

Report on operations 2004

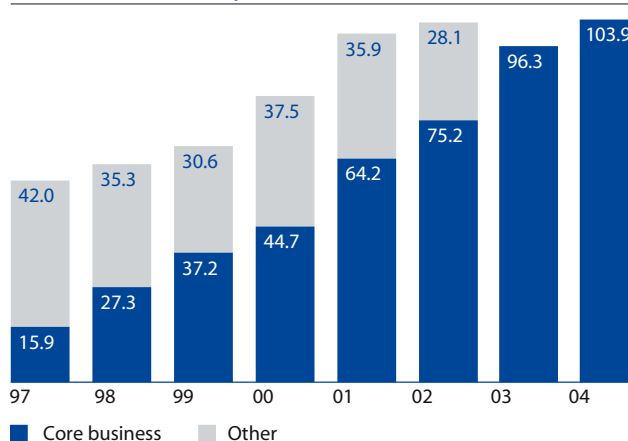
Vitrolife AB (publ)



Vitrolife doubles operating income 2004

- Sales increased by 8 percent, to SEK 103.9 (96.3) million. Adjusted for exchange-rate effects the increase was 11 percent. During the fourth quarter sales amounted to SEK 24.6 (24.0) million, corresponding to an increase of 3 percent. Adjusted for exchange-rate effects the increase was 6 percent.
- Gross income increased by 21 percent to SEK 74.4 (61.6) million and thereby the gross margin improved to 72 percent (64). Gross income for the fourth quarter increased by 12 percent to SEK 17.4 (15.6) million and the gross margin was 71 (65) percent.
- Operating income amounted to SEK 13.0 (41.9) million for the whole year 2004 and to SEK 1.6 (3.0) million for the fourth quarter. For comparable business activities operating income for the whole year 2003 amounted to SEK 6.2 million (adjusted for a capital gain of SEK 42.3 million and other items attributable to divested business, SEK –6.6 million), which means an improvement of 110 percent for 2004.
- Net income for the Group was SEK 11.9 (44.7) million, of which SEK 0.1 million (5.0) was for the fourth quarter.
- Earnings per share amounted to SEK 0.65 (2.43, excluding divested business 0.37).
- The equity/assets ratio increased to 81 (78) percent.
- The Board proposes that no dividend be paid for the financial year 2004.

Annual net sales, Group, 1997–2004, SEK millions

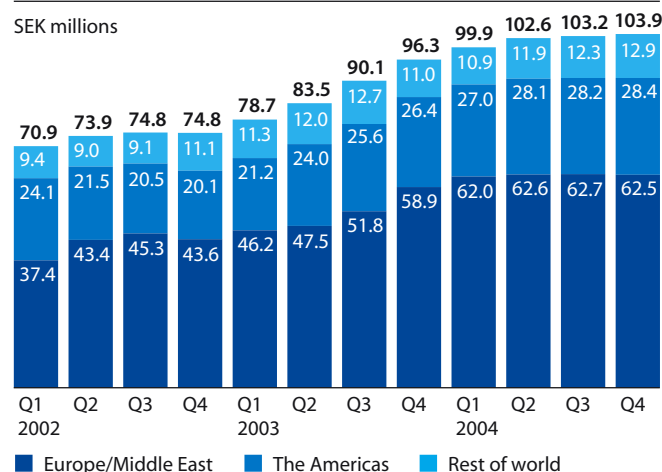


Sales and income

Vitrolife's net sales for the whole of 2004 amounted to SEK 103.9 (96.3) million, which corresponds to an increase of 8 percent compared with the previous year. Corrected for negative exchange-rate effects, due to a lower exchange rate for the dollar compared with 2003, the increase was 11 percent. In Europe/Middle East sales increased by 6 percent, from SEK 58.9 to 62.5 million. The corresponding figures for America were an increase of 8 percent, from SEK 26.4 to 28.4 million (in local currencies the increase was 26 percent) and for other markets an increase of 17 percent, from SEK 11.0 to 12.9 million.

Net sales during the fourth quarter increased by 3 percent and amounted to SEK 24.6 (24.0) million. Corrected for negative exchange-rate effects, the increase was 6 percent. In Europe/Middle East sales decreased during the fourth quarter by 1 percent, from SEK 14.9 to 14.7 million. This decrease is entirely localized to the markets where the total number of treatments decreased due to less favourable reimbursement rules (Germany and Hungary) or new restrictive legislation (Italy). However, in the largest of these markets, Germany, Vitrolife increased its market share in 2004. Sales during the fourth quarter increased by 3 percent in the region of America, from SEK 6.6 to 6.7 million. In local currency the increase was 13 percent. The Rest of the world region increased by 24 percent during the fourth quarter, from SEK 2.5 to 3.1 million.

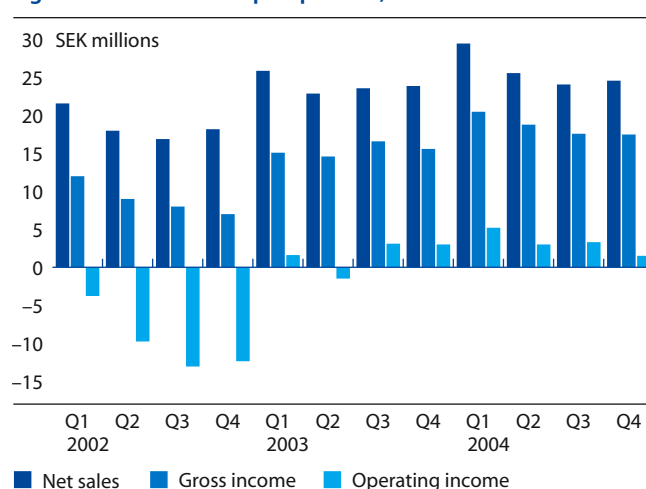
Fig 1. Net sales per geographic area* (rolling 12 months), SEK millions



* Excluding A-Life, which was sold in August 2003.

As can be seen in Figure 2, Vitrolife's sales have historically been higher in the first quarter than in other quarters. This is due to the fact that shipments are made to the fertility clinics every fourth week and there are four shipments during the first quarter and three during the others. As from 2005 there will be a gradual transition to shipments being made directly upon order, and thus it can be anticipated that a levelling out between the quarters will begin.

Fig 2. Sales and income per quarter*, SEK millions



* Excluding A-Life, which was sold in August 2003.

The gross margin for 2004 increased to 72 (64) percent, which is due to streamlining and economies of scale in production and to a changed product mix, with sales of a larger proportion of products with a higher margin. Gross income was SEK 74.4 (61.6) million, an improvement of 21 percent. Gross income for the fourth quarter amounted to SEK 17.4 (15.6) million, corresponding to an increase of 12 percent. The gross margin amounted to 71 (65) percent.

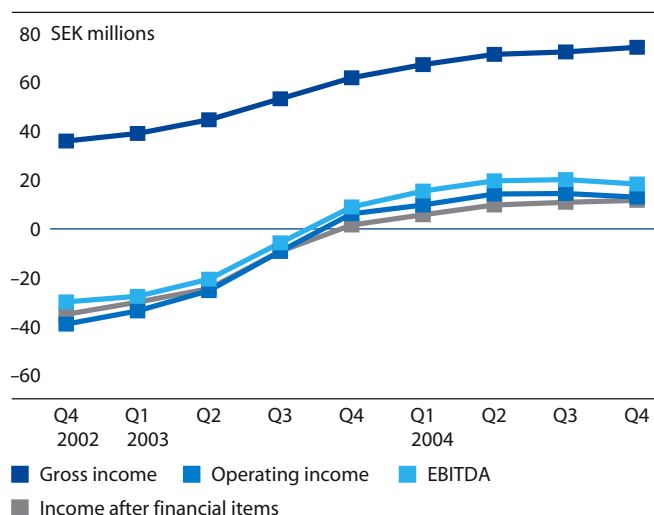
Operating expenses, excluding depreciation and amortization, for the year increased from SEK 55.5 million to 61.0 million, adjusted for divested business in 2003. Selling expenses increased during the latter part of the year, which reflects the efforts that have been made to have a larger proportion of sales conducted by Vitrolife itself. Administrative expenses have decreased while the focus on product development and registration activities is reflected in increased expenses during the latter part of the year.

Depreciation and amortization of SEK 5.4 (6.2) million has been charged against income for the year. Operating income was SEK 13.0 (41.9) million, which corresponds to a margin of 12.6 (43.5) percent. In comparison, operating income was SEK 6.2 million for the whole of 2003 adjusted for divested business. For the fourth quarter of 2004 operating income amounted to SEK 1.6 (3.0) million.

Net financial income amounted to SEK -1.3 (-2.4) million and net income amounted to SEK 11.9 (44.7) million. Net financial income includes unrealized changes in exchange rates for internal receivables and liabilities of SEK -1.9 (0.7) million. The accounting principle for 2004 has been changed in accordance with the Swedish Financial Accounting Standards Council's recommendation RR8, section 22, which means that the translation of the Parent Company's loan and receivable regarding the American subsidiary Vitrolife, Inc. is now entered directly against non-restricted equity and not in financial items. The translation effect in the financial statements amounts to SEK -0.3 (0.7) million net. Tax for the year was a positive item of SEK 0.2

million (positive item 5.2) and concerns tax on the Group's internal profit on inventories. Loss carry-forward from previous years means that no tax expense has been charged against net income for the year. For the fourth quarter net income was SEK 0.1 (5.0) million.

Fig 3. Income* (rolling 12 months), SEK millions



* Excluding A-Life, which was sold in August 2003.

Fertility products

- Sales amounted to SEK 90.8 (84.6) million, an increase of 7 percent. Adjusted for exchange-rate effects the increase was 10 percent.
- 510(k) – sales approval in the USA – for ICSI (intracytoplasmic sperm injection, a technology for the treatment of male infertility) was received in January 2005.
- A patent regarding the use of alanyl-glutamine was received at the beginning of 2005.

Net sales for the whole of 2004 amounted to SEK 90.8 (84.6) million, corresponding to an increase of 7 percent. Corrected for exchange-rate effects the increase was 10 percent. In the Europe/Middle East sales region Vitrolife increased its market share in all important markets within the fertility area (for example Germany), but as the total number of treatments decreased in the three countries where less favourable reimbursement levels (Germany, Hungary) or new restrictive legislation (Italy) were introduced, the increase in sales in the region was limited. As an example, the market in Germany was halved in 2004, while Vitrolife's reduction in sales was only 16 percent. Experience from Norway, for example, has shown that the number of treatments about a year after a change in the reimbursement system returns to the original level.

In the region of America the development of sales was good in local currency, but the decline of the dollar meant that the increase was less when translated to SEK. In the Rest of the world region the increase in sales was very good.

In the fourth quarter sales amounted to SEK 20.6 (20.8) million. In local currencies sales increased by 2 percent.

During 2004 a new customer training program has been developed in the USA, and this has received a very positive response. The experience gained there is being transferred to other markets and similar concepts are being developed for Europe.

Events so far in 2005

In January 2005 the Food and Drug Administration (FDA) announced that they had granted Vitrolife sales approval in the USA, so-called 510(k), for ICSI™ (intracytoplasmic sperm injection), a product that is used in the treatment of male infertility. As ICSI™ contains recombinant albumin (synthetically manufactured) instead of albumin purified from blood, ICSI™ is the first product for this technology which makes it possible to completely eliminate the risk of infection (albumin that has been purified from blood may contain a source of infection that could cause diseases, even though the risk is small). The use of recombinant albumin also gives more stable results and simplifies handling.

At the beginning of 2005 Vitrolife was also informed that the company's patent application regarding the use of alanyl-glutamine in media for embryos and stem cells has been approved in the USA. The advantage of alanyl-glutamine compared with common glutamine is that it is not broken down during storage into substances that can harm the cells.

Transplantation products

- Sales amounted to SEK 12.7 (11.7) million, an increase of 9 percent. Adjusted for exchange-rate effects, sales increased by 15 percent.
- Steen Solution™, a solution for the testing of lung function outside the body before transplantation, has been successfully tested at clinics in Europe and an application for CE-marking (marketing approval in Europe) was submitted in October submitted.

Net sales for the period amounted to SEK 12.7 (11.7) million, corresponding to an increase of 9 percent. In local currencies, sales increased by 15 percent. For the fourth quarter of 2004 net sales amounted to SEK 4.0 (3.2) million. Corrected for exchange-rate effects the increase was 29 percent. The clinical validation of the efficacy and safety of Steen Solution™, a solution for the testing of organs outside the body before they are possibly transplanted, has been carried out successfully. An application for permission to market in Europe, so-called CE-marking, has been submitted. Due to authority procedures it is estimated that approval will be obtained during 2005. Clinical studies in the USA are planned to begin during 2005 and it is estimated that sales will be able to start there in 2006, dependent on approval by the authorities.

Cell Therapy products

- Sales of stem cell media amounted to SEK 0.3 (–) million.
- Testing of the new stem cell media products is ongoing in external stem cell laboratories.

The product area works with the development and marketing of media that enable stem cells to be made use of for therapeutic purposes. Vitrolife's first two commercial products for stem cell research, VitroHES (a nutrient solution for the culture of human embryonic stem cells) and VitroPBS (a product for frozen storage of human embryonic stem cells), have been introduced during 2004 and testing of the new products is at present being carried out at several world-leading stem-cell laboratories for different stem cell types.

Net sales amounted to SEK 0.3 (–) million.

Miscellaneous

In August 2003 the American company Mentor Corp. acquired Vitrolife's A-life business, which develops products primarily for the treatment of facial wrinkles. Mentor Corp. has announced that their first product Hyalite has been CE-marked during August 2004 and is thereby ready to be introduced on to the market in Europe. In October 2004 the company announced that a study has been started whose data will form the basis of an application for approval in the USA. The study is being run for 12 months but the company plans to use the results after 6 months in its application. The purchasing agreement included, in addition to a cash payment, certain royalties to Vitrolife when sales of USD 40 million in total have been reached (total gross sales in the world). Vitrolife does not anticipate that any royalties will be paid during 2005.

Investments and cash flow

Gross investments in the Group's fixed assets amounted to SEK 17.6 (6.7) million during 2004. SEK 14.5 (3.7) million has been invested in tangible fixed assets, of which SEK 6.8 (1.3) million is attributable to the starting up of the factory in Denver. During the third quarter the building of further stores and office space for the facility in Kungsbacka was begun. It is estimated that the investment will amount to approximately SEK 8 million in total. Up until year-end the investment had amounted to SEK 5.6 million. When this work is complete (March 2005), the premises that are now being rented will be left and the costs for the company premises will therefore not be substantially changed. The investments in intangible fixed assets apply to the American subsidiary and amounted for the whole of 2004 to SEK 3.1 (3.0) million.

Vitrolife's cash flow from operating activities amounted to SEK 14.0 (–31.2) million for 2004. Accounts receivable decreased by SEK 1.8 million to SEK 10.7 (12.5) million. The cash flow from investing activities was SEK –17.9 (56.8) million and from financing activities SEK –2.6 (–8.4) million. In all the cash flow for the year amounted to SEK –6.5 (17.2) million.

The Group's liquid funds at December 31, 2004 amounted to SEK 44.9 (51.5) million. During the fourth quarter repayment of a loan of USD 2 million was begun. The amount repaid was SEK 1.0 million. The equity/assets ratio for the Group amounted to 81 (78) percent.

Parent Company

Business activities focus on company-wide management and the company has no employees. Other operating revenues in the Parent Company amounted to SEK 0.7 (–) million and mainly concern costs invoiced to subsidiaries. The costs are attributable to the Board and to the Stockholm Stock Exchange and the requirements the listing of the company's shares there involves. Income before tax amounted to SEK –0.7 (–115.6) million. The previous year's income includes a paper loss of SEK 111.3 million on the sale of A-life Ltd and A-life, Inc. Liquid funds amounted to SEK 34.9 (46.3) million. As in 2003, no investments were made during 2004.

The Vitrolife share is listed on the O-list of the Stockholm Stock Exchange under the symbol VITR. The closing price on December 31, 2004 was SEK 20.00 (23.00).

Organization and personnel

Highly qualified and motivated employees who have a good understanding of the end-customer's needs are crucial to Vitrolife's factors for success – efficacy and safety. The aim is to meet all the employees' development needs through the continual gaining of internal and external qualifications, thus giving each person the opportunity to perform optimally in their work.

During 2004 recruitments have taken place primarily to strengthen the sales and marketing organization, where co-workers with long experience of international marketing within medicine and medical devices as well as experienced embryologists and biologists have been employed.

The average number of employees for 2004 was 76 (66). Of these 64 (59) were employed in Sweden and 12 (7) in the USA. At the end of 2004 the number of employees was 79. During the year the personnel was constituted by 67 percent women and 33 percent men and the average age was 37. 4 permanent employees left the company during the year.

Proposed treatment of unappropriated earnings

The Board and the CEO propose that the earnings at the disposal of the Annual General Meeting, SEK 139.9 million, be carried forward. The Group's non-restricted equity amounted to SEK –39.6 million at December 31, 2004. Thus no dividend will be proposed.

Changeover to IFRS

As from January 1, 2005, Vitrolife will apply International Financial Reporting Standards (IFRS) in its consolidated accounts. This applies to all listed companies within the EU. When reporting in 2005 comparative figures for 2004 must also be translated in accordance with IFRS. This will occur for the first time in the company's interim report for the period January – March 2005.

Together with external accounting expertise, Vitrolife has discussed the differences that exist between the Group's current accounting principles and IFRS and what conceivable effects the changeover can have on the Group's income statements, balance sheets and supplementary information:

- IAS 39 Financial Instruments, Recognition and Measurement: During 2004 there were no financial instruments of such a nature that an effect on position and performance arises.
- IAS 19 Employee Benefits: corresponds to RR 29, which has been applied from 2004. This has not involved any effect on the reported position and performance. The pension plans that exist within the Group involve the payment of insurance premiums and after this the company does not have any pension commitments. The premiums are carried in the period they concern. The company's pensions are thus classified as a defined contribution plan. Furthermore there are no outstanding options programs where the premium has not been at the market rate.
- IAS 16: Property, Plant and Equipment: It is the company's assessment that the changeover to the application of depreciation on a component basis in accordance with IFRS does not have any tangible effects on the opening balance at January 1, 2004 and the closing balance at December 31, 2004.
- IAS 38 Intangible Assets: The company reports intangible assets as previously in accordance with RR 15, which for the most part is in agreement with IAS 38. It is the company's assessment that no tangible effects have affected the company's position and performance.
- IFRS 3: In the financial statements for 2004 goodwill has been amortized by SEK 729 thousand. The goodwill item has been valued for cash flow purposes and there is no write-down requirement. Vitrolife will not translate company acquisitions and mergers retroactively. No company has been acquired during 2004.

Summary of the effect on position and performance
(SEK thousands):

Income statement	Operating income	Net income
2004	13 042	11 936
Change in accordance with IFRS 3	729	729
Adjusted income	13 771	12 665

Balance sheet	Fixed assets	Shareholders' equity
Closing balance Dec 31, 2003	95 985	143 435
Change in accordance with IFRS 3	—	—
Opening balance Jan 1, 2004	95 985	143 435

Closing balance Dec 31, 2004	102 455	150 574
Change in accordance with IFRS 3	729	729
Opening balance January 1, 2005	103 184	151 303

Prospects for 2005

In line with the market strategy Vitrolife will make great efforts in 2005 to increase direct contact with the customers, with the aim of increasing sales. The marketing organization has thus been expanded through the employment of co-workers with long experience of international marketing within medicine and medical devices as well as experienced embryologists and biologists with solid laboratory experience. There will also be an ambitious drive within product development, with the aim of being able to launch new products within all product areas during 2005 and 2006 in order to further enable expansion. Within production the volume products will gradually be transferred to Vitrolife's new production plant in Denver, USA. During a transitional stage the gross margin will deteriorate a few percentage points, before the adaptation of costs has been completed in Kungsbacka and the economies of scale have been achieved in Denver. The factory in Denver has a higher degree of automation and a substantially higher capacity, and thus the economies of scale are expected to have a positive effect in time.

The above measures will be carried out while focusing on continued growth together with profitability.

Nominations committee

The following people have been appointed as members of Vitrolife's nominations committee for the Annual General Meeting in 2005:

Carl Rosén, representing Andra AP-fonden (Second National Pension Insurance Fund)

Gunnar Lindberg, representing Länsförsäkrings Smbolagsfond

Patrik Tigerschiöld, representing Skanditek Industriförvaltning

Proposals and views from shareholders regarding the composition of the Board may be submitted either in writ-

ing to the following address: Patrik Tigerschiöld, Skanditek
Industriförvaltning AB, Kungsträdgårdsgatan 18, 111 47
Stockholm, Sweden, or by phone: +46 8 614 00 38.

Annual General Meeting and Annual Report

The Annual General Meeting will be held on Tuesday May 10, 2005, at 5 pm on SE Banken's premises in Gothenburg at the Södra Hamngatan 11 address. Shareholders will be invited to attend through an announcement in the Swedish Official Gazette and in a national daily newspaper no earlier than six weeks and no later than four weeks before the meeting.

It is estimated that Vitrolife's Annual Report for 2004 will be available at the company's head office in Kungsbäcka at the beginning of April. The Annual Report will be sent to those shareholders who have requested that it be sent to them and published on the company's homepage as a pdf-file.

February 21, 2005
Kungsbäcka, Sweden

The Board

Vitrolife is an international biotechnology/medical device group that develops, produces and markets advanced products and systems for the preparation, cultivation and storage of human cells, tissues and organs. The company has operations within three product areas: Fertility, Transplantation and Cell Therapy. The Fertility product area works with solutions (media) for treatment of human infertility. The Transplantation product area works with solutions and systems designed to keep tissue in optimal shape during the required time outside the body, when waiting for a transplant. The Cell Therapy product area works with media in order to be able to use stem cells for therapeutic purposes.

Vitrolife today has over 70 employees and the company's products are sold in over 80 markets. The main office is in Kungsbäcka, Sweden, with a subsidiary in Denver, USA. The Vitrolife share is listed on the O list of the Stockholm Stock Exchange.

Consolidated income statements

SEK thousands	January–December		October–December	
	2004	2003*	2004	2003*
Net sales	103 855	96 256	24 572	23 962
Cost of goods sold	–29 481	–34 617	–7 129	–8 342
Gross income	74 374	61 639	17 443	15 620
Selling expenses	–28 216	–24 307	–8 587	–6 278
Administrative expenses	–20 590	–25 110	–4 089	–5 111
Research and development costs	–12 228	–13 964	–3 307	–1 822
Other operating revenues and expenses	–298	43 617	114	623
Operating income	13 042	41 875	1 575	3 032
Net financial income	–1 318	–2 369	–1 469	–3 779
Income after financial items	11 724	39 506	106	–747
Tax on income for the period	212	–5 178	–52	5 787
Minority share	—	—	—	—
Net income	11 936	44 684	54	5 040
Earnings per share, SEK	0.65	2.43	0.00	0.27
Average number of outstanding shares	18 390 157	18 390 157	18 390 157	18 390 157
Number of shares at closing day	18 390 157	18 390 157	18 390 157	18 390 157

Depreciation and amortization has reduced income for the year by SEK 5 361 thousand (6 163), of which SEK 729 thousand (729) is amortization of goodwill.

Outstanding option programs do not affect the key ratios since the issue price is considerably higher than the share price.

* The A-life business, which was sold in August 2003, comprises for the whole year 2003 SEK 37.9 million of the net income (consists of a capital gain of SEK 42.3 million and net income of SEK –4.4 million).

Other key ratios

	January–December		October–December	
	2004	2003	2004	2003
Gross margin, %	71.6	64.0	71.0	65.2
Operating margin, %	12.6	43.5	6.4	12.7
Net margin, %	11.5	46.4	0.2	21.0
Equity/assets ratio, %	81.2	78.0	81.2	78.0
Shareholders' equity per share, SEK	8.19	7.80	8.19	7.80
Return on equity, %	7.9	35.1	7.9	35.1
Return on capital employed, %	5.4	30.1	5.4	30.1

Consolidated income statements per quarter

SEK thousands	Oct–Dec	Jul–Sep	Apr–Jun	Jan–Mar	Oct–Dec	Jul–Sep
	2004	2004	2004	2004	2003	2003
Net sales	24 572	24 136	25 602	29 545	23 962	23 459
Cost of goods sold	–7 129	–6 492	–6 813	–9 047	–8 342	–6 811
Gross income	17 443	17 644	18 789	20 498	15 620	16 648
Selling expenses	–8 587	–6 312	–6 675	–6 641	–6 278	–5 921
Administrative expenses	–4 089	–4 902	–6 254	–5 347	–5 111	–4 798
Research and development costs	–3 307	–3 029	–2 561	–3 331	–2 552	–1 607
Other operating revenues and expenses	114	–135	–270	–7	1 353	41 135
Operating income	1 575	3 266	3 029	5 172	3 032	45 457
Net financial income	–1 469	–230	–85	466	–3 779	–1 134
Income after financial items	106	3 036	2 944	5 638	–747	44 323
Tax on income for the period	–52	40	–103	327	5 787	–332
Minority share	—	—	—	—	—	–77
Net income	54	3 076	2 841	5 965	5 040	43 914

Consolidated balance sheets

SEK thousands	Dec 31, 2004	Dec 31, 2003
ASSETS		
Goodwill	3 282	4 011
Other intangible fixed assets	8 374	7 658
Tangible fixed assets	83 656	77 385
Financial fixed assets	7 143	6 931
Inventories	21 858	21 503
Accounts receivable	10 696	12 545
Other current receivables	5 594	2 413
Cash and bank balances	44 935	51 549
Total assets	185 538	183 995
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity	150 574	143 435
Long-term interest-bearing liabilities	16 091	19 566
Short-term interest-bearing liabilities	2 245	1 395
Accounts payable	8 680	6 399
Other short-term interest-free liabilities	7 948	13 200
Total shareholders' equity and liabilities	185 538	183 995

Change in shareholders' equity

SEK thousands	January – December	
	2004	2003
Amount at beginning of year	143 435	111 401
Change in minority interest	—	1 045
Change in composition of the Group	—	–843
Translation difference	–4 797	–12 852
Net income for the year	11 936	44 684
Amount at end of year	150 574	143 435

Consolidated cash flow statements

SEK thousands	January – December	
	2004	2003
Income after financial items	11 724	39 506
Adjustment for items not affecting cash flow	4 634	–35 864
Change in inventories	–508	–3 716
Change in trade receivables	–2 464	–11 468
Change in trade payables	619	–19 663
Cash flow from operating activities	14 005	–31 205
Cash flow from investing activities	–17 854	56 823
Cash flow from financing activities	–2 626	–8 386
Cash flow for the year	–6 475	17 232
Liquid funds at beginning of year	51 549	36 376
Exchange rate difference in liquid funds	–139	–2 059
Liquid funds at end of year	44 935	51 549

Financial data per geographic area

SEK thousands	January – December	
	2004	2003*
Europe / Middle East		
Net sales	62 541	58 884
Operating income	7 854	25 617
The Americas		
Net sales	28 389	26 362
Operating income	3 565	11 468
Rest of world		
Net sales	12 925	11 010
Operating income	1 623	4 790

* The A-life business, which was sold in August 2003, comprises for the whole year 2003 SEK 35.7 million of the net income (consists of a capital gain of SEK 42.3 million and net income of SEK -6.6 million).

Accounting principles

Vitrolife reports in accordance with RR 25, Segment Reporting, geographic areas as primary segment. As from 2004 RR 29, Employee benefits, has been applied. This has not entailed any effect on the reported position and performance. Apart from this, the accounting principles remain unchanged compared with the last Annual Report and are described in the Annual Report for 2003.

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.

During 2005 it is planned that the following reports will be submitted:

Interim report January – March: Tuesday May 10
Interim report January – June: Thursday July 14
Interim report January – September: Thursday October 27

Queries should be addressed to:

Magnus Nilsson, CEO, phone +46 31 721 80 00 or +46 708 22 80 61.
Anna Ahlberg, CFO and responsible for IR, phone +46 31 721 80 13 or +46 708 22 80 13.

Vitrolife 

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