Interim report January–March 2007

Vitrolife AB (publ)

- Net sales increased by 7 percent to SEK 49.2 (46.0) million. Adjusted for exchange rate effects, the increase was 12 percent.
- Gross income increased by 12 percent to SEK 33.8 (30.1) million, and the gross margin improved to 69 percent (65).
- Operating income increased by 48 percent and amounted to SEK 8.0 (5.4) million, which gives an operating margin of 16 percent (12).
- Operating income before research and development costs increased by 28 percent to SEK 14.6 (11.4) million. This corresponds to a margin of 30 percent (25).
- Continued strong focus on research and development activities, 13.4 percent (12.9) of sales.
- Consolidated net income was SEK 11.0 (4.3) million. Capitalization of the deferred tax asset in loss carry-forward for tax purposes has been carried out to the tune of SEK 4.1 (–) million.
- The cash flow from operating activities amounted to SEK 5.0 (0.5) million.
- Earnings per share amounted to SEK 0.55 (0.22).
- The equity/assets ratio amounted to 82 percent (77).

Vitrolife
Innovative Cell and Tissue Technology

Sales and income

Vitrolife's net sales for the first quarter of 2007 amounted to SEK 49.2 (46.0) million, which corresponds to an increase of 7 percent compared to the previous year. Adjusted for negative exchange rate effects the increase was 12 percent.

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

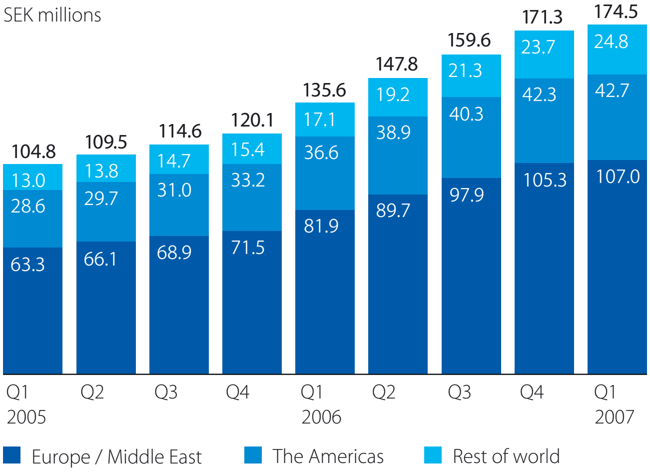
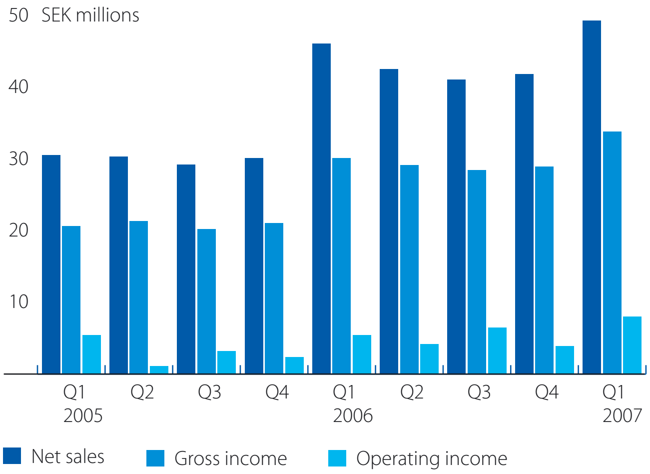


Fig 2. Sales and income per quarter

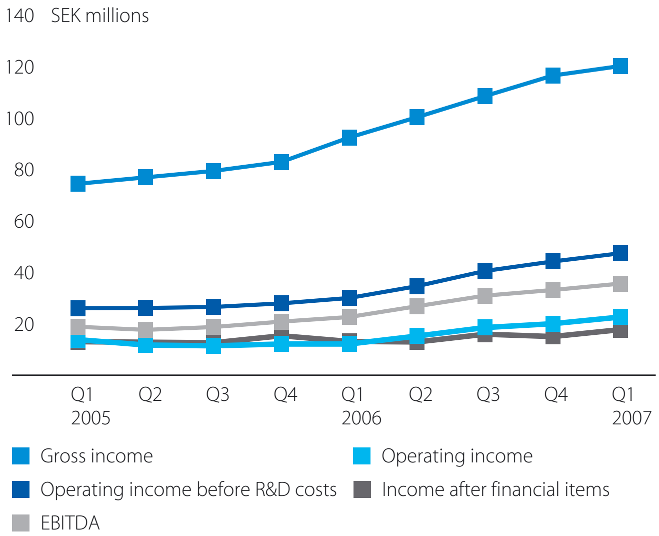


Gross income was SEK 33.8 (30.1) million. The cost of goods sold for the previous year includes SEK 1.1 million attributable to the acquisition of Swemed. The gross margin for the period improved to 69 (65) percent.

Operating income was SEK 8.0 (5.4) million, which corresponds to a margin of 16.2 percent (11.8). Income for 2006 includes costs of SEK 0.4 million attributable to the integration of Swemed. Selling expenses as a percentage of sales amounted to 26.1 percent (25.3), administrative expenses to 14.3 percent (15.1) and R&D costs to 13.4 percent (12.9). As the company not only invests in the existing business operations but also in new technology, as for example a completely new transplantation method using Steen Solution™, it is also relevant to assess operating profit before R&D costs. For the period operating profit before R&D costs amounted to SEK 14.6 (11.4) million, or 29.6 percent (24.7) of net sales. Furthermore, the strong focus on the development of new products within the fertility area has continued during the period, with a view to launching a number of new products during 2007.

Depreciation and amortization of SEK 3.2 (3.2) million has been charged against the period.

Fig 3. Income (rolling 12 months)



Net income amounted to SEK 11.0 (4.3) million. Net financial income amounted to SEK –1.0 (–1.1) million. Net financial income includes non-realized exchange rate fluctuations regarding internal receivables and liabilities of SEK 0.2 (–0.5) million. The restatement of the Parent Company's loan and receivable regarding the American subsidiary Vitrolife, Inc. is booked directly against non-restricted equity. The restatement effect in the financial statements amounts to SEK 0.2 (–0.2) million net. Tax for the period amounted to SEK 4.0 (0.0) million and this is deferred tax on the Group's internal profits from inventories of SEK –0.1 (0.0) million and capitalization of deferred tax asset in loss carry-forward of SEK 4.1 (–) million. Loss carry-forward from previous years means that no tax expense has been charged against net income for the period. At the end of 2006 Vitrolife had taxed loss carry-forward of SEK 178.7 million. Loss carry-forward for tax purposes for which deferred tax assets have not been recorded in the income statement and balance sheet amounted, before taxation for 2007, to SEK 157.7 million of this amount. Vitrolife intend to continue to capitalize against this loss carry-forward at approximately the same level during the coming quarters in 2007 as well.

Exchange rate effects

Changes in the Euro and USD have the greatest exchange rate effects for Vitrolife, but in different ways. External sales from the American subsidiary are in USD in their entirety. Against these there are costs in USD, primarily costs for production, quality control and research. These match revenues relatively well, which means that a change in USD does not substantially change net income, but it naturally affects the size of the revenues and costs rows.

Just under 80 percent of sales from Sweden are in Euro. Some costs are also paid in Euro and these flows are matched wherever possible. However, there is a major net inflow.

Furthermore, the Swedish companies have net receivables in USD from the American subsidiary. The translation effect for some of these affects net financial income and can amount to considerable amounts if the USD exchange rate changes a great deal. For 2006 the effect was SEK –3.1 million. However, this item is unrealized as today there is not a regular flow of USD into Sweden and the amount does not thus affect the cash flow.

Fertility products

- Sales amounted to SEK 44.3 (40.8) million, an increase of 9 percent. Adjusted for exchange rate effects, the increase was 13 percent.
- Very positive development in the USA, Australia/New Zealand and China.

Sales in the Europe/Middle East region increased by 5 percent during the period. The most positive development could be noted in parts of Scandinavia, Spain and Belgium.

In the Rest of the World region sales increased by 22 percent. Australia/New Zealand, where Vitrolife has operated under its own management since the beginning of 2005, displayed the greatest increase, as well as China.

In the American region sales increased in local currency by 27 percent. However, the weakening of USD meant that the increase in SEK was just 15 percent compared with the previous year.

Transplantation products

- Sales amounted to SEK 4.8 (5.1) million, a decrease of 5 percent. Adjusted for exchange rate effects, sales increased by 1 percent.
- In the middle of April notice of allowance regarding patent protection of Steen Solution™ in the USA was received.

The increase in sales of transplantation products, primarily Perfadex®, which has a market share of over 90 percent globally, slowed during the first quarter of 2007 compared with the same period the previous year. The increase amounted to 1 percent in local currencies. In the USA it is expected that growth will again be considerable when Steen Solution™ comes out on the market, something which depends on sales approval, amongst other things. In other markets a certain growth in sales was noted.

In the middle of April Vitrolife received notice of allowance for patent protection regarding Steen Solution™ in the USA. The patent is valid up until 2021 and contains both product and method requirements, which means that both the composition of the solution and its use will be patent protected. Vitrolife has applied for a patent for Steen Solution™ in all markets that are assessed to be important. Approval has previously been obtained in Australia. Activities to obtain sales approval in the USA are proceeding according to plan.

The Stem Cell Cultivation product area is not reported separately as it is still at the research stage and sales are small. During the period they were SEK 0.1 (0.1) million.

Investments and cash flow

Cash flow from operating activities amounted to SEK 5.0 (0.5) million for the period January–March 2007. Accounts receivable increased by SEK 3.9 million to SEK 31.0. The cash flow from investing activities was SEK –3.1 (–71.2) million. Last year's figure includes the acquisition of Swemed for SEK 69.1 million. Gross investments in the Group's fixed assets amounted to SEK 1.9 (1.6) million during the period and in intangible fixed assets to SEK 1.1 (0.8) million. The cash flow from financing activities was SEK –1.1 (36.5) million and it consists of the paying off of loans. The new share issue of SEK 37.1 million in connection with the acquisition of Swemed is included in the figures for 2006. In all, the cash flow for the period amounted to SEK 0.8 (–34.2) million. The Group's liquid funds at March 31, 2007 amounted to SEK 15.3 (14.0) million. The equity/assets ratio for the Group amounted to 82 (77) percent.

Parent Company

Business activities focus on company-wide management and the company has no employees. There were no revenues for the period (–). The costs that arise are mainly attributable to the Board and to the OMX Nordic Exchange and the listing of the company's shares. Income before tax amounted to SEK –0.1 (–0.5) million. Liquid funds amounted to SEK 2.6 (7.5) million. No investments were made during the period (2006: acquisition of Swemed, SEK 66.8 million).

The Vitrolife share is listed on the OMX Nordic Exchange's Nordic Small Cap list under the symbol VITR. The closing price on March 31, 2007 was SEK 35.40 (26.10).

Organization and personnel

The first period of the year 2007 has been intensive as regards recruitments. An increased need for above all specialists has resulted in a strengthening of the competence of the workforce after recruitments within mainly production and sales. Further employment of new personnel, above all within development, is planned for the next quarter.

During the first three months of 2007 the average number of employees was 120 (109), of whom 77 (72) were women and 43 (37) were men. 94 (92) people were employed in Sweden and 26 (17) in the USA. The number of employees at the end of the period was 124 (109).

Prospects for the whole year

As during 2006, the year began with a strong quarter in terms of sales (clear seasonal variation can be observed in Figure 2 on page 2 of this report), where the market synergies after the integration of Swemed during the first quarter of 2006 have been most clearly seen in the form of increased sales for the advanced one-time instruments that were added to the product portfolio. After five quarters of strong growth for these products the work on increasing production of them has been prioritized. Amongst other things, new robots have begun to be used in order to be able to increase capacity during 2007. It is especially pleasing to note the very good sales figures for Fertility products in North America, China and Australia/New Zealand, which are all the fruit of focused working up of the markets. This encourages continuing the strategy of in different ways gradually increasing the direct working up of customers in more markets.

The comprehensive work on completing the development and launch of new products during 2007 within the fertility area is being pursued with a view to further strengthening competitiveness and increasing market shares. The other great challenge during 2007 is to continue the successful clinical development of Steen Solution™ for warm perfusion and evaluation of organs outside the body, with special focus on North America. In practical terms the preparations for introduction on to the market mean that the collaboration with and the training of leading transplantation clinics are being intensified, something which is always necessary when completely new methods of working are introduced within health care. The collaboration with the clinics is directed at adjusting and fine-tuning the methodology during the trial period to differences in the ways of working that exist between different markets and hospitals. This work of preparing and initiating the introduction of Steen Solution™ on to the market will be intensified during the year in parallel with the work on obtaining sales approval in the large markets outside Europe.

It is important to emphasize that Vitrolife's results are relatively unaffected by the significant weakening of the dollar in spite of considerable revenues in USD. This is due to the fact that Vitrolife has consciously balanced production, quality testing and research costs between Europe and the USA, which consequently means that revenues and expenses in USD follow each other relatively well.

To summarize, the continued strong development of operative earnings before and after R&D costs and of the cash flow allow Vitrolife to continue to place great focus on the product development portfolio during the year to come. The aim of this work is to develop new innovative products that, by improving treatment results and patient safety, will continue to strengthen Vitrolife's market position.

May 3, 2007
Kungsbacka, Sweden

Magnus Nilsson
CEO

Financial reports
Vitrolife's interim reports are published on the company's homepage, www.vitrolife.com, and are sent to the shareholders who have registered that they would like to have this information.

The interim report for the period January – June 2007 will be published on Friday July 13.

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Consolidated income statements

(SEK thousands)	January–March 2007	2006	Whole year 2006
Net sales	49 210	45 982	171 264
Cost of goods sold	–15 453	–15 911	–54 744
Gross income	**33 757**	**30 071**	**116 520**
Selling expenses	–12 822	–11 611	–47 241
Administrative expenses	–7 060	–6 959	–24 339
Research and development costs	–6 614	–5 926	–24 183
Other operating revenues and expenses	706	–140	–730
Operating income	**7 967**	**5 435**	**20 027**
Financial income and expenses	–1 038	–1 143	–4 988
Income after financial items	**6 929**	**4 292**	**15 039**
Taxes	4 040	–15	160
Net income	**10 969**	**4 277**	**15 199**
Earnings per share, SEK	0.55	0.22	0.77
Earnings per share, SEK*	0.55	0.22	0.77
Average number of outstanding shares	19 790 157	18 390 157	19 790 157
Average number of outstanding shares*	19 790 157	18 390 157	19 790 157
Number of shares at closing day	19 790 157	18 390 157	19 790 157
Number of shares at closing day*	19 868 808	18 390 157	19 858 868

Depreciation and amortization has reduced income for the period by SEK 3 201 thousand (3 198).

* After dilution. Vitrolife has two outstanding share warrant programs, comprising 44 490 (1999) and 550 000 (2005) warrants. The net present values of the issue prices were higher in the program from 1999 than the share price on the closing day but were lower than the share price on the closing day with regard to the program from 2005. With regard to the average share price for the last 12 months, the net strike prices in both cases were higher than this price.

Other key ratios

	January–March 2007	2006	Whole year 2006
Gross margin, %	68.6	65.4	68.0
Operating margin, %	16.2	11.8	11.7
Operating margin before R&D costs, %	29.6	24.7	25.8
Net margin, %	22.3	9.3	8.9
Equity/assets ratio, %	81.5	77.2	81.4
Shareholders' equity per share, SEK	11.76	10.93	11.15
Shareholders' equity per share, SEK*	11.71	10.93	11.11
Return on equity, %	9.8	7.0	6.9
Return on capital employed, %	9.1	6.9	8.0

* After dilution, see above.

Consolidated income statements per quarter

(SEK thousands)	Jan–Mar 2007	Oct–Dec 2006	Jul–Sep 2006	Apr–Jun 2006	Jan–Mar 2006	Oct–Dec 2005
Net sales	49 210	41 776	41 045	42 461	45 982	30 115
Cost of goods sold	–15 453	–12 826	–12 682	–13 324	–15 911	–9 162
Gross income	**33 757**	**28 949**	**28 363**	**29 137**	**30 071**	**20 953**
Selling expenses	–12 822	–12 747	–10 624	–12 259	–11 611	–9 750
Administrative expenses	–7 060	–5 946	–5 176	–6 258	–6 959	–5 215
Research and development costs	–6 614	–6 096	–6 096	–6 066	–5 926	–3 885
Other operating revenues and expenses	706	–277	75	–388	–140	300
Operating income	**7 967**	**3 884**	**6 542**	**4 166**	**5 435**	**2 403**
Financial income and expenses	–1 038	–1 817	–607	–1 420	–1 143	529
Income after financial items	**6 929**	**2 067**	**5 935**	**2 746**	**4 292**	**2 932**
Taxes	4 040	73	65	35	–15	–26
Net income	**10 969**	**2 140**	**6 000**	**2 781**	**4 277**	**2 906**

Consolidated balance sheets

(SEK thousands)	Mar. 31, 2007	Mar. 31, 2006	Dec. 31, 2006
ASSETS			
Goodwill	83 265	83 265	83 265
Other intangible fixed assets	24 945	27 701	24 682
Tangible fixed assets	82 612	88 860	81 736
Financial fixed assets	10 271	5 869	6 264
Inventories	30 781	27 930	28 328
Accounts receivable	30 971	27 078	24 868
Other current receivables	7 180	5 301	7 421
Cash and bank balances	15 336	14 020	14 470
Total assets	**285 361**	**280 024**	**271 034**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	232 641	216 296	220 639
Deferred tax liability	683	543	683
Long-term interest-bearing liabilities	20 157	39 137	21 138
Short-term interest-bearing liabilities	6 553	4 644	6 553
Accounts payable	10 989	8 931	9 170
Other short-term interest-free liabilities	14 338	10 473	12 851
Total shareholders' equity and liabilities	**285 361**	**280 024**	**271 034**

Change in shareholders' equity

	January–March		Whole year
(SEK thousands)	2007	2006	2006
Amount at beginning of year	220 639	176 450	176 450
Translation difference	1 033	–1 531	–8 110
New share issue	—	37 100	37 100
Net income for the period	10 969	4 277	15 199
Amount at end of period	**232 641**	**216 296**	**220 639**

Consolidated cash flow statements

	January–March		Whole year
(SEK thousands)	2007	2006	2006
Income after financial items	6 930	4 292	15 039
Adjustment for items not affecting cash flow	2 945	3 478	15 619
Change in inventories	–2 323	845	–386
Change in trade receivables	–5 715	–8 472	–7 385
Change in trade payables	3 201	337	897
Cash flow from operating activities	5 038	480	23 784
Cash flow from investing activities	–3 061	–71 233	–79 141
Cash flow from financing activities	–1 145	36 511	21 729
Cash flow for the period	**832**	**–34 242**	**–33 628**
Liquid funds at beginning of year	14 470	48 295	48 295
Exchange rate difference in liquid funds	34	–33	–197
Liquid funds at end of period	**15 336**	**14 020**	**14 470**

Financial data per geographic area

	January–March		Whole year
(SEK thousands)	2007	2006	2006
Europe / Middle East			
Net sales	31 597	29 957	105 313
Operating income	5 116	3 541	12 315
The Americas			
Net sales	11 303	10 867	42 265
Operating income	1 830	1 284	4 942
Rest of world			
Net sales	6 310	5 158	23 686
Operating income	1 022	610	2 770

Accounting principles

This interim report for the Group has been drawn up in accordance with IAS 34, Interim Financial Reporting. Vitrolife reports in accordance with IAS 14, Segment Reporting, geographic areas as primary segment.

As from January 1, 2005, Vitrolife is applying International Financial Reporting Standards (IFRS) in its consolidated accounts. This applies to all listed companies within the EU. As of January 1, 2005, the Parent Company applies RR 32:05, Accounting for Legal Entities. The main significance of RR 32:05 is that IFRS shall be applied, but with certain exceptions.

The accounting principles are unchanged compared with the last Annual Report and a description is to be found in the Annual Report for 2006.

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

Vitrolife today has approximately 120 employees and the company's products are sold in more than 80 markets. The head office is in Kungsbacka, Sweden, and there are subsidiaries outside Gothenburg, Sweden and in Denver, USA. The Vitrolife share is listed on the OMX Nordic Exchange's Nordic Small Cap list.

Vitrolife

Innovative Cell and Tissue Technology

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