons to invest in Vitrolife

- Market growth driven mainly by the following global trends: a growing middle class, prospective parents choosing to have children later in life and increased social acceptance of IVF
- Market leader in the field of culture media and time-lapse
- Strong brand name associated with quality
- Long history of creating profitable growth
- Economies of scale in media production
- Aims to lead technological development in the field of IVF

Per share data

	2016	2015	2014	2013	2012
Average number of shares	21 710 115	21 710 115	19 987 534	19 830 936	19 585 116
No. of shares at closing date	21 710 115	21 710 115	21 710 115	19 830 936	19 830 936
Shareholders' equity per share, SEK	46.89	38.84	32.30	15.80	14.01
Earnings per share, SEK	8.77	8.42	5.46	2.84	1.56

Vitrolife's ten largest shareholders

Shareholders	No. of shares	Shares and votes, %
Bure Equity AB (publ)	4 709 790	21.7
William Demant Invest A/S	4 223 644	19.4
SSB Client Omnibus AC OMO7 (15 PCT)	1 441 940	6.6
SEB Investment Management	695 062	3.2
Eccenovo AB	550 000	2.5
Lannebo Fonder	431 496	2.0
State Street Bank & Trust Com., Boston	276 771	1.3
JP Morgan Chase N.A.	241 100	1.1
CBLDN-400 Series Funds-Clients AC	240 000	1.1
JPM Chase N.A.	235 190	1.1
Other shareholders	8 665 122	40.0
Total	21 710 115	100.0

Source: Euroclear Sweden's shareholders' register at 31 December 2016

Shareholder statistics

Size of holding votes	No. of shares, thousands	No. of shareholders	Shares and votes, %
1 – 500	629	5 327	2.9
501 – 1 000	494	592	2.3
1 001 – 5 000	1 178	512	5.4
5 001 – 10 000	605	80	2.8
10 001 – 15 000	493	39	2.2
15 001 – 20 000	255	15	1.2
20 001 –	18 056	92	83.2
Total	21 710	6 657	100.0

Source: Euroclear Sweden's shareholders' register at 31 December 2016

5-YEAR SUMMARY

SEK thousands	2016	2015	2014	2013	2012
Income statements					
<i>Continuing operations</i>					
Net sales	856 106	722 370	510 512	452 738	362 020
Gross income	561 301	484 820	349 118	300 555	238 300
Operating income	248 841	226 135	143 346	80 398	49 725
<i>Discontinued operations</i>					
Net sales	–	–	–	–	42 197
Operating income	–	–	–	–	7 167
<i>Group total</i>					
Net sales	856 106	722 370	510 512	452 738	404 217
Operating income	248 841	226 135	143 346	80 398	56 894
Non-taxable gain from distribution of Xvivo	–	–	–	–	303 207
Income after financial items	248 930	226 840	146 924	79 788	358 885
Net income	191 212	183 361	109 468	56 700	334 065
Depreciation and amortisation, continuing operations	54 326	53 063	23 250	34 911	17 578
Balance sheets					
<i>Group total</i>					
Intangible fixed assets	649 087	515 518	561 392	206 257	216 008
Tangible fixed assets	93 655	89 641	92 322	85 958	94 445
Financial fixed assets	31 230	39 630	43 289	5 442	8 929
Inventories	145 654	102 284	91 676	59 916	62 409
Accounts receivable	126 187	99 783	84 620	61 456	52 436
Other current receivables	15 433	11 973	24 888	12 184	16 291
Derivative instruments	–	842	–	–	–
Cash and cash equivalents	189 245	199 572	107 598	53 769	11 680
Total assets	1 250 491	1 059 243	1 005 785	484 982	462 198
Equity	1 018 055	843 151	700 914	313 886	277 791
Minority interest	2 329	1 821	1 657	1 644	1 191
Provisions	70 323	47 248	63 534	23 190	12 214
Long-term interest-bearing liabilities	466	35 627	60 019	21 622	58 228
Long-term non-interest-bearing liabilities	–	–	19 830	24 916	32 605
Short-term interest-bearing liabilities	37 390	11 876	25 774	17 028	16 825
Derivative instruments	–	–	2 803	1 884	–
Accounts payable	24 286	21 749	22 282	15 596	17 444
Other short-term non-interest-bearing liabilities	97 642	97 771	108 972	65 216	45 900
Total shareholders' equity and liabilities	1 250 491	1 059 243	1 005 785	484 982	462 198
Cash flow statements					
<i>Group total</i>					
Cash flow from operating activities	181 262	193 526	145 666	106 127	59 930
Cash flow from investing activities	-131 002	-31 394	-77 517	-14 387	-62 539
Cash flow from financing activities	-63 596	-68 924	-19 704	-49 205	-5 607
Cash flow for the year	-13 336	93 208	48 445	42 535	-8 216
Liquid funds at beginning of year	199 572	107 598	53 769	11 680	20 873
Exchange rate difference in liquid funds	3 009	-1 234	5 384	-446	-977
Liquid funds at end of year	189 245	199 572	107 598	53 769	11 680
Other					
<i>Group total</i>					
Investments, excl. acquisitions	-14 500	-22 258	-9 710	-12 507	-31 063
Net sales outside Sweden, %	97	97	97	93	94

KEY FIGURES AND DEFINITIONS

	2016	2015	2014	2013	2012
Margin ratios					
<i>Continuing operations</i>					
Gross margin, %	65.6	67.1	68.4	66.4	65.8
Adjusted gross margin, %	69.3	69.9	68.8	66.5	65.9
Operating margin before depreciation and amortisation (EBITDA), %	35.4	38.7	32.6	25.5	18.6
Operating margin (EBIT), %	29.1	31.3	28.1	17.8	13.7
Other ratios					
<i>Group total</i>					
Return on equity, %	20.3	23.5	24.8	19.4	9.2***
Average number of employees	328	320	242	234	215
Net debt*, SEK M	-151.4	-152.1	-21.8	-15.1	63.4
Equity/assets ratio, %	81.6	79.8	69.9	65.1	60.4
Share data					
<i>Group total</i>					
Average number of outstanding shares	21 710 115	21 710 115	19 987 534	19 830 936	19 585 116
Number of shares at closing date	21 710 115	21 710 115	21 710 115	19 830 936	19 830 936
Earnings per share, SEK	8.77	8.42	5.46	2.84	1.56***
Cash flow from operating activities per share, SEK	8.35	8.91	7.29	5.36	2.99
Equity per share, SEK	46.89	38.84	32.30	15.80	14.01
Dividend per share, SEK	2.60**	2.40	1.50	1.00	0.60
Share price at closing date, SEK	387.00	288.50	166.00	94.25	40.30
Price per Earnings	44.1	34.3	30.4	33.2	26.0***

* Negative amount implies net claim. ** Proposed dividend, subject to the Annual General Meeting's decision.

*** Excluding capital gain of SEK 303,207 thousand related to the distribution of Xvivo Perfusion AB in 2012.

Gross margin

Net sales minus the cost of goods sold as a percentage of net sales for the period.

Operating margin

Operating income after depreciation and amortisation as a percentage of net sales for the period.

Equity/assets ratio

Shareholders' equity and minority interest as a percentage of total assets.

Shareholders' equity per share

Shareholders' equity in relation to the number of shares outstanding at closing day.

Adjusted gross margin

Gross income before amortisation of acquisition-related intangible assets as a percentage of net sales for the period.

Return on equity

Income for the period as a percentage of the average shareholders' equity for the period.

Earnings per share

Income for the period in relation to the average number of outstanding shares for the period.

Price per Earnings

Share price at closing day in relation to earnings per share.

Operating margin before depreciation and amortisation

Operating income before depreciation and amortisation as a percentage of net sales for the period.

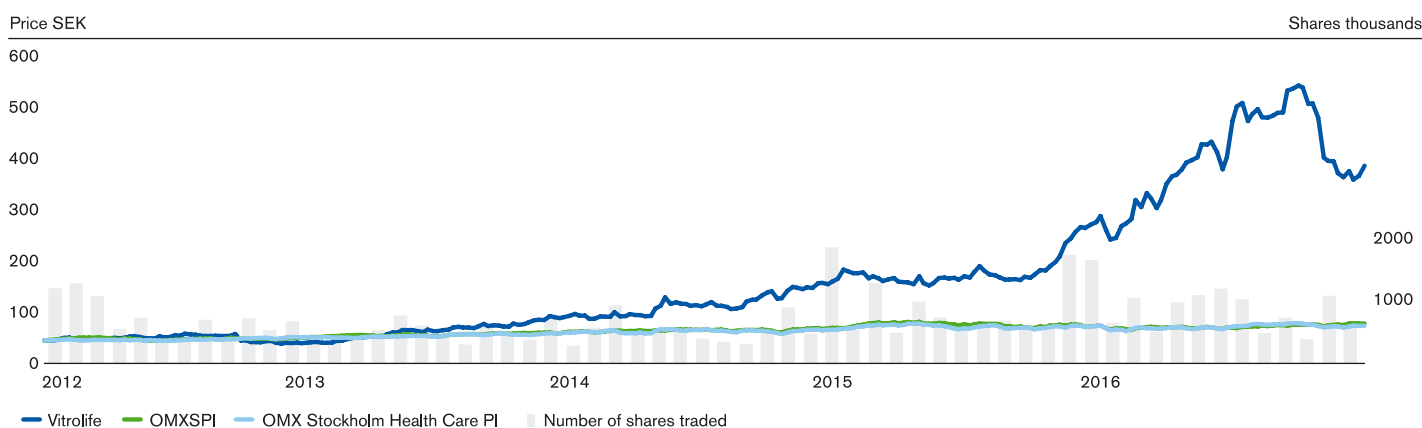
Net debt

Interest-bearing liabilities minus interest-bearing receivables minus cash and cash equivalents.

Cash flow from operating activities per share

The cash flow from operating activities for the period in relation to the average number of outstanding shares for the period.

SHARE PRICE DEVELOPMENT 5 YEARS



MANAGEMENT REPORT

The Board of Directors and the CEO of Vitrolife AB (publ), corporate registration number 556354-3452, hereby submit the annual report and consolidated financial statements for the 2016 financial year.

Operations

Vitrolife is an international medical device group that develops, produces and markets products for assisted reproduction. Further information on the number of shares and ownership structure is available in the Corporate Governance Report on page 27.

Currently, the Group has about 330 employees and the company's products are sold in approximately 110 markets. The company's head office is in Gothenburg, Sweden, and there are also offices in Australia, China, Denmark, France, Germany Italy, Japan, the UK and the US. More information about the organisation is available on pages 16-17 and about the environment on pages 18-19.

Vitrolife's goal is to become the world-leading supplier of medical devices for assisted reproduction. The company's product range includes nutrient solutions (media), advanced disposable instruments such as needles and pipettes, disposable plastic products and technological aids such as time-lapse technology, microsurgical lasers and quality control devices. Vitrolife also offers products that enable the use and handling of stem cells for therapeutic purposes.

Through close collaboration with leading research scientists in the field, the company is at the cutting edge of research and product development in terms of function and safety. Production is distributed so that volume media products are produced in Denver in the US and specialised products with a higher labour content are produced in Gothenburg. Instruments are produced at the company's facilities in Gothenburg and in San Diego in the US. Time-lapse products are manufactured in Aarhus, Denmark. Microsurgical lasers and quality control devices are manufactured in Bruckberg, Germany. Marketing and sales are carried out by the company itself and in partnership with distributors. Vitrolife's customers primarily comprise public and private clinics.

Research and development

Vitrolife mainly conducts proprietary product development, while the majority of research is carried out in close collaboration with leading research scientists in the relevant field. Continuous research is performed to create new products and to enhance existing products. The company's primary research agreements in the fertility field are with Professor David K. Gardner and the University of Melbourne in Australia. Agreements are also in place with eminent individuals in the field of fertility in the US and Europe. Product development is based on market needs and Vitrolife continuously assesses acquisitions of companies or product areas as complements to develop its own products.

Sales

In 2016, Vitrolife's sales were SEK 856 million (722), up 18% in local currencies and 19% in SEK. Sales were positively impacted by the acquisition of Octax and MTG which contributed SEK 39 million to sales.

Sales in the Asia and Pacific region increased 29% in local currencies and amounted to SEK 342 million (262). Sales in the EMEA region (Europe, the Middle East and Africa) increased 12% in local currencies and amounted to SEK 376 million (335) during the year. In the North and South American region, sales totalled SEK 139 million (125), up 9% in local currencies.

Organic growth totalled 12% in local currencies. In monetary terms, global growth in the IVF market was 5-10%, which means Vitrolife also took market shares in 2016. All of Vitrolife's market regions and business units reported positive growth for the year.

Investments

Investments during the year totalled SEK 131 million (31). Investments in intangible fixed assets totalled SEK 4 million (13) and pertained primarily to capitalised time-lapse development expenditure. Investments in tangible fixed assets totalled SEK 10 million (10) and pertained primarily to equipment. Investments in subsidiaries adjusted for acquired cash balances totalled SEK 116 million consisting of the acquisitions of Octax and MTG; see Note 7. The preceding year included payments of additional purchase prices of SEK 9 million.

Significant events

Acquisition of Octax and MTG

On 31 May, Vitrolife acquired all the shares of the German companies Octax Microscience GmbH "Octax" and MTG Medical Technology Vertriebs-GmbH "MTG", world leaders in the field of laser technology for IVF. Octax has developed and manufactures the world-leading Octax Laser and Imaging Systems. MTG is the exclusive global distributor of Octax's products and acts as the distributor in Germany and Switzerland for IVF products from other manufacturers. MTG also develops and markets its own range of IVF products globally. By using Octax Laser Shot™ and Octax NaviLase™, clinics can remove a few cells from the embryo and use these for the selection of embryos by means of methods such as PGS (pre-implantation genetic screening) and PGD (pre-implantation genetic diagnosis). Both companies have their head office in Bruckberg, Germany and they have a total of approximately 30 employees. The companies' consolidated net sales in 2016 amounted to SEK 79 million. Vitrolife consolidates the companies from the time of acquisition. The acquired companies' contribution to Group sales and EBITDA during the year amounted to SEK 39 million and SEK 9 million, respectively. The acquisitions are expected to improve Vitrolife's product offering to customers, increase the knowledge base and strengthen the market position with a view to creating future growth. The business conducted by Octax and MTG has formed

a new business unit (ART Equipment) in the Vitrolife Group. The purchase price for both companies amounted to SEK 127 million, including acquired cash balances of SEK 11 million. The purchase price was paid in cash and financed by available cash and cash equivalents. For more information, see note 7.

Changed organisation structure

On January 1 2016 Vitrolife launched a changed organisation structure. The organisation consists of four business units whose products are sold by three geographic market organisations. As a consequence of the reorganisation, Vitrolife reports the market contribution from each geographic segment.

Consolidation of time-lapse business

Vitrolife consolidated the Group's time-lapse business during the year to the Vitrolife A/S subsidiary in Denmark. Synergies in production and product development are expected from this change, which in turn enables the company to provide a more competitive and profitable time-lapse offering. During the year the consolidation entailed one-time costs of approximately SEK 8 million.

New range of aspiration needles

A new range of aspiration needles for egg retrieval was launched during the year. The new range has been improved in a number of ways, for example with regard to user friendliness, quality and appearance. Aspiration needles are the largest source of revenue in the Disposable Devices business unit.

Launch of EmbryoScope+

During the fourth quarter of 2016 the first newly launched EmbryoScope+ time-lapse incubators were delivered to a customer. EmbryoScope+ has a high capacity at the same time as it takes up little space, so it offers efficient work flows and optimised use of the clinic's resources. With EmbryoScope+, EmbryoScope and Primo Vision in its portfolio Vitrolife can offer customers three different time-lapse systems, so customers are offered a flexible and attractive range of products for their needs and preferences.

Significant risks and uncertainties

Vitrolife's goal is to become the world-leading supplier of medical devices for assisted reproduction. The risks and possibilities that the company manages as part of this work pertain to its own operations and the business environment in general. Many risks and possibilities are managed through continuous development of internal procedures and controls, while others are governed by external factors.

The risks are presented under the following categories:

- Macro-economic risks
- Operational risks
- Financial risks

Significant risks and uncertainties

Macro-economic risks

- Changes in economic conditions
- Legal and regulatory environment
- The market

Macro-economic risks

Changes in economic conditions

An economic downturn could result in a decline in the demand for privately financed treatment, particularly in countries with low levels of state subsidies such as the US. However, experience has shown that this type of treatment is often highly prioritised by patients. With regard to the treatments paid for by the public purse, changes in the economy could impact the level of subsidies, but making these changes tends to be a drawn-out process.

Legal and regulatory environment

The market for Vitrolife is impacted by applicable legislation and other regulations in many countries. Legislative changes or political decisions can influence Vitrolife's ability to conduct or develop operations.

Vitrolife's products need various types of regulatory approval prior to being offered for sale. In the fertility field, the authorities are interested in more closely regulating the market for medical devices with the aim of increasing patient safety and reducing the risk of malpractice. Compared with its competitors, Vitrolife has made substantial progress with registering products, the CE marking of products and systems and compliance with international quality standards. This is expected to benefit Vitrolife's development in coming years.

Due to the nature of the company's operations, a certain risk exists with regard to claims for damages and liability. Vitrolife holds insurance cover for general and operations-related damages claims to protect the Group against the financial impact of any such claims.

The market

Vitrolife operates in a competitive field. During the year, the trend toward increased technology content in treatments continued. New products and enhanced treatment methods are launched continuously and the future development of the medical device market could impact Vitrolife's competitiveness. Vitrolife invests continuously in research and development to ensure that the company can provide the market with a competitive product offering. Another market trend is for IVF clinics to merge and form chains. Australia, Spain, the UK and the US are examples of markets where consolidation is in progress. Mergers create economies of scale for the clinics in terms of marketing, the purchase of products and availability of competence. Consolidation in the market among suppliers to IVF clinics has also been ongoing in recent years. This trend

Operational risks

- Production
- Information
- Personnel
- Insurance cover
- Legal disputes

also continued in 2016. Vitrolife is an active participant in this consolidation process.

Operational risks

Production

These comprise risks that limit or prevent Vitrolife from developing, manufacturing and retailing high quality, effective and safe products. The risks have been identified and are, essentially, reduced to manageable levels through inbuilt safety margins in the production processes and through agreements with suppliers, collaborators and customers. Vitrolife's share is extremely limited in terms of the total risk perspective connected with a treatment, but it is still diligently managed. Vitrolife's extensive quality programme is aimed at ensuring that the company meets its own requirements as well as those set by public authorities and customers.

Information

Information pertains, among other items, to IT and the support systems required for operations to develop efficiently. Vitrolife has secured back-up systems for key functions to ensure high operational reliability and high data availability.

Personnel

Vitrolife's future development is partly dependent on key individuals with specialist expertise remaining with the organisation. The company works actively with a performance management process to minimise risks and to ensure skills supply for the entire organisation.

Insurance cover

Vitrolife conducts regular reviews together with brokers and insurance providers at both local and global levels with the aim of ensuring the correct coverage for the business and the areas of responsibility.

Legal disputes

Vitrolife has a number of patents and other intellectual property that are important to the company. In the market, there are a number of other patents that are held by other companies, whereby demarcation is sometimes difficult to define. Vitrolife is currently involved in disputes with Auxogyn Inc in the US and the EU regarding a patent in the time-lapse field. Based on the existing facts, the company's assessment is that the financial risk pertaining to these disputes is of minor significance. Otherwise, the company is not involved in any legal processes regarding its own or third party rights. However, there is no guarantee that such a claim will not be raised by or targeted at the company in the future.

Financial risks

- Currency risks
- Interest-rate risks
- Credit risks

During 2012 three lawsuits were filed against Vitrolife's American subsidiary together with Southwest Transplant Alliance and the University of Texas, in which damages were being claimed in connection with three lung transplants. The three lawsuits were formally concluded during the year after a settlement between the parties. The settlement involved no further costs for Vitrolife over and above the USD 150 thousand in total that had been set aside in previous years to cover the insurance policy excess.

Financial risks

Currency risks

In terms of cash-flow risks, Vitrolife's largest exposure is to EUR value changes, since 45% (46) of sales are in this currency. The company also has considerable cash flow exposure to CNY as 16 (16) percent of sales are in this currency. The majority of costs are in SEK, USD and DKK. In 2016, forward contracts of EUR 5 million were hedged. No forward cover has been entered into for 2017 in accordance with the adjusted policy, whereby no new currency hedge agreements are to be entered into.

Interest-rate risks

At the closing date, Vitrolife had a floating interest loan of EUR 4 million, pertaining to the acquisition of Vitrolife A/S.

Credit risks

At the closing date, Vitrolife had accounts receivable outstanding of SEK 126 million (100). In conjunction with closing procedures, individual testing is performed of accounts receivable in terms of solvency and credit rating. Historically, Vitrolife has had low credit losses since customer demand is stable.

For more detailed information about financial instruments and risk management, refer to Note 3 and 27, respectively. Refer to Note 4, for information about critical estimates and assessments.

Seasonal effects

Vitrolife's sales are affected relatively marginally by seasonal effects. There is often a downturn in orders prior to and during holiday periods. The reason that orders decline before holiday periods is that fertility clinics minimise their stocks, primarily of media, as these have a relatively short shelf life, so as not to risk scrapping. The third quarter suffers the greatest negative impact from holiday periods, since July and August are affected by holiday periods, primarily in Europe. During the first quarter, sales in China are negatively impacted by the Chinese New Year, which falls

in January or February. Sales in December are negatively affected in the fourth quarter by the Christmas and New Year holidays. Altogether, total sales are usually relatively even between the first and second half-year.

Guidelines for remuneration of executive management

The Annual General Meeting on 28 April 2016 resolved to adopt the policies for remuneration and other employment terms of the CEO and the executive management in accordance with the following:

Remuneration paid to the CEO and other executive management comprises basic salary, variable remuneration, pension and other benefits. All pension benefits comprise defined-contribution plans. Variable remuneration is prepared by the Remuneration Committee and decided by the Board.

Fixed basic salary

The fixed basic salaries of the CEO and other members of executive management are reconsidered each year. The allocation between basic salary and, where appropriate, variable remuneration should be proportionate to the executive's responsibility and authority. The other members of the executive management currently comprise of five individuals: one woman and four men. The composition and size of this group can change over time as a consequence of how the business develops.

Variable remuneration (STI)

The CEO's variable remuneration is capped at a maximum of 50% of annual salary. For other members of the executive management, variable remuneration is capped at a maximum of 25% of annual salary. The variable remuneration for the CEO and other members of the executive management is based on the outcome of a number of primarily quantitative parameters compared with set targets. The quantitative parameters relate to the company's sales and income (EBITDA). The total cost to the company of the total variable remuneration for the CEO and other members of the executive management is not permitted to exceed SEK 5,400,000 (including social security expenses).

Long-term incentive programme (LTI)

A long-term incentive programme (LTI), in addition to the aforementioned variable remuneration, was introduced with the aim of aligning the interests of shareholders with those of the executive management and to encourage the purchase of Vitrolife shares. The LTI comprises the following principal components for the executive management and certain selected key individuals at the company:

i. In addition to the executive management, the programme includes 7 employees, making a total of 13 (the participants mentioned below).

ii. If, during a specified period and within the LTI's framework, programme participants purchase shares with their own funds on NASDAQ Stockholm up to a ceiling amount, Vitrolife will match this through a cash payment of the same amount, i.e. compensated for the

employee's marginal tax cost, in the form of a one-time payment (the "Matching Amount").

Each participant will be entitled to buy shares for an amount relative to the employee's responsibility and authority. The limits for each participant's Matching Amount are between SEK 50,000 and SEK 200,000. The participants are to use the Matching Amount to acquire shares in Vitrolife on NASDAQ Stockholm. Under the agreement between the company and the respective participants, these shares are subject to a lock-up period of not less than three years.

iii. Provided that the conditions stated in item (iv) are met, Vitrolife will make a further one-time payment corresponding to the Matching Amount; however, this will not compensate for the employee's marginal tax cost (the "Performance Amount"). The participants are to use the Performance Amount to acquire shares in Vitrolife on NASDAQ Stockholm. Under the agreement between the company and the respective participants, these shares are subject to a lock-up period of not less than one year.

iv. The criteria for payment of the Performance Amount include, inter alia, that participants are still employed at the company and have retained their shares acquired in accordance with item (ii) throughout the initial three-year period, and that the performance target set by the Board regarding Vitrolife's earnings (EBITDA) per share during the 2018 financial year has been met.

v. The aggregate cost for the company during the period regarding payment of the Matching and Performance Amounts may not exceed SEK 5,200,000.

Other

The notice period for the CEO is a maximum of 12 months and for other members of the executive management is between three and six months. In case of termination by the company, a severance payment of up to 12 months' salary is payable to the CEO. No severance payment is payable to the other members of the executive management in the event of termination of their employment.

The Board can depart from the guidelines if, in an individual case, particular reasons exist for so doing.

The company has a share-related incentive programme outstanding in accordance with a resolution adopted at the 2015 Annual General Meeting. Its conditions are essentially in line with the conditions stated above. The programme is directed at 10 employees in addition to company management, that is a total of 15 company employees. A total of 13 employees are participating in the programme. The total cost for the company regarding payment of the matching and performance amounts pursuant to the outstanding programme shall not exceed SEK 4,800,000. At present the company has no warrants programme outstanding.

The remuneration policy is evaluated each year and submitted to the Annual General Meeting for resolution.

Outlook for 2017

As the standard of living rises in most developing countries, more and more people are choosing to wait before having children. This trend, which has existed in the West for decades, leads to reduced fertility, which in turn drives the fertility treatment market. The same trend is now developing in emerging countries, where the demand for this treatment is increasing rapidly. Vitrolife therefore anticipates a continuously expanding market which, in monetary terms, is expected to continue to grow by 5-10% per year for the foreseeable future.

In 2017 the company will focus on expanding sales, broadening the product offering and achieving further synergies and economies of scale in the business.

Events after the closing date

No events have occurred after the end of the period that significantly affect the assessment of the financial information in this report.

Parent Company

Business activities focus on Group-wide administration and the company has no employees. The Parent Company's income derives from re-invoicing of the SEK 7 million (5) management fee. Total investments during the year amounted to SEK 55 million (9), which were related to acquisition of subsidiaries. No investments were made in tangible fixed assets (-).

Proposed appropriation of profit

The Board of Directors and the CEO propose that the funds available of SEK 563,773,597 be appropriated as follows:

Dividend (SEK 2.60)	SEK 56,446,299
Carried forward	SEK 507,327,298
Total	SEK 563,773,597

The proposed dividend lies within the scope of the profit distribution policy adopted by the company, refer to page 27. It is the considered opinion of the Board that the company's restricted shareholders' equity is fully covered following distribution of the proposed dividend. Furthermore, the Board also concludes that the proposed distribution to shareholders is justified considering the parameters stated in Chapter 17 Section 3, second and third paragraphs of the Swedish Companies Act (the nature, scope and risks of the business as well as consolidation needs, liquidity and overall position).

The financial statements were approved for publication by the Board of the Parent Company on 21 March 2017.

Regarding the company's earnings and position in other respects, refer to the following income statements, balance sheets and cash-flow statements together with the associated notes.

CORPORATE GOVERNANCE REPORT



Corporate governance – introduction

Good corporate governance ensures that the company is run as efficiently as possible in the interests of its shareholders. The Board, in consultation with the company's executive management, is tasked with establishing the overall goals and strategy of the company. Work continued during the year to ensure that Vitrolife is well-positioned in relation to the trends visible in the market in the form of consolidation among suppliers and customers and an increased technology content in IVF treatments. One example of this is the company's acquisition of the German technology companies MTG and Octax which was carried

out during the year. Another area of responsibility for the Board deals with the monitoring of how rules and regulations are complied with. During the year new rules for the handling of insider information came into force and the Board has therefore taken a decision to adopt revised guidelines for how information is to be handled. Moreover, the work on further strengthening the internal control continued, amongst other things through the work of the Audit Committee.

*Carsten Browall
Chairman of the Board*

Vitrolife AB (publ) is a Swedish public limited company listed on NASDAQ Stockholm. The corporate governance policies applied by Vitrolife are based on Swedish legislation, primarily the Swedish Companies Act and the Swedish Annual Accounts Act, and NASDAQ Stockholm AB's regulations. Furthermore, they also comply with the provisions in the Swedish Corporate Governance Code (the "Code") and pertain to the 2016 financial year. Further information about corporate governance at Vitrolife is available at www.vitrolife.com.

Shareholders

According to Euroclear Sweden's shareholder register, Vitrolife had 6,657 shareholders at 31 December 2016 (6,372), and the proportion of shareholders with registered addresses outside Sweden was about 48% (43). The ten largest shareholders on 31 December 2016 are specified below.

Shares

On 31 December 2016, the share capital of Vitrolife AB (publ) was SEK 22,144,317 (22,144,317) allocated among 21,710,115 (21,710,115) shares. The shares are traded on NASDAQ Stockholm. At 31 December 2016, Vitrolife's market capitalization was SEK 8,402 million (6,263). All shares carry the same number of votes and entitle shareholders to equal shares in Vitrolife's assets and earnings.

Dividend policy

Vitrolife's Board and CEO intend to propose,

on an annual basis, a dividend or other corresponding distribution that on average and over time corresponds to 30% of the year's net profit after paid tax. Decisions regarding the proposed dividend or its equivalent will take into account the company's future profits, financial position, capital requirements and position in general. The company's net debt to EBITDA ratio should in normal circumstances not exceed a multiple of three.

General meetings of shareholders

Vitrolife's highest decision-making body is the general meeting of shareholders. The Annual General Meeting (AGM) is held within six months of the end of the financial year. Notice convening the AGM is issued no earlier than six and no later than four weeks prior to the meeting. All shareholders entered in the shareholders' register and who have notified their intent to attend in time are entitled to participate and vote at the meeting. Shareholders who are unable to attend may be represented by a proxy.

2016 Annual General Meeting

The previous AGM was held in Gothenburg on 28 April 2016. All of the Board members were present at the AGM, as were the company's auditors, Jan Nilsson and Fredrik Jonsson, and the Election Committee's member Patrik Tigerschiöld. The AGM resolved to re-elect Carsten Browall, Fredrik Mattsson, Tord Lendau, Barbro Fridén, Pia Marions and Jón Sigurdsson as Board members. Carsten

Browall was re-elected Chairman of the Board. A resolution was passed to adopt Board fees of a total of SEK 1,615,000, of which SEK 500,000 to the Chairman, SEK 175,000 to each of the other Board members, SEK 60,000 to the Chairman of the Audit Committee, SEK 60,000 to the Chairman of the Remuneration Committee and SEK 30,000 to the other members of these committees.

The Board's proposed dividend for the 2015 financial year of SEK 2.40 was adopted. The record date was set for Thursday 2 May 2016.

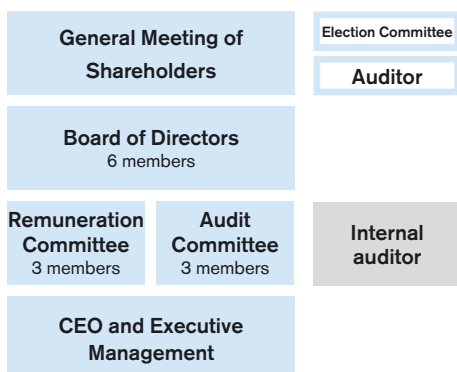
The Board was authorised, for the period until the next AGM, to decide on one or more occasions to make a new issue of a maximum of 2,170,000 shares corresponding to slightly less than 10% of the company's share capital. The Board was authorised, for the period until the next AGM, to decide on one or more occasions to buy back the company's own shares. At any one moment in time, treasury shares are permitted to amount to a maximum of 10% of all shares in the company.

The proposed remuneration policies and other terms of employment for the executive management were adopted.

Election Committee

On 26 October 2016, the following individuals were announced as members of Vitrolife's Election Committee ahead of the 2017 AGM:

Governance structure



Vitrolife's ten largest shareholders

Shareholders	No. of shares	Shares and votes, %
Bure Equity AB (publ)	4 709 790	21.7
William Demant Invest A/S	4 223 644	19.4
SSB Client Omnibus AC OMO7 (15 PCT)	1 441 940	6.6
SEB Investment Management	695 062	3.2
Eccenovo AB	550 000	2.5
Lannebo Fonder	431 496	2.0
State Street Bank & Trust Com., Boston	276 771	1.3
JP Morgan Chase N.A.	241 100	1.1
CBLDN-400 Series Funds-Clients AC	240 000	1.1
JPM Chase N.A.	235 190	1.1
Other shareholders	8 665 122	40.0
Total	21 710 115	100.0

Source: Euroclear Sweden's shareholder register at 31 December 2016.

Patrik Tigerschiöld, representing Bure Equity AB
Niels Jacobsen, representing William Demant Invest A/S
Martin Lewin, representing Eccenovo AB
Carsten Browall, Chairman of the Board

The appointments were made in compliance with the instruction regarding the principles for appointing an Election Committee for the company, which were adopted by Vitrolife's AGM on 28 April 2016.

The Chairman of the Board is tasked as follows – to not later than the end of the third quarter each year, provide each of the three largest shareholders with the opportunity to appoint a member to the Election Committee. If any of these three shareholders should refrain from appointing a member of the Election Committee, the next largest shareholder is contacted and asked to appoint a member of the Election Committee. The term of office is one year. The Chairman of the Board is a member of the Election Committee and calls the first meeting of the Election Committee. Thereafter, a chairman is appointed for the Election Committee, who may not be the Chairman of the Board.

Given the needs of the Group, the Election Committee is tasked with assessing, inter alia, the competence and qualities that the Board members should possess. The aim is to create an appropriate Board composition, whereby the Board members' combined competence and experience provide a broad base that corresponds well to the phase and the market conditions in which Vitrolife operates. The Committee keeps itself updated regarding general trends for remuneration issues for listed Swedish companies.

The Election Committee's assessment is that no Board members other than Fredrik Mattsson and Jón Sigurdsson are dependent in relation to the company, the executive management or the company's major shareholders. Fredrik Mattsson is Investment Director at Bure Equity AB, which owns about 22% of the shares in the company. Jón Sigurdsson is the CEO of Össur, whose principal owner William Demant owns about 19% of the shares in Vitrolife.

Ahead of the AGM in April 2017, the Election Committee will submit proposals for the Chairman of the AGM, the number of Board members, the Chairman of the Board and other elected Board members. The Election Committee will also submit proposals regarding fees for work on the Board and its committees and election of auditor. No separate remuneration has been paid by the company to members of the Election Committee for their work on the Committee.

2017 Annual General Meeting

The AGM will be held on 27 April 2017 at 5:00 p.m. at Vitrolife's premises at Gustaf Werners gata 2, Gothenburg. Shareholders are notified through an announcement in the Swedish Official Gazette and Dagens Industri that a general meeting has been called no more than six weeks and no less than four weeks prior to the general meeting. Shareholders who wish to have an issue addressed by the general meet-

ing can make a written request to this effect to the Board. Any such request to address an issue must be sent to Vitrolife AB (publ), Att: Chairman of the Board, Box 9080, SE 400 92 Gothenburg, Sweden, and must be received by the Board not later than seven weeks prior to the general meeting, or in any case in time for the issue, if required, to be included in the notice convening the general meeting. More information is available at www.vitrolife.com.

In accordance with the dividend policy, the Board and CEO intend to propose that the AGM resolve in favour of a dividend of SEK 2.60 per share.

Board of Directors

General

The Board is responsible for the company's administration of its affairs and organisation. At the 2016 AGM, six Board members were elected with competence in both medical devices and biotechnology as well as within the areas of finance and strategy. The company's CFO Mikael Engblom served as the Board's secretary during the year. In 2016, the Board held 13 meetings (12), all of which were minuted.

The CEO and CFO have presented issues at the Board meetings. The remuneration and other benefits paid to Board members of Vitrolife are detailed in Note 10. The Board members' shareholdings in Vitrolife are set out on page 52.

The Board's work

Each year, the Board is to convene for a minimum of four scheduled meetings, equally distributed over the year, and one statutory Board meeting. The meetings are held in the form of physical meetings and as telephone meetings.

The Chairman leads and organises the Board's work. A proposed agenda and decision data regarding the items to address at the meeting are sent ahead of each meeting. The proposed agenda is drawn up by the CEO in consultation with the Chairman. Items presented to the Board are for information purposes, discussion or decision. Decisions are only taken following discussion and after all members present have been given the opportunity to be heard. The Board's extensive experience in various areas generates constructive and open discussion. During the year, no Board member registered dissent with regard to any Board decision. Any open issues are followed up on an ongoing basis.

The Board's formal work plan was adopted at the statutory Board meeting on 28 April 2016

and is revised each year. The plan regulates areas such as the allocation of responsibilities, number of scheduled meetings, the form of notifications, decision data and minutes, conflicts of interest, mandatory items to be submitted by the CEO to the Board and authorised signatories. The Board addresses ongoing items such as business conditions, interim reports, budgets, strategies and external information.

In addition to the Board material, the CEO submits monthly reports containing a financial report and a description of actual events in operations and in the market. The aim is to keep the Board informed about the development of the company's operations to enable the Board to take well-founded decisions. Once each year, the Board holds a meeting that evaluates the work of the CEO, which the executive management does not attend. The Board ensures the quality of the financial reporting through its own work, the work of the Audit Committee and through contact with the auditors. The company's auditors participated at the meeting addressing the annual accounts, where the audit results were reported, and at meetings of the Audit Committee. At the Board meeting, the auditors also met with the Board without attendance of the executive management.

During the year an evaluation of the Board was carried out with assistance from an external consultant. The results showed that the Board functioned well and that there were a number of development areas to focus on moving forward. During the year, the Board worked with the development areas identified in the previous evaluation.

Sustainable business guidelines

Vitrolife's Board has issued guidelines for the company's societal conduct that are aimed at securing the company's long-term capacity to create value. Vitrolife aims to endeavour to add value for its customers, employees, shareholders and other stakeholders by maintaining healthy profitability while offering goods and services in the international market. In parallel, the company is to maintain a high ethical standard and be a good corporate citizen on the world stage. Vitrolife and its employees comply with legislation in the respective countries in which the company operates. Vitrolife follows the applicable international and national codes of conduct and Vitrolife's Code of Conduct. In situations where neither national legislation nor Vitrolife's Code of Conduct provide any guidance, the company's own norms are applied, which are based on Vitrolife's values and culture.

Board members attendance

Name	Year elected	Dependent	Attendance Board meetings	Attendance Remuneration Comm.	Attendance Audit Comm.
Carsten Browall	2012		13/13		6/6
Barbro Fridén	2010		11/13	2/2	
Tord Lendau	2008		13/13		6/6
Pia Marions	2013		13/13		6/6
Fredrik Mattsson	2007	x	13/13	2/2	
Jón Sigurdsson	2015	x	13/13	2/2	

Dependent = As defined by the Swedish Corporate Governance Code.

Members of the Board

Vitrolife's Board comprises six members, including the Chairman. For personal details about the Board members and their shareholdings, refer to page 52.

Guidelines for remuneration of the executive management

The AGM on 28 April 2016 resolved to adopt the policies for remuneration and other employment terms for the CEO and the executive management in accordance with the following: Remuneration comprises basic salary, variable remuneration, pension and other benefits as detailed in the Management Report on page 26 and in Note 10.

Each year, the Board is tasked with evaluating whether any sort of share-related incentive programme should be proposed to the AGM. Currently, the company has two share-related incentive programmes outstanding, which were adopted by the 2015 and 2016 AGMs. For further information, refer to page 26.

The remuneration policy is evaluated each year and submitted to the Annual General Meeting for resolution.

Remuneration Committee

Vitrolife's Remuneration Committee assists the Board in preparing items and decision data pertaining to remuneration issues for the executive management. The Remuneration Committee's areas of responsibility are defined in the Board's formal work plan and in the Remuneration Committee's instruction. The Group's guidelines for remuneration of the executive management are included in the Management Report on page 26.

Fredrik Mattsson was appointed Chairman of the Committee and Barbro Fridén and Jón Sigurdsson as Committee members. All members are deemed independent of the company and the executive management.

Audit Committee

Vitrolife's Audit Committee assists the Board with the work of monitoring the company's and the Group's financial reporting and the internal control. The Audit Committee's areas of responsibility are defined in the Board's formal work plan and in the Audit Committee's instruction.

Tord Lendau was appointed Chairman of the Committee and Pia Marions and Carsten Browall as Committee members. All members are deemed independent of the company and the executive management.

During the year, the Audit Committee considered issues including the internal control, internal audits, external audits, accounting policies, significant valuation issues, external reporting, financial risk management and significant estimates and judgements in the financial reporting.

Executive management

For personal details about the executive management and their shareholdings, refer to page 53.

Election of auditors

The 2014 AGM resolved in line with the proposal of the Election Committee to elect Deloitte AB, with Authorised Public Accountant Jan Nilsson as Principal Auditor, and Authorised Public Accountant Fredrik Jonsson, as the company's new auditors for a term of office of three years. The auditors have no assignments in any companies that are closely linked to Vitrolife's principal shareholders and have confirmed their independence towards the company.

Jan Nilsson and Fredrik Jonsson have reported their observations from the audit to the Board and the Audit Committee. The annual report, accounts and the administration of the Board and the CEO were examined within the scope of the above work. In addition to the audit assignment, which is paid according to customary invoicing norms, Deloitte AB has provided consultancy and audit-related services amounting to about SEK 0.5 million during the financial year.

The Board's description of the key elements in the company's system for internal control, follow-up and risk management

The Board's responsibility for internal control is regulated by the Swedish Companies Act and the Swedish Corporate Governance Code. The Board is responsible for ensuring that the company has good internal control. The report is limited to a description of how the internal control regarding financial reporting are organised and it pertains to the 2016 financial year.

The objective of internal financial control at Vitrolife is to ensure the accuracy of the financial reporting and to create an efficient decision process in which requirements, targets and frameworks are clearly defined. Ultimately, the controls aim to protect the company's assets and, thereby, the shareholders' investments.

Control environment

The control environment forms the basis for the internal control. Vitrolife's control environment includes healthy values, integrity, competence, leadership philosophy, organisational structure, responsibility and authorities. Vitrolife's internal work procedures, instructions, policies, guidelines and manuals provide guidance to employees. At Vitrolife, a clear allocation of roles and responsibilities for efficient management of operational risks is ensured through measures including the Board's formal work plan, the Audit Committee's instruction and the instruction for the CEO. The CEO reports regularly to the Board, even between Board meetings; refer to page 28 and the section under "The Board's work." The CEO is responsible, in terms of the operating activities, for the system of internal controls required to construct a control environment for material risks. Vitrolife also has guidelines and policies for financial governance and follow-up as well as communication issues. Frameworks are in place for credit and currency management.

Risk assessment

Vitrolife works with risk analysis on an ongoing basis to identify potential sources of

error in the financial reporting. Refer to the Management Report on page 25 and to Note 3 for information about financial risks. The risk of material misstatements in the financial statements can occur in conjunction with the accounting for and valuation of assets, liabilities, income and expenses, or from deviations from the disclosure requirements. Vitrolife's risk assessment of the financial statements aims to identify and evaluate the most material risks.

Control activities

Control activities are primarily aimed at preventing, identifying and correcting errors in the financial reporting. Based on an established system, Vitrolife conducts a detailed follow-up each month of various activities vis-à-vis budget at account level with the aim of analysing deviations and identifying material errors in the accounting. The company also performs a monthly analysis of the Group's subsidiaries assets and liabilities. Vitrolife has also a separate internal audit function to strengthen the internal control through measures including internal audits of the Group's subsidiaries. Vitrolife has an Audit Committee that contributes to expanded control of the company's financial reporting and follow up of internal audits.

Follow-up

The Board continuously evaluates the information submitted by the executive management, which comprises both financial information and material issues pertaining to the internal control. The Board and the Audit Committee continuously follow up the effectiveness of the internal control, which, in addition to ongoing updates for deviations, are carried out, inter alia, by ensuring that measures are implemented in respect of the proposed actions that may have arisen through external and internal audits. The Audit Committee specifically addressed issues pertaining to internal controls. Systems are in place to ensure uniform procedures for following up internal controls when visiting subsidiaries, including reporting back to the Board.

Information and communication

Proper disclosures and clear lines of communication, both internal and external, mean that all parts of operations exchange and report relevant, significant operational data in an efficient manner. To achieve this, Vitrolife has issued a communication policy regarding information management in the financial process, as well as policies and guidelines for other types of information. The executive management has communicated these to employees and they can also be accessed by all employees through the Vitrolife intranet. Guidelines have been set out for how communication with external parties should take place, who is authorised to provide certain types of information and when a log book should be kept. The ultimate aim of the aforementioned policies is to ensure compliance with disclosure requirements pertaining to legislation and listing agreements, and that investors receive the correct information in time. The Information and Insider Policy was updated during the year to reflect the rules and regulations of the new Market Abuse Regulation.

INCOME STATEMENTS WITH COMMENTS

SEK thousands	Note	Group		Parent Company	
		2016	2015	2016	2015
Net sales	3,4 5,6	856 106	722 370	6 833	4 522
Cost of goods sold		-294 805	-237 550	–	–
Gross income		561 301	484 820	6 833	4 522
<i>Comprising</i>					
Adjusted gross income		593 011	504 769	6 833	4 522
Amortisation of acquisition-related intangible assets		-31 710	-19 949	–	–
Gross income		561 301	484 820	6 833	4 522
Selling expenses		-155 686	-139 860	–	–
Administrative expenses		-94 146	-80 467	-14 825	-7 808
Research and development expenses		-61 590	-55 737	–	–
Other operating revenue*	8	2 111	19 137	–	38
Other operating expenses*	9	-3 149	-1 758	-5	–
Operating income	10,11,12,14,28	248 841	226 135	-7 997	-3 248
<i>Comprising</i>					
Adjusted operating income		281 819	247 629	-7 997	-3 248
Amortisation of acquisition-related intangible assets		-32 978	-21 494	–	–
Operating income		248 841	226 135	-7 997	-3 248
Net financial items					
Financial income*	13,14	888	2 253	161 284	190 740
Financial expenses*		-799	-1 548	-7 937	-47 810
Income after financial items		248 930	226 840	145 350	139 682
Year-end adjustments (received/paid Group contribution)		–	–	3 384	-826
Income taxes	15	-57 718	-43 479	–	–
Income for the year		191 212	183 361	148 734	138 856
Attributable to					
Parent Company's shareholders		190 368	182 845	148 734	138 856
Non-controlling interests		844	516	–	–
Earnings per share**, SEK	23	8.77	8.42	–	–

* Exchange-rate differences in operating income and net financial items are, as from the annual report 2016, reported as net gain or loss since they are assessed to be of similar nature and gross accounting is thus not significant. The financial information for the comparison period has been reclassified according to the same policy.

** Before and after dilution.

Group

Sales amounted to SEK 856 million (722), corresponding to an increase of 19% in SEK. Sales growth was 18% in local currencies. Sales was positively affected by the acquisitions of Octax and MTG of SEK 39 million. The acquisitions were completed on 31 May 2016 and thus the organic growth amounted to 12% in local currencies.

Profitability has risen due to growth, economies of scale and internal streamlining efforts. Gross income amounted to SEK 561 million (485), corresponding to a gross margin of 66% (67).

Selling expenses amounted to 18% (19) of sales. Administrative expenses amounted to 11% (11) of sales. R&D expenses amounted to 7% (8) of sales. The expenses were positively affected by economies of scale.

Depreciation, amortisation and impairment of SEK 54 million (53) were charged against income.

Operating income before depreciation and amortisation (EBITDA) amounted to SEK 303 million (279), corresponding to a margin of 35% (39). Operating income included one-time expenses of SEK 8 million related to the consolidation of the time-lapse business. Fluctuations in exchange rates positively impacted EBITDA by SEK 3 million. Last year's results were positively impacted by a recovered additional purchase price of SEK 17 million regarding the acquisition of Cryo Innovation.

To increase the transparency of the Group's underlying gross margin the company will as from this annual report report an adjusted gross- and operating income in

addition to the recorded income measures. Amortisation of acquisition-related intangible assets has been excluded from the adjusted income measures.

Net financial items amounted to SEK 0 million (1). Income before tax totalled SEK 249 million (227). Net income was SEK 191 million (183).

Parent Company

The Parent Company's operations focus on Group-wide administration and the company has no employees. Income included invoicing of management fee of SEK 7 million (5). Net financial items include dividends from group companies of SEK 158 million and a write-down of the shares in the Hungarian subsidiary Vitrolife Kft of SEK 8 million. Income before tax was SEK 149 million (139).

INCOME STATEMENTS AND STATEMENTS OF OTHER COMPREHENSIVE INCOME

SEK thousands	Group		Parent Company	
	2016	2015	2016	2015
Income for the year	191 212	183 361	148 734	138 856
Other comprehensive income				
<i>Items that may be reclassified to the income statement</i>				
Cash-flow hedges, net after tax	-657	2 844	-	-
Exchange-rate differences	37 297	-10 887	-	-
Total other comprehensive income	36 640	-8 043	-	-
Comprehensive income	227 852	175 318	148 734	138 856
Attributable to				
Parent Company's shareholders	227 008	174 802	148 734	138 856
Non-controlling interests	844	516	-	-

CONSOLIDATED INCOME STATEMENTS PER QUARTER

SEK thousands	Oct-Dec 2016	Jul-Sep 2016	Apr-Jun 2016	Jan-Mar 2016	Oct-Dec 2015	Jul-Sep 2015	Apr-Jun 2015	Jan-Mar 2015
Net sales	250 909	210 427	207 772	186 998	199 023	176 806	184 145	162 396
Cost of goods sold	-82 427	-79 510	-71 047	-61 821	-62 112	-57 170	-62 308	-55 960
Gross income	168 482	130 917	136 725	125 177	136 911	119 636	121 837	106 436
Selling expenses	-43 703	-39 003	-38 929	-34 051	-36 186	-34 822	-34 713	-34 139
Administrative expenses	-25 373	-21 190	-24 656	-22 927	-18 147	-21 419	-20 490	-20 411
Research and development expenses	-18 366	-15 294	-15 377	-12 553	-11 789	-15 072	-13 913	-14 963
Other operating revenue/expenses	-2 691	1 263	4 017	-3 627	-803	17 868	-2 216	2 530
Operating income	78 349	56 693	61 780	52 019	69 986	66 191	50 505	39 453
Net financial items	-524	1 540	953	-1 880	-241	191	-2 326	3 081
Income after financial items	77 825	58 233	62 733	50 139	69 745	66 382	48 179	42 534
Income taxes	-18 093	-13 632	-14 553	-11 440	-12 600	-13 975	-9 600	-7 304
Income for the period	59 732	44 601	48 180	38 699	57 145	52 407	38 579	35 230
Attributable to								
Parent Company's shareholders	59 514	44 471	47 956	38 427	57 180	52 324	38 354	34 987
Non-controlling interests	218	130	224	272	-35	83	225	243

STATEMENTS OF FINANCIAL POSITION WITH COMMENTS

SEK thousands	Note	Group		Parent Company	
		31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
ASSETS	3,7,27				
Fixed assets					
Goodwill	16	403 216	350 474	–	–
Other intangible fixed assets	16	245 871	165 044	–	–
Tangible fixed assets	17	93 655	89 641	12	12
Participations in Group companies	7,29	–	–	777 720	730 396
Other shares and participations		3 746	3 746	3 746	3 746
Deferred tax assets	15	22 282	29 964	–	–
Other financial fixed assets		5 202	5 920	–	–
Total fixed assets		773 972	644 789	781 478	734 154
Current assets					
Inventories	18	145 654	102 284	–	–
Accounts receivable	19	126 187	99 783	–	–
Receivables from Group companies		–	–	11 889	40 824
Current tax assets		2 282	–	–	–
Other receivables		5 045	3 715	500	–
Prepaid expenses and accrued income	20	8 106	8 258	1 177	1 205
Derivative instruments		–	842	–	–
Cash and cash equivalents	21	189 245	199 572	2 974	592
Total current assets		476 519	414 454	16 540	42 621
TOTAL ASSETS		1 250 491	1 059 243	798 018	776 775

Fixed assets

Goodwill has increased by SEK 53 million, of which SEK 37 million was attributable to the acquisitions of Octax and MTG and the remaining to exchange-rate fluctuations. Other intangible fixed assets have increased by SEK 81 million, largely attributable to the acquisitions of Octax and MTG and exchange-rate fluctuations. For further information; refer to Note 7 and 16.

Gross investments in intangible fixed assets, besides acquisitions, amounted to SEK 4 million (13) and consisted mainly of capitalized development costs. Gross investments in tangible fixed assets amounted to SEK 10 million (10) and consisted mainly of production equipment. For further information; refer to Note 17.

Current assets

Inventories grew SEK 44 million during the year, from SEK 102 million to SEK 146 million. The average inventory level was 14% (13) of net sales for the year. Accounts receivable rose SEK 26 million, from SEK 100 million to SEK 126 million. Accounts receivable averaged 13% (13) of net sales for the year. The increases in current assets were attributable to growth in sales and an expanding business and the acquisitions of Octax and MTG.

Parent Company

The Parent Company's assets largely comprise participations in Group companies. These were valued at SEK 778 million (730) at the closing date. The change is largely attributable to acquisition and a write-down by SEK 8 million of the shares in the Hungarian subsidiary Vitrolife Kft. Based on future earning potential, no impairment has been deemed necessary for other shares in subsidiaries. For further information on participations in Group companies; refer to Note 29.

Otherwise, the Parent Company's assets comprise receivables from Group companies of SEK 12 million (41).

STATEMENTS OF FINANCIAL POSITION WITH COMMENTS

SEK thousands	Note	Group		Parent Company	
		31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
SHAREHOLDERS' EQUITY	7,22,23				
Group					
Share capital		22 144	22 144	–	–
Other capital contributed		494 610	494 610	–	–
Reserves		11 959	-24 681	–	–
Retained earnings incl. income for the year		489 342	351 078	–	–
Parent Company					
Restricted shareholders' equity					
Share capital		–	–	22 144	22 144
Statutory reserve		–	–	172 604	172 604
Unrestricted shareholders' equity					
Share premium reserve		–	–	322 043	322 043
Retained earnings		–	–	92 996	6 243
Income for the year		–	–	148 734	138 856
Shareholders' equity, attributable to the Parent Company's shareholders		1 018 055	843 151	758 521	661 890
Non-controlling interests		2 329	1 821	–	–
TOTAL SHAREHOLDERS' EQUITY		1 020 384	844 972	758 521	661 890
LIABILITIES	3,7,27				
Long-term provisions					
Deferred tax liabilities	15	61 280	42 057	–	–
Other provisions	25	9 043	5 191	–	–
Total long-term provisions		70 323	47 248	–	–
Long-term liabilities					
Long-term interest-bearing liabilities	24	466	35 627	–	35 627
Total long-term liabilities		466	35 627	–	35 627
Current liabilities					
Short-term interest-bearing liabilities	24	37 390	11 876	37 311	11 876
Accounts payable		24 286	21 749	117	293
Liabilities to Group companies		–	–	–	64 600
Current tax liabilities		22 044	35 148	4	–
Other liabilities		12 698	4 414	–	577
Accrued expenses and deferred income	26	62 900	58 209	2 065	1 912
Total current liabilities		159 318	131 396	39 497	79 258
TOTAL LIABILITIES		230 107	214 271	39 497	114 885
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1 250 491	1 059 243	798 018	776 775

Shareholders' equity and liabilities

Interest-bearing liabilities decreased by SEK 10 million year-on-year. The decrease was attributable to loan repayments of SEK 12 million (37) and the remaining SEK -2 million to exchange-rate fluctuations in the EUR. Provisions are mainly composed of endowment insurances for pensions and warranty commitments for products sold.

Accounts payable averaged 3% (3) of net sales for the year. The equity/assets ratio was 82% (80).

Parent Company

The SEK 97 million (106) change in the Parent Company's shareholders' equity was attributable to comprehensive income for the year of SEK 149 million (139) and the dividend paid to shareholders of SEK -52 million (-33).

CHANGES IN SHAREHOLDERS' EQUITY

Group	Attributable to the Parent Company's shareholders				Non-controlling interests	Total shareholders' equity
	Share capital	Other capital contributed	Reserves	Retained earnings		
SEK thousands						
Opening shareholders' equity 1 Jan. 2015	22 144	494 610	-16 638	200 798	1 657	702 571
Comprehensive income for the year	–	–	-8 043	182 845	516	175 318
Dividend (SEK 1.50 per share)	–	–	–	-32 565	–	-32 565
Dividend, non-controlling interests	–	–	–	–	-277	-277
Other transactions with non-controlling interests	–	–	–	–	-75	-75
Closing shareholders' equity 31 Dec. 2015	22 144	494 610	-24 681	351 078	1 821	844 972
Opening shareholders' equity 1 Jan. 2016	22 144	494 610	-24 681	351 078	1 821	844 972
Comprehensive income for the year	–	–	36 640	190 368	844	227 852
Dividend (SEK 2.40 per share)	–	–	–	-52 104	–	-52 104
Dividend, non-controlling interests	–	–	–	–	-413	-413
Other transactions with non-controlling interests	–	–	–	–	77	77
Closing shareholders' equity 31 Dec. 2016	22 144	494 610	11 959	489 342	2 329	1 020 384

Parent Company	Restricted shareholders' equity		Unrestricted shareholders' equity			Total shareholders' equity
	Share capital	Statutory reserve	Share premium reserve	Retained earnings	Income for the year	
SEK thousands						
Opening shareholders' equity 1 Jan. 2015	22 144	172 604	322 043	37 288	1 522	555 601
AGM's appropriation of profits	–	–	–	1 522	-1 522	–
Comprehensive income for the year	–	–	–	–	138 856	138 856
Dividend (SEK 1.50 per share)	–	–	–	-32 565	–	-32 565
Closing shareholders' equity 31 Dec. 2015	22 144	172 604	322 043	6 243	138 856	661 890
Opening shareholders' equity 1 Jan. 2016	22 144	172 604	322 043	6 243	138 856	661 890
AGM's appropriation of profits	–	–	–	138 856	-138 856	–
Comprehensive income for the year	–	–	–	–	148 734	148 734
Dividend (SEK 2.40 per share)	–	–	–	-52 104	–	-52 104
Closing shareholders' equity 31 Dec. 2016	22 144	172 604	322 043	92 996	148 734	758 521

CASH-FLOW STATEMENTS

SEK thousands	Note	Group		Parent Company	
		31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
	21				
Operating activities					
Income after financial items		248 930	226 840	145 350	139 682
Adjustment for non-cash items		55 126	33 857	1 701	39 809
Tax paid		-83 400	-46 334	-	-
Cash flow from operating activities before changes in working capital		220 656	214 363	147 051	179 491
Increase (-)/Decrease (+) in inventories		-26 323	-9 766	-	-
Increase (-)/Decrease (+) in operating receivables		-17 633	-4 120	31 612	9 421
Increase (+)/Decrease (-) in operating liabilities		4 562	-6 951	7 653	-123 887
Cash flow from operating activities		181 262	193 526	186 316	65 025
Investing activities					
Business combinations		-116 502	-9 136	-54 824	-9 136
Investments in intangible fixed assets		-3 783	-13 090	-	-
Investments in tangible fixed assets		-9 969	-9 539	-	-
Investments in financial fixed assets		-748	371	-	-
Cash flow from investing activities		-131 002	-31 394	-54 824	-9 136
Financing activities					
Lending to subsidiary		-	-	-72 618	-
Loan repayments		-12 347	-36 621	-12 301	-27 523
Dividends received		-	-	8 490	2 753
Dividends paid		-52 517	-32 842	-52 104	-32 565
Changes in financial receivables		1 268	539	-	-
Cash flow from financing activities		-63 596	-68 924	-128 533	-57 335
Cash flow for the year		-13 336	93 208	2 959	-1 446
Opening cash and cash equivalents		199 572	107 598	592	2 119
Exchange-rate difference in cash and cash equivalents		3 009	-1 234	-577	-81
Closing cash and cash equivalents		189 245	199 572	2 974	592

Cash flow

Consolidated cash flow from operating activities totalled SEK 181 million (194) for 2016. The cash flow from investing activities was SEK -131 million (-31) for the Group.

During the year, cash flow related to gross investments was SEK -10 million (-10) for tangible fixed assets, SEK -4 million (-13) for intangible fixed assets and SEK -1 million (0) for financial fixed assets.

Investments in subsidiaries amounted to SEK -117 million (-9), attributable to the acquisitions of Octax and MTG in full.

The cash flow from financing activities was SEK -64 million (-69) and comprised items including dividend paid to shareholders of SEK -52 million (-33) and loan repayments of SEK -12 million (-37).

In total, cash flow for the year was SEK -13 million (93) for the Group. At 31 December 2016, consolidated cash and cash equivalents was SEK 189 million (200).

Parent company

Investments of SEK 55 million were attributable to acquisition of the shares in MTG, and leading to subsidiary of SEK 73 MSEK was attributable to loan to MTG for their acquisition of the shares in Octax.

NOTES TO THE FINANCIAL STATEMENTS

Vitrolife AB (the Parent Company) and its subsidiaries comprise an international medical device Group. Vitrolife develops, produces and markets products for assisted reproduction. Work is also carried out to enable the use and handling of stem cells for therapeutic purposes. The Parent Company Vitrolife AB (publ), Corporate registration number 556354-3452, is a limited liability company registered in Sweden with its registered office in Gothenburg, Sweden, the visiting address is Gustaf Werners gata 2, with the postal address Box 9080, SE-400 92 Gothenburg, Sweden. The Parent Company is listed on the Mid Cap list of the Nasdaq Stockholm.

The Board of Directors resolved to adopt these consolidated financial statements for publication on 21 March 2017.

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Note 1 Accounting policies

Compliance with standards and legislation

The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act, RFR 1 Supplementary Accounting Rules for Groups and International Financial Reporting Standards (IFRS), published by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU for application within the EU.

The Parent Company applies the same accounting policies as the Group except in the cases listed below in the section "Parent Company's accounting policies". The deviations arising between the Parent Company's and the Group's accounting policies are due to the limitations on the possibility of applying IFRS in the Parent Company, as a result of the Swedish Annual Accounts Act and the Pension Obligations Vesting Act and in certain cases for tax reasons.

Classification

Fixed assets, long-term liabilities and provisions essentially consist of amounts that are expected to be recovered or paid more than 12 months after the closing date. Current assets and current liabilities consist mainly of amounts that are expected to be recovered or paid within 12 months of the closing date.

Consolidation policies

The consolidated financial statements include the Parent Company Vitrolife AB (publ) and the subsidiaries in which the Parent Company has a controlling influence at year end.

Intra-Group receivables and liabilities, income and expenses, and unrealised gains or losses arising from intra-Group transactions are eliminated in their entirety when preparing the consolidated financial statements.

Functional currency and reporting currency

Items included in the financial statements of the various entities of the Group are valued in the currency used in the primary economic environment of each company's operations (functional currency). The Parent Company's functional currency is SEK, which is also the reporting currency for the Parent Company and the Group. This means that the financial statements are presented in SEK. All figures, if not otherwise stated, are rounded off to the nearest thousand.

Assets and liabilities in foreign subsidiaries, including goodwill and other consolidated surplus and deficit values, are translated to SEK at the exchange rate on the closing date. Revenue and costs in foreign subsidiaries are translated to SEK at an average rate for each year. Translation differences that arise in currency translations of foreign operations are recognised in other comprehensive income.

Foreign currencies

Transactions in foreign currency are measured in the functional currency at the exchange rate prevailing on the transaction date. Monetary assets and liabilities in foreign currency are measured in the functional currency at the exchange rate prevailing on the closing date. Exchange-rate differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are recognised at historic cost are translated at the exchange rate applicable on the transaction date. Non-monetary assets and liabilities that are recognised at fair value are translated to the functional currency at the exchange rate applicable on the date of fair-value measurement. The change in exchange rates is then recognised in the same manner as other changes in value for the asset or liability.

Net investments in foreign operations

Monetary long-term receivables and liabilities in foreign operations are assessed as part of the company's net investment in foreign operations when settlement of these receivables and liabilities is not planned and unlikely in the foreseeable future. All resulting exchange-rate differences for these items are recognised in other comprehensive income. On the divestment of any such foreign operation, the accumulated exchange-rate differences are recognised in profit or loss.

The following exchange rates have been applied in these statements:

Currency	Average exchange rate		Closing rate	
	2016	2015	Dec 31. 2016	Dec 31. 2015
EUR	9.4704	9.3562	9.5669	9.1350
USD	8.5613	8.4350	9.0971	8.3524
AUD	6.3724	6.3393	6.5688	6.0861
GBP	11.5664	12.8962	11.1787	12.3785
CNY	1.2879	1.3424	1.3091	1.2868
JPY	0.0790	0.0697	0.0777	0.0693
DKK	1.2720	1.2544	1.2869	1.2242
HUF	0.0304	0.0302	0.0308	0.0292
NOK	1.0199	1.0465	1.0540	0.9556

Source: The Riksbank

New accounting policies 2016

No standards, amendments or interpretations that entered force in 2016 are deemed to have had material impact on the Group financial statements.

New accounting policies 2017 and later

IFRSs and IFRIC interpretations that have not yet come into effect or been applied by Vitrolife, but which are assessed as possibly impacting the Group financial reporting;

IFRS 9 – Financial Instruments, addresses the classification, measurement and recognition of financial assets and liabilities. Enters force on 1 January 2018. Changes compared to previous standard concern e.g. new approaches for classifications as well as a different model for impairment according to which provision for bad debt should be based not only on occurred events but also on expected events. It is being investigated which effects the new standard will have on the Group financial statements, but the current assessment of the Group is that the standard will not have any significant effects on the Group financial statements.

IFRS 15 – Revenue from Contracts with Customers has resulted in a new revenue-recognition model, which will apply for all industries and transactions. Enters force on 1 January 2018. After review of the current Group processes for revenue recognition, Vitrolife's assessment is that a transition to IFRS 15 will not cause any material effects to the financial reports of the Group. The great majority of Vitrolife's sales consists of products, which distinctly represent separate perfor-

mance obligations. Based on that, no significant differences are assessed to exist between the current accounting and accounting in accordance with IFRS 15. Vitrolife will apply the so-called modified retroactive approach at the implementation of and the transition to accounting in accordance with IFRS 15. The approach implies that the effect of transition to IFRS 15 will be recognised in opening balance of equity at the first time of application at 1 January 2018.

IFRS 16 – Leasing will result in changes on how to account for leasing agreements. Not adopted by the EU and cannot be applied before. Enters force on 1 January 2019. Accounting according to IFRS 16 will mean that almost all leasing agreements will be recognised in the balance sheet as assets and liabilities. This accounting is based on the approach that the lessee has a right to use an asset during a specific period and at the same time an obligation to pay for this right. It is being investigated which effects the new standard will have on the Group financial statements.

No other IFRS or IFRIC interpretations that have not yet come into effect are expected to have any material impact on the Group.

Parent Company's accounting policies

The Parent Company prepares its annual accounts in accordance with the Annual Accounts Act (1995:1554) and the Financial Accounting Standards Council's recommendation RFR 2 Accounting for Legal Entities. Under RFR 2, the Parent Company, in preparing the annual financial statements for the legal entity, applies all EU-approved IFRSs and statements insofar as this is possible within the framework of the Annual Accounts Act and with respect to the connection between accounting and taxation. The recommendations specify which exceptions and additions are to be made from and to IFRS. The differences between the accounting policies of the Group and the Parent Company are stated below.

The accounting policies for the Parent Company stated below have been consistently applied in all periods presented in the financial statements of the Parent Company. The accounting policies are unchanged compared with the preceding year.

Shares and participations

Shares and participations in Group companies are recognised at cost and subject to impairment testing each year. Dividends are recognised in profit or loss.

Income taxes

Untaxed reserves including deferred tax liabilities are recognised in the Parent Company. However, in the consolidated financial statements, untaxed reserves are divided into deferred tax liabilities and shareholders' equity.

Shareholders' contributions and Group contributions

Unconditional shareholders' contributions are recognised directly in shareholders' equity at the recipient and capitalised in shares and participations at the giver, to the extent that impairment is not required. Recognition of Group contributions has been carried out in line with the alternative rule in RFR 2. Group contributions are recognised as year-end adjustments.

Presentation of accounting policies

The accounting policies for the Group stated in this annual report have been applied to all periods presented in the consolidated financial statements, unless otherwise stated. The Group's accounting policies have been applied consistently in the reporting and consolidation of subsidiaries.

Starting in the annual report for 2016, Vitrolife presents the accounting choices made within the framework of the prevailing IFRS policy in conjunction with each note in the aim of providing enhanced understanding.

Note 2 Reconciliation of alternative key figures

This annual report includes certain key figures not defined in IFRS, but they are included in the annual report as company management considers that this information makes it easier for investors to analyse the Group's financial performance and position. Investors should regard these alternative key figures as complementing rather than replacing financial information in accordance with IFRS. Please note that Vitrolife's definitions of these key figures may differ from other companies' definitions of the same terms.

Operating income before depreciation and amortisation (EBITDA)

As amortisation of surplus values related to the acquisitions that Vitrolife has carried out is charged against operating income, it is management's assessment that operating income before depreciation and amortisation (EBITDA) is a fairer measure of the Group's earning capacity compared to operating income (EBIT). Vitrolife's Board aims to achieve growth while maintaining profitability, where profitability is followed up through operating income before depreciation and amortisation (EBITDA).

SEK M	2016	2015
Operating income	248.8	226.1
Depreciation and amortisation	54.3	53.1
Operating income before depreciation and amortisation (EBITDA)	303.1	279.2

Return on equity

It is Vitrolife's assessment that return on equity is an appropriate measure to illustrate to stakeholders how well the Group invests its equity.

SEK M	Dec 31. 2016	Dec 31. 2015
Average shareholders' equity, rolling 12 month	937.1	779.3
Net income, rolling 12 month	190.4	182.8
Return on equity, %	20.3	23.5

Net debt / Rolling 12 month EBITDA

One of Vitrolife's financial objectives is to have a strong financial capital base to enable continued high growth, both organic and through acquisitions. In relation to this, Group management follows up the ratio of net debt in relation to rolling 12-month operating income before depreciation and amortisation (EBITDA). According to Vitrolife's financial objectives, this ratio should normally not exceed three times. Management assesses that this ratio gives creditors and investors important information concerning the Group's attitude to debt.

SEK M	Dec 31. 2016	Dec 31. 2015
Interest-bearing liabilities	37.8	47.5
Cash and cash equivalents	-189.2	-199.6
Net debt	-151.4	-152.1

SEK M	Dec 31. 2016	Dec 31. 2015
Net debt	-151.4	-152.1
Operating profit, rolling 12 month	248.8	226.1
Depreciation and amortisation, rolling 12 month	54.3	53.1
Rolling 12 month EBITDA	303.1	279.2

Net debt / Rolling 12 month EBITDA	-0.5	-0.5
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Net sales growth in local currency

As a large part of Vitrolife's sales are in other currencies than the reporting currency of SEK, sales are not only impacted by actual growth, but also by currency effects. To analyse sales adjusted for currency effects, the key ratio of sales growth in local currency is used. Growth in local currency is calculated by recalculating last period's net sales at the exchange rates of the current period and comparing it to the net sales of the current period.

Group total	2016	2015
Organic growth in local currency, SEK M	90	57
<i>Organic growth in local currency, %</i>	<i>12</i>	<i>11</i>
Acquired growth, SEK M	39	87
<i>Acquired growth, %</i>	<i>6</i>	<i>17</i>
Currency effects, SEK M	5	67
<i>Currency effects, %</i>	<i>1</i>	<i>13</i>
Total growth, SEK M	134	211
Total growth, %	19	41

Net sales per geographic segment

	EMEA	North and South America	Asia & Pacific
	2016	2016	2016
Growth in local currency, SEK M	41	11	78
<i>Growth in local currency, %</i>	<i>12</i>	<i>9</i>	<i>29</i>
Currency effects, SEK M	0	3	2
<i>Currency effects, %</i>	<i>0</i>	<i>2</i>	<i>1</i>
Total growth, SEK M	41	14	80
Total growth, %	12	11	30

Net sales per business unit

	Media	Disposable Devices	Time-lapse	ART Equipment
	2016	2016	2016	2016
Growth in local currency, SEK M	60	10	19	39
<i>Growth in local currency, %</i>	<i>14</i>	<i>8</i>	<i>14</i>	<i>e/t</i>
Currency effects, SEK M	0	1	3	0
<i>Currency effects, %</i>	<i>0</i>	<i>1</i>	<i>2</i>	<i>e/t</i>
Total growth, SEK M	60	11	22	39
Total growth, %	14	9	16	e/t

Note 3 Financial risk management

Financial policy

Vitrolife has a Group policy for its financial operations, which defines financial risks and states how the company should manage these risks. Furthermore, the policy states which reports must be prepared. Under this policy, the company must always maintain liquidity corresponding to known future net cash outflows for not less than three months.

Through its operations, the Vitrolife Group is exposed to various types of financial risk. Financial risk pertains to fluctuations in the company's earnings and cash flow as a result of changes in exchange rates, interest rates and credit risks.

The Group's aim behind its management of interest and exchange-rate risk is to reduce the impact of short-term fluctuations on the Group's earnings. However, in the long term, longer lasting changes in interest and exchange rates will have an impact on consolidated earnings.

Currency risks

The currency risk comprises the risk of fluctuations in the value of financial instruments due to exchange-rate changes. This risk is related to changes in expected and contracted payment flows (transaction exposure), the revaluation of foreign subsidiaries' assets and liabilities in foreign currencies (translation exposure) and financial exposure in the form of currency risks in payment flows for loans and investments. Vitrolife is a global company with sales on about 110 markets. This means that the company is impacted by variations in exchange rates. The aim is to minimise the impact of these changes wherever practically possible.

The EUR and CNY have the largest impact. External sales from the US subsidiary are entirely in USD. Inflows are matched with the subsidiary's outflows in the form of costs, which are also primarily in USD. The breakdown of sales at the Swedish subsidiary Vitrolife Sweden AB are as follows: EUR 57% (58), CNY 32% (30), SEK 8% (8) and USD 3% (4). Most of the costs for the Swedish units are in SEK, however some of the costs are in EUR. As far as possible, this outflow is matched with EUR inflows.

The company's transaction exposure (in thousands) is allocated over the following currencies:

	Local currencies		Amount in SEK		Share, %	
	2016	2015	2016	2015	2016	2015
EUR	19 662	16 966	186 209	158 740	57	59
CNY	92 177	74 729	118 715	100 316	37	37
USD	1 287	464	11 018	3 918	3	2
AUD	445	450	2 836	2 854	1	1
GBP	143	39	1 656	499	0	0
NOK	1 740	60	1 775	63	1	0
JPY	5 900	5 454	466	380	0	0
DKK	1 723	1 372	2 191	1 722	1	1
Total			324 866	268 492	100	100

In 2016, EUR 4.8 million was hedged, which corresponded to about 12% of EUR sales. During the fourth quarter 2016 the Group ceased to hedge currency risks. Consequently, no hedging contracts have been entered into for 2017.

This year's transaction exposure attributable to net assets of foreign subsidiaries amounted to SEK 332.0 million (260.5) and was not hedged.

A general increase for the SEK of 1% against other currencies would reduce the Group's income after tax by about SEK 2.4 million (2.0) for the year ending 31 December 2016.

Interest-rate risk

Interest-rate risks refer to risks that changes in interest rates affect the consolidated earnings and cash-flow (cash-flow risks).

Vitrolife has a EUR denominated loan pertaining to the acquisition of Vitrolife A/S of EUR 3.9 million, with floating interest rate; refer to Note 24.

At 31 December 2016, a general increase in the borrowing rate of one percentage point would reduce the Group's income after tax by about SEK 295 thousand (371).

Credit and counterparty risks

Credit risk is defined as the risk that a counterparty is unable to meet its commitments to the Group, which could lead to credit losses. Historically, Vitrolife has had low credit losses and this was also true for 2016. Risk is limited through the use of credit assessments and advance payments from new customers, as well as through close customer monitoring by the finance and marketing functions conjunctively. Furthermore, individual testing is performed of accounts receivable in terms of solvency and credit rating on the closing date. For further information about accounts receivable, see Note 19.

At the end of 2016, counterparty exposure for derivative trading was SEK – (842) thousand. For the same period, the exposure in terms of cash and cash equivalents amounted to SEK 189.2 million (199.6).

Capital structure

The Group's aim regarding the capital structure is to secure the Group's ability to continue operations, so that it can continue to generate returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to keep the cost of capital down. The Group can change the dividend to shareholders, repay capital to shareholders, issue new shares, buy back its own shares or sell/buy assets with the aim of maintaining or adjusting the capital structure.

Vitrolife's Board considers that Vitrolife should have a strong capital base to enable continued high growth, both organic and through acquisitions. The company's net debt should not normally exceed a multiple of three times EBITDA. Net debt pertains to interest-bearing liabilities less interest-bearing assets and cash and cash equivalents. Profitable growth is an objective of Vitrolife's Board. Vitrolife's growth target over a three-year period is sales growth of an average of 20% per year, with an operating margin before depreciation and amortisation (EBITDA) of 30%.

Vitrolife is subject to capital requirements through its external financing. The Group has met all such requirements in 2016.

Terms and conditions

Maturity structure of financial liabilities (incl. future interest payments)*:

	In 1 year	2 years	3 years	4 years	> 4 years	Total
31 Dec 2016						
Borrowing	37 766	109	104	99	259	38 337
Accounts payable	24 286	–	–	–	–	24 286
Other liabilities	32 326	–	–	–	–	32 326
31 Dec 2015						
Borrowing	12 426	12 288	12 151	12 013	–	48 878
Accounts payable	21 749	–	–	–	–	21 749
Other liabilities	24 809	–	–	–	–	24 809

* Non-discounted cash-flows.

Note 4 Critical estimates and assessments

Preparing the financial statements in conformity with IFRS requires management to make assessments, estimates and assumptions that affect the application of the accounting policies and the carrying amounts for assets, liabilities, revenue and expenses. These estimates and assumptions are based on historic experience and a number of other factors deemed reasonable under the prevailing circumstances. The results of these estimates and assumptions are later used to assess the carrying amounts for assets and liabilities that are not otherwise clearly apparent from other sources. The actual outcome may deviate from these estimates and assessments.

The estimates and assumptions are regularly reviewed. Changes in the estimates are recognised in the period they are made if this is the only period affected by the change, or in the period the changes are made and in future periods if they also affect future periods.

Assessments made by management that have a substantial effect on the financial statements and estimates made that may involve material adjustments in the following year's financial statements are described in detail below.

Impairment test of goodwill and other intangible fixed assets

When calculating the recoverable amounts for cash-generating units as part of assessing whether any impairment of goodwill and other intangible fixed assets is needed, several assumptions regarding future conditions and estimates of parameters are made. An account of these can be found in Note 16.

Impairment test of capitalised expenditure for product development

No indication of impairment need existed at 31 December 2016. Capitalised projects can, with reasonable certainty, be expected to generate revenue earning products within the near future.

Provision for doubtful receivables

Vitrolife recognises a provision for doubtful receivables based on individual assessments of each receivable; refer to Note 19.

Provisions for warranties

Vitrolife recognises provisions for warranties connected to some of the Group's products. The provisions are established with consideration of historical claims statistics and warranty period etc. Estimated costs for these product warranties are recognised as costs when the products are sold. Difference between estimated costs and actual outcome affects provisions and recognised costs in future periods. For further information, see Note 25.

Deferred tax

Deferred tax assets attributable to tax loss carry-forwards have been capitalised to the extent it has been estimated these can be used against future taxable profits; refer to Note 15.

Additional purchase price

Vitrolife has an outstanding commitment of a potential additional purchase price regarding the acquisition of Vitrolife A/S. The additional purchase price corresponds to a value of 981,492 shares and is conditioned by that certain defined sales objectives are met. Vitrolife makes the assessment that the likelihood of an additional purchase price being payable is very low and therefore does not recognise any commitment in the financial statements for the additional purchase price.

Operational leases

Vitrolife's leasing agreements primarily relate to premises, company cars and some office equipment and tools. All of the Group's lease agreements have been classified and recognised as operational, meaning that leasing fees are expensed across the duration of the lease based on its useful life. For further information, see Note 28.

Legal disputes

Vitrolife is currently involved in disputes with Auxogyn Inc in the US and the EU regarding a patent in the time-lapse field. Based on the existing facts, the company's assessment is that the financial risk pertaining to these disputes is of minor significance, and based on these assessments no reserves or provisions is recognised for these disputes. For more information concerning legal disputes, see the management report.

Note 5 Segment reporting

Vitrolife consists of four business units whose products are sold by three geographic market organisations. As a result of the internal organisation, Vitrolife reports net sales, gross margin and market contribution per geographic segment. Market contribution is defined as gross income reduced with the selling expenses per market. The balance sheet per segment is not followed-up internally. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM is the function that is responsible for allocating resources and assessing the performance of the operating segments. For the Group, this function has been identified as the CEO.

In 2016, no single customer of Vitrolife accounted for more than 10% of total sales.

Below, net sales and fixed assets are presented per geographic segment. The information is also separately presented for individually significant countries and for the country in which the company has its domicile. As from the annual report 2016 surplus values from acquisitions are allocated to each company respectively instead of, as last year, to the Parent Company and thereby Sweden. The financial information for the comparison period has been reclassified according to the new policies.

SEK thousands	Net sales		Fixed assets*	
	2016	2015	2016	2015
EMEA	375 611	334 606	647 330	516 986
<i>of which Sweden</i>	<i>24 526</i>	<i>18 122</i>	<i>110 770</i>	<i>113 362</i>
North and South America	138 506	125 391	94 803	88 132
<i>of which USA</i>	<i>100 048</i>	<i>79 699</i>	<i>94 803</i>	<i>88 132</i>
Asia & Pacific	341 989	262 373	609	41
<i>of which China</i>	<i>157 860</i>	<i>129 915</i>	-	-
Total	856 106	722 370	742 742	605 159

SEK thousands	Gross income		Selling expenses		Market contribution	
	2016	2015	2016	2015	2016	2015
EMEA	238 317	218 249	-66 952	-61 313	171 365	156 936
North and South America	95 402	89 072	-29 108	-27 976	66 294	61 096
Asia & Pacific	227 582	177 499	-59 626	-50 571	167 956	126 928
Total	561 301	484 820	-155 686	-139 860	405 615	344 960

* Fixed assets refer to intangible and tangible fixed assets, i.e. excluding financial instruments and deferred tax assets.

Note 6 Sales by product group

Accounting policies

Revenue recognition

Revenue is recognised at the fair value of the amount that is received or is expected to be received for sold goods and services as part of daily operations, less VAT and discounts. Revenue for sales of goods is recognised when the significant risks and benefits associated with the ownership of the goods have been transferred to the buyer, which is normally in conjunction with delivery. Revenue from sales of services is recognised concurrently with the services being performed. Besides freight, services comprise service contracts connected to products sold by the Group, primarily by business unit Time-lapse.

SEK thousands	Net sales	
	2016	2015
Media	499 652	439 681
Time-lapse	159 680	137 581
Disposable Devices	138 903	128 076
ART Equipment	38 859	-
Freight	19 012	17 032
Group total	856 106	722 370

Note 7 Business combinations

Accounting policies

Acquisitions of subsidiaries are accounted for using the purchase method, which means that assets and liabilities are recognised at fair value in line with the established acquisition analysis. The difference between the cost of the subsidiaries' shares and the fair value of the acquired assets, assumed liabilities and contingent liabilities comprise consolidated goodwill. The purchase price also includes the fair value of all assets and liabilities that are part of the contractual, contingent purchase price. Acquisition-related costs are expensed as they arise.

The financial statements of subsidiaries are included in the consolidated financial statements from the acquisition date until the date on which the control ceases.

Business combinations

On May 31, 2016 Vitrolife acquired all the shares in Octax Microscience GmbH and MTG Medical Technology Vertriebs-GmbH. The head office of the companies is located in Bruckberg, Germany. The purchase price for both companies amounted to EUR 13.7 million (corresponding to SEK 127.2 million on acquisition date), of which everything were paid in cash and were financed by available liquid funds. No additional purchase prices exist. MTG is the exclusive global distributor of Octax products, wherefore the operations of the companies are assessed to be closely linked. Consequently, the acquisition of the two companies is regarded as a business combination in accordance with IFRS 3.

The consolidated net sales for the companies for the period January-December amounted to SEK 78.8 million, and the consolidated operating income before depreciation and amortisation (EBITDA) in the same period amounted to SEK 16.5 million. The acquisitions have effected Vitrolife's reported sales positively by SEK 38.9 million and income measured in terms of EBITDA positively by SEK 8.8 million. Acquisition costs amount to approximately SEK 2.2 million and have been expensed.

During the fourth quarter some minor adjustments, related to payments of VAT and taxes, were made to the acquisition analysis. The adjustments lead to a decrease of the purchase price of SEK 0.1 million and higher current liabilities of SEK 1.4 million, which altogether increase goodwill by SEK 1.3 million. The table below has been updated and summarizes the purchase price paid and acquired assets and liabilities reported at fair value at the date of acquisition. Goodwill is associated with know-how and the ability to continuously develop new products. The acquisition analysis is preliminary and may be further adjusted.

SEK millions	2016
Liquid funds	127.1
Total purchase price	127.1

Identified assets and liabilities

Trademark	10.0
Production technology	75.0
Customer relations	20.3
Other intangible assets	0.4
Tangible fixed assets	2.3
Financial assets	0.2
Inventories	10.5
Other current assets	6.2
Cash and cash equivalents	11.0
Current liabilities	-13.7
Long-term liabilities	-0.6
Deferred tax liability due to surplus values	-31.6
Total acquired assets and liabilities	90.0

Goodwill	37.1
Total	127.1

SEK millions	
Liquid funds paid	-127.1
Liquid funds in acquired business	11.0
Effect on group liquid funds	-116.1

Note 8 Other operating revenue

	Group		Parent Company	
	2016	2015	2016	2015
Foreign exchange gains	784	-	-	38
Adjusted purchase prices*	-	18 516	-	-
Recovered transaction costs	732	-	-	-
Received research contributions	-	357	-	-
Other	595	264	-	-
Total	2 111	19 137	-	38

*HertArt Aps, Vitrolife Kft. and Conception Technologies.

Note 9 Other operating expenses

	Group		Parent Company	
	2016	2015	2016	2015
Foreign exchange losses	-	-1 259	-5	-
Disposal loss on machinery and equipment	-156	-	-	-
Repayment research contributions*	-2 993	-	-	-
Other	-	-499	-	-
Total	-3 149	-1 758	-5	-

* Comprises research contributions received in Hungary, which have been repaid in connection with the relocation of the time-lapse business from Hungary to Denmark.

Note 10 Employees, personnel costs and Board fees

Average number of employees

	Total		Of whom, men	
	2016	2015	2016	2015
Parent Company, Sweden	-	-	-	-
Subsidiaries				
Sweden	142	128	59	51
Denmark	63	66	40	41
USA	61	62	37	37
Rest of the world	62	64	43	47
Total	328	320	179	176

Share of women in senior positions

	2016	2015
Board of Directors	33%	33%
Executive management	17%	20%

Salaries, other benefits and social charges

	Salaries and benefits		Social charges	
	2016	2015	2016	2015
Parent Company	1 557	1 330	489	418
- of which pension costs	(-)	(-)	(-)	(-)
Subsidiaries	186 814	153 078	53 466	46 542
- of which pension costs	(-)	(-)	(15 009)	(13 425)
Total	188 371	154 408	53 955	46 960
- of which pension costs	(-)	(-)	(15 009)	(13 425)

Of the Group's pension costs SEK 1,048 thousand (892) pertained to the Board and CEO, of which SEK 1,048 thousand (892) was attributable to the CEO.

Salaries and benefits allocated by country and between Board members/ CEO and other employees

	Board/CEO		Other employees	
	2016	2015	2016	2015
Parent Company, Sweden	1 557	1 330	-	-
Subsidiaries				
Sweden	4 927	4 496	67 343	62 360
- of which variable remuneration	(1 622)	(1 620)	-	-
Denmark	-	-	42 404	30 117
USA	-	-	33 479	31 541
Rest of the world	-	-	38 662	24 564
Total	6 484	5 826	181 888	148 582
- of which variable remuneration	(1 622)	(1 620)	-	-

Board of Directors

Pursuant to the 2015 AGM's resolution, fees of SEK 1,440 thousand were paid to the Board. The Chairman Carsten Browall received SEK 450 thousand and the five other Board members each received SEK 150 thousand. In addition, the chairmen of the Audit Committee and the Remuneration Committee received an additional fee of SEK 60 thousand each and the members of these committees received an additional fee of SEK 30 thousand each. On 28 April 2016, Vitrolife's AGM resolved to pay Board fees of SEK 1,615 thousand for the period until the next AGM. SEK 500 thousand is payable to the Chairman and SEK 175 thousand each to the five other Board members. Fees to members of the Audit Committee and the Remuneration Committee were resolved to be unchanged compared to resolution of the AGM of 2015.

CEO

In the 2016 financial year, the CEO Thomas Axelsson received salary totalling SEK 4,927 thousand, of which SEK 1,367 thousand comprised variable remuneration and SEK 255 thousand according to the long-term incentive programme ("LTI") adopted by the AGM 2016. No car allowance was paid. A defined-contribution pension applies and pension premiums amounting to 30% of fixed remuneration are paid. A six-month notice period applies for termination of the CEO's contract by the company and vice versa. In case of termination by the company, a severance payment is payable of up to 12-months' salary. The CEO's employment contract includes a non-competition clause. The retirement age is 65.

Other executive management

In the 2016 financial year, executive management, which comprises 6 (5) persons including the CEO, received salaries of SEK 14,351 thousand (11,854), of which SEK 2,949 thousand (2,239) was variable remuneration and SEK 1,205 thousand (1,214) according to the LTI-programme. Variable remuneration was contingent on the outcome of a number of mainly quantitative parameters compared with set targets. The quantitative parameters are related to sales and result (EBITDA) for the company. Remuneration according to the LTI-programme refers to incentive programme for certain selected key individuals with the aim of aligning the interests of shareholders with those of the executive management and to encourage the purchase of Vitrolife shares. For further information, see page 26. Customary occupational pension premiums were paid for and the retirement age is 65. A notice period of three to six months applies for the termination of employment contracts for other executive management by the company and vice versa. No severance payments are payable. No loans exist to executive management.

Defined-contribution pension plans

In Sweden, the Group funds defined-contribution pension plans for its employees. Outside Sweden, defined-contribution plans are partly defrayed by the subsidiaries and partly defrayed by fees paid by the employees. Payments to these plans are made on an ongoing basis pursuant to the respective plan's rules. The premiums are expensed on an ongoing basis and there are no obligations to pay further fees. The Group's earnings are charged with costs as the benefits accrue.

	Group		Parent Company	
	2016	2015	2016	2015
Payments to defined-contribution plans	15 009	13 425	-	-

Endowment insurance

Endowment insurance includes plans for the CEO and the former CEO of SEK 2,612 thousand (2,077). These endowment insurance plans are recognised under other financial assets and provisions; refer to Note 30.

Note 11 Auditors' fees

	Group		Parent Company	
	2016	2015	2016	2015
Deloitte				
Audit assignment	1 051	1 106	718	680
Audit activities other than audit assignment	76	31	65	17
Tax consultancy	211	182	211	182
Other services	255	136	198	136
Other auditors				
Audit assignment	223	162	-	-
Total	1 816	1 617	1 192	1 015

Audit assignments refers to the examination of the annual accounts, the accounting records and the administration of the Board and CEO, other tasks incumbent on the company's auditor to perform as well as advice or other assistance resulting from observations made during an audit or the conduct of such other duties. Audit activities other than the audit assignment, pertain to quality assurance services, including assistance regarding observations made during such a review, which is carried out in accordance with ordinances, the Articles of Association, bye-laws or agreements, and which result in a report that is also intended for others than the client. Advice on tax questions is reported separately. Everything else comprises other services.

Note 12 Operating expenses

	Group		Parent Company	
	2016	2015	2016	2015
Raw materials and consumables	-137 056	-95 661	-	-
Changes in inventories of finished goods and work in progress	32 867	10 608	-	-
Personnel costs	-254 776	-214 264	-430	-418
Depreciation, amortisation and impairment	-54 326	-53 063	-	-
Other external costs	-192 936	-161 234	-14 395	-7 390
Other operating expenses	-3 149	-1 758	-5	-
Total	-609 376	-515 372	-14 830	-7 808

Note 13 Net financial items

Accounting policies

Interest income is recognised on an ongoing basis and dividends when the right to receive them has been established.

	Group		Parent Company	
	2016	2015	2016	2015
Interest income	411	304	1 838	2 150
Foreign exchange gains	432	1 948	1 014	2 946
Dividends from participations in Group companies	-	-	158 432	185 644
Other financial income	45	1	-	-
Financial income	888	2 253	161 284	190 740
Interest expenses	-786	-1 187	-437	-894
Impairment of participations in Group companies	-	-	-7 500	-46 588
Fair value valuation	-	-328	-	-328
Other financial expenses	-13	-33	-	-
Financial expenses	-799	-1 548	-7 937	-47 810
Total	89	705	153 347	142 930

Note 14 Exchange-rate differences

Accounting policies

Receivables and liabilities in foreign currencies are measured at the exchange rate on the closing date. Exchange-rate differences on operating receivables and operating liabilities are included in operating income, while exchange-rate differences on financial receivables and liabilities are reported as financial items.

	Group		Parent Company	
	2016	2015	2016	2015
In operating income	784	-1 259	-5	38
In financial items	432	1 948	1 014	2 946
Total	1 216	689	1 009	2 984

Note 15 Taxes

Accounting policies

Income tax comprises current tax and deferred tax and is recognised in profit or loss, except when the underlying transactions are recognised in other comprehensive income, provided that the relating tax effect is recognised in other comprehensive income. Current tax is tax payable or recoverable for the current year. This also includes adjustments of current tax attributable to prior periods. The actual tax expense is calculated based on the applicable tax rules on the closing date that have been decided or which are, in practice, decided in those countries where the Parent Company and its subsidiaries operate and generate taxable income. The management regularly evaluates the claims made in tax returns with regard to situations where the applicable tax rules are subject to interpretation and make, when deemed appropriate, provisions for amounts that will probably be payable to the tax authorities.

Deferred tax is calculated in accordance with the balance-sheet method, based on temporary differences between carrying amounts and tax bases of assets and liabilities in the consolidated financial statements. The amount is calculated based on how the temporary differences are expected to be balanced and on the basis of the tax rates (and tax rules) that have been decided or announced as of the closing date. Temporary differences are not taken in to consideration in consolidated goodwill and nor in differences attributable to shares in subsidiaries that are not expected to be taxed in the foreseeable future. In the consolidated financial statements, untaxed reserves are divided into deferred tax liabilities and shareholders' equity.

Deferred tax assets relating to deductible temporary differences and loss carry-forwards are recognised only insofar as it is probable that tax surpluses will be available in the future against which temporary differences can be utilised.

	Group		Parent Company	
	2016	2015	2016	2015
Tax expense for the year				
Current tax for the year	-63 984	-55 214	0	0
Tax pertaining to preceding year	992	3 797	0	0
Total current tax	-62 992	-51 417	0	0
Deferred tax				
Amortisation surplus values	10 193	6 243	-	-
Intra-Group profit in inventories	1 327	1 097	-	-
Change loss carry-forwards	-8 257	-2 351	-	-
Change untaxed reserves	-	724	-	-
Other temporary differences	2 011	2 225	-	-
Total tax expense	-57 718	-43 479	0	0

Reconciliation effective tax rate

Income before tax	248 930	226 840	148 734	138 856
Estimated Swedish tax 22 % (22 %)	-54 765	-49 905	-32 722	-30 548
Differences in foreign tax rates	-1 488	-3 964	-	-
Tax pertaining to preceding year	992	3 797	-	-
Effect of changed tax rate (Denmark)	1 836	1 242	-	-
Non-deductible expenses	-2 299	-1 437	-484	-45
Impairment of participations in Group companies	-	-	-1 650	-10 249
Non-taxable income	408	5 608	1	-
Dividend received from Group companies	-	-	34 855	40 842
Utilisation of priorly non-capitalised loss carry-forwards and settlement of foreign tax	1 110	1 180	-	-
Impairment tax loss carry-forward (Denmark)	-3 432	-	-	-
Other	-80	-	-	-
Total tax expense	-57 718	-43 479	0	0

Deferred tax Group	Deferred tax asset		Deferred tax liability	
	2016	2015	2016	2015
Untaxed reserves	–	–	-18 059	-18 059
Intra-Group profit in inventories	600	504	3 957	2 476
Surplus values fixed assets	–	–	-51 029	-26 865
Loss carry-forwards	31 495	37 683	–	–
Temporary differences derivative instruments	–	–	–	-185
Temporary differences fixed assets	-13 685	-12 039	3 107	576
Other temporary differences	3 872	3 816	744	–
Total	22 282	29 964	-61 280	-42 057

The deferred tax assets and tax liabilities above are recognised in the balance sheet on a net basis for each country respectively, after taking into account offsetting possibilities. Deferred tax assets and liabilities have been measured at the tax rates that are expected to apply for the period when the asset is realised or the liability settled, according to the tax rates and regulations that have been determined or notified at the closing date.

Change deferred tax asset and -liability	2016	2015
Opening balance, net	-12 093	-26 270
Via profit or loss	5 274	7 938
Via other comprehensive income	185	-208
Via acquisitions	-31 328	6 623
Translation difference	-1 036	-176
Closing balance, net	-38 998	-12 093

Tax loss carry-forwards

Deferred tax assets attributable to tax loss carry-forwards have been capitalised to the extent it has been estimated these can be used against future taxable profits. Total deferred tax assets of SEK 31.5 million comprise tax loss carry-forwards of SEK 112.1 million in Vitrolife A/S (Denmark) and SEK 18.5 million in Vitrolife Inc (USA), making a total of SEK 130.6 million. Part of the capitalised loss carry-forward attributable to Denmark was during 2016 assessed as not possible to utilize over the coming five financial years and has thus been expensed, according to local accounting principles, to a cost of SEK 3.4 million. Fiscally there are no limitations concerning the time of utilization.

Tax loss carry-forwards attributable to HertArt Aps (Denmark) amounted to SEK 5.5 million at the closing date. No deferred tax assets were taken into consideration, since these loss carry-forwards are subject to a degree of uncertainty regarding the extent to which they can be used in the future.

In the US, tax loss carry-forwards are subject to a time limitation of 20 years and expire in 2034. Under existing regulations, other loss carry-forwards have no expiry date. All loss carry-forwards are subject to restrictions with regard to the proportion of the loss carry-forward that can be used to offset taxable profits in respective years. Of the Group total tax loss carry-forwards 86% is valued as deferred tax asset.

Note 16 Intangible fixed assets

Accounting policies

Goodwill

Goodwill represents the difference between the cost of the business combination and the fair value of the acquired assets, assumed liabilities and contingent liabilities. Goodwill is measured at cost less any accumulated impairment. In order to test for impairment, goodwill is distributed to each cash-generating unit. A cash-generating unit is the lowest level on which goodwill is followed up in the internal control of the Group. Impairment is tested annually, or more frequent if there are indications of impairment. Expenses for internally generated goodwill are recognised in profit or loss when the cost is incurred.

Capitalised expenditure for product development

Research expenditure pertains to expenses for research aimed at obtaining new scientific or technical knowledge. Development expenditure pertains to expenses where research findings or other knowledge is applied to realise new or enhanced products or processes.

Research expenditure is expensed in the period in which it occurs. Development expenditure is recognised in the Group as an intangible asset when the asset is assessed as able to generate future financial benefits and then only under the prerequisite that it is technically and financially feasible to complete the asset, that the intent is and conditions exist for the asset to be used in operations or sold and that the value can be reliably calculated.

In the consolidated balance sheet, capitalised development expenditure is recognised at cost less accumulated amortisation and impairment.

Production technology

Production technology is recognised at cost, less accumulated amortisation and impairment. The item mainly comprises production technology identified in connection with acquisitions.

Trademarks

Acquired trademarks are recognised at cost less accumulated impairment, if any. Vitrolife's assessment is that the trademarks of the Group have indefinite useful lives. Based on this trademarks are not amortised, but tested for impairment annually or more frequent if there are any indications of impairment. Any expenditure for internally generated trademarks are expensed in the period when they occur.

Other intangible assets

Other intangible assets acquired by the Group are recognised at cost, less accumulated amortisation and impairment. The item mainly comprises patents and customer relations.

Additional expenses

Additional expenses for an intangible asset are added to the cost only if they increase the future economic benefits over and above the original assessment and the costs can be reliably estimated. All other expenditures are expensed as incurred.

Amortisation

Amortisation is recognised on a straight-line basis in profit or loss over the estimated useful life of the intangible asset, unless the useful life is indefinite. Goodwill is tested for impairment annually or as soon as there is an indication that the asset has declined in value. The trademarks of the Group are assessed to have indefinite useful lives and are thus not amortised, but tested for impairment like goodwill. Amortisable intangible assets are amortised as from the date the asset is available for use. The estimated useful lives are:

Capitalised expenditure for product development	5-20 years
Production technology	4-10 years
Patents and customer relations	5-10 years
Computer programs	5 years

Capitalised expenditure for product development is mainly amortised over a five-year period, which corresponds to most products' expected life. The amortisation period for patents tracks the underlying patent's or brand's life, which is between five and ten years.

Impairment

At each closing day, an assessment is made of whether any indication exists of any impairment of the Group's assets. For goodwill and trademarks, which are not amortised on an ongoing basis, impairment test is conducted at least once each year or more frequent when there is an indication that the asset may have declined in value. If that is the case, an assessment of the asset's recoverable value is conducted. The recoverable value is the higher of an asset's fair value less selling expenses and its value in use. The value in use is defined as the present value of all future cash payments or receipts attributable to the asset plus the present value of the net realisable value at the end of its useful life.

The asset is impaired to its recoverable amount if the calculated recoverable amount is less than the carrying amount. An earlier impairment is reversed when there has been a change in the assumptions used as a basis for the asset's recoverable value when it was impaired and which mean that the impairment is no longer deemed necessary. Reversals of previous impairments are tested individually and recognised in profit or loss. Impairment losses on goodwill are not reversed in a following period.

Impairment test

The Group's goodwill is attributable to the acquisition of subsidiaries and their operations.

Vitrolife consists of four business units whose products are sold by three geographic market organisations. Impairment test of goodwill has been conducted for each business unit – Media, Disposable Devices, Time-lapse and ART Equipment – since these are defined as separate cash-generating units. Goodwill has been allocated to each cash-generating unit based on the underlying operations in the companies to which goodwill is attributable. At the closing date, goodwill is distributed over the cash-generating units as follows; Media SEK 9.0 million, Disposable Devices SEK 115.5 million, Time-lapse SEK 240.2 million and ART Equipment SEK 38.5 million - a total of SEK 403.2 million. The impairment test has been carried out based on budget and forecasts, where the first forecast year is based on the company's budget and the following four years based on historical growth rates after adjustment for management forecasts. The forecasts have

been prepared internally by the management using historical data, the collective experience of management and their best assessment of the company's development potential and market growth. The forecast cash flows after the first five years have been based on a more conservative growth rate of 3% (3) per year. The present values were calculated for forecast cash flows using a discount rate before tax of 8.5% (9.0). The key variables in the forecasts are market share and growth, gross margin, selling expenses and investments. The estimate is based on a continued, healthy gross margin and the need for investment has been assessed as that needed to replace existing assets. Working capital has been assumed to change in line with sales and the debt/equity ratio is assessed as unchanged, since growth is expected to occur within the framework of existing operations and

with own funds. The recoverable amounts, which in the Group are calculated as the value in use, exceeds the carrying amounts. The management's assessment is that no reasonable changes in the key variables and assumptions will lead to the units' recoverable amounts being less than the carrying amounts.

To support the impairment tests performed on the intangible fixed assets, a comprehensive analysis was performed of the sensitivity in the variables used in the model. The assumption of an increase in the discount rate to 9.5% before tax, shows that the recoverable amounts still exceed the carrying amounts. Other assumptions, such as the gross margin, need for investment and growth rate have been assumed as constant.

	Goodwill		Capitalised expenditure for product development		Production technology		Trademarks		Other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Accumulated cost												
Opening balance	368 467	382 538	107 278	106 767	84 829	86 197	30 877	32 219	16 368	18 575	607 819	626 296
Investments	–	–	3 469	12 107	26	–	–	–	288	983	3 783	13 090
Business combinations	37 321	–	121	–	75 002	–	9 997	–	20 262	–	142 703	–
Adjustment acquisition analysis	–	-6 201	–	–	–	–	–	–	–	–	–	-6 201
Reclassifications	–	–	–	-1 402	-2 564	1 402	-18	–	-540	–	-3 122	–
Disposals/impairment	–	–	-810	-5 719	-69	–	–	–	-101	-3 628	-980	-9 347
Translation differences	15 421	-7 870	10 418	-4 475	6 501	-2 770	1 878	-1 342	1 514	438	35 732	-16 019
Closing balance	421 209	368 467	120 476	107 278	163 725	84 829	42 734	30 877	37 791	16 368	785 935	607 819
Accumulated amortisation and impairment												
Opening balance	-17 993	-17 993	-35 189	-29 000	-28 404	-8 855	-415	-370	-10 300	-8 687	-92 301	-64 905
Amortisation	–	–	-12 841	-13 177	-24 471	-16 363	-3	-46	-3 657	-897	-40 972	-30 483
Reclassifications	–	–	–	3 047	2 564	-3 047	18	–	540	–	3 122	–
Disposals/impairment	–	–	671	2 448	69	–	–	–	–	36	740	2 484
Translation differences	–	–	-6 118	1 494	-655	-139	-1	1	-663	-752	-7 437	603
Closing balance	-17 993	-17 993	-53 477	-35 189	-50 897	-28 404	-401	-415	-14 080	-10 300	-136 848	-92 301
Carrying amounts	403 216	350 474	66 999	72 089	112 828	56 425	42 333	30 462	23 711	6 068	649 087	515 518

Parent Company	Other	Total
Accumulated cost		
Opening balance 1 Jan 2015	160	160
Closing balance 31 Dec 2015	160	160
Opening balance 1 Jan 2016	160	160
Closing balance 31 Dec 2016	160	160
Accumulated amortisation and impairment		
Opening balance 1 Jan 2015	-160	-160
Closing balance 31 Dec 2015	-160	-160
Opening balance 1 Jan 2016	-160	-160
Closing balance 31 Dec 2016	-160	-160
Carrying amounts		
At 31 Dec 2015	–	–
At 31 Dec 2016	–	–

Amortisation has been allocated in profit or loss by function as follows:

	Group		Parent Company	
	2016	2015	2016	2015
Cost of goods sold	-38 606	-26 659	–	–
Selling expenses	-70	-172	–	–
Administrative expenses	-131	-269	–	–
Research and development expenses	-2 165	-3 383	–	–
Total	-40 972	-30 483	–	–

Note 17 Tangible fixed assets

Accounting policies

Tangible fixed assets are recognised as assets in the balance sheet when, based on information available, it is likely that the future financial benefits associated with the holding will accrue to the company and that the cost of the asset can be calculated in a reliable manner. The carrying amounts of the tangible fixed assets comprise costs reduced with accumulated depreciation and impairment, if any.

Gains or losses from selling tangible fixed assets comprise the difference between the sales price and the carrying amount of the asset, and are recognised in profit or loss at the time of the sale.

Additional expenses

Additional expenses are added to the cost only if it is probable that the future financial benefits associated with the asset will accrue to the company and the cost can be reliably calculated. All other additional expenses are expensed in the period they are incurred.

The decisive factor for determining when an additional expense will be added to the cost is whether the expense pertains to the exchange of identified components, or parts thereof, in which case they are capitalised. The expense is also

added to the cost when new components have been created. Any undepreciated carrying amounts for exchanged components, or parts thereof, are scrapped and expensed in conjunction with the exchange. Repairs are expensed on an ongoing basis.

Depreciation

Depreciation according to plan is based on the original cost less the estimated residual value. The residual values and estimated useful lives of the tangible fixed assets are reviewed at each closing day, and are adjusted when necessary. Depreciation takes place straight line over the estimated useful life of the asset. Land is not depreciated. The estimated useful lives are:

Buildings	10-30 years
Permanent equipment	10-20 years
Plant and machinery	3-10 years
Equipment, tools, fixtures and fittings	3-10 years

	Buildings and land		Plant and machinery		Equipment, tools, fixtures and fittings		Construction in progress		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Accumulated cost										
Opening balance	62 140	76 533	31 123	39 600	105 548	82 829	1 995	911	200 806	199 893
Investments	974	722	–	1 639	7 635	5 183	1 360	1 995	9 969	9 539
Business combinations	–	–	–	–	2 353	–	–	–	2 353	–
Reclassifications	-2 286	-16 055	281	432	3 010	16 130	-1 782	-507	-777	–
Sales/disposals	–	-2 768	-142	-11 118	-1 132	-1 331	–	-404	-1 274	-15 621
Translation differences	5 382	3 688	1 118	570	4 848	2 737	–	–	11 348	6 995
Closing balance	66 210	62 140	32 380	31 123	122 262	105 548	1 573	1 995	222 425	200 806
Accumulated depreciation and impairment										
Opening balance	-15 516	-19 357	-20 049	-26 934	-75 600	-61 280	–	–	-111 165	-107 571
Depreciation	-2 197	-3 215	-2 302	-3 401	-8 573	-8 408	–	–	-13 072	-15 024
Impairment	–	–	–	–	-281	–	–	–	-281	–
Reversal of impairment	–	–	–	–	–	131	–	–	–	131
Reclassifications	855	5 151	330	–	-408	-5 151	–	–	777	–
Sales/disposals	–	2 750	140	10 554	1 210	1 493	–	–	1 350	14 797
Translation differences	-1 634	-845	-758	-268	-3 987	-2 385	–	–	-6 379	-3 498
Closing balance	-18 492	-15 516	-22 639	-20 049	-87 639	-75 600	–	–	-128 770	-111 165
Carrying amounts	47 718	46 624	9 741	11 074	34 623	29 948	1 573	1 995	93 655	89 641

Parent Company	Equipment and tools	Total
Accumulated cost		
Opening balance 1 Jan 2015	400	400
Closing balance 31 Dec 2015	400	400
Opening balance 1 Jan 2016	400	400
Disposals	-388	-388
Closing balance 31 Dec 2016	12	12
Accumulated depreciation and impairment		
Opening balance 1 Jan 2015	-388	-388
Depreciation for the year	–	–
Closing balance 31 Dec 2015	-388	-388
Opening balance 1 Jan 2016	-388	-388
Depreciation for the year	–	–
Disposals	388	388
Closing balance 31 Dec 2016	–	–
Carrying amounts		
At 31 Dec 2015	12	12
At 31 Dec 2016	12	12

Depreciation has been allocated in profit or loss by function as follows:

	Group		Parent Company	
	2016	2015	2016	2015
Cost of goods sold	-7 747	-8 340	–	–
Selling expenses	-463	-357	–	–
Administrative expenses	-4 039	-4 968	–	–
Research and development expenses	-823	-1 359	–	–
Total	-13 072	-15 024	–	–

Note 18 Inventories

Accounting policies

Inventories are measured at the lower of cost and net realisable value, thereby taking into consideration the risk of obsolescence, which is assessed on an individual basis. Impairment due to obsolescence are recognised as costs of goods sold in the profit or loss. The cost is calculated according to weighted average prices. The cost of semi-finished and finished products manufactured in-house comprises direct production costs and a reasonable proportion of indirect production costs based on normal capacity. The net realisable value comprises the estimated sales price reduced by directly related selling expenses. Internal profits from intra-Group transactions are deducted from the book value of inventory.

	Group		Parent Company	
	2016	2015	2016	2015
Raw materials and consumables	57 712	42 941	–	–
Products in progress	13 960	6 862	–	–
Finished goods and goods for resale	73 982	52 481	–	–
Total	145 654	102 284	–	–

Impairment of SEK 0.3 million (0.7) pertaining to obsolescent raw materials and SEK 0.8 million (0.4) for obsolescent finished products was included in the closing inventory. Total obsolescence costs for 2016 amounted to SEK 7.2 million (6.0).

The amount reported as costs for products in stock during the period totalled SEK 249.3 million (206.2).

Note 19 Accounts receivable

Accounting policies

Accounts receivable are initially recognised at fair value and, thereafter, at amortised cost. Since the expected maturity of an account receivable is short, a nominal value without discounting is recognised. If the receivable is expected to be held for more than 12 months, it is classified as long-term. Doubtful receivables are identified by assessment on an individual basis. If a receivable, or part of a receivable, is assessed as doubtful a provision is recognised of the difference between the book value of the receivable and the amount which according to the assessment of the Group is going to be paid. Indicators of that a receivable is doubtful might be, e.g., financial difficulties for the customer, that reconstruction or bankruptcy is likely, late payments, disputes or other events indicating that the customer will not pay. The impairment of accounts receivable are recognised as selling expenses.

Accounts receivable

Accounts receivable are recognised after taking into account bad debt losses during the year. In 2016, Group bad debt losses totalled SEK 1 280 thousand (441). For financial risk management concerning accounts receivable; refer to Note 3.

	Group		Parent Company	
	2016	2015	2016	2015
Accounts receivable	132 162	104 839	–	–
Less provision for doubtful receivables	-5 975	-5 056	–	–
Total	126 187	99 783	–	–

Age structure of accounts receivable

2016	Not due:	Due, number of days:				Total amount due:
		0–30	31–60	61–120	>120	
Total accounts receivable:						
132 162	87 171	22 876	6 723	3 914	11 478	44 991
of which provision						
-5 975	-579	-133	-132	–	-5 131	-5 396
2015	Not due:	Due, number of days:				Total amount due:
		0–30	31–60	61–120	>120	
Total accounts receivable:						
104 839	72 364	14 685	5 774	3 895	8 121	32 475
of which provision						
-5 056	-43	-100	-15	-303	-4 595	-5 013

Provision for doubtful receivables

	Group		Parent Company	
	2016	2015	2016	2015
Opening provision	-5 056	-5 620	–	–
Reversal of provision for doubtful receivables	905	4 017	–	–
Confirmed credit losses	1 280	441	–	–
Provision for doubtful receivables	-2 791	-4 475	–	–
Translation differences	-313	581	–	–
Closing provision	-5 975	-5 056	–	–

Note 20 Prepaid expenses and accrued income

	Group		Parent Company	
	2016	2015	2016	2015
Rent and other property expenses	2 219	2 076	–	–
IT-related expenses	1 385	1 654	–	–
Insurances	2 726	2 696	1 066	1 134
Other prepaid expenses	1 776	1 285	111	71
Accrued income	–	547	–	–
Total	8 106	8 258	1 177	1 205

Note 21 Cash-flow statements and cash and cash equivalents

Accounting policies

The cash-flow statements are drawn up according to the indirect method.

	Group		Parent Company	
	2016	2015	2016	2015
Interest paid and received				
Interest received	395	304	–	–
Interest paid	-771	-1 256	-437	-894
Total	-376	-952	-437	-894

Adjustment for non-cash items

Depreciation, amortisation and impairment of assets	54 326	53 063	–	–
Unrealised exchange-rate differences	-1 376	-1 436	2 633	-3 985
Impairment of participations in Group companies, Vitrolife Kft.	–	–	7 500	46 588
Adjustment of additional purchase price (Vitrolife Kft. and HertArt Aps.)	–	-17 580	–	–
Received dividend from subsidiaries	–	–	-8 432	–
Interest income, unpaid	–	–	–	-2 151
Dividend, unpaid	–	–	–	-643
Change of warranty provision	2 691	-308	–	–
Other	-515	118	–	–
Total	55 126	33 857	1 701	39 809

Sub-components of cash and cash equivalents

Cash and bank balances	189 245	199 572	2 974	592
Total	189 245	199 572	2 974	592

The utilised overdraft facility was SEK - (-). The overdraft facility's limit is SEK 50 million (50).

Cash and cash equivalents not used in daily operations is invested in accordance with Vitrolife's financial policy; refer to Note 3. No active asset management was carried out in 2016.

Note 22 Shareholders' equity

Accounting policies

Transaction expenses that are directly attributable to the issue of new common shares or options are recognised, net after tax, in shareholders' equity as a deduction from the proceeds.

Share capital

Only one class of shares exists and all shares carry the same rights. The number of outstanding shares in the Parent Company amounted to 21,710,115 as of 31 December 2016.

Other capital contributed

Pertains to shareholders' equity contributed by the owners. This includes shares in share premium reserves transferred to the statutory reserve as of 31 December 2005. Provisions made to the share premium reserve from 1 January 2006 and onward are recognised as contributed capital.

Translation reserve

The translation reserve includes all exchange-rate differences arising in conjunction with the translation of financial statements from foreign operations that have prepared their financial statements in a currency other than the presentation currency in the consolidated financial statements. The Parent Company and Group present their financial statements in SEK.

Accumulated exchange-rate differences in shareholders' equity

	Group	
	2016	2015
Opening balance	-29 612	-18 725
Exchange-rate differences in foreign subsidiaries	37 297	-10 887
Closing balance	7 685	-29 612

The disclosure requirement in Chapter 5, section 14 of the Annual Accounts Act regarding the specification of year-on-year changes in shareholders' equity in the balance sheet are detailed on page 34.

Under the dividend policy for Vitrolife AB (publ), each year, a dividend, or some other form of distribution equal to 30% of net profit for the year after taxes, should be proposed. Thus, in accordance with the above, the Board and CEO intend to propose that the AGM resolve in favour of a dividend of SEK 2.60 per share for 2016, corresponding to a total of SEK 56.4 million. The dividend will be presented to the Annual General Meeting on 27 April 2017 for adoption.

Retained earnings including income for the year

Retained earnings including income for the year comprises profits earned by the Parent Company and its subsidiaries.

Proposed appropriation of profit

The Board of Directors and the CEO propose that the funds available of SEK 563,773,597, be appropriated as follows:

SEK	
Dividend (SEK 2.60)	56 446 299
Carried forwards	507 327 298
Total	563 773 597

Capital management

The capital managed by the Group comprises shareholders' equity. The Group's objective with its capital management is to enable continued high growth, both organic and through acquisitions. The Group's net debt should normally not exceed a multiple of three times EBITDA. Profitable growth is an objective of Vitrolife's Board. Vitrolife's growth target over a three-year period is sales growth of an average of 20% per year, with an operating margin before depreciation and amortisation (EBITDA) of 30%.

Note 23 Earnings per share

Accounting policies

The calculation of earnings per share is based on income for the year in the Group attributable to the Parent Company's shareholders and the weighted average number of shares outstanding during the year.

Earnings per share

In 2016, the average number of shares outstanding was 21,710,115 (21,710,115). Income for the year attributable to the Parent Company's shareholders was SEK 190,368 thousand (182,845) resulted in earnings per share of SEK 8.77 (8.42), which is both before and after dilution.

Note 24 Interest-bearing liabilities

Accounting policies

Borrowings are initially recognised at fair value, net, after transaction costs and, subsequently, at amortised cost. Any difference between the amount received and the amount to be repaid is recognised in profit or loss over the loan period by applying the effective interest method. All loans have floating rates and, therefore the fair value is assessed as essentially corresponding with the carrying amount. Borrowings are classified as interest-bearing long-term or current liabilities in the balance sheet.

	Group		Parent Company	
	2016	2015	2016	2015
Long-term portion, bank loans	466	35 627	-	35 627
Current portion, bank loans	37 390	11 876	37 311	11 876
Total	37 856	47 503	37 311	47 503

Maturity date

	2016	2015	2016	2015
In 1–5 years	394	35 627	-	35 627
> 5 years	72	-	-	-
Total	466	35 627	-	35 627

The utilised portion of overdraft facilities is recognised under long-term bank loans SEK - (-). Refer to Note 3 for loan terms and conditions, and other contractual conditions. Collateral is in place for portions of the bank loans; refer to Note 30. Since the end of 2014, Vitrolife has a EUR denominated loan pertaining to the acquisition of Unisense FertiliTech A/S (today Vitrolife A/S) of SEK 37.3 million (47.5).

During 2016 no new loans have been raised. However, the company Octax, acquired by Vitrolife during 2016, has a EUR denominated loan of SEK 0.5 million. Floating interest rates apply for all loans.

Vitrolife's total credit facilities amounted to SEK 88 (98) million, of which SEK 38 (48) million was utilised. The credit facilities were used for acquisition loans.

The Group's effective interest rate was 1.0% (1.6) in 2016.

Note 25 Other provisions

Accounting policies

A provision is recognised in the balance sheet when the Group has an existing legal or informal obligation as a result of an event that has occurred, and it is probable that an outflow of financial resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the effect of when payment occurs is significant, provisions are calculated by discounting expected future cash flows using an interest rate before tax that reflects current market assessments of the monetary value over time and, if appropriate, the risks associated with the obligation.

	Group		Parent Company	
	2016	2015	2016	2015
Pension obligations	3 365	2 688	-	-
Warranties	5 678	2 503	-	-
Total	9 043	5 191	-	-

Note 26 Accrued expenses and deferred income

	Group		Parent Company	
	2016	2015	2016	2015
Accrued personnel costs	43 768	36 351	-	-
Audits and consultancy services	755	964	402	340
Annual report	248	310	248	310
Board fees	1 415	1 262	1 415	1 262
Other taxes abroad	5 139	5 037	-	-
Other accrued expenses	3 201	6 548	-	-
Deferred income	8 374	7 737	-	-
Total	62 900	58 209	2 065	1 912

Note 27 Financial instruments

Accounting policies

Financial instruments recognised in the balance sheet include the following assets and liabilities: cash and cash equivalents, accounts receivable, other receivables, other financial fixed assets, derivatives, accounts payable, other liabilities, loan payables and share of provisions.

A financial asset or financial liability is recognised in the balance sheet when the company becomes a party to the instrument's contractual terms and conditions. Accounts receivable are included in the balance sheet when an invoice has been issued. Accounts payable are included when an invoice has been received.

A financial asset is derecognised from the balance sheet when the contractual rights to the asset are realised, expired or the company loses control over them. The same applies to a portion of a financial asset. A financial liability is derecognised from the balance sheet when the contractual obligation has been fulfilled or in some other manner extinguished. The same applies to a portion of a financial liability. Acquisitions and sales of financial assets are recognised at the transaction date, which is the date when the company commits to acquire or sell the asset, except where the company acquires or divests listed securities in which case settlement date accounting is applied. On each closing date, the Group tests whether any financial asset or group of financial assets has been impaired.

Fair value

Fair value has been calculated for all financial assets and liabilities in accordance with IFRS 13.

Assets and liabilities valued at amortised cost

Fair value of other financial fixed assets, accounts receivable and other receivables, other current receivables, cash and cash equivalents, accounts payable and other liabilities as well as interest-bearing borrowings is estimated to correspond with their carrying amounts (amortised cost). All loans have floating rates and, therefore the fair value is assessed as essentially corresponding with the carrying amounts for these loans.

Derivatives for hedge purposes

Derivatives for hedge purposes are valued at fair value based on published forward rates in an active market.

Financial assets measured at fair value in profit or loss

Other shares and participations relate to holdings of unlisted shares, that have been valued based on the latest transaction (transfer of shares), hence fair value is estimated to correspond to book value.

Assets as per balance sheet	Assets measured at amortised cost		Derivatives for hedging purposes		Financial assets at fair value in profit or loss	
	2016	2015	2016	2015	2016	2015
	Other shares and participations	–	–	–	–	3 746
Other financial fixed assets	5 133	5 851	–	–	–	–
Accounts receivable	126 187	99 783	–	–	–	–
Other receivables	1 503	1 104	–	–	–	–
Derivative instruments	–	–	–	842	–	–
Cash and cash equivalents	189 245	199 572	–	–	–	–
Total	322 068	306 310	–	842	3 746	3 746

Liabilities as per balance sheet	Liabilities measured at amortised cost		Derivatives for hedging purposes		Financial liabilities at fair value in profit or loss	
	2016	2015	2016	2015	2016	2015
	Borrowings	37 856	47 503	–	–	–
Accounts payable	24 286	21 749	–	–	–	–
Other liabilities	221	448	–	–	–	–
Accrued expenses and deferred income	14 198	21 204	–	–	–	–
Total	76 561	90 904	–	–	–	–

Parent Company

Financial assets and liabilities totalled SEK 796.3 million (775.6), and SEK 38.1 million (113.0) respectively. During 2016, a write-down by SEK 7.5 million of the shares in the Hungarian subsidiary Vitrolife Kft has been made as a result of that the company is going to be liquidated during the first quarter of 2017. Based on future earning potential, no impairment has been deemed necessary for other shares in subsidiaries. No forward covers were carried out for the currency components included in the above amounts.

Note 28 Leasing

Accounting policies

In the consolidated financial statements, leasing is classified as either financial or operational. All of the Group's lease agreements have been classified and recognised as operational. For operating leases, the leasing fee is expensed across the duration of the lease based on its useful life, which can differ from the actual payment made to cover the leasing fee during the year.

Leasing

Vitrolife leases premises in Gothenburg, Sweden. Sterile rooms have been built and paid for by Vitrolife. The current lease agreement expires on 31 October 2018.

Vitrolife leases a property in Denver in the US. However, the modules that have since been added to the building and which contain production facilities, etc., are owned by the company. In addition, an adjacent building acquired in 2011 is also owned by the company. The current lease agreement expires on 1 May 2020.

Other significant leasing agreements for premises are the following:

	Lease expiry
San Diego, USA	30 Jun 2019
Tokyo, Japan	31 Dec 2019
Bruckberg, Germany	31 May 2021
Viby, Denmark	30 Apr 2023

Rental fees are linked to consumer price indices and vary in line with the market as a whole. Variable fees are invoiced on a one-for-one basis in arrears following annual reconciliation. No restrictions apply as a result of contracted leases. In those cases where leasehold improvements have been defrayed by Vitrolife, individual testing is applied regarding whether the costs should be capitalised or expensed.

Otherwise, Vitrolife has signed lease agreements for company cars and for some office equipment and tools.

In 2016, expensed leasing totalled SEK 15,631 thousand (14,801).

Contracted future minimum lease fees pertaining to irrevocable contracts are allocated as follows:

	Group		Parent Company	
	2016	2015	2016	2015
Within one year	13 617	12 384	–	–
In two to five years	23 506	22 207	–	–
More than five years	1 725	2 612	–	–
Total	38 848	37 203	–	–

Note 29 Participations in Group companies

Participations in Group companies

	Parent Company	
	2016	2015
Opening cost	730 396	760 824
Acquisition, MTG	54 824	–
Unconditional shareholders' contribution, Vitrolife Inc.	–	33 739
Recovered additional purchase price, Vitrolife Kft.	–	-17 139
Recovered additional purchase price, HertArt Aps	–	-440
Impairment, Vitrolife Kft.	-7 500	-46 588
Closing carrying amount	777 720	730 396

Company	Corp. Reg. No.	Domicile	Number of shares	Share, %*	Carrying amount 2016	Carrying amount 2015
Companies owned by Vitrolife AB:						
Vitrolife, Inc.	84-1547804	Denver and San Diego, USA	500 000	100	173 220	173 220
Vitrolife Sweden AB	556546-6298	Gothenburg, Sweden	5 000 000	100	178 386	178 386
Vitrolife Pty Ltd.	102959964	New South Wales, Australia	1	100	0	0
Vitrolife KK	0104-01-081049	Tokyo, Japan	200	100	850	850
Vitrolife Ltd.	04628698	Warwick, UK	1 025	100	11 935	11 935
Vitrolife Kft.	06-09-017195	Budapest, Hungary	n/a	100	7 280	14 780
A.T.S. Srl**	12758490150	Milan, Italy	n/a	70	6 760	6 760
HertArt Aps	32840787	Greve, Denmark	166 667	100	5 856	5 856
Vitrolife A/S	27 40 67 93	Aarhus, Denmark	3 741 200	100	338 609	338 609
MTG Medical Technology Vertriebs-GmbH	HRB 4525	Bruckberg, Germany	3	100	54 824	–
Total					777 720	730 396

* Share of voting power is equal to share of ownership.

** Subsidiary with non-controlling interests is not deemed material enough to require financial information to be presented according to IFRS 12.

Dividend to minority shareholders in the company A.T.S. Srl amounted to SEK 413 thousand during 2016.

Note 30 Pledged assets and contingent liabilities

Accounting policies

A contingent liability is recognised when there is a possible commitment originating from events that have occurred and whose occurrence is confirmed only by one or several uncertain future events or when there is a commitment that is not recognised as a liability or provision because it is not probable that an outflow of resources will be required.

	Group		Parent Company	
	2016	2015	2016	2015
Pledged assets				
Floating charges	20 000	20 000	3 100	3 100
Endowment insurance	2 612	2 077	–	–
Total	22 612	22 077	3 100	3 100

Pledged assets pertain to floating charges for liabilities to credit institutions for their own commitments and collateral pledged for endowment insurance plans (cost).

	Group		Parent Company	
	2016	2015	2016	2015
Contingent liabilities				
Guarantee, Swedish Customs	200	200	–	–
Endowment insurance, difference between cost and market value	209	155	–	–
Total	409	355	–	–

Note 31 Related parties

Related parties

The Parent Company has a close relationship with its subsidiaries; refer to Note 29. Of the Parent Company's total purchases and sales, 0 percent (0) of purchases and 100 percent (100) of sales pertain to intra-Group transactions. Internal pricing within the Group is set based on the arm's length principle, that is between parties that are independent, well-informed and with a vested interest in the transactions.

Transactions with other key individuals in senior positions

The Board members of Vitrolife have not received any other remuneration in addition to the Board fees during 2016.

	2016	2015
Board members	1 557	1 330
Executive Management	14 351	11 854
Total	15 908	13 184

For further information, see Note 10.

Note 32 Events after the closing date

No other events have occurred after the end of the period that significantly affect the assessment of the financial information in this report.

Attestation

The Board of Directors and the CEO hereby give their assurance that the annual accounts have been prepared in accordance with generally accepted accounting principles and provide a fair representation of the Parent Company's position and performance, and that the Management Report provides a true and fair overview of the development of the company's operations, financial position and earnings, and describes the significant risks and uncertainty factors to which the company is exposed. The Board of Directors and the CEO hereby give their assurance that the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and provide a fair representation of the Group's position and performance, and that the Management Report for the Group provides a true and fair overview of the development of the Group's operations, financial position and earnings, and describes the significant risks and uncertainty factors to which the Group is exposed.

Gothenburg, 21 March 2017

Carsten Browall
Chairman of the Board

Jón Sigurdsson
Board member

Tord Lendau
Board member

Fredrik Mattsson
Board member

Pia Marions
Board member

Barbro Fridén
Board member

Thomas Axelsson
CEO

Our auditor's report was submitted on 21 March 2017

Deloitte AB

Jan Nilsson
Authorised Public Accountant

Fredrik Jonsson
Authorised Public Accountant

AUDITOR'S REPORT

To the general meeting of the shareholders of Vitrolife AB (publ) corporate identity number 556354-3452

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Vitrolife AB (publ) for the financial year 2016 except for the corporate governance statement on pages 27-29. The annual accounts and consolidated accounts of the company are included on pages 24-48 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 27-29. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment,

were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Revenue recognition

Sales amounts to SEK 856 million as of 2016 and is generated from four business areas, of which the products are sold by three geographical market organizations. Revenue from the sale of goods is recognized when an agreement with the customer is in place, the delivery has occurred and all key risks and benefits have been transferred to the customer. Revenue is recognized at fair value of what has been received or will be received for goods sold.

There are many similarities between the different types of sales agreements but depending on the type of contract, the transfer of risk and benefits differs depending on if the sales are made directly to a customer or through a distributor.

We focus on this area due to the inherent complexity and the significant judgement sometimes involved in estimating the use of right of return and other obligations.

The Vitrolife group disclosures regarding revenue recognition are included in note 5 and 6 on page 39 in the annual report, which provide details of the accounting principles for revenue recognition, the segment information and sales per product group.

Our audit procedures includes, but are not limited to:

- We have obtained an understanding of the revenue process within the group in order to ensure that the criteria's of IAS 18 are met. We have also tested relevant controls in those processes.
- We have audited management's analyses, judgment and estimates of the use of right of return and other obligations.
- We have audited management's analyses of significant variances in different flows of revenue.
- We have audited that required disclosures are presented in relevant notes of the annual report.

Income tax

Within the Vitrolife group, both current and deferred taxes are accounted for. The tax expense of 2016 amounts to SEK 58 million. As of December 31, 2016 deferred

tax assets amount to SEK 22 million and deferred tax liabilities amount to SEK 61 million.

The tax expense is based on local tax regulations in the countries where the group operates and where taxable income is generated.

We focus on this area due to the inherent degree of complexity with different tax regulations in different countries in combination with that reconciliation of tax related items is not a part of the daily administration.

The Vitrolife AB and Group's disclosures regarding income taxes are included in note 15 on page 41 in the annual report, which provide details of the accounting principles and the different tax components, and note 4 about critical estimates and judgments on page 38 in the annual report.

Our audit procedures included, but were not limited to:

- We have audited the group accounting principles applied for different types of taxes
- Audit of country and business specific taxes in order to ensure completeness of the tax calculations
- Evaluating the design and testing the effectiveness of key internal controls in order to ensure completeness in tax related items
- Audit the policies of calculation of deferred tax, assessing the reasonableness in significant assumptions underlying estimated taxable surplus for entities with tax loss carry forwards for which deferred tax assets have been recognised.
- We have audited the completeness in relevant notes of the annual report.

Valuation of goodwill

Goodwill amounts to SEK 403 million as of 31 December 2016 and is related to acquisitions.

The value of goodwill is dependent on future return and the profitability of the cash generating units of which the goodwill is related. The goodwill is tested for impairment at least once a year. The impairment test is based on a number of assumptions, in particular estimated sales growth, gross margin, investments and discount rate.

Management's judgments and estimates may have a significant impact on the group's result and financial position.

We focus on the impairment assessment above as the book value of goodwill is material and the inherent complexity due to that the assessment is sensitive to changes in assumptions and the potential risk of impairment.

For further information, accounting principles are disclosed in note 16, intangible assets, on page 42 and note 4, critical estimates and judgments on page 38 in the annual report.

Our audit procedures included, but were not limited to:

- Evaluating the design of relevant key internal controls to identify indicators of impairment and the reasonability in the assumptions made, that routines are consistently applied and that calculations are made with integrity
- Audit the reasonability in the chosen cash generating units and the allocation of goodwill
- Audit the completeness of relevant notes in the annual report
- Our valuation specialists have been involved in the audit

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-23 and 52-55. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation

of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,

as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements

regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Vitrolife AB (publ) for the financial year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's

and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional

judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 27-29 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Gothenburg 21 March 2017

Deloitte AB

Jan Nilsson
Authorized public accountant

Fredrik Jonsson
Authorized public accountant

BOARD OF DIRECTORS



Carsten Browall Chairman of the Board

Born 1958. M.Sc. in Business and Economics. Board member since 2012. **Other assignments:** Chairman of the Board in GHP Specialty Care AB and Osstell AB. Board member in Unident AB, Bellman&Symfon AB and SciBase AB. **Previous assignments:** Extensive experience of the medical device and healthcare sectors in senior positions in fast-growing companies such as Mölnlycke, Nobel Biocare, Capio and Unfors RaySafe. Shareholding in Vitrolife*: 14,000 shares.



Barbro Fridén

Born 1956. MD, PhD, Subspecialist in reproductive medicine/IVF. Board member since 2010. **Other assignments:** CEO of Sheikh Khalifa Medical City Ajman, United Arab Emirates. **Previous assignments:** CEO of Sahlgrenska University Hospital, Division Manager for Children's Hospital at Karolinska University Hospital, Director of Fertility Center in Gothenburg/Stockholm and Medical Editor of Läkartidningen. Shareholding in Vitrolife*: 0 shares.



Tord Lendau

Born 1957. Board member since 2008. Chairman of the Audit Committee since 2014. **Other assignments:** Chairman of the Board in Scibase AB, Actea Consulting AB, Encare AB, Hubbster and Promimic AB. **Previous assignments:** Head of Sandvik MedTech, CEO of Artimplant AB, Noster Systems AB, Medtronic/Synectics, Dantec SA and Synectics Medical AB. Shareholding in Vitrolife*: 14,000 shares.



Pia Marions

Born 1963. M.Sc. in Business and Economics. Board member since 2013. **Other assignments:** CFO of Skandia (from April 2017). **Previous assignments:** CFO of Folksam, CFO of Carnegie Group, senior positions at RBS (Royal Bank of Scotland), Skandia Liv, Länsförsäkringar Liv, Swedish Financial Supervisory Authority (Finansinspektionen) and has worked as certified public auditor. Shareholding in Vitrolife*: 1,000 shares.



Fredrik Mattsson

Born 1972. M.Sc. Ind. Eng. Board member since 2007. **Other assignments:** Investment Director at Bure Equity AB. Chairman of the Board in XVIVO Perfusion AB, BioLamina AB and Celemi. Board member in Life Genomics AB. **Previous assignments:** CEO of Anew Learning and senior positions at Gambro. Shareholding in Vitrolife*: 10,000 shares.



Jón Sigurdsson

Born 1956. B.Sc. in Industrial Engineering, Master's degree in Business Administration (MBA). Board member since 2015. **Other assignments:** President and CEO of Össur. Chairman of the Icelandic American Chamber of Commerce. **Previous assignments:** Commercial Counselor for the Icelandic Trade Council in New York, CFO at Álafoss, Head of the International Division of Eimskip and Engineer for Bang and Olufsen Denmark. Shareholding in Vitrolife*: 5,000 shares.

EXECUTIVE MANAGEMENT



Thomas Axelsson
CEO

Born 1959. Employed in 2011.
Other assignments: Board member in Medivir AB. **Previous assignments:** Experience as CEO of the listed companies Stille and Artema and several unlisted medical device companies, Chairman of the Board of SBL Vaccin AB, Neoventa Medical AB, Airsonett AB and other companies mainly within the life science sector. Business Unit Director at Baxter. Shareholding in Vitrolife*: 20,100 shares.



Anders Ardstål
Business Unit Director Media

Born 1981. M.Sc. Industrial Engineering and Management. Employed in 2012.
Other assignments: Chairman of the Board in Pmevenire AB. **Previous assignments:** VP of Sales at LumenRadio, Management Consultant at McKinsey & Co. and various operational management positions at Thule. Shareholding in Vitrolife*: 1,390 shares.



Mikael Engblom
Chief Financial Officer (CFO)

Born 1977. MBA. Employed in 2007.
Other assignments: Board member in AH Automation AB. **Previous assignments:** Controller at Vitrolife and in R&D at Volvo Cars. Shareholding in Vitrolife*: 6,353 shares.



Rickard Ericsson
Vice President Market Region EMEA & Americas

Born 1971. M.Sc. Industrial Engineering and Management. Employed in 2015.
Previous assignments: Business Development Director Europe at SCA Incontinence Care, Sales and Marketing Director UK & Ireland at SCA Incontinence Care, Management Consultant at Adera and Business Development Manager / Key Account Manager at Telia. Shareholding in Vitrolife*: 880 shares.



Maria Forss
Vice President Business Development & Global Communications

Born 1972. MScBA. Employed in 2012.
Other assignments: Board member in LIDDS AB. **Previous assignments:** Head of business development at PULS, CEO of Duocort Pharma and various management positions at AstraZeneca. Board member in Oncorena AB. Shareholding in Vitrolife*: 1,614 shares.



Steffen Nielsen
Business Unit Director Time-lapse

Born 1977. M.Sc. Industrial Engineering and Management. Employed in 2014.
Previous assignments: COO at FertiliTech A/S, Global Supply Chain Director at Danfoss Industrial Refrigeration and various management positions within Danfoss. Shareholding in Vitrolife*: 778 shares.

GLOSSARY AND SHAREHOLDER INFORMATION

The following explanations are intended to help the reader to understand certain specific terms and expressions in Vitrolife's annual report:

Biological quality tests: Using biological systems (living cells, organs or animals) to test how well a product or input material functions in relation to a requirement specification.

Biopsy: Removal of one or several cells from living tissue for diagnostic evaluation.

Biotechnology: Combination of biology and technology, which primarily means using cells or components from cells (such as enzymes or DNA) in technical applications.

Blastocyst: An embryo at days 5-7 after fertilisation. Cell division has gone so far that the first cell differentiation has taken place and the embryo consists of two different types of cells.

Cell therapy: Describes the process when new cells are added to tissue in order to treat a disorder.

Clinical study/trial: An investigation in healthy or sick people in order to study the effect of a pharmaceutical or treatment method.

Embryo: A fertilised egg.

In vitro (Latin "in glass"): A process that has been taken out from a cell to take place

in an artificial environment instead, for example in a test tube.

In vivo: Biological processes in living cells and tissue when they are in their natural place in whole organisms.

Incubator: Equipment for the culture of embryos in a controlled environment.

IUI: Intra-Uterine Insemination, "artificial insemination." A high concentration of active sperms is injected in order to increase the chance of pregnancy.

IVF, In Vitro Fertilisation: Fertilisation of eggs by sperms and cultivation of embryos outside the body.

Medical devices: Comprise devices used to make a diagnosis of a disease, treat a disease and for rehabilitation.

PGD: PGD (preimplantation genetic diagnosis) is a test to find specific hereditary genetic diseases that are caused by a single defective gene. This test is used for couples who have a genetic mutation that can cause a genetic disease where the couple want to be sure that their child will not carry this disease.

PGS: PGS (preimplantation genetic screening) is a test which detects chromosomally abnormal embryos, which is a common cause of infertility. The percentage of chromosomally abnormal embryos increases with age and these deviations can often not be seen using conventional

methods. By investigating chromosomal abnormalities before the embryo is transferred to the woman, the chances of getting pregnant are improved and the risk of a miscarriage can be reduced.

Preclinical study: Research that is done before a pharmaceutical or a treatment method is sufficiently documented to be studied on human, for example testing of substances on tissue samples and later testing on experimental animals.

Stem cells: Non-specialised cells to be found in all multi-cell organisms. Have the ability to mature (differentiate) into several cell types. Are usually divided up into three groups: adult stem cells (in the fully grown individual), embryonic stem cells and stem cells from the umbilical cord. In the developing embryo stem cells give rise to all tissue in the fetus-to-be. In adult individuals stem cells constitute a repair system to replace damaged cells. As stem cells have the potential to mature into specialized cell types, there are great hopes regarding their therapeutical role.

Time-lapse: Technology for supervision of embryos. Pictures of the development of the embryo are taken in short time interval, then played as a film and analyzed.

Vitrification: Process for converting a material to a glasslike solid state, for example through rapid freezing, in this case rapid freezing of eggs and embryos, in order to be able to carry out IVF on a later occasion.

ANNUAL GENERAL MEETING 2017

The AGM of Vitrolife AB (publ) will be held on Thursday, 27 April 2017 at 5:00 p.m. at Vitrolife's premises in Gothenburg. Address: Gustaf Werners gata 2. For more information, please refer to www.vitrolife.com

DISTRIBUTION OF THE ANNUAL REPORT

Vitrolife's annual report is available in Swedish and English. The annual reports can be downloaded at www.vitrolife.com, where printed versions can also be ordered.

The printed version of the annual report will be sent by post to those shareholders and stakeholders who request it.

2017 REPORTING CALENDAR

January-March Interim Report, Tuesday 25 April
January-June Interim Report, Friday 14 July
January-September Interim Report, Thursday 2 November

INVESTOR RELATIONS

Mikael Engblom, CFO
Tel: +46 (0)31-721 80 14
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AUDITORS

The company's auditors are Deloitte AB with Authorised Public Accountant Jan Nilsson as Principal Auditor, and Authorised Public Accountant Fredrik Jonsson. Jan Nilsson and Fredrik Jonsson have been engaged as Vitrolife's auditors since 2014.

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