



# INTERIM REPORT JANUARY-SEPTEMBER 2014

Vitrolife AB (publ)

Vitrolife is an international medical device Group. The Fertility product area 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.

Vitrolife today has approximately 250 employees and the company's products are sold in approximately 110 markets. The company is headquartered in Gothenburg, Sweden, and there are also offices in USA, Australia, France, Italy, United Kingdom, China, Japan, Hungary and Denmark. The Vitrolife share is listed on NASDAQ OMX Stockholm, Small Cap.

**Vitrolife** 

# Good growth and considerably stronger results

## Third quarter

- Sales growth was 9 percent in local currency. Sales amounted to SEK 125 (109) million, corresponding to an increase of 15 percent in SEK. Last year's figure included sales of the transplantation product STEEN Solution™ to Xvivo to the tune of SEK 3 million. Adjusted for this, the increase in sales amounted to 12 percent in local currency.

- Operating income (EBIT) amounted to SEK 44 (23) million, corresponding to an operating margin of 35 (21) percent.
- Net income amounted to SEK 36 (17) million, which gave earnings per share of SEK 1.79 (0.85).

## January - September

- Sales growth was 10 percent in local currency. Sales amounted to SEK 374 (329) million, corresponding to an increase of 13 percent in SEK. Last year's figure included sales of the transplantation product STEEN Solution™ to Xvivo to the tune of SEK 8 million. Adjusted for this, the increase in sales amounted to 12 percent in local currency.
- Operating income (EBIT) amounted to SEK 107 (59) million, corresponding to an operating margin of 29 (18) percent.
- Net income amounted to SEK 81 (41) million, which gave earnings per share of SEK 4.07 (2.06).

## After the end of the period

- Vitrolife AB has entered into an agreement to acquire all the shares of Unisense FertiliTech A/S, the market leader within the field of embryo monitoring, time-lapse, for IVF.

## The Group's Key Figures

SEK millions	Jul– Sep		Jan – Sep		Whole year 2013
	2014	2013	2014	2013	
Net sales	125	109	374	329	453
Net sales growth, local currency, %	9	33	10	30	29
Gross margin, %	71	67	69	66	66
Operating income before depreciation and amortization (EBITDA)	49	31	123	77	115
Operating income (EBIT)	44	23	107	59	80
Operating margin, %	35	21	29	18	18
Net income	36	17	81	41	57
Net debt / Rolling 12 month EBITDA	-0.6	0.2	-0.6	0.2	-0.1
Earnings per share, SEK,	1.79	0.85	4.07	2.06	2.84
Share price on closing day, SEK	141.75	69,75	141.75	69.75	94.25
Market cap at closing day	2 811	1 383	2 811	1 383	1 869

For definitions, see page 13

### Vitrolife's 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 3 times. Vitrolife's Board targets a profitable growth. The objective for Vitrolife's growth over a three year period is an increase in sales by an average of 20 percent per year, with an operating margin of 17 percent.

## CEO's comments

The third quarter confirmed the progress made in the first half of the year, with good profitability and a strong cash flow from business operations, combined with sales growth that exceeded market growth.



Sales growth in the Asia and Pacific region continues to develop strongly and amounted to 19 percent in local currency during the quarter. Growth has been achieved through a combination of market growth and the fact that Vitrolife has taken market share in the region.

The EMEA region (Europe, the Middle East and Africa) reported growth of 8 percent in local currency during the quarter adjusted for the terminated sales of STEEN Solution™ to Xvivo. Generally speaking, the different parts of the region reported positive development and the region reported growth for both media and other IVF products.

In the North and South American region sales increased by 6 percent in local currency. Adjusted for last year's cessation of distributor sales of laser equipment, growth amounted to 12 percent, which is greater than market growth in the region. Both North and South America developed well during the quarter.

The operating margin amounted to 35 percent during the third quarter. This is considerably higher than in the first half of the year, when the margin was 26%. Vitrolife has worked for several years with the focus on achieving profitable growth in our business and we are pleased to see that the work has resulted in measurable success. The margin was affected by a number of factors in the third quarter. The gross margin was positively affected by an advantageous product mix and currency situation. Marketing and sales expenses were low during the quarter in relation to sales. This was the result of temporary vacancies in the sales force and a lower level of external activities such as trade fairs compared with previous quarters. R&D costs were also lower than normal. R&D costs vary from quarter to quarter depending on how external costs such as product registrations, clinical studies and external product development projects are spread over time. These costs were thinly spread over the third quarter.

Vitrolife has after the end of the period entered into an agreement to acquire all the shares of Unisense FertilTech A/S ("FertilTech"), the market leader within the field of embryo monitoring, time-lapse, for IVF. The company's product EmbryoScope® is used for the monitoring of embryos in approximately two thirds of all the IVF cycles in the world where time-lapse technology is used.

Vitrolife has been active in the time-lapse market since 2012 via the product Primo Vision, which has been both developed and manufactured by Vitrolife's Hungarian subsidiary. Today the time-lapse market for IVF may be divided into two segments depending on the type of solution. The first solution is a specially developed microscope that is placed in the clinic's existing incubator. Primo Vision is the market leader in this segment. The second solution is a system where the incubator and the microscope have been integrated. EmbryoScope® is the market leader in this segment. By adding EmbryoScope® to Vitrolife's current time-lapse product range, Vitrolife can offer customers flexible time-lapse solutions on the basis of their needs and requirements. It is expected that the acquisition will make a positive contribution to future product generations, as the combined knowledge of the development teams in Denmark and Hungary can be utilized for future product development.

Vitrolife estimates that, after an introductory phase for the new technology on the market, the time-lapse market will grow and in the long term have the potential to become a standard tool in IVF treatment as a result of the improved treatment results and the more efficient procedures enabled by the technology.

On the strength of the knowledge that the acquisition of Primo Vision has generated, we are now ready to take the next step in our time-lapse strategy by acquiring the market leader in the area. Together with the rest of Vitrolife's product range, this creates an interesting foundation for future growth opportunities.

Looking ahead, the market outlook is essentially unchanged and Vitrolife therefore anticipates a constantly expanding market, which in monetary terms is expected to grow by 5-10 percent per year in the foreseeable future.

Thomas Axelsson, CEO

# Third quarter 2014 (July - September)

## Net sales

Vitrolife's net sales increased by 9 percent in local currency during the third quarter and amounted to SEK 125 (109) million. Sales growth in SEK amounted to 15 percent.

Sales for the EMEA region (Europe, the Middle East and Africa) increased by 2 percent in local currency in the third quarter and amounted to SEK 55 (51) million. The increase in SEK amounted to 7 percent. The previous year included sales of SEK 3 million to Xvivo of contract manufactured STEEN Solution™. Adjusted for this, growth amounted to 8 percent in local currency and 15 percent in SEK.

Sales in the North and South American region amounted to SEK 22 (20) million. Sales increased by 6 percent in local currency, corresponding to an increase of 12 percent in SEK. Last year included distributor sales of laser equipment to the tune of SEK 1 million. Adjusted for this, growth amounted to 12 percent in local currency and 18 percent in SEK.

Sales in the Asia and Pacific region increased by 19 percent in local currency and amounted to SEK 48 (38) million. The increase amounted to 25 percent in SEK.

The media product group increased by 11 percent in local currency in the quarter and amounted to SEK 87 (74) million, corresponding to an increase of 17 percent in SEK. Other IVF products increased by 13 percent in local currency and amounted to SEK 35 (29) million, corresponding to an increase of 19 percent in SEK. Sales of contract manufactured STEEN Solution™ to Xvivo amounted to SEK 0 (3) million and freight revenues to SEK 3 (3) million.

Fig 1. Net sales per geographic area (rolling 12 months)

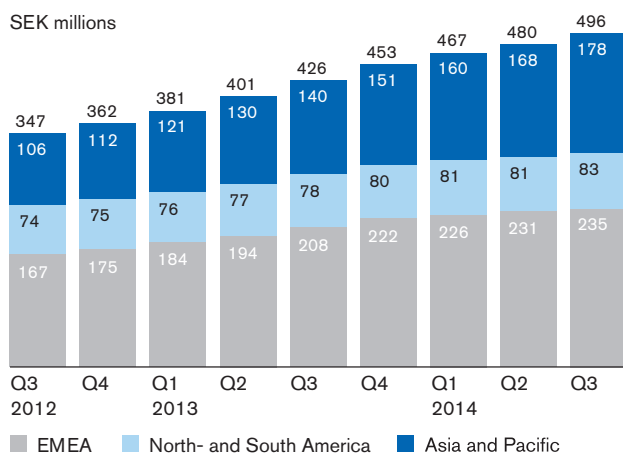


Fig 2. Sales development (per quarter)

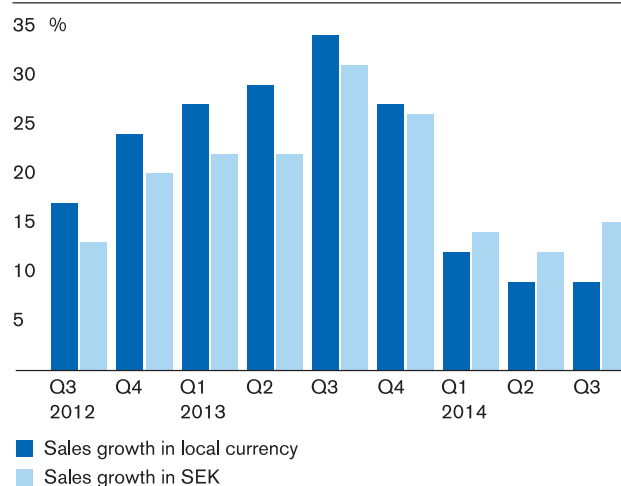
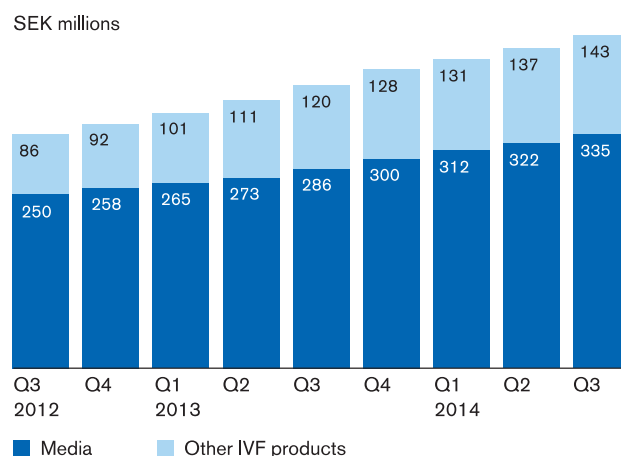


Fig 3. Net sales per product group (rolling 12 months)



## Update on transplantation lawsuits in the USA

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 legal proceedings have been ongoing during the quarter and these included the giving of depositions. In the assessment of the insurance company's lawyers representing Vitrolife it is uncertain when any significant progress will be made in this matter.

## Income

Operating income (EBIT) amounted to SEK 44 (23) million, corresponding to an operating margin of 35 (21) percent. Fluctuations in exchange rates had a positive effect of SEK 2 million on operating income.

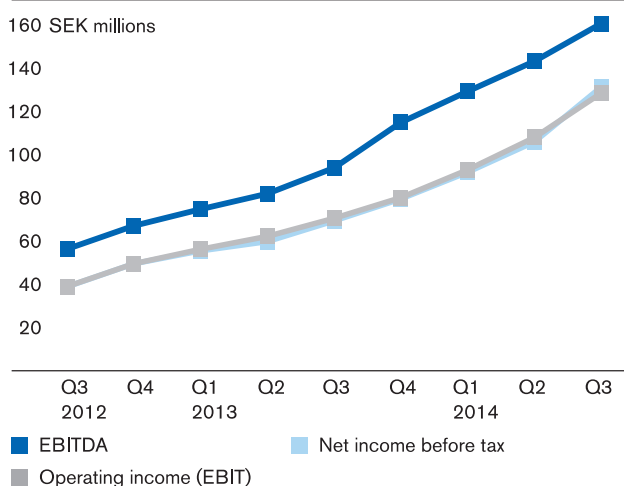
Gross income amounted to SEK 89 (72) million. The gross margin amounted to 71 (67) percent and was positively affected by the cessation of distributor sales of laser equipment in the American region, termination of the contract

manufacturing of STEEN Solution™ for Xvivo, currency effects and economies of scale.

Selling expenses amounted to 19 (23) percent of sales and the decrease consisted mainly of economies of scale, temporary vacancies in the sales force and fewer external market activities during the quarter. Administrative expenses amounted to 12 (11) percent of sales. R&D costs amounted to 6 (11) percent of sales and the decrease consisted of lower external costs during the quarter and economies of scale. Depreciation and amortization of SEK 5 (8) million were charged against income.

Net financial items amounted to SEK 5 (0) million and primarily consisted of fluctuations in exchange rates. Income before tax amounted to SEK 49 (23) million. Net income amounted to SEK 36 (17) million.

Fig 4. Income (rolling 12 months)



### Cash flow

The cash flow from operating activities amounted to SEK 55 (31) million. The change in working capital amounted to SEK 6 (1) million and primarily consisted of payments of accounts receivable. Gross investments amounted to SEK -3 (-1) million and consisted primarily of purchase of equipment. The cash flow from financing activities was SEK -5 (-18) million and primarily consisted of the repayment of loans. Cash and cash equivalents at the end of the period amounted to SEK 119 (31) million.

### Financing

Vitrolife's total credit facilities amounted to SEK 87 (102) million, of which SEK 27 (46) million was utilized. The credit facilities were used for the financing of corporate acquisitions and the MEA laboratory in Denver. The equity/assets ratio was 69 (65). Net debt in relation to income for a rolling 12 months before depreciation and amortization (EBITDA) amounted to -0.6 (0.2) times.

### Parent Company

Business activities focus on company-wide management and the company has no employees. Income before tax for the quarter amounted to SEK -2 (0) million. Cash and cash equivalents amounted to SEK 1 (1) million.

## The period 2014 (January - September)

### Net sales

Vitrolife's net sales increased by 10 percent in local currency during January to September and amounted to SEK 374 (329) million. Sales growth in SEK amounted to 13 percent.

Sales for the EMEA region increased by 4 percent in local currency during the period and amounted to SEK 173 (158) million. The increase in SEK amounted to 9 percent. Last year included sales of contract manufactured Steen Solution™ to Xvivo to the tune of SEK 8 million. Adjusted for this, growth amounted to 9 percent in local currency and 14 percent in SEK. Sales in the North and South American region amounted to SEK 64 (60) million. The increase amounted to 5 percent in local currency, corresponding to an increase of 7 percent in SEK. Last year included distributor sales of laser equipment to the tune of SEK 4 million. Adjusted for this, growth amounted to 12 percent in local currency and 14 percent in SEK. Sales in the Asia and Pacific region increased by 21 percent in local currency and amounted to SEK 137 (111) million. The increase in SEK amounted to 24 percent.

### Income

Operating income (EBIT) amounted to SEK 107 (59) million, corresponding to an operating margin of 29 (18) percent. Fluctuations in exchange rates had a positive effect of SEK 6 million on operating income.

Gross income amounted to SEK 259 (217) million. The gross margin amounted to 69 (66) percent. Selling expenses amounted to 22 (24) percent of sales. Administrative expenses amounted to 12 (12) percent of sales. R&D costs amounted to 8 (11) percent of sales. Depreciation and amortization of SEK 16 (18) million were charged against net income. Net financial items amounted to SEK 3 (-1) million. Income before tax amounted to SEK 110 (58) million. Net income amounted to SEK 81 (41) million.

### Cash flow

The cash flow from operating activities amounted to SEK 107 (68) million. Gross investments amounted to SEK -5 (-8) million and the cash flow from financing activities was SEK -41 (-41) million. Cash and cash equivalents at the end of the period amounted to SEK 119 (31) million.

## Prospects for 2014

As the standard of living rises in several developing countries, more and more people choose to wait before they have 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 new emerging countries such as China and India, where the demand for this treatment is increasing rapidly. Still only a few percent of all the couples in the world who have fertility problems are treated using IVF. Vitrolife therefore anticipates a constantly expanding market which in monetary terms is expected to grow by 5–10 percent per year in the foreseeable future.

The focus during 2014 will continue to be on the external processes within marketing and sales, primarily in the emerging markets. The company continues to work on further refining and communicating the concept of best partner and total supplier to the customers. Work is also being done to secure that the internal processes are run in a rational and cost-effective way.

## The company in brief

### Business concept

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

### Goal

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

### Strategies

- Have a fully comprehensive product range of effective and quality-assured fertility products.
- Have world-leading production with the highest quality-control and efficiency.
- Have a global support organization covering all IVF-treatments world-wide.
- Have an organizational structure and processes to deliver growth.

## Other information

### Organization and personnel

During January to September the average number of employees was 235 (233), of whom 116 (121) were women and 119 (112) were men. Of these 129 (131)

people were employed in Sweden, 52 (54) in the USA and 54 (48) in the rest of the world. The number of people employed in the Group at the end of the period was 248 (243).

### Information on transactions with related parties

No transactions that have substantially affected the company's results and financial position have been carried out with related parties during the period. For information on related parties, see the Annual Report for 2013, note 30.

### Dividend

It was decided at the Annual General Meeting on May 5 that the proposed dividend of SEK 1.00 per share would be paid out to the shareholders. Payment of the dividend took place on May 13.

### Risk management

Vitrolife is constantly working to identify, evaluate and manage overall risks and different systems and processes. During 2010 Enterprise Risk Management (ERM) was introduced, a system which aims to ensure that identified risks are handled in a systematic way. Risk analyses are performed continually with regard to the company's normal business activities and also in connection with activities that are outside Vitrolife's regular quality system. In this way the company can have a high rate of development and at the same time be aware of both the opportunities and risks. During 2013, an audit committee was instituted.

The most important strategic and operative risks regarding Vitrolife's business and field are described in detail in the Management report, in the Annual Report for 2013. These are primarily constituted by the company's market investments, product development investments, currency risks and legal risks.

The company's management of risks is also described in the Corporate Governance Report in the same Annual Report. The same applies to the Group's management of financial risks, which are described in the Annual Report for 2013, note 25. The risks as they are described in the Annual Report for 2013 are assessed to be essentially unchanged for 2014.

### Seasonal effects

Vitrolife's sales are affected relatively marginally by seasonal effects. There is often a downturn in orders before and during holiday periods. The reason that orders tail off before holiday periods is that fertility clinics minimize their stock, primarily of fertility media, as these have a relatively short shelf life, so as not to risk rejects. The third quarter has the greatest negative effect from holiday periods, as July and August are affected by holiday periods, primarily in Europe. During the first quarter sales in China are affected

negatively by the Chinese New Year in January or February. During the fourth quarter sales in December are negatively affected by the Christmas and New Year holidays. All in all, total sales are usually relatively even between the first and second half of the year.

### Events after the end of the period

Vitrolife AB has entered into an agreement to acquire all the shares of Unisense FertiliTech A/S ("FertiliTech"), the market leader within the field of embryo monitoring, time-lapse, for IVF. FertiliTech has its head office in Århus, Danmark. The company was formed in 2003 and has approximately 70 employees. FertiliTech and its subsidiaries had net sales of approximately SEK 94 million in 2013 and reported income before depreciation and amortization (EBITDA) of SEK -25 million.

The purchase sum amounts on a debt-free basis to 1,980,000 newly issued shares in Vitrolife, in accordance with the authorization from the 2014 Annual General Meeting, and to a cash purchase sum of SEK 90 million. In connection with the acquisition the company's net debts will be offset against the purchase sum. It is expected that the new share issue will mean a dilution of existing shareholders of approximately 9 percent. An earn-out corresponding to a

value of 1,308,656 shares may be paid in addition to the fixed purchase sum. The earn-out will only be paid if certain defined sales objectives for the periods 2015 and 2016 to 2017 are met. Vitrolife will determine whether the earn-out will be paid in shares or in cash. The earn-out only falls due if sales exceed the plan that forms the basis of the acquisition calculation.

Vitrolife estimates that the acquisition will be completed during November 2014.

It is expected that the transaction will affect Vitrolife's EBITDA per share negatively during 2014 and 2015 but contribute positively as from 2016 as a result of increased sales due to the use of Vitrolife's global market presence and cost synergies.

November 6, 2014  
Gothenburg, Sweden

Thomas Axelsson  
CEO

### Financial reports

Vitrolife's interim reports are published on the company's website, [www.vitrolife.com](http://www.vitrolife.com), and are sent to shareholders who have registered that they would like to have this information.

**The Report on Operations for 2014 will be published on Friday February 6, 2015.**

### Review report

#### Introduction

We have reviewed the interim report for Vitrolife AB (publ), corporate identity number 556354-3452, for the period January 1 - September 30, 2014. The Board of Directors and the President are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

#### Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and is substantially less in scope than an audit conducted in accordance with ISA and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit.

Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

#### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not, in all material respects, prepared for the Group in accordance with IAS 34 and the Annual Accounts Act, and for the Parent Company in accordance with the Annual Accounts Act.

Gothenburg, November 6, 2014

DELOITTE AB

Jan Nilsson  
Authorised Public Accountant  
Head auditor

Fredrik Jonsson  
Authorised Public Accountant

### Queries should be addressed to

Thomas Axelsson, CEO, phone +46 31 721 80 01  
Mikael Engblom, CFO, phone +46 31 721 80 14

Vitrolife is required to publish the information in this report in accordance with the Swedish Securities Market Act and/or the Financial Instruments Trading Act. The report was submitted for publication on Thursday November 6, 2014 at 8.30 am.

This is a translation of the Swedish version of the interim report. When in doubt, the Swedish wording prevails.

## Consolidated income statements

SEK thousands	January - September		July - September		Whole year
	2014	2013	2014	2013	2013
Net sales	373 653	329 236	125 145	108 642	452 738
Cost of goods sold	-114 802	-112 039	-36 267	-36 196	-152 183
<b>Gross income</b>	<b>258 851</b>	<b>217 197</b>	<b>88 878</b>	<b>72 446</b>	<b>300 555</b>
Selling expenses	-81 002	-80 291	-23 675	-24 779	-108 110
Administrative expenses	-44 042	-40 755	-14 677	-11 693	-55 891
Research and development costs	-30 101	-36 490	-7 072	-12 424	-58 874
Other operating revenues and expenses	3 536	-986	264	-464	2 718
<b>Operating income</b>	<b>107 242</b>	<b>58 675</b>	<b>43 718</b>	<b>23 086</b>	<b>80 398</b>
Financial income and expenses	2 549	-822	4 879	65	-610
<b>Income after financial items</b>	<b>109 791</b>	<b>57 853</b>	<b>48 597</b>	<b>23 151</b>	<b>79 788</b>
Taxes	-28 733	-16 536	-13 045	-6 124	-23 088
<b>Net Income</b>	<b>81 058</b>	<b>41 317</b>	<b>35 552</b>	<b>17 027</b>	<b>56 700</b>
<b>Attributable to</b>					
Parent Company's shareholders	80 682	40 918	35 493	16 935	56 274
Non-controlling interests	376	399	59	92	426
Earnings per share, SEK	4.07	2.06	1.79	0.85	2.84
Average number of outstanding shares	19 830 936	19 830 936	19 830 936	19 830 936	19 830 936
Number of shares at closing day	19 830 936	19 830 936	19 830 936	19 830 936	19 830 936

Depreciation, amortization and write-downs has reduced income for the period by SEK 15 829 thousand (18 480), of which SEK 5 001 thousand (8 067) for the third quarter.

## Statement of comprehensive income

SEK thousands	January - September		July - September		Whole year
	2014	2013	2014	2013	2013
<b>Net income</b>	<b>81 058</b>	<b>41 317</b>	<b>35 552</b>	<b>17 027</b>	<b>56 700</b>
<b>Other comprehensive income</b>					
<i>Items that may be reclassified to the income statement</i>					
Cash-flow hedges, net after tax	-851	157	-898	1 081	1 492
Exchange rate differences, net after tax	8 745	-3 770	6 342	-6 024	-2 702
<b>Total other comprehensive income, net after tax</b>	<b>7 894</b>	<b>-3 613</b>	<b>5 444</b>	<b>-4 943</b>	<b>-1 210</b>
<b>Total comprehensive income</b>	<b>88 952</b>	<b>37 704</b>	<b>40 996</b>	<b>12 084</b>	<b>55 490</b>
<b>Attributable to</b>					
Parent Company's shareholders	88 576	37 305	40 937	11 992	55 064
Non-controlling interests	376	399	59	92	426



## Other key ratios, total Group

	January - September		July - September		Whole year
	2014	2013	2014	2013	2013
Gross margin. %	69.3	66.0	71.0	66.7	66.4
Operating margin before depreciation and amortization. %	32.9	23.4	38.9	28.7	25.5
Operating margin. %	28.7	17.8	34.9	21.2	17.8
Net margin. %	21.7	12.5	28.4	15.7	12.5
Equity/assets ratio. %	69.3	64.0*	69.3	64.0*	65.1*
Shareholders' equity per share. SEK.	19.3	15.0*	19.3	15.0*	15.8*
Return on equity. %	28.1	14.4*	28.1	14.4*	19.8*
Cash flow from operating activities per share. SEK	5.41	3.45	2.75	1.59	5.36
Net cash (+) / Net debt (-). SEK millions	91.9	-15.1	91.9	-15.1	15.1

\* Prior years' deferred tax in the U.S. have been adjusted and recorded in equity in accordance with IAS 8.

## Consolidated income statements per quarter

SEK thousands	Jul-Sep 2014	Apr-Jun 2014	Jan-Mar 2014	Oct-Dec 2013	Jul-Sep 2013	Apr-Jun 2013	Jan-Mar 2013	Oct-Dec 2012
<i>Continuing operations*</i>								
Net sales	125 145	129 436	119 072	123 502	108 642	115 991	104 605	97 949
Cost of goods sold	-36 267	-40 387	-38 149	-40 144	-36 196	-39 853	-35 990	-34 489
<b>Gross income</b>	<b>88 878</b>	<b>89 049</b>	<b>80 923</b>	<b>83 358</b>	<b>72 446</b>	<b>76 138</b>	<b>68 615</b>	<b>63 460</b>
Selling expenses	-23 675	-30 545	-26 782	-27 820	-24 779	-28 964	-26 548	-29 231
Administrative expenses	-14 677	-15 173	-14 192	-15 135	-11 693	-15 601	-13 461	-11 670
Research and development costs	-7 072	-11 524	-11 504	-22 384	-12 425	-12 194	-11 872	-12 761
Other operating revenues and expenses	264	1 797	1 475	3 705	-464	-743	221	2 338
<b>Operating income</b>	<b>43 718</b>	<b>33 604</b>	<b>29 920</b>	<b>21 724</b>	<b>23 086</b>	<b>18 636</b>	<b>16 955</b>	<b>12 137</b>
Financial income and expenses	4 879	-1 990	-340	212	65	-1 101	214	-414
<b>Income after financial items</b>	<b>48 597</b>	<b>31 614</b>	<b>29 580</b>	<b>21 936</b>	<b>23 151</b>	<b>17 535</b>	<b>17 169</b>	<b>11 723</b>
<i>Discontinued operations**</i>								
Net sales	-	-	-	-	-	-	-	-
Operating Income	-	-	-	-	-	-	-	-
<b>Income after financial items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>303 207***</b>
<i>Total group</i>								
Taxes	-13 045	-8 487	-7 201	-6 552	-6 124	-5 253	-5 159	-11 988
<b>Net income</b>	<b>35 552</b>	<b>23 127</b>	<b>22 379</b>	<b>15 384</b>	<b>17 027</b>	<b>12 282</b>	<b>12 010</b>	<b>302 942</b>
<b>Attributable to</b>								
Parent Company's shareholders	35 493	23 011	22 178	15 357	16 935	12 108	11 878	302 914
Non-controlling interests	59	116	201	27	92	174	132	28

\* Continuing operations comprise segment Fertility.

\*\* Discontinued operations comprise segment Transplantation which was distributed to the shareholders October 1, 2012.

\*\*\* Non-taxable gain from distribution of Xvivo Perfusion AB (Transplantation) to the shareholders.

## Key ratios per quarter, total Group

	Jul-Sep 2014	Apr-Jun 2014	Jan-Mar 2014	Oct-Dec 2013	Jul-Sep 2013	Apr-Jun 2013	Jan-Mar 2013	Oct-Dec 2012
Shareholders' equity per share. SEK,	19.3	17.23	16.8	15.83*	15.0*	14.40*	13.99*	14.01
Return on equity. %,	28.1	24.2	21.8	19.3*	14.4*	11.0*	9.1*	9.2
Cash flow from operating activities per share. SEK	2.75	1.43	1.23	1.91	1.59	0.90	0.99	0.95

\* Prior years' deferred tax in the U.S. have been adjusted and recorded in equity in accordance with IAS 8. It has not been possible to restate prior years' effects on a quarterly basis, but the error has been corrected in the opening balance of 2013. Consequently, there are no translated effects for Q4 2012.

# Consolidated balance sheets

SEK thousands	Sep 30, 2014	Sep 30, 2013	Dec 31, 2013
<b>ASSETS</b>			
Goodwill	185 400	180 105	183 275
Other intangible fixed assets	17 136	37 058	22 982
Tangible fixed assets	85 366	87 172	85 958
Financial fixed assets	6 189	1 237	5 442
Inventories	63 123	63 182	59 916
Accounts receivable	65 526	54 193	61 456
Other current receivables	12 332	13 292	12 184
Liquid funds	119 274	30 997	53 769
<b>Total assets</b>	<b>554 346</b>	<b>467 236</b>	<b>484 982</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
Shareholders' equity, attributable to the Parent Company's shareholders	382 631	297 553*	313 886*
Non-controlling interests	1 619	1 570	1 644
Provisions	5 147	4 082	4 276
Deferred tax liabilities	16 656	13 345*	18 914*
Long-term interest bearing liabilities	11 018	30 598	21 622
Long-term non-interest bearing liabilities	18 997	24 808	24 916
Short-term interest bearing liabilities	16 385	15 526	17 028
Derivative instruments	793	173	1 884
Accounts payable	19 444	12 030	15 596
Other short-term non-interest bearing liabilities	81 656	67 551	65 216
<b>Total shareholders' equity and liabilities</b>	<b>554 346</b>	<b>467 236</b>	<b>484 982</b>
Pledged assets for own liabilities	21 594	21 188	21 240
Contingent liabilities	205	216	238

\* Prior years' deferred tax in the U.S. have been adjusted and recorded in equity in accordance with IAS 8.

# Consolidated changes in shareholders' equity

SEK thousands	Attributable to the Parent Company's shareholders				Non-controlling interests	Total shareholders' equity
	Share capital	Other capital contributed	Reserves	Retained earnings		
<b>Opening balance January 1, 2013</b>	<b>20 228</b>	<b>220 287</b>	<b>-36 939</b>	<b>74 215</b>	<b>1 191</b>	<b>278 982</b>
Adjustment of prior years' deferred tax in the U.S., recorded in equity according to IAS 8.	–	–	–	-7 070	–	-7 070
<b>Adjusted opening balance January 1, 2013</b>	<b>20 228</b>	<b>220 287</b>	<b>-36 939</b>	<b>67 145</b>	<b>1 191</b>	<b>271 912</b>
Total comprehensive income	–	–	-1 210	56 274	426	55 490
Dividend (0,60 SEK/share)	–	–	–	-11 899	–	-11 899
Other transactions with non-controlling interests	–	–	–	–	27	27
<b>Closing balance December 31, 2013</b>	<b>20 228</b>	<b>220 287</b>	<b>-38 149</b>	<b>111 520</b>	<b>1 644</b>	<b>315 530</b>
<b>Opening balance January 1, 2014</b>	<b>20 228</b>	<b>220 287</b>	<b>-38 149</b>	<b>111 520</b>	<b>1 644</b>	<b>315 530</b>
Total comprehensive income	–	–	7 894	80 682	376	88 952
Dividend (1,00 SEK/share)	–	–	–	-19 831	–	-19 831
Dividend to non-controlling interests	–	–	–	–	-408	-408
Other transactions with non-controlling interests	–	–	–	–	7	7
<b>Closing balance September 30, 2014</b>	<b>20 228</b>	<b>220 287</b>	<b>-30 255</b>	<b>172 371</b>	<b>1 619</b>	<b>384 250</b>

## Consolidated cash flow statements

SEK thousands	January - September		July - September		Whole year
	2014	2013	2014	2013	
Income after financial items	109 791	57 853	48 597	23 151	79 788
Adjustment for items not affecting cash flow	12 774	22 937	3 042	9 843	37 312
Tax paid	-19 104	-9 838	-3 239	-2 523	-11 993
Change in inventories	-268	-775	568	1 112	2 492
Change in trade receivables	-2 102	-997	5 824	11 365	-6 860
Change in trade payables	6 251	-705	-281	-11 961	5 388
<b>Cash flow from operating activities</b>	<b>107 342</b>	<b>68 475</b>	<b>54 511</b>	<b>30 987</b>	<b>106 127</b>
Cash flow from investing activities	-4 594	-7 663	-3 176	-676	-14 387
Cash flow from financing activities	-40 666	-40 846	-5 051	-17 946	-49 205
<b>Cash flow for the period</b>	<b>62 082</b>	<b>19 966</b>	<b>46 284</b>	<b>12 365</b>	<b>42 535</b>
Liquid funds at beginning of period	53 769	11 680	70 805	18 824	11 680
Exchange rate difference in liquid funds	3 423	-649	2 185	-192	-446
<b>Liquid funds at end of period</b>	<b>119 274</b>	<b>30 997</b>	<b>119 274</b>	<b>30 997</b>	<b>53 769</b>

## Income statement for the Parent Company

SEK thousands	January - September		July - September		Whole year
	2014	2013	2014	2013	
Administrative expenses	-5 535	-4 408	-1 979	-1 640	-5 677
Other operating revenues and expenses	1 718	8	-	5	-123
<b>Operating income</b>	<b>-3 817</b>	<b>-4 400</b>	<b>-1 979</b>	<b>-1 635</b>	<b>-5 800</b>
Write-down part in affiliated companies	-	-	-	-	-5 196
Dividends from affiliated companies	902	-	-	-	2 949
Financial income and expenses	-1 904	631	73	1 212	-63
<b>Income after financial items</b>	<b>-4 819</b>	<b>-3 769</b>	<b>-1 906</b>	<b>-423</b>	<b>-8 111</b>
Year-end adjustments (received group contribution)	-	-	-	-	6 178
Taxes	1 060	829	419	93	-104
<b>Net income</b>	<b>-3 759</b>	<b>-2 940</b>	<b>-1 487</b>	<b>-330</b>	<b>-2 036</b>

Depreciation and amortization has reduced income for the period by SEK 0 thousand (15), of which SEK 0 thousand (5) for the third quarter. From year 2013 group contribution is accounted in income statement with year-end adjustments according to new accounting principles, comparative period has also been adjusted according to new principle. Previous years group contribution have been accounted in balance sheet (shareholders' equity).

## Balance sheets for the Parent Company

SEK thousands	Sep 30. 2014	Jun 30. 2013	Dec 31. 2013
<b>ASSETS</b>			
Tangible fixed assets	12	25	12
Participation in affiliated companies	424 993	424 993	424 993
Financial fixed assets	4 129	-	4 000
Other current receivables	2 758	1 956	711
Receivables from affiliated companies	-	8 980	8 629
Liquid funds	780	737	565
<b>Total assets</b>	<b>432 672</b>	<b>436 691</b>	<b>438 910</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
Shareholders' equity	274 080	296 767	297 671
Long-term interest-bearing liabilities	11 018	15 824	14 756
Long-term non-interest-bearing liabilities	18 997	26 079	26 949
Short-term interest-bearing liabilities	5 744	6 036	6 224
Accounts payable	65	402	571
Liabilities to affiliated companies	112 116	76 825	81 812
Other short-term non-interest-bearing liabilities	10 652	14 758	10 927
<b>Total shareholders' equity and liabilities</b>	<b>432 672</b>	<b>436 691</b>	<b>438 910</b>
Pledged assets for own liabilities	3 100	3 100	3 100
Contingent liabilities	-	-	-

## Note 1. Accounting Principles

### Accounting principles

This interim report has been prepared for the Group in accordance with the Annual Accounts Act and IAS 34, Interim Financial Reporting, and for the Parent Company in accordance with the Annual Accounts Act and recommendation RFR 2.2 of the Swedish Financial Reporting Board, Accounting for Legal Entities.

Unless otherwise stated below, the accounting principles applied to the Group and the Parent Company are consistent with the accounting principles used in the presentation of the most recent Annual Report. No new or amended accounting principles effective 2014 have had any significant impact on the Group during 2014.

## Note 2. IFRS 13, Fair value

### Fair value

Fair value has been measured for all financial assets and liabilities pursuant to IFRS 13, into the following hierarchy:

The following are classified in level 1: accounts receivable, other current receivables, cash and cash equivalents, accounts payable and other liabilities and borrowings incurring interest payments. Fair value for these financial assets and liabilities is estimated to be equal to their book value (accumulated amortized cost). Book value minus write-downs constitute an approximate fair value for accounts receivable and payable. All long-term interest-bearing loans have floating rates and therefore estimated that the fair value substantially conform with the book value.

Financial assets and liabilities measured at accumulated amortized cost amounts to SEK 187 887 thousand (87 447) and SEK 75 207 thousand (94 652).

The following are classified in level 2: Derivatives for hedge accounting. Valuation of fair value for currency forward contracts is based on published forward rates in an active market.

The following are classified in level 3: Other financial assets relating to unlisted shares. Since unable to determine reliable market value, book value is used as an indicator of fair value. Other liabilities relating to conditional purchase price have been measured by future cash flows being discounted by current market rates for the duration of the liability.

The measurement of fair value for financial liabilities in level 3 has generated a cost of SEK 478 thousand (-1 112) during the period, which is reported among financial items.

### Fair value hierarchy

SEK thousands	Fair value			
	levels	Sep 30.2014	Sep 30. 2013	Dec 31.2013
<b>Financial assets</b>				
Financial assets to fair value through income statement	3	4 129	-	4 000
<b>Total Financial assets</b>		<b>4 129</b>	<b>-</b>	<b>4 000</b>
<b>Financial liabilities</b>				
Financial liabilities to fair value through income statement	3	26 945	24 915	26 950
Derivatives for hedge accounting	2	793	173	1 884
<b>Total Financial liabilities</b>		<b>27 738</b>	<b>25 088</b>	<b>28 834</b>

## Note 3. Acquisition of subsidiary

No acquisition of subsidiary has occurred during 2014. During 2013 Vitrolife exercised an option to acquire all the shares in HertArt, former associated company. During the fourth quarter of 2013, Vitrolife conducted write-down of Labware to the tune of SEK 9 million as a result of an assessment that parts of the previously capitalized development costs will not generate future revenues. The write-down of the intangible assets have been recorded as a R & D cost. The residual value of intangible assets for Labware was SEK 2 million at the end of 2013.

SEK millions	2013
Purchase sum per April 1, 2013	HertArt
Liquid funds, acquisition 75 %	2.4
Conditional purchase price, acquisition 75 %	1.1
Previously paid, acquisition 25 % (associated company)	2.8
<b>Total purchase price</b>	<b>6.3</b>
Identified assets and liabilities per April 1, 2013	
Fixed assets	3.9
Intangible fixed assets	4.6
Current assets	0.6
Operating liabilities	-4.4
<b>Total acquired assets and liabilities</b>	<b>4.7</b>
Capital loss, revaluation of shares at acquisition date	1.0
Part of result from the associated company (owned 25 %)	0.6
<b>Total</b>	<b>6.3</b>

# Definitions

## **Gross margin**

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

## **Operating margin before depreciation and amortization**

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

## **Operating margin**

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

## **Profit margin**

Income for the period as a percentage of net sales for the period.

## **Return on shareholders' equity**

Rolling 12 months net income as a percentage of the average shareholders' equity for the same period.

## **Equity/assets ratio**

Shareholders' equity and Non-controlling interests as a percentage of total assets.

## **Earnings per share**

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

## **Earnings per share after full dilution**

Income for the period in relation to the average number of outstanding shares for the period, taking into account outstanding share warrants where the net present value of the

strike price in the middle of the redemption period or the remaining redemption period is less than the average share price for the period.

## **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.

## **Shareholders' equity per share**

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

## **Net loans receivable/ Net borrowings**

Cash and cash equivalents plus interest-bearing receivables minus interest-bearing liabilities.

# Glossary

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

## **IVF, In Vitro Fertilization**

Fertilization between the woman's and the man's sex cells and cultivation of embryos outside the body.

## **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.

## **Embryo**

A fertilized egg.

## **Blastocyst**

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

## **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.

## **IUI**

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

## **Stem cells**

Non-specialized 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 medical role.

## **Cell therapy**

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

## **Preclinical study**

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

## **Clinical study/trial**

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

## **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.

## **Medical devices**

Comprise devices used to make a diagnosis of a disease, treat a disease and as rehabilitation.

## **Biotechnology**

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

## **In vivo**

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

# TOGETHER. ALL THE WAY™

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