



INTERIM REPORT JANUARY-MARCH 2017

Vitrolife AB (publ)

Vitrolife is 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.

Vitrolife today has approximately 350 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 Australia, China, Denmark, France, Germany, Italy, Japan, United Kingdom and USA. The Vitrolife share is listed on NASDAQ Stockholm.

Vitrolife 

Good growth in all regions

First quarter

- Sales amounted to SEK 244 (187) million, corresponding to an increase of 31 percent in SEK. Net sales growth was 27 percent in local currency. The acquisitions of Octax and MTG had a positive impact of SEK 17 million on sales. Adjusted for this, growth amounted to 18 percent in local currency.
- Operating income before depreciation and amortisation (EBITDA) amounted to SEK 95 (62)

million, corresponding to a margin of 39 (33) percent. Last year's operating income included one-time expenses of SEK 5 million related to consolidation of the time-lapse business. Fluctuations in exchange rates positively impacted EBITDA by SEK 3 million.

- Launch of RapidVit™ Omni, a media system for vitrification (rapid freezing) of eggs and embryos.
- Net income amounted to SEK 60 (39) million, which gave earnings per share of SEK 2.73 (1.77).

The Group's Key Figures

SEK millions	January – March 2017	2016	Whole year 2016
Net sales	244	187	856
Net sales growth, local currency, %	27	16	18
Gross margin, %	65	67	66
Adjusted gross margin*, %	69	70	69
Operating income before depreciation and amortisation (EBITDA)	95	62	303
EBITDA margin, %	39	33	35
Net income	60	39	191
Net debt / Rolling 12 month EBITDA	-0.5	-0.5	-0.5
Earnings per share, SEK	2.73	1.77	8.77
Share price on closing day, SEK	429.00	341.50	387.00
Market cap at closing day	9 314	7 414	8 402

* Gross margin excluding amortisation of acquisition-related intangible assets

For definitions, see page 14

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 before depreciation and amortisation (EBITDA) of 30 percent.

CEO's comments

I am very pleased with the first quarter. Growth in local currency amounted to 27 percent, of which 18 percent was organic growth. I am delighted that all the business units and market regions displayed good growth. Profitability measured as the operating margin before depreciation and amortisation (EBITDA-margin) amounted to 39 percent. Increased sales, economies of scale, low expenses and the fact that EmbryoScope+ has a better margin than EmbryoScope contributed to good profitability during the quarter.



At the beginning of 2016 Vitrolife launched a new organisation whereby three market regions were given decentralised responsibility to develop the business and profitability in each geographic region. We can now see from the results in the form of growth and market contribution that the new market organisations are working well. The market regions have successfully carried out work directly or in collaboration with the company's distributors to develop together with customers the IVF labs' processes and methods with a view to improving efficiency. In collaboration with the clinics, different opportunities for increasing efficiency are identified, such as the introduction of time-lapse and the accompanying single-use products, and thus the collaboration generates value for both the clinics and Vitrolife.

Growth in local currency for the Media business unit, which consists of various nutrient solutions that come into contact with eggs, sperm and embryos, amounted to 14 percent. It is very positive that the Media business unit continues to grow strongly: Media is the business unit with the highest gross margin in the Group and Media

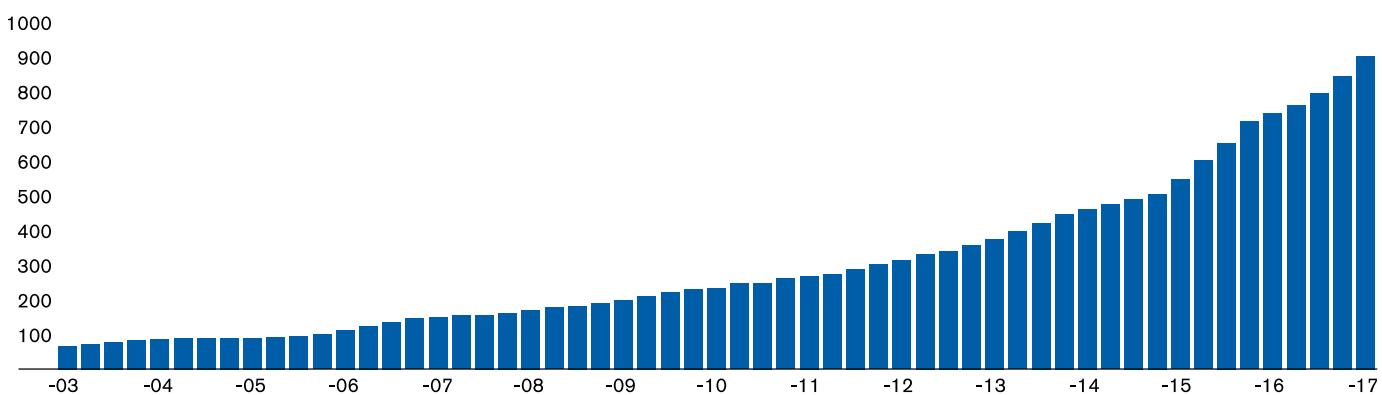
has clear economies of scale. Vitrolife is the global market leader in the field of media and this position has been achieved due to the fact that the company has constantly offered a range of products of the highest quality and efficiency together with good customer support. EmbryoGlue is the company's recommended product for transferring the embryos to the woman at the end of IVF treatment. In a study published at the Fertility Conference in Edinburgh at the beginning of the year, EmbryoGlue once again displayed superior efficacy in the form of pregnancy rates and a lower risk of early miscarriage. Vitrolife continues to invest in product development in order to retain the leading position in the area. During the first quarter Vitrolife launched a new system for vitrification (rapid freezing) of eggs and embryos called RapidVit™ Omni. The new system means that Vitrolife is well-positioned to take advantage of the trend of increased use of vitrification in IVF treatment.

Growth in local currency in the Time-lapse business unit amounted to 47 percent and was favoured by continued high demand for the company's newly launched EmbryoScope+ time-lapse incubator. The independent time-lapse microscope EVO+ also began to be delivered to customers at the end of the quarter. In conjunction with the transfer of production from Hungary to Denmark last year, it was decided to carry out a major upgrade of EVO+ and this has now been completed. With EVO+, EmbryoScope and EmbryoScope+ in its portfolio, Vitrolife offers a very strong range of products within Time-lapse.

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

Net sales (rolling 12 months), SEK millions



First quarter 2017 (January - March)

Net sales

Sales amounted to SEK 244 (187) million, corresponding to an increase of 31 percent in SEK. Net sales growth was 27 percent in local currency. The acquisitions of Octax and MTG had a positive impact of SEK 17 million on sales. Adjusted for this, growth amounted to 18 percent in local currency.

Sales in the EMEA region (Europe, the Middle East and Africa) increased by 32 percent in local currency and amounted to SEK 110 (83) million. Sales in the North and South American region amounted to SEK 40 (32) million. Sales increased by 18 percent in local currency. Sales in the Asia and Pacific region increased by 25 percent in local currency and amounted to SEK 94 (73) million. All regions were positively impacted by the acquisitions of Octax and MTG.

Sales in the Media business unit increased by 14 percent in local currency during the quarter and amounted to SEK 133 (115) million. Sales in the Disposable Devices business unit increased by 5 percent in local currency and amounted to SEK 36 (34) million. In 2016 a new range of aspiration needles for egg retrieval was launched. The company is at present seeking regulatory market approval for the products in various countries. Until the new range of needles is approved in all markets, which is expected to occur towards the end of the year, both the old and the new needles are being produced in parallel. This has led to temporary limitations in capacity, which means that the company is at present prioritising existing customers over new business with regard to needles. Sales in the Time-lapse business unit increased by 47 percent in local currency during the quarter and amounted to SEK 53 (34) million. Sales in the business unit ART Equipment, which comprise of the operations conducted by the acquired companies Octax and MTG, amounted to SEK 17 million. Freight revenues amounted to SEK 5 (4) million.

Fig 1. Net sales per market region (rolling 12 months)

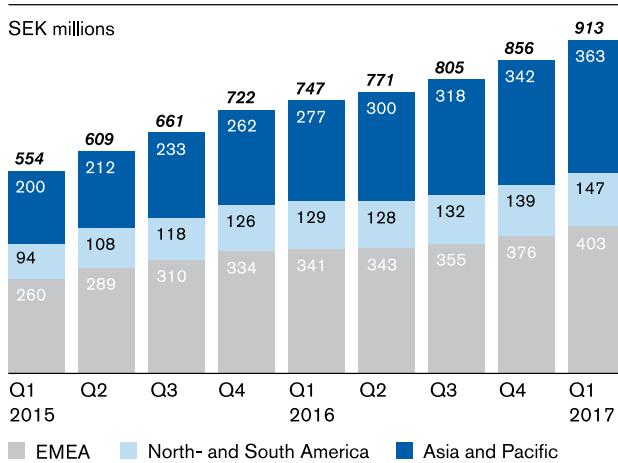


Fig 2. Sales development (per quarter)

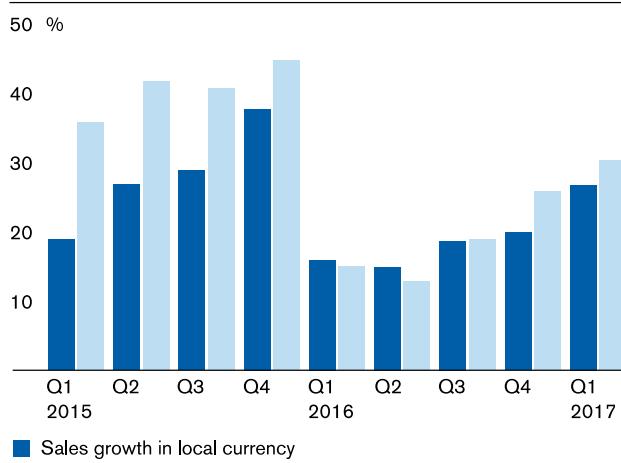
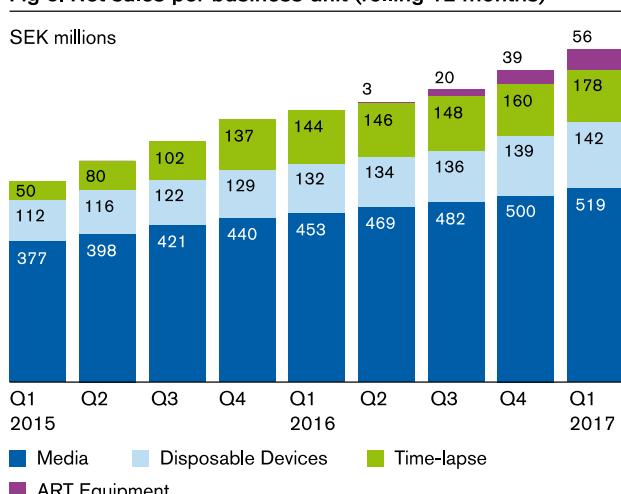


Fig 3. Net sales per business unit (rolling 12 months)



Income

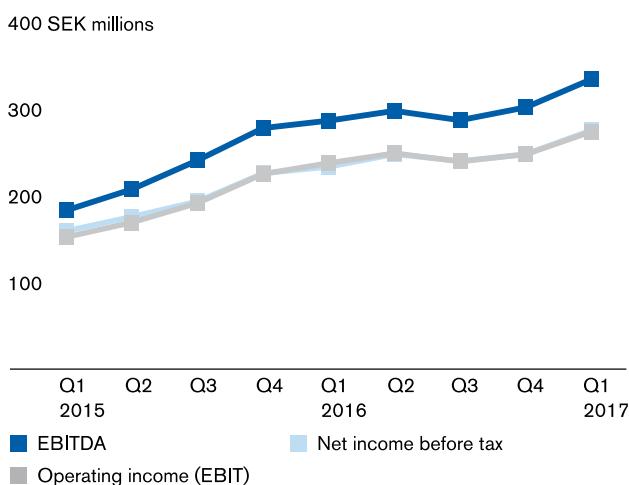
Operating income before depreciation and amortisation (EBITDA) amounted to SEK 95 (62) million, corresponding to a margin of 39 (33) percent. Last year's operating income included one-time expenses of SEK 5 million related to consolidation of the time-lapse business. Fluctuations in exchange rates positively impacted operating income before depreciation and amortisation (EBITDA) by SEK 3 million.

Gross income amounted to SEK 158 (125) million. The gross margin was 65 (67) percent and was positively impacted by economies of scale and the fact that EmbryoScope+ has a better margin than EmbryoScope. The gross margin was negatively impacted by the acquisitions of Octax and MTG, both because the business has a lower gross margin than the average for the Group and because amortisation of acquisition-related intangible assets to the tune of SEK 5 million has been charged against gross income. The gross margin adjusted for amortisation of acquisition-related intangible assets amounted to 69 (70) percent for the quarter.

Selling expenses amounted to 16 (18) percent of sales. Administrative expenses amounted to 9 (12) percent of sales. R&D costs amounted to 8 (7) percent of sales and were negatively impacted by the fact that capitalization of the EmbryoScope+ project has been completed due to that the product has been launched. The operating expenses were positively impacted by economies of scale. Depreciation, amortisation and write-downs of SEK 17 (10) million were charged against income.

Net financial items amounted to SEK 0 (-2) million. Income before tax amounted to SEK 78 (50) million. Net income amounted to SEK 60 (39) million.

Fig 4. Income (rolling 12 months)



Income per segment

The organisation consists of four business units whose products are sold by three geographic market organisations. Vitrolife reports the market contribution from each geographic segment. The market contribution is defined as gross income minus selling expenses per market. For more information, see note 5. During the quarter, the market contribution for the EMEA region amounted to SEK 50 (38) million. The contribution from the North and South American region amounted to SEK 20 (16) million and the contribution from the Asia and Pacific region amounted to SEK 49 (37) million. The increased income in all regions has primarily been generated by a combination of increased sales and economies of scale.

Cash flow

The cash flow from operating activities amounted to SEK 34 (10) million. The change in working capital amounted to SEK -24 (-13) million and primarily consisted of increased accounts receivables as a result of increased sales. Gross investments in tangible assets amounted to SEK -2 (-2) million and consisted primarily of purchase of equipment. Gross investments in intangible assets amounted to SEK 0 (-2) million. The cash flow from financing activities was SEK -3 (-3) million and consisted primarily of the repayment of borrowings. Cash and cash equivalents at the end of the period amounted to SEK 218 (202) million.

Financing

Vitrolife's total credit facilities amounted to SEK 85 (95) million, of which SEK 35 (45) million was utilized. The credit facilities were used for the financing of corporate acquisitions. The equity/assets ratio was 84 (80) percent. Net debt in relation to income for a rolling 12 months before depreciation and amortisation (EBITDA) amounted to -0.5 (-0.5) times.

Parent Company

Business activities focus on company-wide management and the company has no employees. Income included invoicing of management fee of SEK 0 (1) million. In February the company's Hungarian subsidiary was liquidated, which gave rise to dividend of SEK 7 million and a write-down of participation in the company to the tune of SEK -7 million. Income before tax for the quarter amounted to SEK -1 (-2) million. Cash and cash equivalents amounted to SEK 8 (34) million.

Prospects for 2017

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 emerging countries, where the demand for this treatment is increasing rapidly. 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. During 2017 the company will focus on expanding sales, broadening the product offering and achieving further synergies and economies of scale in the business.

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

- Establish a scalable global organisation focused on common values.
- Expand sales through an improved customer offering and solution selling.
- Broaden the product portfolio and achieve 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.

Other information

Organisation and personnel

During the period the average number of employees was 351 (321), of whom 159 (145) were women and 192 (176) were men. Of these 143 (134) people were employed in Sweden, 69 (61) in Denmark, 69 (62) in the USA and 70 (64) in the rest of the world. The number of people employed in the Group at the end of the period was 355 (329).

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 2016, note 31.

Proposed appropriation of earnings

In accordance with the dividend policy of Vitrolife AB (publ), a dividend, or another equivalent form of distribution, shall be proposed annually which on average over time corresponds to 30 percent of net profits for the year after tax has been paid. The Board has accordingly proposed that the Annual General Meeting adopt a dividend of SEK 2.60 (2.40) per share.

Risk management

Vitrolife works constantly and systematically to identify, evaluate and manage overall risks and different systems and processes. 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. 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 2016. 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 2016, note 3. The reported risks, as they are described in the 2016 Annual Report, are assessed to be essentially unchanged for 2017.

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 scrapping. 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.

Annual General Meeting and Annual Report

The Annual General Meeting will be held on April 27, 2017, at 5 pm at Vitrolife's premises in Gothenburg, visitors' address Gustaf Werners gata 2. For more information, see Vitrolife's website. Vitrolife's Annual Report for 2016 is available to be downloaded from Vitrolife's website and in a printed version at the company's head office in Gothenburg. The Annual Report has been sent out to those shareholders who have notified the company that they wish to have the printed version.

Events after the end of the period

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

April 25, 2017
Gothenburg, Sweden

Thomas Axelsson
CEO

Financial reports

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

This report has not been reviewed by the company's auditor.

During 2017 it is planned that the following reports will be submitted:

Interim report January – June: Friday July 14

Interim report January – September: Thursday November 2

Queries should be addressed to

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

This information is information that Vitrolife AB is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact person set out above, at 8.30 am CET on April 25, 2017.

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

Consolidated income statements

SEK thousands	Note	January – March 2017	January – March 2016	Whole year 2016
Net sales	3, 5	244 081	186 998	856 106
Cost of goods sold		-86 285	-61 821	-294 805
Gross income		157 796	125 177	561 301
<i>Comprising</i>				
Adjusted gross income		167 796	130 164	593 011
Amortisation of acquisition-related intangible assets		-10 000	-4 987	-31 710
Gross income		157 796	125 177	561 301
Selling expenses		-38 617	-34 051	-155 686
Administrative expenses		-22 494	-22 927	-94 146
Research and development costs		-18 492	-12 553	-61 590
Other operating revenues and expenses		117	-3 627	-1 038
Operating income		78 310	52 019	248 841
<i>Comprising</i>				
Adjusted operating income		88 630	57 392	281 819
Amortisation of acquisition-related intangible assets		-10 320	-5 373	-32 978
Operating income		78 310	52 019	248 841
Financial income and expenses		-381	-1 880	89
Income after financial items		77 929	50 139	248 930
Income taxes		-18 274	-11 440	-57 718
Net Income		59 655	38 699	191 212
Attributable to				
Parent Company's shareholders		59 204	38 427	190 368
Non-controlling interests		451	272	844
Earnings per share, SEK		2.73	1.77	8.77
Average number of outstanding shares		21 710 115	21 710 115	21 710 115
Number of shares at closing day		21 710 115	21 710 115	21 710 115

Depreciation, amortisation and write-downs were charged against income for the period by SEK 16,625 thousand (10,274).

Statements of comprehensive income

SEK thousands		January – March 2017	January – March 2016	Whole year 2016
Net income		59 655	38 699	191 212
Other comprehensive income				
<i>Items that may be reclassified to the income statement</i>				
Cash-flow hedges, net after tax		-	-353	-657
Exchange rate differences		-3 205	1 261	37 297
Total other comprehensive income		-3 205	908	36 640
Total comprehensive income		56 450	39 607	227 852
Attributable to				
Parent Company's shareholders		55 999	39 335	227 008
Non-controlling interests		451	272	844

Key ratios, total Group

	January – March 2017	2016	Whole year 2016
Gross margin, %	64.6	66.9	65.6
Adjusted gross margin, %	68.7	69.6	69.3
Operating margin before depreciation and amortisation (EBITDA), %	38.9	33.3	35.4
Operating margin (EBIT), %	32.1	27.8	29.1
Net margin, %	24.4	20.5	22.3
Equity/assets ratio, %	83.7	79.9	81.6
Shareholders' equity per share, SEK	49.47	40.65	46.89
Return on equity, %	21.4	22.9	20.3
Cash flow from operating activities per share, SEK	1.55	0.48	8.35
Net debt*, SEK millions	-183.4	-157.3	-151.4

* Negative amount implies net claim.

Consolidated income statements per quarter

SEK thousands	Jan-Mar 2017	Oct-Dec 2016	Jul-Sep 2016	Apr-Jun 2016	Jan-Mar 2016	Oct-Dec 2015	Jul-Sep 2015	Apr-Jun 2015
Net sales	244 081	250 909	210 427	207 772	186 998	199 023	176 806	184 145
Cost of goods sold	-86 285	-82 427	-79 510	-71 047	-61 821	-62 112	-57 170	-62 308
Gross income	157 796	168 482	130 917	136 725	125 177	136 911	119 636	121 837
Selling expenses	-38 617	-43 703	-39 003	-38 929	-34 051	-36 186	-34 822	-34 713
Administrative expenses	-22 494	-25 373	-21 190	-24 656	-22 927	-18 147	-21 419	-20 490
Research and development costs	-18 492	-18 366	-15 294	-15 377	-12 553	-11 789	-15 072	-13 913
Other operating revenues and expenses	117	-2 691	1 263	4 017	-3 627	-803	17 868	-2 216
Operating income	78 310	78 349	56 693	61 780	52 019	69 986	66 191	50 505
Financial income and expenses	-381	-524	1 540	953	-1 880	-241	191	-2 326
Income after financial items	77 929	77 825	58 233	62 733	50 139	69 745	66 382	48 179
Income taxes	-18 274	-18 093	-13 632	-14 553	-11 440	-12 600	-13 975	-9 600
Net income	59 655	59 732	44 601	48 180	38 699	57 145	52 407	38 579
Attributable to								
Parent Company's shareholders	59 204	59 514	44 471	47 956	38 427	57 180	52 324	38 354
Non-controlling interests	451	218	130	224	272	-35	83	225

Key ratios per quarter, total Group

	Jan-Mar 2017	Oct-Dec 2016	Jul-Sep 2016	Apr-Jun 2016	Jan-Mar 2016	Oct-Dec 2015	Jul-Sep 2015	Apr-Jun 2015
Shareholders' equity per share, SEK	49.47	46.89	43.95	41.17	40.65	38.84	36.79	33.86
Return on equity, %	21.4	20.3	21.0	22.9	22.9	23.5	20.7	21.5
Cash flow from operating activities per share, SEK	1.55	3.62	2.14	2.11	0.48	4.35	2.74	1.44

Consolidated statements of financial position

SEK thousands	Note	Mar 31. 2017	Mar 31. 2016	Dec 31. 2016
ASSETS	2, 3			
Goodwill	5	402 393	351 793	403 216
Other intangible fixed assets	5	231 768	161 926	245 871
Tangible fixed assets	5	91 517	87 681	93 655
Financial fixed assets		8 917	9 371	8 948
Deferred tax assets		18 854	29 557	22 282
Inventories		153 728	106 320	145 654
Accounts receivable		145 664	112 201	126 187
Current tax assets		1 586	–	2 282
Other current receivables		13 591	45 579	13 151
Derivative instruments		–	390	–
Cash and cash equivalents		218 078	202 333	189 245
Total assets		1 286 096	1 107 151	1 250 491
SHAREHOLDERS' EQUITY AND LIABILITIES	2, 3			
Shareholders' equity, attributable to the Parent Company's shareholders		1 074 054	882 486	1 018 055
Non-controlling interests		2 777	2 110	2 329
Provisions		9 012	10 188	9 043
Deferred tax liabilities		58 512	39 562	61 280
Long-term interest-bearing liabilities		446	33 005	466
Short-term interest-bearing liabilities		34 207	12 002	37 390
Current tax liabilities		5 137	36 559	22 044
Accounts payable		24 609	22 785	24 286
Other short-term non-interest-bearing liabilities		77 342	68 454	75 598
Total shareholders' equity and liabilities		1 286 096	1 107 151	1 250 491

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		
Opening balance January 1, 2016	22 144	494 610	-24 681	351 078	1 821	844 972
Total comprehensive income	–	–	36 640	190 368	844	227 852
Dividend (SEK 2.40 per share)	–	–	–	-52 104	–	-52 104
Dividend to non-controlling interests	–	–	–	–	-413	-413
Other transactions with non-controlling interests	–	–	–	–	77	77
Closing balance December 31, 2016	22 144	494 610	11 959	489 342	2 329	1 020 384
Opening balance January 1, 2017	22 144	494 610	11 959	489 342	2 329	1 020 384
Total comprehensive income	–	–	-3 205	59 204	451	56 450
Other transactions with non-controlling interests	–	–	–	–	-3	-3
Closing balance March 31, 2017	22 144	494 610	8 754	548 546	2 777	1 076 831

Condensed consolidated cash flow statements

SEK thousands	January – March 2017	January – March 2016	Whole year 2016
Income after financial items	77 929	50 139	248 930
Adjustment for non-cash items	15 574	15 406	55 126
Tax paid	-36 060	-42 012	-83 400
Change in inventories	-8 483	-4 195	-26 323
Change in trade receivables	-19 942	-16 037	-17 633
Change in trade payables	4 609	7 131	4 562
Cash flow from operating activities	33 627	10 432	181 262
 Cash flow from investing activities	 -1 783	 -4 386	 -131 002
Cash flow from financing activities	-2 825	-2 636	-63 596
Cash flow for the period	29 019	3 410	-13 336
 Opening cash and cash equivalents	 189 245	 199 572	 199 572
Exchange-rate difference in cash and cash equivalents	-186	-649	3 009
Closing cash and cash equivalents	218 078	202 333	189 245

Income statements for the Parent Company

SEK thousands	January – March 2017	January – March 2016	Whole year 2016
Net sales	483	1 432	6 833
Administrative expenses	-1 677	-3 440	-14 825
Other operating revenues and expenses	26	26	-5
Operating income	-1 168	-1 982	-7 997
 Write-down participations in Group companies	 -7 280	 –	 -7 500
Dividends from Group companies	7 137	–	158 432
Financial income and expenses	6	-76	2 415
Income after financial items	-1 305	-2 058	145 350
 Year-end adjustments (received Group contribution)	 –	 –	 3 384
Income taxes	–	453	–
Net income	-1 305	-1 605	148 734

Depreciation and amortisation were charged against income for the period by SEK - thousand (-).

Balance sheets for the Parent Company

SEK thousands	Mar 31. 2017	Mar 31. 2016	Dec 31. 2016
ASSETS			
Tangible fixed assets	12	12	12
Participations in Group companies	770 440	730 396	777 720
Other financial fixed assets	3 746	3 746	3 746
Deferred tax asset	–	453	–
Other current receivables	2 530	3 484	1 677
Receivables from Group companies	11 473	8 061	11 889
Cash and cash equivalents	7 544	33 682	2 974
Total assets	795 745	779 834	798 018
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	757 216	660 285	758 521
Long-term interest-bearing liabilities	–	33 005	–
Short-term interest-bearing liabilities	34 128	12 002	37 311
Current tax liabilities	–	–	4
Accounts payable	2 004	3 347	117
Liabilities to Group companies	–	67 858	–
Other short-term non-interest-bearing liabilities	2 397	3 337	2 065
Total shareholders' equity and liabilities	795 745	779 834	798 018

Note 1. 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 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 standards, amendments or interpretations that entered force in 2017 are deemed to have had material impact on the Group financial statements.

IFRS 9

IFRS 9 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and liabilities, and 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

From 1 January 2018 IFRS 15 'Revenue from contracts with customers' will be applied. 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 performance obligations. Based on that, no significant differences are assessed to exist between the current accounting and accounting in accordance with IFRS 15.

IFRS 16

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.

Note 2. Financial instruments - Fair value

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

Classified in level 2 are derivatives for hedge accounting. Valuation of fair value for currency forward contracts is based on published forward rates on an active market.

Classified in level 3 are financial assets, which relate to unlisted shares, and have been valued based on the latest transaction (transfer of shares). Hence, fair value is estimated to be equal to book value.

Fair value for other financial fixed assets, accounts receivable, other current receivables, cash and cash equivalents, accounts payable, other liabilities and interest bearing liabilities is estimated to be equal to their book value (accumulated amortised cost). 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 amortised cost amount to SEK 368,913 thousand (321,283) and SEK 74,166 thousand (96,929).

Fair value hierarchy

SEK thousands	Fair value levels	Fair value		
		Mar 31.2017	Mar 31.2016	Dec 31.2016
Financial assets				
Financial assets to fair value through income statement	3	3 746	3 746	3 746
Derivatives for hedge accounting	2	–	390	–
Total Financial assets		3 746	4 136	3 746

Level 1: valued at fair value based on quoted prices on an active market for identical assets.

Level 2: valued at fair value based on other observable inputs for assets and liabilities than quoted price included in level 1.

Level 3: valued at fair value based on inputs for assets and liabilities unobservable to the market.

Note 3. Business combinations

No acquisitions have been carried out during 2017. On May 31, 2016 Vitrolife acquired all the shares in Octax Microscience GmbH och 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. The acquisition of the two companies is regarded as a business combination in accordance with IFRS 3.

The table below summarizes the purchase price paid and acquired assets and liabilities reported at fair value at the date of acquisition. The acquisition analysis is preliminary and might be 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
<u>Deferred tax liability due to surplus value</u>	<u>-31.6</u>
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 4. Pledged assets for own liabilities and contingent liabilities

SEK thousands	Mar 31.2017	Mar 31.2016	Dec 31.2016
Group			
Pledged assets for own liabilities	22 748	22 181	22 612
Contingent liabilities	480	284	409
Parent company			
Pledged assets for own liabilities	3 100	3 100	3 100
Contingent liabilities	–	–	–

Note 5. Segments

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 and market contribution per geographic segment. Market contribution is defined as gross income reduced with the selling expenses per market.

SEK thousands	EMEA		North and South America		Asia & Pacific		Total	
	Jan-Mar 2017	Jan-Mar 2016	Jan-Mar 2017	Jan-Mar 2016	Jan-Mar 2017	Jan-Mar 2016	Jan-Mar 2017	Jan-Mar 2016
Net sales	110 377	82 611	39 510	31 792	94 194	72 595	244 081	186 998
Gross income	66 864	53 446	27 885	22 970	63 047	48 761	157 796	125 177
Selling expenses	-17 218	-15 669	-7 585	-6 841	-13 814	-11 541	-38 617	-34 051
Market contribution	49 646	37 777	20 300	16 129	49 233	37 220	119 179	91 126
Fixed assets*	632 550	516 319	92 450	85 042	678	39	725 678	601 400

SEK thousands	EMEA	North and South America	Asia & Pacific	Total
	Whole year 2016	Whole year 2016	Whole year 2016	Whole year 2016
Net sales	375 611	138 506	341 989	856 106
Gross income	238 317	95 402	227 582	561 301
Selling expenses	-66 952	-29 108	-59 626	-155 686
Market contribution	171 365	66 294	167 956	405 615
Fixed assets*	647 330	94 803	609	742 742

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

Reconciliation of alternative key figures

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

Adjusted gross and operating income

As Vitrolife's gross and operating income is significantly impacted by the amortisation of surplus values related to the acquisitions that the company has carried out, it is management's assessment that it is appropriate to illustrate the Group's profitability and earning capacity by presenting gross and operating income adjusted for amortisation of these surplus values. Reconciliation of these figures are presented directly in the financial reports.

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	January-March		Whole year 2016
	2017	2016	
Operating income	78.3	52.0	248.8
Depreciation and amortisation	16.6	10.3	54.3
Operating income before depreciation and amortisation (EBITDA)	94.9	62.3	303.1

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	Mar 31. 2017	Mar 31. 2016	Dec 31. 2016
Average shareholders' equity, rolling 12 month	985.0	814.9	937.1
Net income, rolling 12 month	211.1	186.3	190.4
Return on equity, %	21.4	22.9	20.3

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	Mar 31. 2017	Mar 31. 2016	Dec 31. 2016
Interest-bearing liabilities	34.7	45.0	37.8
Cash and cash equivalents	-218.1	-202.3	-189.2
Net debt	-183.4	-157.3	-151.4

SEK M	Mar 31. 2017	Mar 31. 2016	Dec 31. 2016
Net debt	-183.4	-157.3	-151.4
Operating profit, rolling 12 month	275.1	238.7	248.8
Depreciation and amortisation, rolling 12 month	60.7	49.1	54.3
Rolling 12 month EBITDA	335.8	287.8	303.1
Net debt / Rolling 12 month EBITDA	-0.5	-0.5	-0.5

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.

Net sales per geographic segment

	EMEA	North and South America	Asia & Pacific
	Jan-Mar 2017	Jan-Mar 2017	Jan-Mar 2017
Growth in local currency, SEK M	26	6	18
<i>Growth in local currency, %</i>	32	18	25
Currency effects, SEK M	1	2	3
<i>Currency effects, %</i>	1	7	5
Total growth, SEK M	27	8	21
Total growth, %	33	25	30

Net sales per business unit

	Media	Disposable Devices	Time-lapse	ART Equipment*
	Jan-Mar 2017	Jan-Mar 2017	Jan-Mar 2017	Jan-Mar 2017
Growth in local currency, SEK M	15	1	17	17
<i>Growth in local currency, %</i>	14	5	47	<i>n/a</i>
Currency effects, SEK M	3	1	2	0
<i>Currency effects, %</i>	3	3	5	<i>n/a</i>
Total growth, SEK M	18	2	19	17
Total growth, %	17	8	52	<i>n/a</i>

* Comprises the operations conducted by the acquired companies MTG and Octax.

Group total

		Jan-Mar 2017	Jan-Mar 2016	Whole year 2016
Organic growth in local currency, SEK M		35	26	90
<i>Organic growth in local currency, %</i>		18	16	12
Acquired growth, SEK M		17	–	39
<i>Acquired growth, %</i>		9	–	6
Currency effects, SEK M		5	-1	5
<i>Currency effects, %</i>		4	-1	1
Total growth, SEK M		57	25	134
Total growth, %		31	15	19

Definitions

Adjusted gross income Gross income before amortisation of acquisition-related intangible assets.	Earnings per share Income for the period in relation to the average number of outstanding shares for the period.	Net debt Interest-bearing liabilities minus interest-bearing receivables minus cash and cash equivalents.	Operating margin Operating income as a percentage of net sales for the period.
Adjusted operating income Operating income before amortisation of acquisition-related intangible assets.	Equity/assets ratio Shareholders' equity and non-controlling interests as a percentage of total assets.	Net debt / Rolling 12 month EBITDA Net debt in relation to rolling 12 months operating income before amortisation and depreciation (EBITDA).	Profit margin Income for the period as a percentage of net sales 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.	Gross margin Gross income as a percentage of net sales for the period.	Operating margin before depreciation and amortisation (EBITDA) Operating income before depreciation and amortisation as a percentage of net sales for the period.	Return on equity Rolling 12 months net income as a percentage of the average shareholders' equity for the same period.
	Market contribution Gross income reduced with the selling expenses per market.		Shareholders' equity per share Shareholders' equity in relation to the number of shares outstanding at closing day.

Glossary

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.	Embryo A fertilized and cell divided egg.	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.	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.
Biopsy Removal of one or several cells from living tissue for diagnostic evaluation.	In vivo Biological processes in living cells and tissue when they are in their natural place in whole organisms.	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.	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.
Biotechnology Combination of biology and technology, which primarily means using cells or components from cells (such as enzymes or DNA) in technical applications.	Incubator Equipment for 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.	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.
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.	IVF, In Vitro Fertilization Fertilization between the woman's and the man's sex cells and cultivation of embryos outside the body.	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.	
Cell therapy Describes the process when new cells are added to tissue in order to treat a disorder.	Medical devices Comprise devices used to make a diagnosis of a disease, treat a disease and as rehabilitation.		
Clinical study/trial An investigation in healthy or sick people in order to study the effect of a pharmaceutical or treatment method.			

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