





Continued profitable growth, page 4



Focus on long-term competitiveness and profitability, page 12



Continued increase in shareholder value, page 20

# Our history

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

# THE YEAR IN SUMMARY

# **GROWTH IN ALL REGIONS AND BUSINESS UNITS**

- Sales amounted to SEK 1046 (856) million, corresponding to an increase of 22% in SEK. Sales growth was 22% in local currencies of which 19% represented organic growth.
- High demand for EmbryoScope+, which was launched towards the end of 2016, contributed to strong growth in the Time-lapse business unit.
- Launch of RapidVit<sup>™</sup> Omni, a media system for vitrification (rapid freezing) of eggs and embryos, strengthened the product range in the growing cryo segment.
- Investments in expanded production capacity for pipettes and aspiration needles to meet increased demand.

- Increased sales and production capacity in the ART Equipment business unit with regard to products produced in-house, such as microlaser systems.
- Operating income before depreciation and amortisation (EBITDA) amounted to SEK 408 (303) million, corresponding to a margin of 39% (35). Fluctuations in exchange rates negatively impacted EBITDA by SEK 7 million.
- Net income amounted to SEK 265 (191) million, which gave earnings per share of SEK 12.14 (8.77).

**SEK 1046 M** 

Sales 2017 (856)

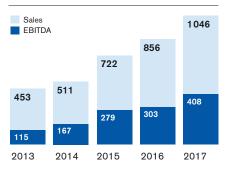
22%

Sales growth in local currencies 2017 (18%)

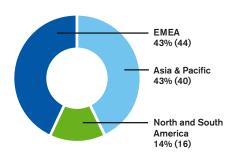
**SEK 408 M** 

EBITDA 2017 (303)

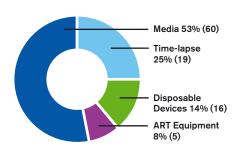
# Sales and EBITDA SEK M



#### Sales per region



#### Sales per business unit



# **Key figures\***

Rey ligures	2017	2016
Net sales, SEK M	1 046	856
Net sales growth, local currencies %	22	18
Gross margin %	65	66
Adjusted gross margin, %**	69	69
EBITDA, SEK M	408	303
EBITDA margin, %	39	35
Net income, SEK M	265	191
Net debt / EBITDA	-1.0	-0.5
Earnings per share, SEK***	12.14	8.77
Share price at closing date, SEK	623.00	387.00
Market capitalization at closing date, SEK M	13 525	8 402
Equity per share, SEK	56.46	46.89
Average number of employees	355	328

In this Annual Report, unless otherwise stated, the corresponding figures for the preceding year are given in parentheses. \* Definitions of key figures are found on page 23. For reconciliation of alternative key figures, see Note 2.

<sup>\*\*</sup> Gross margin excluding amortisation of acquisition-related intangible assets.

<sup>\*\*\*</sup> Before and after dilution.

# **CEO'S COMMENTS**

# **CONTINUED PROFITABLE GROWTH**

## Successful year for Vitrolife

2017 was yet another successful year for Vitrolife. Growth during the year amounted to 22% in local currencies, of which 19% was organic growth. All market regions and business units contributed to this growth. During the year Vitrolife also passed sales of SEK 1 billion on a rolling 12-month basis for the first time, a milestone in the history of the company. The good growth has been achieved without sacrificing profitability. The gross margin before depreciation and amortization (EBITDA) strengthened during the year to 39%.

## IVF market continues to grow

Market growth continued during 2017. Global market growth in the IVF area, measured in monetary terms, is estimated to 5-10%. Growth is driven by the growing middle class, the fact that parents-to-be choose to try to have children later in life, greater social acceptance of IVF and increased use of technology in IVF treatments.

# **Greater demands from patients**

Patients in general are better informed about their coming IVF treatments, largely thanks to social media and the internet. This development means, for example, that patients place greater demands on the clinics in respect of being able to show good results and offering the best methods of treatment. This is driving the demand for technology such as time-lapse, vitrification and genetic screening.

#### Stricter requirements from authorities

There is also a trend of stricter requirements from the authorities. For the clinics this means that they must be able to document and validate their processes and treatments to a greater extent. In Italy, for example, deficiencies in this area have resulted in authorities closing clinics. Authorities also place greater demands on the medical device suppliers. An example of this is requiring more clinical evidence for a product to be granted market approval. This entails greater product development costs for Vitrolife and other suppliers, but also greater barriers for new competitors who want to enter the market.

# Increased demands and requirements driving consolidation

The increased demands and requirements from patients and authorities are leading to clinics working together and forming chains. Clinics can thus cooperate to attract customers, via marketing on websites for example. In addition, they can achieve economies of scale and share resources

such as quality systems, purchasing and personnel. There is also consolidation among the companies supplying the IVF clinics. Chains of clinics increasingly want to make larger volume purchases from fewer suppliers. The increased costs for market approval drive the need for higher sales volumes, which leads to consolidation. Vitrolife has actively participated in this consolidation.

# Investments in marketing and products

Investments have continued to be made during the year in marketing and the product range in order to generate continued profitable growth. In sales and marketing, for example, this has meant a greater number of workshops to train customers and a greater local presence worldwide with regard to technical service. In product development, the company has for instance invested during the year in improved systems for embryo selection in connection with time-lapse cultivation, improved aspiration needles and an improved system for vitrification (freezing of eggs and embryos). After closing day Vitrolife also announced the acquisition of licensing rights to a technology for embryo transfer, which will be followed up by investments in coming years to commercialise the acquired technology.

## Work on sustainability supports the business

Vitrolife's work on sustainability aims to strengthen the Group's long-term competitiveness and profitability. The most important areas of focus to achieve this goal are quality-assured products, competent employees, responsible business and a minimal environmental footprint.

#### Outlook for 2018

Looking ahead, the market outlook is essentially unchanged and Vitrolife therefore anticipates a continuously expanding market that in monetary terms is expected to continue to grow by approximately 5–10% per annum in the foreseeable future. During 2018 the company will also focus on expanding sales and developing the product offering.

## Thank you

I would like to take this opportunity of expressing my deep gratitude to all our committed employees and business partners for their work, which has resulted in yet another successful year for Vitrolife.

Gothenburg, March 2018

Thomas Axelsson CEO



# **BUSINESS CONCEPT, GOALS AND STRATEGIES**

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

# **Business concept**

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

# **Business goal**

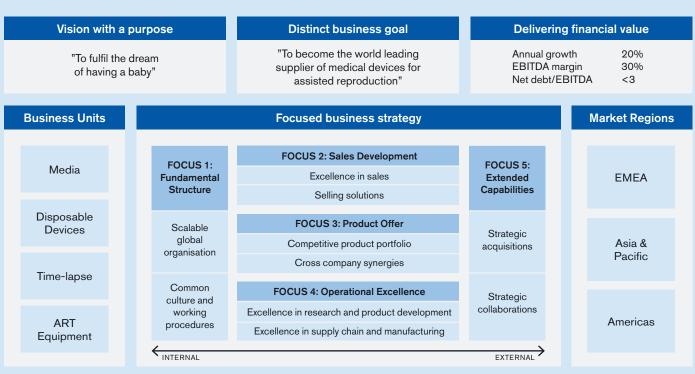
Vitrolife's goal is to become the world-leading supplier of medical devices for assisted reproduction.

## Strategy

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

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

# Vitrolife's growth strategy



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

# Financial objectives

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

# Achievement of financial objectives

#### Sales growth

Over the last three years, Vitrolife's sales in the fertility area have grown both organically and through acquisitions by an average of 23% per year. Organic growth has been driven by IVF market growth of estimated 5–10% per year. Vitrolife has also gained market shares by expanding the sales organisation and broadening the product portfolio. The target of 20% annual growth is defined as organic and acquired growth measured in local currencies and averaged over a three-year period. Growth thus exceeded the target.

### **EBITDA** margin

In 2017 the operating margin before depreciation and amortisation (EBITDA) amounted to 39%, which means that the margin increased compared to 2016. The increase is explained by increased sales, economies of scale, improved profitability in the Time-lapse business unit and by the fact that the company had one-time expenses in 2016, primarily relate d to consolidation of the time-lapse business. Vitrolife's objective for the EBITDA margin is 30%. The company thus reported an operating margin that outperformed the target for 2017.

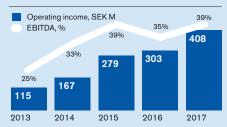
#### Net debt/EBITDA

In 2017, net debt in relation to EBITDA amounted to a multiple of -1.0 (-0.5). In relation to the target, Vitrolife's debt provides scope for financing future acquisitions.

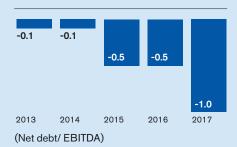
# Over the last three years the average growth rate (CAGR) has been 23% per year measured in local currencies



# The EBITDA margin has increased during 2017



# Vitrolife's debt enables loanfinanced acquisitions



# **Achievement of financial objectives**

Financial objectives	Objective 2017	Actual 2017	Achievement
Sales growth in local currencies (average 3 years)	20%	23%	$\checkmark$
EBITDA margin	30%	39%	$\checkmark$
Net debt/EBITDA	<3	-1.0	$\checkmark$

# IVF TREATMENT

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

# Involuntary childlessness

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

# Treatment of infertility

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

# The IVF process

Usually, IVF treatment starts with the use of hormones to stimulate the woman's ovaries to produce more mature eggs than usual. The eggs are then retrieved from the ovaries using an oocyte aspiration needle. In parallel, the man provides sperm and fertilisation could be achieved by sperm and eggs being brought together in a medium (nutrient solution) in a culture dish. An alternative method for fertilisation is to inject one sperm into one egg using a micropipette. This process is known as ICSI and has revolutionised treatment results for male infertility.

The fertilised eggs, which are called embryos, are then cultured in nutrient solutions, known as media, in an incubator which has a controlled environment that mimics the human body in terms of temperature and pH. After culture for a period of 2–6 days, the embryo or embryos are selected which are assessed to have the greatest potential

to result in pregnancy and are transferred to the uterus using a transfer catheter. Biological assessment of the embryos can be done by removing them from the incubator and performing a microscopic analysis on a number of occasions during the culture process or by utilising new time-lapse technology for monitoring embryos. Genetic assessment of the embryos can be done by observing the number of chromosomes in the embryos. This is called preimplantation genetic screening (PGS).

Any surplus high quality eggs and embryos can be frozen so that they can be thawed and used on a later occasion if the treatment fails to result in pregnancy or if more children are desired later. The most common method for freezing is called vitrification and is also used for freezing of unfertilised eggs.

#### **Treatment results**

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

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

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



# **VITROLIFE'S PRODUCT OFFERING**

# BROAD PORTFOLIO OF QUALITY-ASSURED IVF PRODUCTS

# Competitive offering

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

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

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

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

Vitrolife also offers microlaser systems, which are primarily used for embryo biopsy, that is to be able to extract embryo cells for subsequent genetic analysis (PGS). The company also offers quality control systems for safer and more effective treatments.

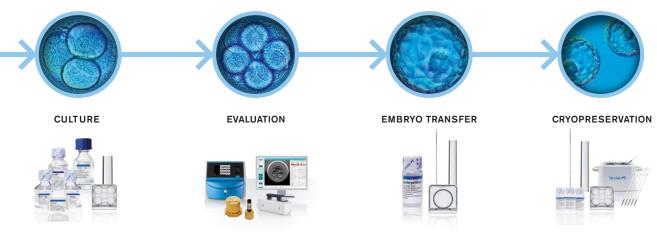
# Collaboration

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

# Service and support

The possibility of becoming pregnant through IVF is influenced by several factors. The woman's age comprises a key factor, since a woman's fertility decreases as she ages. Not only the underlying diagnosis but also other factors, such as hormone treatment and the technique used to transfer the embryo to the woman, have an impact on the result. The environment where the embryo is cultivated is of great significance for the result and factors such as correct nutritional composition, temperature and pH are crucial. Other crucial factors for successful treatment comprise the quality, settings and correct handling of the technical equipment. Any material that the embryo comes into contact with during the procedure could negatively impact results. Therefore, in addition to a quality-assured product line, Vitrolife has a team of experienced embryologists who help customers to set up their processes and flows in an optimal manner.

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



# MARKET AND SALES

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

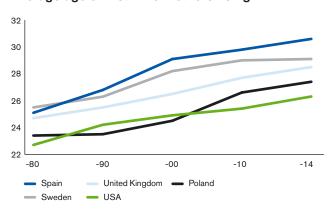
# Market size and growth

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

Vitrolife estimates that each year about 1.9 million oocyte retrieval procedures are carried out and about 2.5 million transfers (embryos transferred to the woman). The reason transfers outnumber oocyte retrievals is that fertilised eggs that are not used in the first transfer are frozen and used if the first treatment fails or if siblings are desired. The amount of reliable data regarding the number of treatments worldwide is limited and, accordingly, the figures are estimated by Vitrolife on the basis of local market data and official statistics.

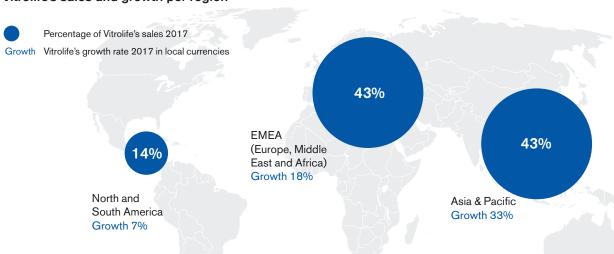
With disposable products valued at approximately SEK 2,000 per treatment, excluding hormones, the world market for disposable products amounts to approximately SEK 4 billion. In addition to the market for disposable medical devices, Vitrolife also addresses parts of the market

### Average age of first-time mothers rising



Source: UNECE Statistical Database. Data from Eurostat and UNICEF TransMONEE.

## Vitrolife's sales and growth per region



# **IN BRIEF**

#### Customers

Private and public clinics, hospitals and laboratories

Number of clinics Approx. 5,000

#### Payment of treatment Partly subsidised in most

countries in Europe, private in the US and Asia

#### Number of treatments per vear

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

#### Cost per treatment

Disposable products approx. SEK 2.000\* Time-lapse approx. SEK 500-1.000 Total cost treatment approx. SEK 50,000

#### Total size of market

Disposable medical devices approx. SEK 4 billion\*

\* Excluding hormones

for capital goods, for example through time-lapse, laser systems and quality control systems.

Market growth is estimated at 5-10% per year, with considerably higher growth in Asia than in Western Europe and North America. Growth is primarily driven by the growing middle class, that parents-to-be choose to try to have children later in life, increased social acceptance of IVF and increased use of technology in IVF treatments.

In the more mature markets, value-driving factors primarily comprise public financing, laws and regulations and technological progress. Israel, where an unlimited number of treatments is offered free of charge, is the country with the highest number of treatments per capita. The Nordic countries, where the majority of patients have historically been offered subsidised treatment, are also high on the list. Per capita, the number of treatments in countries such as the US, China, India and Russia are considerably lower. In the US, this is probably attributable to the need to finance treatment privately; in other words, because relatively few states require health insurance to include cover for assisted reproduction, treatment is very expensive for the patient. In states where the treatment is a mandatory component of health insurance, as in Massachusetts, the number of treatments per capita is appreciably higher.

In countries where few IVF treatments are performed, factors such as personal finances, technical competence, cultural limitations and availability often affect the continued development of the market.

## Vitrolife's sales in 2017

Vitrolife's sales in 2017 amounted to SEK 1046 million (856), corresponding to an increase of 22% in SEK. Sales growth was 22% in local currencies of which 19% represented organic growth.

Sales in the EMEA region increased during the year by 18% in local currencies and amounted to SEK 450 million (376). In the North and South American region sales amounted to SEK 148 million (139). The increase amounted to 7% in local currencies. Sales in the Asia and Pacific region increased by 33% in local currencies and amounted to SEK 448 million (342).

# Competitors

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



# **PATIENT COMMUNICATION** SUPPORTS THE CLINICS

Many of today's IVF patients are well-informed and have read up on their treatment, but not all. During the year Vitrolife interviewed both patients and clinics about their need for information and developed material based on the results. This patient communication material helps clinics to explain the IVF process in general terms, but also in what way Vitrolife's products can be used to increase the chances of successful treatment.

# **SUSTAINABLE BUSINESS**

# FOCUS ON LONG-TERM COMPETITIVENESS AND PROFITABILITY

#### Introduction

This is Vitrolife's first sustainability report. It applies to the 2017 financial year. The sustainability report is for the parent company Vitrolife AB (corporate ID number 556354-3452) and all units consolidated in Vitrolife's consolidated accounts for the same period. These are specified in Note 29. The sustainability report is presented in accordance with the provisions of the Swedish Annual Accounts Act, chapters 6-7. The Board and the CEO have also approved the sustainability report when signing the annual accounts and the consolidated annual accounts.

Vitrolife's business - a potential source of joy

Vitrolife's business contributes to helping people to fulfil their dreams of becoming parents. Vitrolife's business concept is to develop, produce and market advanced, effective and safe products and systems for the fertility treatments. The company's range of products includes nutrient solutions (media), advanced disposable instruments such as needles and pipettes, plastic disposable products and technological aids such as time-lapse, microlaser systems and quality control systems. Vitrolife primarily conducts product development in-house, while research is largely carried out through close cooperation with leading researchers in the field. Product development is based on market need and Vitrolife is also constantly considering the acquisition of companies or product areas in addition to developing products in-house. Production takes place in the company's facilities in Sweden, the US, Denmark and Germany. Marketing and sales are carried out

by Vitrolife and in collaboration with distributors. Vitrolife has customers in approximately 110 countries and they are primarily public and private clinics. For more information on the value chain, see pages 18-19.

# Vitrolife's work on sustainability supports the business

Vitrolife's sustainability activities are aimed at strengthening the Group's long-term competitiveness and profitability. This is achieved through long-term, responsible actions visà-vis the company's stakeholders, such as shareholders, customers, employees, suppliers and society as a whole. Vitrolife's corporate governance policies are described in the Corporate Governance Report on pages 27-29, where the Board's guidelines for sustainable business and the diversity policy are also presented. Vitrolife's values are described on page 17.

Vitrolife's Board and management have identified a number of sustainability aspects that are of importance for Vitrolife's long-term competitiveness and profitability. There are established guidelines and quantatitive or qualitative measures for these aspects. Each year Vitrolife's Board and management work on identifying, minimising and if possible totally eliminating risks that have an impact on sustainable business. The risks are analysed on the basis of legal requirements and other aspects that Vitrolife cannot influence and with regard to risks that Vitrolife can influence directly or indirectly through improved routines, the establishment of guidelines and training of the employees.

# VITROLIFE ACADEMY SUPPORTS VITROLIFE'S **BRAND PROMISE**

Vitrolife Academy stands behind Vitrolife's brand promise "Together. All the way" in that experts in the IVF field organise workshops and training for Vitrolife's customers. Methods are drawn up by the Vitrolife Academy for the best possible IVF results.



The most important sustainability aspects determined by the Board and management on the basis of significance and risk are quality-assured products, competent employees, responsible business and a minimal environmental footprint.

## **Quality-assured products**

The aim is to treat customers, clinics and patients in a sustainable manner. This is achieved by ensuring that each product distributed to customers meets the promised quality standards which, in turn, enables effective treatments. High-quality products are supplied by using quality systems that meet international requirements for medical devices, for example ISO 13485. With its quality system and quality policy, Vitrolife has committed to complying with the regulations set by the authorities in each country where the products are sold or distributed. This means, inter alia, that each product is sold clearly marked for its approved range of applications, has instructions for correct use and that a system is in place to assess risk and register side-effects.

Vitrolife performs tests in the entire production chain, from raw materials and semi-finished goods to the end product, to ensure that products of consistent and high quality are delivered to customers. Quality-assured products are thus a precondition for working as a supplier of medical devices and also involve a competitive advantage. For more information on Vitrolife's quality systems, see pages 18-19.

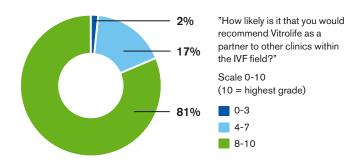
Workshops are regularly organised by Vitrolife both at customers and on Vitrolife's premises so as to give customers training on how the products should be used for the best possible results. Vitrolife Academy, which was set up during the year, is a training organisation in Vitrolife consisting of experts in the IVF field. By collaborating, these experts draw up effective methods and organise training for clinics and the like to achieve the best possible results.

Vitrolife's products are sold worldwide. Customer comments are regularly compiled and are reported to executive management. Vitrolife measures customer satisfaction as the main measure of perceived quality. During 2017 a new method was introduced for measuring customer satisfaction by asking Vitrolife's customers via a questionnaire about their willingness to recommend Vitrolife as a partner to other clinics in the IVF field. Willingness to recommend was measured on a scale from 0 - 10. Vitrolife received a very positive response and 81% of customers gave Vitrolife a grade of between 8 and 10.

## Competent employees

Vitrolife is a knowledge-intensive business Group where the employees are the single most important asset for the Group's long-term competitiveness and profitability.

## Customer satisfaction - willingness to recommend 2017



Vitrolife has identified competence development, equality and anti-discrimination as critical sustainability aspects to develop employees' competence and well-being.

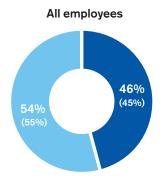
To keep and develop competent and committed employees, together employees and managers identify development needs and draw up development plans in connection with the annual performance reviews. These are carried out on the basis of the company's policy for performance reviews. During 2017 the process for performance reviews was clarified and as from 2018 a measurement method is being introduced to ensure that every employee has had a performance review during the year. In addition to individual development work, job-specific training comprising both qualification and requalification is always carried out. All managers with personnel responsibility receive training in leadership in order to develop into secure and competent leaders. Furthermore, employee surveys are regularly carried out where important points of view and suggestions concerning improvements to the work environment are gathered from the employees.

Equality has been identified as a priority sustainability aspect, both to keep employees and develop them to their full potential and also to attract new employees. Vitrolife strives to be an attractive employer that maximises and utilises the competence that exists in the Group.

Vitrolife has decided to follow up gender distribution for various managerial levels in the Group so as to be able to discover and rectify any imbalance that is not justified. The Human Resources department performs annual salary surveys to discover any unreasonable differences. These are then corrected within the framework of the Group's equality policy.

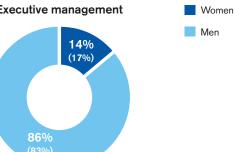
Vitrolife operates globally, and a knowledge of languages and the ability to operate in different cultures are thus important factors in achieving success. Vitrolife's Code of Conduct clearly states Vitrolife's position regarding

#### Gender distribution









human rights, where no form of discrimination is tolerated irrespective of ethnic or national origin, skin colour, gender, sexual orientation, religion, political views, nationality or social origin. Vitrolife has zero tolerance regarding all forms of discrimination, bullying or harassment. The 2018 employee survey will include specific questions within the areas of diversity and equality and about whether there are employees who have personally experienced any form of discrimination.

## Responsible business

Responsible business is a critical sustainability aspect, both to reduce the risk of breaking the law and as a competitive advantage in recruiting and external collaboration. All employees and business partners receive training in Vitrolife's Code of Conduct to ensure that Vitrolife's business is conducted in accordance with local legislation. international and national codes of conduct and Vitrolife's standards. Vitrolife's Code of Conduct has been drawn up, amongst other things, on the basis of the UN's Global Compact regarding human rights, working conditions, the environment and anti-corruption. Vitrolife requires that all employees and distributors sign and comply with Vitrolife's Code of Conduct. The distributors thus certify that there is

no form of slave and/or child labour or bribes. All distributors have signed Vitrolife's Code of Conduct. During 2017, Vitrolife carried out web-based training for all employees to repeat the content and to ensure compliance. All employees at work completed the training and verified compliance with the Code of Conduct.

When selecting and qualifying suppliers with regard to the purchase of raw materials for production, one of the selection criteria is that suppliers comply with and work in accordance with Vitrolife's Code of Conduct. Vitrolife works together with established suppliers, mainly in the EU and the US.

Vitrolife has a whistleblower function, comprising the Group's HR Director and Vitrolife's Chairman of the Board, to whom employees can turn to report any deviations from the Code of Conduct. Reporting can also be done anonymously. There has not been any notifications to the function during the year.

Vitrolife pays tax in every country where business is conducted pursuant to current legislation and OECD guidelines for fair distribution of results, which contributes to the development of the local society in each country.

# VITROLIFE'S **BUSINESS** -**A POTENTIAL SOURCE OF JOY**

Vitrolife's business contributes to helping people to fulfil their dreams of becoming parents. Vitrolife's vision is "to fulfil the dream of having a baby".



## Minimal environmental footprint

Vitrolife aims to conduct the Group's business with as little impact on the environment as possible without sacrificing Vitrolife's competitive advantage. Vitrolife has issued an environmental policy which is continuously communicated to employees, customers, distributors, suppliers and to the general public.

Vitrolife endeavours to improve its environmental performance through the following environmental policy:

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

Since 2014 the head office including the production facility in Gothenburg has been certified in line with the ISO 14001 environmental standard. A policy for sustainable travel has been issued to reduce the environmental impact of travel. One example is the use of the video conferencing equipment installed at all of Vitrolife's offices, which reduces the need for travel. Another example is that the company only chooses eco-certified company cars.

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

refrigerated freight by informing customers about the CO. emissions generated by transportation, thereby encouraging customers to order larger quantities on fewer occasions. Non-temperature-sensitive products such as instruments are transported by sea to south-east Asia. Development work is ongoing at Vitrolife to design and optimise the size of the packing boxes and to develop tools to calculate how to fill the refrigerated boxes optimally. Vitrolife also uses professional freight carriers with efficient transportation systems that optimise shipments through bundling and transportation routes that also reduce CO, emissions and costs. During 2017 Vitrolife transported products to customers amounting to a weight of 440 tonnes, corresponding to a CO<sub>2</sub> consumption of 1,251 tonnes. Vitrolife measures the environmental efficiency of transportation as CO<sub>2</sub> emissions in tonnes in relation to the Group's sales in SEK thousands. The environmental index related to transportation for 2017 thereby amounted to 0.0012.

A large proportion of electricity consumption is attributable to production equipment. Work is ongoing to reduce electricity consumption, for example by making all lighting more efficient. Electricity consumed in Sweden and Germany comes from renewable energy sources, which means zero CO<sub>2</sub> emissions. During 2017 energy consumption amounted to 3,380 MWh, corresponding to a CO<sub>2</sub> consumption of 1,336 tonnes. Vitrolife measures the environmental efficiency of energy consumption as CO<sub>2</sub> emissions in tonnes in relation to the Group's sales in SEK throusands. The environmental index related to energy consumption for 2017 thereby amounted to 0.0013.

## Social responsibility

Helping people to have children is important. Millions of women worldwide do not have access to delivery care. Vitrolife therefore supports the work of Swedish Medical Aid, to ensure safe deliveries for women in rural Africa, which saves lives and reduces suffering.

# Auditor's report on the statutory sustainability report

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

## **Engagement and responsibility**

It is the Board of Directors who is responsible for the statutory sustainability report for the financial year 2017 on pages 12-15 and that it has been prepared in accordance with the Annual Accounts Act.

#### The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is substantially different

and less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

Gothenburg 20 March 2018 Deloitte AB

Fredrik Jonsson Authorized Public Accountant

# **ORGANISATION**

# AN INTERNATIONAL ORGANISATION IN GROWTH

## Organisation

Vitrolife's head office is in Gothenburg and the company's Swedish business is run from there. Vitrolife has production in Gothenburg, but also in Denver and San Diego (USA), in Bruckberg (Germany) and in Aarhus (Denmark). There are also local offices in Australia, Belgium, France, Italy, Japan, China and the UK.

Vitrolife's organisation consists of four business units (Media, Disposable Devices, Time-lapse and ART Equipment) and their products are sold by three geographic market regions (EMEA, Asia & Pacific and the Americas). Furthermore, there are joint corporate support functions such as Human Resources, Research and Development, Finance and IT. During 2017 the organisation was adapted to increase flexibility, so as to enable potential synergies to be utilised more effectively. A structure has been created for Operations which includes all the business units and direct support functions for the business units, and a responsible Chief Operating Officer (COO) was appointed during the year. In the new organisational structure the product development process is owned by the relevant business unit until the product is approved, including all authority approvals and all revisions. Furthermore, there are skills groups that can support the business in a cross-functional manner.

Organisational changes have also been carried out in the market regions, where a globally responsible Chief Sales & Marketing Officer (CSMO) has been appointed. Global synergies can thus be combined with a strong regional focus, which means that Vitrolife further strengthens its customer relations and meets customers' needs.

## **Employees**

During January to December 2017, the average number of employees was 355 (328), of whom 162 (149) were women and 193 (179) were men. Of these, 140 (142) were employed in Sweden, 73 (61) in the US, 73 (63) in Denmark and 69 (62) in the rest of the world. At the end of the period, the number of people employed in the Group was 372 (349). During the year 46% (45) of the employees were women and 54% (55) men and the average age was 40 (41).

# **Development and training**

The ability to attract external competence is important for Vitrolife. A review of the recruitment process was carried out during the year and a new recruitment tool was implemented to reduce the time taken when recruiting and to improve the quality of the recruitment process. The company's ability to attract and induct new employees is continuously followed up and evaluated.

Employees' competence is one of the company's foremost assets and is crucial for Vitrolife's future growth. Employees and managers annually evaluate the development needs that exist and development plans are subsequently prepared. Moreover, internal and external programmes exist for the development of both employees and managers.



One way for the employees to develop and broaden their competence is to stimulate internal mobility and the exchange of experience through global skills groups. By encouraging internal rotation and developing existing roles, employees are challenged to develop themselves further.

During 2017 Vitrolife carried out assessments of the leadership of senior executives in order to survey development potential and facilitate planning for the succession. Furthermore, training for the development of managers was carried out in a number of identified areas.

#### Work environment

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

The local work environment activities are run by the managers and the Human Resources function, supported by collaboration partners, for example local employer organisations and consultants. In the US, this support is provided through the suppliers included in the company's health and medical care plans.

A safety committee runs systematic work environment activities for the operations in Sweden. This committee includes a safety representative appointed by the trade union together with other employee representatives and management. Established plans are in place for responsibility and risk assessment, as are procedures for identifying, rectifying and following up any shortfalls in the work environment.

VITROLIFE'S GOAL IS A DECENTRALISED AND FLEXIBLE ORGANISATIONAL STRUCTURE, CHARACTERISED BY COMPETENCE, ENTREPRENEURIAL SPIRIT. MANAGEMENT BY **OBJECTIVES AND FAST DECISION PROCEDURES.** 

# Collective agreements

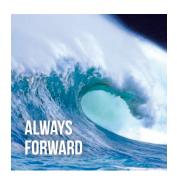
Vitrolife Sweden AB follows collective agreements. The company is a member of Innovation and Chemical Industries in Sweden (IKEM) and is consequently bound by IKEM's agreement with unions including IF Metall, Unionen and Unions for Professionals. Collaboration with local unions has worked well and facilitates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

## Corporate culture

Vitrolife's vision is "To fulfil the dream of having a baby" and describes what is most important for us - helping people realise their dream of becoming parents. Vitrolife's goal is a decentralised and flexible organisational structure, characterised by competence, entrepreneurial spirit, management by objectives and fast decision procedures. These values guide the employees in how to act and take decisions in various situations. Detailed descriptions are available for each value, including everyday examples of their meaning, with the aim that all employees will use them as guidance in their daily work. The values are also discussed at the performance reviews held during the year. Since it is crucial that Vitrolife's operations comply with local legislation, international and national codes of conduct and Vitrolife's standards, all employees and business partners receive training in Vitrolife's Code of Conduct.

# Vitrolife's values and Code of Conduct guides the employees in how to act and take decisions in various situations









# **VALUE CHAIN**

# SAFETY IN THE FORM OF HIGH AND CONSISTENT QUALITY IS ONE OF VITROLIFE'S COMPETITIVE ADVANTAGES

# Innovative product development based on customer benefit and scientific knowledge

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

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

Vitrolife also owns a number of registered trademarks, such as EmbryoGlue®, EmbryoScope® and Primo Vision®.

Development work also comprises preclinical and clinical studies to document the products' effectiveness and safety. These studies are often presented at scientific congresses or published in scientific journals. When a product is ready for launch, these studies comprise an excellent base for communication of the product's value.

# **Product approval**

The majority of Vitrolife's products are classified as medical devices. The documentation requirements for medical devices differ from those applicable for pharmaceuticals. Product approval is required in each individual market in which the products will be sold. In the US, for example,

approval is required from the Food and Drug Administration (FDA) and in China approval from China Food and Drug Administration (CFDA) is required. In the EU, the product must be marked Conformité Européenne (CE).

# Sourcing, production and quality control

Vitrolife has its own production and a large part of Vitrolife's competitiveness is attributable to its well-developed production technology. As raw material suppliers do not have methods to test that the raw materials are suitable for IVF treatment, a great deal of resources are invested in finding and testing raw materials. A large part of production is carried out in clean rooms and all operations are steered by quality systems adapted to medical device standards and regulatory frameworks. Advanced tests of raw material, semifinished and finished products ensure high and consistent quality and comprise a strategic competitive tool.

# Sales and distribution

Vitrolife has sales in approximately 110 markets. In order to support all markets, the company has developed a customer support function where customers can quickly gain access to expert scientific support. As more advanced products are developed, the need for expert customer support also increases. The provision of customer support, both in markets served directly and through distributors, ensures that the products are used correctly thus enabling the clinics to utilise the improvements delivered by the products.

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

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

Research and Development

**Product approval** 

Sourcing. **Production and Quality Control** 

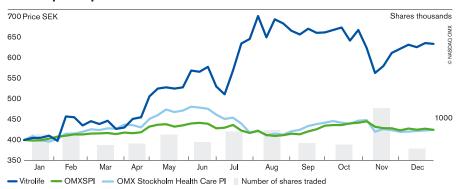
Sales and Distribution



# THE VITROLIFE SHARE

# CONTINUED INCREASE IN SHAREHOLDER VALUE

# Share price performance and turnover 2017



+61% **GROWTH DURING 2017** 

In 2017, Vitrolife's share was listed on NASDAQ Stockholm, Mid Cap. The share has been listed since 26 June 2001, under the ticker VITR.

#### Share structure

On 31 December 2017, the share capital of Vitrolife AB (publ) was SEK 22,144,317 (22,144,317) allocated among 21,710,115 (21,710,115) shares with a quotient value of SEK 1.02. All shares carry the same number of votes and entitle shareholders to equal shares in Vitrolife's assets and earnings. There were no warrants outstanding as of 31 December 2017.

#### Share price performance and turnover

At 31 December 2017, the latest price paid for the share was SEK 623.00 per share (387.00), up 61% year-on-year. Taking into account the dividend of SEK 2.60 paid during the year, the increase was 62%. NASDAQ Stockholm's index increased 6% during the same period and the OMX Stockholm Health Care increased 7%. At the end of 2017, Vitrolife's market capitalization was SEK 13,525 million (8,402), based on the latest share price paid. The highest share price during the year was SEK 717.00 (559.00) on 7 August (29 September). The lowest share price during the year was SEK 381.00 (271.50) on 2 January and 11 January (14 January).

During the year, Vitrolife's share turnover on NASDAQ Stockholm totalled 6,821,872 (10,003,057) shares amounting to a value of SEK 3,794 million (3,984). The total number of transactions was 164,846 (154,501). The total share turnover corresponded to 31.4% (46.1) of the number of shares outstanding at the end of the year.

## Ownership structure

At 31 December 2017, the number of shareholders in Vitrolife was 7,236 (6,657), of these, 91% (89) owned 1,000 shares or less. The ten largest shareholders accounted for 60% (60) of the shares. The proportion of shareholders with registered addresses outside of Sweden was about 52% (48).

#### Dividend policy and dividend

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

In 2017, a dividend was paid of SEK 2.60 per share (2.40). In accordance with the dividend policy, the Board and CEO intend to propose that the 2018 Annual General Meeting resolve in favour of a dividend of SEK 3.70 per share.

#### Share buybacks

The Board was authorised by the 2017 Annual General Meeting to repurchase the company's own shares with the aim of adjusting the company's capital structure. During the year, no purchases of own shares were made.

# Share savings programme

The 2017 Annual General Meeting resolved to introduce a long-term incentive programme (LTI) with the aim of aligning the interests of executive management with those of shareholders and to encourage the purchase of Vitrolife shares. In addition to executive management, the offer was open to 8 employees, making a total of 14 of the company's employees. The aggregated cost of the programme for the company during the period may not exceed SEK 5.4 million. For more information on the programme, see the Management Report on pages 25-26.

The company also has two share-related incentive programmes outstanding pursuant to resolutions adopted by the 2015 and 2016 Annual General Meetings. The conditions of these programmes are essentially in line with those of the programme adopted at the 2017 Annual General Meeting. The aggregated cost of these programmes for the company during the period may not exceed SEK 10.0 million. The company's outstanding commitment in relation to these two programmes relates to the Performance Amounts, which can total a maximum of approximately SEK 2.6 million.

## Warrant programme

Vitrolife has no warrant programme outstanding.

# Price quotes and current information

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

## People discharging managerial responsibilities

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

## **Analysts**

The following companies monitor Vitrolife on a regular basis:

- DnB Nor
- Redeye
- Remium

#### Six reasons to invest in Vitrolife

- Market growth is primarily driven by the growing middle class, that parents-to-be choose to try to have children later in life, increased social acceptance of IVF and increased use of technology in IVF treatments.
- Market leader in the field of media and time-lapse.
- Strong brand name associated with quality.
- Long history of creating profitable growth.
- Economies of scale in media production.
- Aims to lead technological development in the field of IVF.

Per share data					
	2017	2016	2015	2014	2013
Average number of shares	21 710 115	21 710 115	21 710 115	19 987 534	19 830 936
No. of shares at closing date	21 710 115	21 710 115	21 710 115	21 710 115	19 830 936
Shareholders' equity per share, SEK	56.46	46.89	38.84	32.30	15.80
Earnings per share, SEK	12.14	8.77	8.42	5.46	2.84

Shareholders	No. of shares	Shares and
		votes, %
William Demant Invest A/S	4 688 064	21.6
Bure Equity AB (publ)	4 517 857	20.8
SSB Client Omnibus AC OMO7 (15 PCT)	1 176 252	5.4
Lannebo Fonder	625 019	2.9
SEB Investment Management	501 925	2.3
Eccenovo AB	465 000	2.1
CBNY-Norges Bank	430 735	2.0
JPM Chase N.A.	248 480	1.1
CBLDN-400 Series Funds-Clients AC	247 299	1.1
BNYMSANV RE BNYMTD RE GLG CONTINE	N 238 211	1.1
Other shareholders	8 571 273	39.6
Total	21 710 115	100.0

Size of holding votres	No. of shares, thousands	No. of shareholders	Shares and votes, %
1 – 500	617	6 057	2.8
501 – 1 000	412	497	1.9
1 001 – 5 000	1 064	466	4.9
5 001 - 10 000	530	71	2.4
10 001 - 15 000	417	34	1.9
15 001 - 20 000	173	10	0.8
20 001 -	18 494	101	85.2
Summa	21 710	7 236	100.0

# 5-YEAR SUMMARY, GROUP

SEK thousands	2017	2016	2015	2014	2013
Income statements					
Net sales	1 046 217	856 106	722 370	510 512	452 738
Gross income	681 709	561 301	484 820	349 118	300 555
Operating income	340 856	248 841	226 135	143 346	80 398
Income after financial items	340 915	248 930	226 840	146 924	79 788
Net income	264 602	191 212	183 361	109 468	56 700
Depreciation and amortisation	66 949	54 326	53 063	23 250	34 911
Statements of financial position					
Intangible fixed assets	607 738	649 087	515 518	561 392	206 257
Tangible fixed assets	84 432	93 655	89 641	92 322	85 958
Financial fixed assets	9 168	8 948	9 666	9 986	5 442
Deferred tax assets	11 181	22 282	29 964	33 303	_
Inventories	150 556	145 654	102 284	91 676	59 916
Accounts receivable	148 236	126 187	99 783	84 620	61 456
Other current receivables	15 150	15 433	11 973	24 888	12 184
Derivative instruments	_	_	842	_	_
Cash and cash equivalents	395 963	189 245	199 572	107 598	53 769
Total assets	1 422 424	1 250 491	1 059 243	1 005 785	484 982
Shareholders' equity	1 225 857	1 018 055	843 151	700 914	313 886
Non-controlling interests	2 792	2 329	1 821	1 657	1 644
Deferred tax liabilities	51 170	61 280	42 057	59 573	18 914
Other provisions	7 311	9 043	5 191	3 961	4 276
Long-term interest-bearing liabilities	399	466	35 627	60 019	21 622
Long-term non-interest-bearing liabilities	_	_	_	19 830	24 916
Short-term interest-bearing liabilities	81	37 390	11 876	25 774	17 028
Derivative instruments	_	_	_	2 803	1 884
Accounts payable	30 598	24 286	21 749	22 282	15 596
Other short-term non-interest-bearing liabilities	104 216	97 642	97 771	108 972	65 216
Total shareholders' equity and liabilities	1 422 424	1 250 491	1 059 243	1 005 785	484 982
. ,					
Cash flow statements					
Cash flow from operating activities	312 189	181 262	193 526	145 666	106 127
Cash flow from investing activities	-9 980	-131 002	-31 394	-77 517	-14 387
Cash flow from financing activities	-93 496	-63 596	-68 924	-19 704	-49 205
Cash flow for the year	208 713	-13 336	93 208	48 445	42 535
•					
Opening cash and cash equivalents	189 245	199 572	107 598	53 769	11 680
Exchange-rate differences in cash and cash					
equivalents	-1 995	3 009	-1 234	5 384	-446
Closing cash and cash equivalents	395 963	189 245	199 572	107 598	53 769
O					
Other					
Investments, excl. aquisitions	-9 980	-14 500	-22 258	-9 710	-12 507
Net sales outside Sweden, %	98	97	97	97	93
,					

# **KEY RATIOS AND DEFINITIONS, GROUP**

	2017	2016	2015	2014	2013
Margin ratios					
Gross margin, %	65.2	65.6	67.1	68.4	66.4
Adjusted gross margin, %	69.0	69.3	69.9	68.8	66.5
Operating margin before depreciation and					
amortisation (EBITDA), %	39.0	35.4	38.7	32.6	25.5
Operating margin (EBIT), %	32.6	29.1	31.3	28.1	17.8
Other ratios					
Return on equity, %	23.3	20.3	23.5	24.8	19.4
Average number of employees	355	328	320	242	234
Net debt*, SEK M	-395.5	-151.4	-152.1	-21.8	-15.1
Equity/assets ratio, %	86.4	81.6	79.8	69.9	65.1
Share data					
Average number of outstanding shares	21 710 115	21 710 115	21 710 115	19 987 534	19 830 936
Number of shares at closing date	21 710 115	21 710 115	21 710 115	21 710 115	19 830 936
Earnings per share, SEK	12.14	8.77	8.42	5.46	2.84
Cash flow from operating activities per share, SEK	14.38	8.35	8.91	7.29	5.36
Shareholders' equity per share, SEK	56.46	46.89	38.84	32.30	15.80
Dividend per share, SEK	3.70**	2.60	2.40	1.50	1.00
Share price at closing date, SEK	623.00	387.00	288.50	166.00	94.25
Price per Earnings	51.3	44.1	34.3	30.4	33.2

<sup>\*</sup> Negative amount implies net claim. \*\* Proposed dividend, subject to the Annual General Meeting's decision.

#### **Gross margin**

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

# Adjusted gross margin

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

#### Operating margin before depreciation and amortisation

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

#### Operating margin

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

# Return on equity

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

#### Net debt

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

#### Equity/assets ratio

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

# Earnings per share

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

#### Cash flow from operating activities per share

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

#### Shareholders' equity per share

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

## Price per Earnings

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

# **SHARE PRICE DEVELOPMENT 5 YEARS**



# MANAGEMENT REPORT

The Board of Directors and the CEO of Vitrolife AB (publ), corporate registration number 556354-3452, hereby submit the annual report and consolidated financial statements for the 2017 financial year.

#### **Operations**

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

The Group has about 370 employees and the company's products are sold in approximately 110 markets. The company's head office is in Gothenburg, Sweden, and there are also offices in Australia, Belgium, China, Denmark, France, Germany, Italy, Japan, the UK and the US. More information about the organisation is available on pages 16-17. The sustainability report including the environment is available on pages 12-15.

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

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

# Research and development

Vitrolife mainly conducts proprietary product development, while the majority of research is carried out in close collaboration with leading research scientists in the relevant field. Continuous research is performed to create new products and to enhance existing products. Vitrolife has research agreements in the fertility field with eminent individuals in the field of fertility in Australia, Europe and the US. Product development is based on market needs and Vitrolife continuously assesses acquisitions of companies or product areas as complements to develop its own products. During the year, the cost for R&D amounted to 69 MSEK (62).

#### Sales

In 2017, Vitrolife's sales were SEK 1 046 million (856), up 22% in SEK. Sales growth was 22 %

in local currencies. Sales in the EMEA region increased during the year by 18 percent in local currencies and amounted to SEK 450 (376) million. Sales in the North and South American region amounted to SEK 148 (139) million. The increase in local currencies amounted to 7 percent. Sales in the Asia and Pacific region increased by 33 percent in local currencies and amounted to SEK 448 (342) million.

Organic growth totalled 19% in local currencies. In monetary terms, global growth in the IVF market was estimated to 5-10%, which means Vitrolife also took market shares in 2017. All of Vitrolife's market regions and business units reported positive growth for the year.

#### Investments

Investments during the year totalled SEK 10 million (131). Investments in intangible fixed assets totalled SEK 1 million (4) and pertained primarily to capitalised time-lapse development expenditure. Investments in tangible fixed assets totalled SEK 9 million (10) and pertained primarily to equipment. The preceding year included investments in subsidiaries adjusted for acquired cash balances totalled SEK 116 million consisting of the acquisitions of Octax and MTG; see Note 7.

#### Significant events Integration of Octax and MTG

In 2016, Vitrolife acquired all the shares of the German companies Octax Microscience GmbH "Octax" and MTG Medical Technology Vertriebs-GmbH "MTG", world leaders in the field of laser technology for IVF. Integration of the business was carried out during the year, which has resulted, amongst other things, in the merger of the companies and a change of name to Vitrolife GmbH. Further measures taken during the year include integration of the business into Vitrolife's global distribution structure, increased production capacity and optimisation of the product portfolio regarding profitability and growth

#### Changed organisation structure

Vitrolife's organisation consists of four business units and their products are sold by three geographic market regions. Furthermore, there are joint corporate support functions. During 2017 the organisation was adapted to make it more flexible, so as to enable potential synergies to be utilised more effectively. A structure has been created for Operations which includes all the business units and direct support functions for the business units, and a responsible Chief Operating Officer (COO) was appointed during the year. Organisational changes have also been carried out in the market regions, where a globally responsible Chief Sales & Marketing Officer (CSMO) has been appointed.

#### Launch of RapidVit™ Omni

During the year Vitrolife launched a new system for vitrification (rapid freezing) of eggs and embryos under the name of RapidVit™ Omni. With the new system Vitrolife is well-positioned to take advantage of the trend of increased use of vitrification in IVF treatments.

#### Investments in increased production capacity

Investments were made in production during the year in the business unit Disposable Devices. The investments aim to increase capacity regarding aspiration needles and pipettes to meet increased demand, as limitations in capacity negatively impacted sales in 2017. The company anticipates that the limitations in production will be rectified during the first half of 2018.

#### Successful launch of EmbryoScope+

The first EmbryoScope+ time-lapse incubators were delivered to a customer during the fourth quarter of 2016. The worldwide launch of the product has continued successfully and made a strong contribution to the high growth in the business unit Time-lapse during the year. The company is applying for market approval for the product in China, the US and elsewhere. Vitrolife anticipates that EmbryoScope+ will be approved in the US during the second half of 2018 and in China at the beginning of 2019. After the closing date, EmbryoScope was approved for sales in China.

#### Significant risks and uncertainties

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

The risks are presented under the following categories:

- Macro-economic risks
- Operational risks
- Financial risks

#### Macro-economic risks

Changes in economic conditions An economic downturn could result in a decline in the demand for privately financed treatments, particularly in countries with low levels of state subsidies such as the US. However, experience has shown that this type of treatment is often highly prioritised by patients.

Legal and regulatory environment

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

Vitrolife's products need various types of regulatory approval prior to being offered for sale. In the fertility field, the authorities are interested in more closely regulating the market for medical devices with the aim of increasing patient safety and reducing the risk of malpractice. This entails greater product development costs for Vitrolife and other suppliers, but also greater barriers for new competitors who want to enter the market.

#### Significant risks and uncertainties

#### Macro-economic risks

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

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

#### The market

Vitrolife operates in a competitive field. During the year, the trend toward increased technology content in treatments continued. New products and enhanced treatment methods are launched continuously and the future development of the medical device market could impact Vitrolife's competitiveness. Vitrolife invests continuously in research and development to ensure that the company can provide the market with a competitive product offering. Another market trend is for IVF clinics to merge and form chains. Spain, Australia, the UK and the US are examples of markets where consolidation is in progress. Mergers create economies of scale for the clinics in terms of marketing, the purchase of products and availability of competence. Consolidation in the market among suppliers to IVF clinics has also been ongoing in recent years. This trend also continued in 2017. Vitrolife is an active participant in this consolidation process.

# Operational risks

#### Production

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

## Information

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

#### Personnel

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

#### Operational risks

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

#### Insurance cover

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

#### Legal disputes

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

#### Financial risks

#### Currency risks

In terms of cash-flow risks, Vitrolife's largest exposure is to EUR value changes, since 47% (45) of sales are in this currency. The company also has considerable cash flow exposure to CNY as 16 (16) percent of sales are in this currency. The majority of costs are in SEK, USD and DKK. In 2017, no forward cover has been entered into in accordance with the policy, whereby no currency hedge agreements are to be entered into.

#### Interest-rate risks

At the closing date, Vitrolife had no material financial loans.

#### Credit risks

At the closing date, Vitrolife had accounts receivable outstanding of SEK 148 million (126). In conjunction with closing procedures, individual testing is performed of accounts receivable in terms of solvency and credit rating. Historically, Vitrolife has had low credit losses since customer demand is stable.

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

#### Seasonal effects

Vitrolife's sales are affected relatively marginally by seasonal effects. There is often a downturn in orders prior to and during holiday periods. The reason that orders decline before holiday periods is that fertility clinics minimise their stocks, primarily of media, as these have a relatively short shelf life, so as not to risk scrapping. The

#### Financial risks

- Currency risks
- Interest-rate risks
- Credit risks

third quarter suffers the greatest negative impact from holiday periods, since July and August are affected by holiday periods, primarily in Europe. During the first quarter, sales in China are negatively impacted by the Chinese New Year, which falls in January or February. Sales in December are negatively affected in the fourth quarter by the Christmas and New Year holidays. Altogether, total sales are usually relatively even between the first and second half-year.

# Guidelines for remuneration of executive management

The Annual General Meeting on 27 April 2017 resolved to adopt the policies for remuneration and other employment terms of the CEO and the executive management in accordance with the following:

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

#### Fixed basic salary

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

### Variable remuneration (STI)

The CEO's variable remuneration is capped at a maximum of 50% of annual salary. For other members of the executive management, variable remuneration is capped at a maximum of 25% of annual salary. The variable remuneration for the CEO and other members of the executive management is based on the outcome of a number of primarily quantitative parameters compared with set targets. The quantitative parameters relate to the company's sales and income (EBITDA). The total cost to the company of the total variable remuneration for the CEO and other members of the executive management is not permitted to exceed SEK 5,800,000 (including social security expenses).

#### Long-term incentive programme (LTI)

A long-term incentive programme (LTI), in addition to the aforementioned variable remuneration, was introduced with the aim of aligning the interests of shareholders with those of the executive management and to encourage the

purchase of Vitrolife shares. The LTI comprises the following principal components for the executive management and certain selected key individuals at the company:

i. In addition to the executive management, the programme includes 8 employees, making a total of 14 (the participants mentioned below).

ii. If, during a specified period and within the LTI's framework, programme participants purchase shares with their own funds on NASDAQ Stockholm up to a ceiling amount, Vitrolife will match this through a cash payment of the same amount, i.e. compensated for the employee's marginal tax cost, in the form of a one-time payment (the "Matching Amount").

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

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

iv. The criteria for payment of the Performance Amount include, inter alia, that participants are still employed at the company and have retained their shares acquired in accordance with item (ii) throughout the initial three-year period, and that the performance target set by the Board regarding Vitrolife's earnings (EBITDA) per share during the 2019 financial year has been met.

v. The aggregated cost for the company during the period regarding payment of the Matching and Performance Amounts may not exceed SEK 5,400,000.

#### Other

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

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

The company has two share-related incentive programme outstanding pursuant to resolutions adopted by the 2015 and 2016 Annual General Meetings. The conditions of these programmes

are essentially in line with the conditions above. The total cost for the company of payment of the Matching and Performance Amounts pursuant to both these programmes shall not exceed SEK 10.0 million. The company's outstanding commitment in relation to these two programmes relates to the Performance Amounts, which can total a maximum of approximately SEK 2.6 million.

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

At present the company has no warrants programme outstanding.

#### **Deviations from the Annual General** Meeting's guidelines

The company's total costs for the STI programme in 2017 amounted to SEK 7.0 million, which exceeded the guidelines from the Annual General Meeting of a maximum cost of SEK 5.8 million. The increased cost stems from the Board's decision to expand the group of executive management by one person and from an adjustment of the CEO's salary, in line with market rates. Apart from this, the Board has found that the guidelines for remuneration of executive management were followed during the year.

#### Outcome of the LTI 2015 performance objective

The performance objective set by the Board for the financial year 2017 with regard to the long-term incentive programme adopted by the 2015 Annual General Meeting amounted to an EBITDA of SEK 10.49 per share. The outcome for 2017 was SEK 18.78 EBITDA per share. The objective was thus met and the Performance Amount will be paid during 2018 to those participating in the scheme pursuant to the agreement.

#### Outlook

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

#### Events after the closing date

On January 11, Vitrolife acquired exclusive global licensing rights in the IVF field regarding a technology that can be used for embryo transfer in connection with IVF treatments from CrossBay Medical Inc. Vitrolife intends to commercialise the technology by marketing a unique embryo transfer catheter. Vitrolife estimates that worldwide approximately 2.5 million transfers of embryos to women are carried out each year in connection with IVF treatments and that for this purpose approximately 3 million embryo transfer catheters are used. The global market for embryo transfer catheters is

estimated to be approximately SEK 500 million. Vitrolife intends to launch low volumes of the product during the second half of the year in selected markets, amongst other things with a view to collecting customer data on the product's advantages at the same time as preparations take place, for example for high volume production. The acquisition broadens the product range and supports Vitrolife's ambition to offer IVF clinics the most effective products in its efforts to assist patients' desire to have children. The initial purchase price amounted to USD 5 million, which will be recorded as an intangible asset. The purchase price was paid in cash and was financed by available cash balances. In addition to this initial purchase price, additional purchase prices and royalties may be paid in relation to sales. The acquisition is expected to impact EBITDA per share marginally negatively during 2018-2020 and positively as from 2021.

Vitrolife has received market approval for the time-lapse incubator EmbryoScope in China and thereby becomes the first company to market an approved time-lapse incubator in the world's largest IVF market

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

# Parent Company

Business activities focus on Group-wide administration and the company has no employees. The Parent Company's income derives from invoicing of management fee of SEK 3 million (7). This year's investments mainly focused on the formation of subsidiary in Belgium.

# Proposed appropriation of profit

The Board of Directors and the CEO propose that the funds available of SEK 570,107,615 be appropriated as follows:

Dividend (SEK 3.70) SEK 80,327,426 Carried forward SEK 489,780,189 Total SEK 570,107,615

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

The financial statements were approved for publication by the Board of the Parent Company on 20 March 2018.

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

# **CORPORATE GOVERNANCE REPORT**



## Corporate governance - introduction

Good corporate governance ensures that the company is run as efficiently as possible in the interests of its shareholders. The Board and company management drew up strategies during the year to take advantage of the trends we see in the market in the form of establishment of clinic chains, an increased technology content in IVF treatments, changed regulatory requirements and consolidation among suppliers of IVF clinics.

The Board's aim is to regularly visit IVF clinics and be given the opportunity to engage in direct dialogue with Vitrolife's customers. This year's strategy meeting took place in Munich, where

the Board amongst others had the opportunity to visit the successful Reproduktionsmedizin München clinic.

The work of the Board also includes submitting a sustainability report. This is presented on pages 12-15. Vitrolife's sustainability work aims to strengthen the Group's long-term competitiveness and profitability. The most important sustainability aspects for the company are quality-assured products, competent employees, responsible business and a minimal environmental footprint.

Carsten Browall Chairman of the Board

Vitrolife AB (publ) is a Swedish public limited company listed on NASDAQ Stockholm. The corporate governance policies applied by Vitrolife are based on Swedish legislation, primarily the Swedish Companies Act and the Swedish Annual Accounts Act, and NASDAQ Stockholm AB's regulations. Furthermore, they also comply with the provisions in the Swedish Corporate Governance Code (the "Code") and pertain to the 2017 financial year. Further information about corporate governance at Vitrolife is available at www.vitrolife.com.

## **Shareholders**

According to Euroclear Sweden's shareholder register, Vitrolife had 7,236 shareholders at 31 December 2017 (6,657), and the proportion of shareholders with registered addresses outside Sweden was about 52% (48). The ten largest shareholders on 31 December 2017 are specified below.

## **Shares**

On 31 December 2017, the share capital of Vitrolife AB (publ) was SEK 22,144,317 (22,144,317) allocated among 21,710,115 (21,710,115) shares. The shares are traded on NASDAQ Stockholm. At 31 December 2017, Vitrolife's market capitalization was SEK 13,525 million (8,402). All shares carry the same number of votes and entitle shareholders to equal shares in Vitrolife's assets and earnings.

#### Dividend policy

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

#### General meetings of shareholders

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

## 2017 Annual General Meeting

The previous AGM was held in Gothenburg on 27 April 2017. All of the Board members were present at the AGM, as were the company's auditors, Jan Nilsson and Fredrik Jonsson, and the Election Committee's members Patrik Tigerschiöld, Niels Jacobsen and Martin Lewin. The AGM resolved to re-elect Carsten Browall, Fredrik Mattsson, Tord Lendau, Barbro Fridén, Pia Marions and Jón Sigurdsson as Board members. Carsten Browall was re-elected Chairman of the Board. A resolution was passed to adopt Board fees of a total of SEK 1,615,000, of which SEK 500,000 to the Chairman, SEK 175,000 to each of the other Board members. SEK 60,000 to the Chairman of the Audit Committee, SEK 60,000 to the Chairman of the Remuneration Committee and SEK 30,000 to the other members of these committees.

The Board's proposed dividend for the 2016 financial year of SEK 2.60 was adopted. The record date was set for Tuesday 2 May 2017.

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

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

#### Governance structure

General Meeting of Shareholders		Election Committee
		Auditor
Board of Directors 6 members		
Remuneration Committee 3 members	Internal auditor	
CEO and I		

Shareholders	N= -f=b====	Shares and
	No. of shares	votes, %
Nilliam Demant Invest A/S	4 688 064	21.6
Bure Equity AB (publ)	4 517 857	20.8
SSB Client Omnibus AC OMO7 (15 PCT)	1 176 252	5.4
Lannebo Fonder	625 019	2.9
SEB Investment Management	501 925	2.3
Eccenovo AB	465 000	2.1
CBNY-Norges Bank	430 735	2.0
IPM Chase N.A.	248 480	1.1
CBLDN-400 Series Funds-Clients AC	247 299	1.1
BNYMSANV RE BNYMTD RE GLG CONTINEN	238 211	1.1
Other shareholders	8 571 273	39.6
Total	21 710 115	100.0

#### **Election Committee**

On 6 October 2017, the following individuals were announced as members of Vitrolife's Election Committee ahead of the 2018 AGM:

Patrik Tigerschiöld, representing Bure Equity AB Niels Jacobsen, representing William Demant Invest A/S

Hans Ek, representing SEB Investment Management

Carsten Browall, Chairman of the Board

The appointments were made in compliance with the instruction regarding the principles for appointing an Election Committee for the company, which were adopted by Vitrolife's AGM on 27 April 2017.

The Chairman of the Board is tasked as follows to not later than the end of the third quarter each year, ensure that the three largest shareholders or groups of shareholders in terms of the number of votes they hold get the opportunity to appoint a member to the Election Committee. If any of these three shareholders should refrain from appointing a member of the Election Committee, the next largest shareholder is contacted and asked to appoint a member of the Election Committee. The term of office is one year. The Chairman of the Board is a member of the Election Committee and calls the first meeting of the Election Committee. Thereafter, a chairman is appointed for the Election Committee, who should not be the Chairman of the Board.

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

The Election Committee's assessment is that no Board members other than Fredrik Mattsson and Jón Sigurdsson are dependent in relation to the company, the executive management or the company's major shareholders. Fredrik Mattsson is Investment Director at Bure Equity AB, which owns about 21% of the shares in the company. Jón Sigurdsson is the CEO of Össur, whose principal owner William Demant owns about 22% of the shares in Vitrolife.

Ahead of the AGM in April 2018, the Election Committee will submit proposals for the Chairman of the AGM, the number of Board members, the Chairman of the Board and other elected Board members. The Election Committee will also submit proposals regarding fees for work on the Board and its committees and election of auditor. No separate remuneration has been paid by the company to members of the Election Committee for their work on the Committee.

#### 2018 Annual General Meeting

The AGM will be held on 26 April 2018 at 5:00 p.m. at Vitrolife's premises at Gustaf Werners gata 2, Gothenburg. Shareholders are notified through an announcement in the Swedish

Official Gazette and Dagens Industri that a general meeting has been called no more than six weeks and no less than four weeks prior to the general meeting. Shareholders who wish to have an issue addressed by the general meeting can make a written request to this effect to the Board. Any such request to address an issue must be sent to Vitrolife AB (publ), Att: Chairman of the Board, Box 9080, SE 400 92 Gothenburg, Sweden, and must be received by the Board not later than seven weeks prior to the general meeting, or in any case in time for the issue, if required, to be included in the notice convening the general meeting. More information is available at www. vitrolife.com.

In accordance with the dividend policy, the Board and CEO intend to propose that the AGM resolve in favour of a dividend of SEK 3.70 per share.

#### Board of Directors General

The Board is responsible for the company's administration of its affairs and organisation. At the 2017 AGM, six Board members were elected with competence in both medical devices and biotechnology as well as within the areas of finance and strategy. The company's CFO Mikael Engblom served as the Board's secretary during the year. In 2017, the Board held 10 meetings (13), all of which were minuted.

The CEO and CFO have presented issues at the Board meetings. The remuneration and other benefits paid to Board members of Vitrolife are detailed in Note 10. The Board members' shareholdings in Vitrolife are set out on page 30.

#### The Board's work

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

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

The Board's formal work plan was adopted at the statutory Board meeting on 27 April 2017 and

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

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

A comprehensive evaluation of the Board was carried out in 2016 using external expertise and an oral follow-up of this evaluation was carried out during the year. The result showed that the Board functions well and that the areas of focus identified during the evaluation in 2016 were addressed in an adequate manner during 2017. The Board decided to focus on increasing understanding of customer needs and preferences in the time ahead.

# **Diversity policy**

Vitrolife's Board applies the requirements of the Swedish Corporate Governance Code regarding diversity, breadth, gender distribution, age and independence as its diversity policy. The composition of the Board shall be appropriate to the company's business, stage of development and general position. It shall be characterised by diversity and breadth with regard to the competence, experience and background of the Board members elected by the Annual General Meeting. An even gender distribution shall be aimed for.

#### Sustainable business guidelines

Vitrolife's Board has issued guidelines for the company's societal conduct that are aimed at securing the company's long-term capacity to create value. Vitrolife aims to endeavour to add value for its customers, employees, shareholders and other stakeholders by maintaining healthy profitability while offering goods and services in

Board members attendance						
			Attendance	Attendance	Attendance	
Name	Year elected	Dependent	Board meetings	Remuneration Comm.	Audit Comm.	
Carsten Browall	2012		10/10		5/6	
Barbro Fridén	2010		10/10	3/3		
Tord Lendau	2008		9/10		6/6	
Pia Marions	2013		9/10		6/6	
Fredrik Mattsson	2007	x	10/10	3/3		
Jón Sigurdsson	2015	Х	10/10	3/3		
Dependent = As defined	by the Swedish Co	rporate Governar	nce Code.			

the international market. In parallel, the company is to maintain a high ethical standard and be a good corporate citizen on the world stage. Vitrolife and its employees should comply with legislation in the respective countries in which the company operates. Vitrolife should follow the applicable international and national codes of conduct and Vitrolife's Code of Conduct. In situations where neither national legislation nor Vitrolife's Code of Conduct provide any guidance, the company's own norms are applied, which are based on Vitrolife's values and culture.

#### Members of the Board

Vitrolife's Board comprises six members, including the Chairman. For personal details about the Board members and their shareholdings, refer to page 30.

#### Guidelines for remuneration of the executive management

The AGM on 27 April 2017 resolved to adopt the policies for remuneration and other employment terms for the CEO and the executive management in accordance with the following: Remuneration comprises basic salary, variable remuneration, pension and other benefits as detailed in the Management Report on page 25-26 and in Note 10.

Each year, the Board is tasked with evaluating whether any sort of share-related incentive programme should be proposed to the AGM. Currently, the company has three share-related incentive programmes outstanding, which were adopted by the 2015, 2016 and 2017 AGMs. For further information, refer to page 26.

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

## **Remuneration Committee**

Vitrolife's Remuneration Committee assists the Board in preparing items and decision data pertaining to remuneration issues for the executive management. The Remuneration Committee's areas of responsibility are defined in the Board's formal work plan and in the Remuneration Committee's instruction. The Group's guidelines for remuneration of the executive management are included in the Management Report on page 25-26.

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

#### **Audit Committee**

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

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

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

#### **Executive management**

For personal details about the executive management and their shareholdings, refer to page 31.

#### **Election of auditors**

The 2017 AGM resolved in line with the proposal of the Election Committee to reappoint Deloitte AB, as the Company's auditor for a mandate period of three years. The auditors have no assignments in any companies that are closely linked to Vitrolife's principal shareholders and have confirmed their independence towards the company.

The Principal Auditor Fredrik Jonsson have reported their observations from the audit to the Board and the Audit Committee. The annual report, accounts and the administration of the Board and the CEO were examined within the scope of the above work. In addition to the audit assignment, which is paid according to customary invoicing norms, Deloitte AB has provided consultancy and audit-related services amounting to about SEK 0.6 million during the financial

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

The Board's responsibility for internal control is regulated by the Swedish Companies Act and the Swedish Corporate Governance Code. The Board is responsible for ensuring that the company has good internal control. The report is limited to a description of how the internal control regarding financial reporting are organised and it pertains to the 2017 financial year.

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

## **Control environment**

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

Frameworks are in place for credit and currency management.

#### Risk assessment

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

#### **Control activities**

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

#### Follow-up

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

#### Information and communication

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

# **BOARD OF DIRECTORS**



**Carsten Browall** Chairman of the Board

Born 1958. M.Sc. in Business and Economics. Board member since 2012.

Other assignments: Chairman of the Board in GHP Specialty Care AB and Osstell AB. Board member in Unident AB.

Previous assignments: Extensive experience of the medical device and healthcare sectors in senior positions in fast-growing companies such as Mölnlycke, Nobel Biocare, Capio and Unfors RaySafe.

Shareholding in Vitrolife\*: 14,000 shares.



Barbro Fridén

Born 1956. MD, PhD, Subspecialist in reproductive medicine/IVF. Board member since

Other assignments: Board member in Getinge AB and the Swedish Sea Rescue Society.

Previous assignments: CEO of Sheikh Khalifa Medical City Ajman, United Arab Emirates, CEO of Sahlgrenska University Hospital, Division Director for Astrid Lindgren Children's Hospital, Director of Fertilitetscentrum AB in Gothenburg and Stockholm and Medical Editor of Läkartidningen.

Shareholding in Vitrolife\*: 0 shares.



**Tord Lendau** 

Born 1957. Board member since 2008. Chairman of the Audit Committee since 2014.

Other assignments: Chairman of the Board of Scibase AB, Embedded Nano AB, Encare AB, Hubbster and Promimic AB. Board member in Seafire AB.

Previous assignments: Head of Sandvik MedTech, CEO of Artimplant AB, Noster Systems AB, Medtronic/Synectics and Synectics Medical AB.

Shareholding in Vitrolife\*: 14,000 shares.



**Pia Marions** 

Born 1963. M.Sc. in Business and Economics. Board member since 2013

Other assignments: CFO of Skandia. Board member in Skandiabanken, Skandia Fastighet and Svenska Revisionsakademin.

Previous assignments: CFO of Folksam, CFO of Carnegie Group, senior positions at RBS (Royal Bank of Scotland), Skandia Liv, Länsförsäkringar Liv, Swedish Financial Supervisory Authority (Finansinspektionen) and has worked as certified public auditor.

Shareholding in Vitrolife\*: 1,000 shares.



Fredrik Mattsson

Born 1972, M.Sc. Ind.Eng. Board member since 2007.

Other assignments: Investment Director at Bure Equity AB. Chairman of the Board in XVIVO Perfusion AB, BioLamina AB and Celemi, Board member in Life Genomics AB.

Previous assignments: CEO of Anew Learning and senior positions within Gambro.

Shareholding in Vitrolife\*: 10,000 shares.



Jón Sigurdsson

Born 1956. B.Sc. in Industrial Engineering, Master's degree in Business Administration (MBA). Board member since 2015.

Other assignments: President and CEO at Össur. Chairman of the Icelandic American Chamber of Commerce.

Previous assignments:

Commercial Counselor for the Icelandic Trade Council in New York, CFO at Álafoss, Head of the International Division of Eimskip and Engineer for Bang and Olufsen Denmark.

Shareholding in Vitrolife\*: 5,000 shares.

# **EXECUTIVE MANAGEMENT**



**Thomas Axelsson Chief Executive Officer** (CEO)

Born 1959. Employed in 2011.

Previous assignments:

Experience as CEO of the publicly traded companies Stille and Artema and several unlisted medical device companies, Chairman of the Board of SBL Vaccin AB, Neoventa Medical AB, Airsonett AB and other companies mainly within the Life Science sector. Business Unit Director at Baxter.

Shareholding in Vitrolife\*: 20,100 shares.



# Anders Ardstål **Vice President Business** Development

Born 1981. M.Sc. Industrial Engineering and Management. Employed in 2012.

Other assignments: Chairman of the board in Pmevenire AB.

Previous assignments: VP of Sales at LumenRadio, Management Consultant at McKinsey & Co and various operational management positions at Thule.

Shareholding in Vitrolife\*: 1,715 shares.



# Mikael Engblom **Chief Financial Officer** (CFO)

Born 1977. M.B.A. Employed in 2007.

Other assignments: Board member in AH Automation AB.

Previous assignments: Controller at Vitrolife and controller within R&D at Volvo Cars.

Shareholding in Vitrolife\*: 5,673 shares.



**Rickard Ericsson Chief Sales & Marketing** Officer (CSMO)

Born 1971. M.Sc., Industrial Engineering and Management. Employed in 2015.

Previous assignments: Business Development Director Europe at SCA Incontinence Care, Sales and Marketing Director UK & Ireland at SCA Incontinence Care, Management Consultant at Adera and Business Development Manager / Key Account Manager at Telia.

Shareholding in Vitrolife\*: 1,201 shares.



# **Maria Forss Business Unit Director** Media

Born 1972. MScBA. Employed in 2012.

Other assignments: Board member in LIDDS AB.

Previous assignments: Head of business development at PULS, CEO of Duocort Pharma and various management positions within Astra Zeneca. Member of the board of Oncorena AB.

Shareholding in Vitrolife\*: 1,995 shares.



**Mark Larman Chief Scientific Officer** (CSO)

Born 1974. PhD. Employed in 2017.

Previous assignments: Senior Director Clinical Product Management at Progyny, Media Development Manager and Senior Scientist at Vitrolife, Senior Research Fellow at University of Melbourne, Australia.

Shareholding in Vitrolife\*: 239 shares.



Steffen Nielsen **Chief Operating Officer** (COO)

Born 1977. M.Sc. Industrial Engineering and Management. Employed in 2014.

Previous assignments: COO at FertiliTech A/S, Global Supply Chain Director at Danfoss Industrial Refrigeration and various management positions within Danfoss.

Shareholding in Vitrolife\*: 1,350 shares.

# **INCOME STATEMENTS WITH COMMENTS**

	Group		Parent	Company	
SEK thousands	Note	2017	2016	2017	2016
	3,4				
Net sales	5,6	1 046 217	856 106	2 695	6 833
Cost of goods sold		-364 508	-294 805	_	
Gross income		681 709	561 301	2 695	6 833
Comprising					
Adjusted gross income		722 125	593 011	2 695	6 833
Amortisation of acquisition-related intangible assets		-40 416	-31 710	_	
Gross income		681 709	561 301	2 695	6 833
Selling expenses		-170 279	-155 686	_	_
Administrative expenses		-99 334	-94 146	-11 105	-14 825
Research and development expenses		-69 116	-61 590	_	_
Other operating revenue	8	1 092	2 111	48	_
Other operating expenses	9	-3 216	-3 149	_	-5
Operating income 10,11,1	2,14,28	340 856	248 841	-8 362	-7 997
Comprising					
Adjusted operating income		382 258	281 819	-8 362	-7 997
Amortisation of acquisition-related intangible assets		-41 402	-32 978	_	_
Operating income		340 856	248 841	-8 362	-7 997
Net financial items	13,14				
Financial income	- 1	525	888	70 309	161 284
Financial expenses		-466	-799	-7 508	-7 937
Income after financial items		340 915	248 930	54 439	145 350
Year-end adjustments (received Group contribution)		_	_	8 351	3 384
Income taxes	15	-76 313	-57 718	-10	_
Income for the year		264 602	191 212	62 780	148 734
Attributable to					
Parent Company's shareholders		263 640	190 368	62 780	148 734
Non-controlling interests		962	844	_	_
Earnings per share*, SEK	23	12.14	8.77	_	_

<sup>\*</sup> Before and after dilution.

#### Group

Sales amounted to SEK 1 046 million (856), corresponding to an increase of 22% in SEK. Sales growth was 22% in local currencies, of which 19% represented organic growth. Gross income amounted to SEK 682 million (561), corresponding to a gross margin of 65% (66).

Selling expenses amounted to 16% (18) of sales. Administrative expenses amounted to 9% (11) of sales. R&D expenses amounted to 7% (7) of sales. The expenses were positively affected by economies of scale. Depreciation, amortisation and impairment of SEK 67 million (54) were charged against income.

Operating income before depreciation and amortisation (EBITDA) amounted to SEK 408 million (303), corresponding to a margin of 39% (35). Profitability has risen due to growth, economies of scale and internal streamlining efforts. Last year's operating income included one-time expenses of SEK 8 million related to the consolidation of the time-lapse business. Fluctuations in exchange rates negatively impacted EBITDA by SEK 7 million.

Net financial items amounted to SEK 0 million (0). Income after financial items totalled SEK 341 million (249). Net income was SEK 265 million (191).

## **Parent Company**

The Parent Company's operations focus on Group-wide administration. Income included invoicing of management fee of SEK 3 million (7). Net financial items include dividends from group companies of SEK 70 million and a write-down of the shares in the Hungarian subsidiary Vitrolife Kft of SEK 7 million. The write-down was caused by the company being liquidated during the first guarter of 2017. Income after financial items was SEK 54 million (145).

# **INCOME STATEMENTS AND STATEMENTS OF OTHER COMPREHENSIVE INCOME**

		Group	Parent Company	
SEK thousands	2017	2016	2017	2016
Income for the year	264 602	191 212	62 780	148 734
Other comprehensive income				
Items that may be reclassified to the income statement				
Cash-flow hedges, net after tax	_	-657	_	_
Exchange-rate differences	686	37 374	_	
Total other comprehensive income	686	36 717	-	_
Comprehensive income	265 288	227 929	62 780	148 734
Attributable to				
Parent Company's shareholders	264 248	227 008	62 780	148 734
Non-controlling interests	1 040	921	_	-

# **CONSOLIDATED INCOME STATEMENTS PER QUARTER**

	Oct-Dec	Jul-Sep	Apr-Jun	Jan-Mar	Oct-Dec	Jul-Sep	Apr–Jun	Jan-Mar
SEK thousands	2017	2017	2017	2017	2016	2016	2016	2016
Net sales	270 847	245 904	285 385	244 081	250 909	210 427	207 772	186 998
Cost of goods sold	-96 885	-82 564	-98 774	-86 285	-82 427	-79 510	-71 047	-61 821
Gross income	173 962	163 340	186 611	157 796	168 482	130 917	136 725	125 177
Selling expenses	-44 650	-41 110	-45 902	-38 617	-43 703	-39 003	-38 929	-34 051
Administrative expenses	-28 062	-23 263	-25 515	-22 494	-25 373	-21 190	-24 656	-22 927
Research and development expenses	-16 950	-16 101	-17 573	-18 492	-18 366	-15 294	-15 377	-12 553
Other operating revenue/expenses	2 535	-1 759	-3 017	117	-2 691	1 263	4 017	-3 627
Operating income	86 835	81 107	94 604	78 310	78 349	56 693	61 780	52 019
Net financial items	2 988	-1 914	-634	-381	-524	1 540	953	-1 880
Income after financial items	89 823	79 193	93 970	77 929	77 825	58 233	62 733	50 139
Income taxes	-21 308	-14 241	-22 490	-18 274	-18 093	-13 632	-14 553	-11 440
Income for the period	68 515	64 952	71 480	59 655	59 732	44 601	48 180	38 699
Attributable to								
Parent Company's shareholders	68 379	64 760	71 297	59 204	59 514	44 471	47 956	38 427
Non-controlling interests	136	192	183	451	218	130	224	272

# STATEMENTS OF FINANCIAL POSITION WITH COMMENTS

		Group		Parent Company		
SEK thousands	Note	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	
ASSETS	3,7,27					
Fixed assets						
Goodwill	5,16	408 937	403 216	_	_	
Other intangible fixed assets	5,16	198 801	245 871	_	_	
Tangible fixed assets	5,17	84 432	93 655	12	12	
Participations in Group companies	7,29	_	_	770 629	777 720	
Other shares and participations		3 746	3 746	3 746	3 746	
Other financial fixed assets		5 422	5 202	_	_	
Deferred tax assets	15	11 181	22 282	_	_	
Total fixed assets		712 519	773 972	774 387	781 478	
_						
Current assets						
Inventories	18	150 556	145 654	_	_	
Accounts receivable	19	148 236	126 187	_	_	
Receivables from Group companies		_	_	262	11 889	
Current tax assets		362	2 282	_	_	
Other receivables		5 016	5 045	146	500	
Prepaid expenses and accrued income	20	9 772	8 106	_	1 177	
Cash and cash equivalents	21	395 963	189 245	5 377	2 974	
Total current assets		709 905	476 519	5 785	16 540	
TOTAL ASSETS		1 422 424	1 250 491	780 172	798 018	

#### **Fixed assets**

Goodwill has increased by SEK 6 million, of which SEK 5 million was attributable to exchange-rate fluctuations and the remaining part was attributable to a minor adjustment in connection with the completion of the acquisition analysis of Octax and MTG during the second quarter of 2017. Other intangible fixed assets have decreased by SEK 47 million, of which SEK 54 million was attributable to amortisations. The remaining part was attributable to investments and positive exchange-rate fluctuations to the tune of SEK 6 million. For further information; refer to Note 7 and 16.

Gross investments in intangible fixed assets amounted to SEK 1 million (4) and consisted mainly of capitalized development costs. Gross investments in tangible fixed assets amounted to SEK 10 million (10) and consisted mainly of production equipment. For further information; refer to Note17.

#### **Current assets**

Inventories grew SEK 5 million during the year, from SEK 146 million to SEK 151 million. The average inventory level was 14% (14) of net sales for the year. Accounts receivable rose SEK 22 million, from SEK 126 million to SEK 148 million. Accounts receivable averaged 13% (13) of net sales for the year. The increases in current assets were attributable to growth in sales and an expanding business.

#### **Parent Company**

The Parent Company's assets largely comprise participations in Group companies. These were valued at SEK 771 million (778) at the closing date. The change is largely attributable to a write-down by SEK 7 million of the shares in the Hungarian subsidiary Vitrolife Kft., in connection with the liquidation of the company during the first quarter of 2017. Based on future earning potential, no impairment has been deemed necessary for other shares in subsidiaries. For further information on participations in Group companies; refer to Note 29.

# STATEMENTS OF FINANCIAL POSITION WITH COMMENTS

		Group		Parent Company		
SEK thousands	Note	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	
SHAREHOLDERS' EQUITY	7,22,23					
Group						
Share capital		22 144	22 144	_	_	
Other capital contributed		494 610	494 610	_	_	
Reserves		12 567	11 959	_	_	
Retained earnings incl. income for the year		696 536	489 342	_	_	
,						
Parent Company						
Restricted shareholders' equity						
Share capital		_	_	22 144	22 144	
Statutory reserve		_	_	172 604	172 604	
Unrestricted shareholders' equity				172 00 1	172 00 1	
Share premium reserve		_	_	322 043	322 043	
Retained earnings		_	_	185 284	92 996	
Income for the year		_	_	62 780	148 734	
Shareholders' equity, attributable to the Parent				02 100	140704	
Company's shareholders		1 225 857	1 018 055	764 855	758 521	
Company's snarenoiders		1 223 031	1 010 033	704 000	730 321	
Non-controlling interests		2 792	2 329	_	_	
TOTAL SHAREHOLDERS' EQUITY		1 228 649	1 020 384	764 855	758 521	
TOTAL STIARLINGEDERS EQUIT		1 220 040	1 020 004	704000	700 021	
LIABILITIES	3,7,27					
Long-term provisions	-,.,					
Deferred tax liabilities	15	51 170	61 280	_	_	
Other provisions	25	7 311	9 043	_	_	
Total long-term provisions	20	58 481	70 323	_	_	
rotal long to m providens		00 101	7.0.020			
Long-term liabilities						
Long-term interest-bearing liabilities	24	399	466	_	_	
Total long-term liabilities		399	466	_	_	
Current liabilities						
Short-term interest-bearing liabilities	24	81	37 390	_	37 311	
Accounts payable		30 598	24 286	619	117	
Liabilities to Group companies		_	_	12 112	_	
Current tax liabilities		17 899	22 044	10	4	
Other liabilities		12 761	12 698	-	_	
Accrued expenses and deferred income	26	73 556	62 900	2 576	2 065	
Total current liabilities	20	134 895	1 <b>59 318</b>	15 317	39 497	
iotal carrent habilities		104 033	133 313	13 317	03 731	
TOTAL LIABILITIES		193 775	230 107	15 317	39 497	
TOTAL SHAREHOLDERS' EQUITY AND LIABILI	TIES	1 422 424	1 250 491	780 172	798 018	
	0	1 122 727	1 200 701	100 112	.00010	

## Shareholders' equity and liabilities

Interest-bearing liabilities decreased by SEK 37 million year-on-year. The decrease was attributable to loan repayments of SEK 37 million (12), which in all essentials refers to repayment of the loan pertaining to the acquisition of FertiliTech (now Vitrolife A/S).

Provisions are mainly composed of endowment insurances for pensions and warranty commitments for products sold.

Accounts payable averaged 3% (3) of net sales for the year. The equity/assets ratio was 86% (82).

## **Parent Company**

The SEK 6 million (97) change in the Parent Company's shareholders' equity was attributable to comprehensive income for the year of SEK 63 million (149) and the dividend paid to shareholders of SEK -56 million (-52).

# **CHANGES IN SHAREHOLDERS' EQUITY**

Group	Attributal	ole to the Parent C	Non-	Total		
SEK thousands	Share capital	Other capital contributed	Reserves	Retained earnings	controlling interests	share- holders' equity
Opening shareholders' equity 1 Jan. 2016	22 144	494 610	-24 681	351 078	1 821	844 972
Comprehensive income for the year	_	_	36 640	190 368	921	227 929
Dividend (SEK 2.40 per share)	_	_	_	-52 104	_	-52 104
Dividend, non-controlling interests		_	_	_	-413	-413
Closing shareholders' equity 31 Dec. 2016	22 144	494 610	11 959	489 342	2 329	1 020 384
Opening shareholders' equity 1 Jan. 2017	22 144	494 610	11 959	489 342	2 329	1 020 384
Comprehensive income for the year	_	_	608	263 640	1 040	265 288
Dividend (SEK 2.60 per share)	_	_	_	-56 446	_	-56 446
Dividend, non-controlling interests	_	_	_	_	-577	-577
Closing shareholders' equity 31 Dec. 2017	22 144	494 610	12 567	696 536	2 792	1 228 649

Parent Company	Restric shareholder		Unrestricte	Total share-		
	Share	Statutory	Share	Retained	Income for	holders'
	capital	reserve	premium	earnings	the year	equity
SEK thousands			reserve			
Opening shareholders' equity 1 Jan. 2016	22 144	172 604	322 043	6 243	138 856	661 890
AGM's appropriation of profits	_	-	_	138 856	-138 856	_
Comprehensive income for the year	_	-	_	_	148 734	148 734
Dividend (SEK 2.40 per share)	_	-	_	-52 104	-	-52 104
Closing shareholders' equity 31 Dec. 2016	22 144	172 604	322 043	92 996	148 734	758 521
Opening shareholders' equity 1 Jan. 2017	22 144	172 604	322 043	92 996	148 734	758 521
AGM's appropriation of profits	_	-	_	148 734	-148 734	_
Comprehensive income for the year	_	-	_	_	62 780	62 780
Dividend (SEK 2.60 per share)	_	-	_	-56 446	-	-56 446
Closing shareholders' equity 31 Dec. 2017	22 144	172 604	322 043	185 284	62 780	764 855

# **CASH-FLOW STATEMENTS**

SEK thousands				Parent Company	
	Note	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	21				
Operating activities					
Income after financial items		340 915	248 930	54 439	145 350
Adjustment for non-cash items		65 107	55 126	-63 143	-153 746
Tax paid		-83 744	-83 400	-4	_
Cash flow from operating activities					
before changes in working capital		322 278	220 656	-8 708	-8 396
Increase (-)/Decrease (+) in inventories		-8 515	-26 323	_	_
Increase (-)/Decrease (+) in operating receivables		-24 433	-17 633	3 291	2 184
Increase (+)/Decrease (-) in operating liabilities		22 859	4 562	1 013	962
Cash flow from operating activities		312 189	181 262	-4 404	-5 250
1					
Investing activities			110 500	404	E 4 00 4
Business combinations		- 054	-116 502	-191	-54 824
Investments in intangible fixed assets		-971	-3 783	_	_
Investments in tangible fixed assets		-9 502	-9 969	_	_
Sale of tangible fixed assets		294	- F40	_	_
Investments in financial fixed assets		199	-748	-	- -
Cash flow from investing activities		-9 980	-131 002	-191	-54 824
Financing activities					
Lending to subsidiary		_	_	_	-72 618
Borrowing from subsidiary		_	_	12 112	_
Loan repayments		-37 333	-12 347	-37 252	-12 301
Repayments from subsidiary		_	_	_	38 209
Dividends received		_	_	85 171	161 847
Dividends paid		-57 024	-52 517	-56 446	-52 104
Group contribution received		_	_	3 384	_
Changes in financial receivables		861	1 268	_	_
Cash flow from financing activities		-93 496	-63 596	6 969	63 033
dentities and the same of the		55.55			
Cash flow for the year		208 713	-13 336	2 374	2 959
Opening cash and cash equivalents		189 245	199 572	2 974	592
Exchange-rate difference in cash and cash equivaler	nts	-1 995	3 009	29	-577
Closing cash and cash equivalents		395 963	189 245	5 377	2 974

## Cash flow

Consolidated cash flow from operating activities totalled SEK 312 million (181) for 2017. The cash flow from investing activities was SEK -10 million (-131) for the Group. During the year, cash flow related to gross investments was SEK -10 million (-10) for tangible fixed assets, SEK -1 million (-4) for intangible fixed assets and SEK 0 million (-1) for financial fixed assets.

Investments in subsidiaries amounted to SEK - million (-117), where the investments in 2016 were attributable to the acquisitions of Octax and MTG in full.

The cash flow from financing activities was SEK -93 million (-64) and comprised items including dividend paid to shareholders of SEK -57 million (-52) and loan repayments of SEK -37 million (-12).

In total, cash flow for the year was SEK 209 million (-13) for the Group. At 31 December 2017, consolidated cash and cash equivalents was SEK 396 million (189).

# Parent company

The investments of the year were in all essentials attributable to the formation of a new subsidiary in Belgium. Loan repayments amounted to SEK -37 million, and referred to repayment of the loan pertaining to the acquisition of FertiliTech (now Vitrolife A/S).

# NOTES TO THE FINANCIAL STATEMENTS

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

The Board of Directors resolved to adopt these consolidated financial statements for publication on 20 March 2018.

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# Note 1 Accounting policies

## Compliance with standards and legislation

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

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

#### Classification

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

#### Consolidation policies

The consolidated financial statements include the Parent Company Vitrolife AB (publ) and the subsidiaries in which the Parent Company has a controlling influence at year end. Intra-Group receivables and liabilities, income and expenses, and unrealised gains or losses arising from intra-Group transactions are eliminated in their entirety when preparing the consolidated financial statements.

#### Functional currency and reporting currency

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

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

#### Foreign currencies

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

#### Net investments in foreign operations

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

The following exchange rates have been applied in these statements:

Currency	Average	Average exchange rate		Closing rate		
	2017	2016	Dec 31. 2017	Dec 31. 2016		
EUR	9.6326	9.4704	9.8497	9.5669		
USD	8.5380	8.5613	8.2322	9.0971		
AUD	6.5434	6.3724	6.4235	6.5688		
GBP	10.9896	11.5664	11.1045	11.1787		
CNY	1.2631	1.2879	1.2642	1.3091		
JPY	0.0761	0.0790	0.0731	0.0777		
DKK	1.2949	1.2720	1.3229	1.2869		
HUF	0.0312	0.0304	0.0317	0.0308		

Source: The Riksbank

#### New accounting policies 2017

No standards, amendments or interpretations that entered force in 2017 are deemed to have had material impact on the Group financial statements.

# New accounting policies 2018 and later

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

IFRS 9 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and liabilities, 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. Vitrolife's accounts receivable are, in all essentials, made up by short-term accounts receivable without financing components and the company has historically had low bad debt losses. Based on that, the company has concluded that transition to the new accounting standard will not cause any material effects to the Group financial statements.

IFRS 15 'Revenue from contracts with customers' will be applied starting 1 January 2018. The great majority of Vitrolife's sales consists of products, which distinctly represent separate performance obligations. Vitrolife also sells services in the form of services connected to products, primarily within business area Timelapse. The services are, to a large externt, invoiced in advance and recognised as revenue over the terms of the service contracts. Non-recognised service revenue is recorded as deferred income in the balance sheet. Vitrolife's assessment is that

these services also 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. Vitrolife makes the final assessment that transition to IFRS 15 will not cause any material effects to the Group financial statements.

IFRS 16 'Leasing' will result in changes on how to account for leasing agreements. 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, and Vitrolife estimates that an analysis of the transitional effects can be presented in the company's interim reports during the first half-year of 2018.

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

#### Parent Company's accounting policies

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

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

#### Shares and participations

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

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

# Shareholders' contributions and Group contributions

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

### Presentation of accounting policies

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

Vitrolife presents the accounting choices made within the framework of the prevailing IFRS policy in conjunction with each note in the aim of providing enhanced understanding.

# Note 2 Reconciliation of alternative key figures

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

# Operating income before depreciation and amortisation (EBITDA)

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

SEK M	2017	2016
Operating income	340.9	248.8
Depreciation and amortisation	66.9	54.3
Operating income before depreciation and amortisation (EBITDA)	407.8	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. Average shareholders' equity is calculated as the average of closing equity for the reported quarters of each year.

	Dec 31.	Dec 31.
SEK M	2017	2016
Average shareholders' equity, rolling 12 month	1 131.3	937.1
Net income, rolling 12 month	263.6	190.4
Return on equity, %	23.3	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.

	Dec 31.	Dec 31.
SEK M	2017	2016
Interest-bearing liabilities	0.5	37.8
Cash and cash equivalents	-396.0	-189.2
Net debt	-395.5	-151.4
Operating profit, rolling 12 month	340.9	248.8
Depreciation and amortisation, rolling 12 month	66.9	54.3
Rolling 12 month EBITDA	407.8	303.1
Net debt / Rolling 12 month EBITDA	-1.0	-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. Growth in local currency is calculated by recalculating last period's net sales at the exchange rates of the current period and comparing it to the net sales of the current period.

Group total	2017	2016
Organic growth in local currency, SEK M	158	90
Organic growth in local currency, %	19	12
Acquired growth, SEK M	33	39
Acquired growth, %	3	6
Currency effects, SEK M	-1	5
Currency effects, %	0	1
Total growth, SEK M	190	134
Total growth, %	22	19

Total growth, %	20	7	31	
Total growth, SEK M	74	9	106	
Currency effects, %	1	0	-2	
Currency effects, SEK M	4	-1	-5	
Growth in local currency, %	18	7	33	
Growth in local currency, SEK M	70	10	112	
	2017	2017	2017	
Net sales per geographic segment	North and EMEA South America		Asia & Pacific	

Net sales per business unit	Media	Disposable	Equipment*	
	2017	2017	2017	2017
Growth in local currency, SEK M	46	10	95	39
Growth in local currency, %	9	7	60	**
Currency effects, SEK M	-1	0	-2	1
Currency effects, %	0	0	-2	**
Total growth, SEK M	46	10	93	40
Total growth, %	9	7	58	**

Comprises the operations conducted by the acquired companies MTG and Octax. The period Jan-Dec 2016 only includes sales during the period of June to December, since the companies were acquired on May 31, 2016.

<sup>\*\*</sup> Not stated since the companies were not part of the Group during the enitre comparison period.

# Note 3 Financial risk management

#### Financial policy

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

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

#### Currency risks

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

The EUR and CNY have the largest impact. The companies in the Group with transaction exposure are mainly Vitrolife Sweden AB (Sweden) and Vitrolife A/S (Denmark). The breakdown of sales for these companies are as follows: EUR 63% (61), CNY 29% (27), SEK 5% (6), USD 2% (3) and DKK 1% (2). Most of the costs for the Swedish entities are in SEK and for Vitrolife A/S in DKK. External sales from the US subsidiary are entirely in USD. Inflows are matched with the subsidiary's outflows in the form of costs, which are also primarily in USD. Other Group companies have essentially inflows and outflows only in their respective funtional currencies.

The net transaction exposure (in thousands) for the Swedish entities and Vitrolife A/S is allocated over the following currencies:

	Loca	l currencies	Amount in SEK		S	hare, %
	2017	2016	2017	2016	2017	2016
EUR	31 595	26 804	304 340	253 848	64	65
CNY	121 967	89 803	154 056	115 658	32	30
USD	643	767	5 486	6 568	1	2
AUD	667	445	4 367	2 836	1	1
GBP	276	379	3 036	4 389	1	1
NOK	224	1 740	231	1 775	0	0
HKD	_	1 818	-	2 133	_	0
JPY	4 467	5 900	340	466	0	0
CHF	59	-	511	_	0	_
DKK	1 540	1 723	1 994	2 191	1	1
Total			474 361	389 864	100	100

This year's transaction exposure implies that a general increase for the SEK of 1% against other currencies would reduce the Group's income after tax by about SEK 3.4 million (2.9) for the year ending 31 December 2017.

During the fourth quarter 2016 the Group ceased to hedge currency risks. Consequently, no hedging contracts have been entered into thereafter.

This year's translation exposure attributable to net assets of foreign subsidiaries (incl. acquisition-related intangible assets and goodwill) amounts to SEK 702.4 million (633.5) and was not hedged. A general increase for the SEK of 1%against other currencies would reduce the Group's equity by about SEK 7.0 million (6.3) and reduce the Group's income after tax by about SEK 0.8 million (0.1).

#### Interest-rate risk

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

During 2017, Vitrolife has repaid the EUR denominated loan pertaining to the acquisition of FertiliTech (now Vitrolife A/S).

At 31 December 2017, a general increase in the borrowing rate of one percentage point would reduce the Group's income after tax by about SEK 4 thousand

#### Credit and counterparty risks

Credit risk is defined as the risk that a counterparty is unable to meet its commitments to the Group, which could lead to credit losses. Historically, Vitrolife has had low credit losses and this was also true for 2017. Risk is limited through the use of credit assessments and advance payments from new customers, as well as through close customer monitoring by the finance and marketing functions conjunctively. Furthermore, individual testing is performed of accounts receivable in terms of solvency and credit rating on the closing date. For further information about accounts receivable, see Note 19.

The exposure in terms of cash and cash equivalents amounted to SEK 396.0 million (189.2).

#### Capital structure

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

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

Vitrolife was subject to capital requirements through its external financing, which now is terminated. The Group has met all such requirements in 2017.

#### Terms and conditions

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

586
30 598
35 617
38 337
24 286
32 326
35 38 24

<sup>\*</sup> Non-discounted cash-flows.

# Note 4 Critical estimates and assessments

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

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

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

# Impairment test of goodwill and other intangible fixed assets

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

# Impairment test of capitalised expenditure for product development

No indication of impairment need existed at 31 December 2017. Capitalised projects can, with reasonable certainty, be expected to generate revenue earning products within the near future.

#### Provision for doubtful receivables

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

#### **Provisions for warranties**

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

#### Deferred tax

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

#### Additional purchase price

Vitrolife had an outstanding commitment of a potential additional purchase price regarding the acquisition of FertiliTech (now Vitrolife A/S). The additional purchase price corresponded to a value of 981,492 shares and was conditioned by that certain defined sales objectives for the period 2016 to 2017 were met. The sales objectives have not been met and no additional purchase price will be payable. Hence, Vitrolife does not recognise any commitment in the financial statements for the additional purchase price, which has not been previously recognised either.

#### Operational leases

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

#### Legal disputes

Vitrolife is currently involved in disputes with Auxogyn Inc. in the US and the EU regarding a patent in the time-lapse field. Based on the existing facts, the company's assessment is that the financial risk pertaining to these disputes is of minor significance, and based on these assessments no reserves or provisions are recognised for these disputes. For more infromation concerning legal disputes, see page 25 in the management report.

# Note 5 Segment reporting

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

In 2017, no single customer of Vitrolife accounted for more than 10% of total

Below, net sales and fixed assets are presented per geographic segment. The information is also separately presented for individually significant countries and for the country in which the company has its domicile. Presented is also gross income, selling expenses and market contribution per segment. Other operating expenses to a total of SEK -170.6 million (-156.8) and net financials items of SEK 0.1 million (0.1) are not distributed per segment.

	Net sales		Fixed assets*	
SEK thousands	2017	2016	2017	2016
EMEA	449 934	375 611	607 375	647 330
of which Sweden	23 348	24 526	108 480	110 770
North and South America	147 940	138 506	84 156	94 803
of which USA	107 907	100 048	84 156	94 803
Asia & Pacific	448 343	341 989	639	609
of which China	194 373	157 860	-	-
Total	1046 217	856 106	692 170	742 742

	Gross i	ncome	Selling e	xpenses	Market co	ntribution
SEK thousands	2017	2016	2017	2016	2017	2016
EMEA	282 887	238 317	-73 262	-66 952	209 625	171 365
North and						
South America	100 568	95 402	-31 585	-29 108	68 983	66 294
Asia & Pacific	298 254	227 582	-65 432	-59 626	232 822	167 956
Total	681 709	561 301	-170 279	-155 686	511 430	405 615

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

# Note 6 Sales by product group

#### Accounting policies

#### Revenue recognition

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

	N	let sales
SEK thousands	2017	2016
Media	545 260	499 652
Time-lapse	252 477	159 680
Disposable Devices	148 868	138 903
ART Equipment	79 199	38 859
Freight	20 413	19 012
Group total	1 046 217	856 106

# Note 7 Business combinations

#### Accounting policies

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

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

#### **Business combinations**

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 was finalized during the second guarter of 2017.

SEK millions	2016
Liquid funds	127.4
Total purchase price	127.4
Identified assets and liabilities	
Trademark	10.0
Production technology	75.0
Customer relations	20.3
Other intangible assets	0.4
Tangible fixed assets	2.3
Financial assets	0.2
Inventories	10.5
Other current assets	6.2
Cash and cash equivalents	11.0
Current liabilities	-13.7
Long-term liabilities	-0.6
Deferred tax liability due to surplus values	-31.6
Total acquired assets and liabilities	90.0
Goodwill	37.4
Total	127.4
SEK millions	
Liquid funds paid	-127.4
Liquid funds in acquired business	11.0
Effect on group liquid funds	-116.4

# Note 8 Other operating revenue

	Group		Paren	t Company
	2017	2016	2017	2016
Foreign exchange gains	-	784	48	-
Recovered transaction costs	-	732	-	-
Insurance refunds	399	212	-	-
Disposal gain on machinery and				
equipment	333	-	-	_
Other	360	383	_	-
Total	1 092	2 111	48	_

# Note 9 Other operating expenses

	Group		Paren	Parent Company	
	2017	2016	2017	2016	
Foreign exchange losses	-3 210	-	-	-5	
Disposal loss on machinery and equipment	-2	-156	_	_	
Repayment research contributions*	-	-2 993	_	_	
Other	-4	_	-	_	
Total	-3 216	-3 149	-	-5	

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

# Note 10 Employees, personnel costs and Board fees

#### Average number of employees

		Total	Of	Of whom, men	
	2017	2016	2017	2016	
Parent Company, Sweden	-	-	-	_	
Subsidiaries					
Sweden	140	142	58	59	
Denmark	73	63	47	40	
USA	73	61	41	37	
Rest of the world	69	62	47	43	
Total	355	328	193	179	

# Share of women in senior positions

	2017	2016
Board of Directors	33%	33%
Executive management	14%	17%

#### Salaries, other benefits and social charges

	Salaries a	and benefits	Social charges		
	2017	2016	2017	2016	
Parent Company	1 615	1 557	507	489	
- of which pension costs	(-)	(-)	(-)	(-)	
Subsidiaries	210 348	186 814	56 823	53 466	
- of which pension costs	(-)	(-)	(14484)	(15 009)	
Total	211 963	188 371	57 330	53 955	
- of which pension costs	(-)	(-)	(14484)	(15 009)	

Of the Group's pension costs SEK 1,049 thousand (1,048) pertained to the Board and CEO, of which SEK 1,049 thousand (1,048) was attributable to the

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

	Board/CEO		Other employees	
	2017	2016	2017	2016
Parent Company, Sweden	1 615	1 557	-	_
Subsidiaries				
Sweden	6 037	4 927	73 393	67 343
- of which variable remuneration	(2 300)	(1 622)		
Denmark	_	-	47 202	42 404
USA	_	-	38 073	33 479
Rest of the world	_	-	45 642	38 662
Total	7 652	6 484	204 310	181 888
- of which variable remuneration	(2 300)	(1 622)		

#### **Board of Directors**

Pursuant to the 2016 AGM's resolution, fees of SEK 1,615 thousand were paid to the Board. The Chairman received SEK 500 thousand and the five other Board members each received SEK 175 thousand. In addition, the chairmen of the Audit Committee and the Remuneration Committee received an additional fee of SEK 60 thousand each and the members of these committees received an additional fee of SEK 30 thousand each. On 27 April 2017, Vitrolife's AGM resolved to pay Board fees of SEK 1,615 thousand for the period until the next AGM. Thereby, it was decided that both the total fees and the distribution thereof shall remain unchanged compared to resolution of the AGM of 2016.

#### **Executive management**

In the 2017 financial year, executive management, which comprises 7 (6) persons including the CEO, received salaries of SEK 18,402 thousand (14,351), of which SEK 5,048 thousand (2,949) was variable remuneration and SEK 1,170 thousand (1,205) according to the LTI-programme. Variable remuneration was contingent on the outcome of a number of mainly quantitative parameters compared with set targets. The quantitative parameters are related to sales and result (EBITDA) for the company. Remuneration according to the LTI-programme refers to incentive programme for certain selected key individuals with the aim of aligning the interests of shareholders with those of the executive management and to encourage the purchase of Vitrolife shares. For further information, see page 26. Customary occupational pension premiums were paid for and the retirement age is 65. A notice period of three to six months applies for the termination of employment contracts for other executive management by the company and vice versa. No severance payments are payable. No loans exist to executive management.

In the 2017 financial year, the CEO Thomas Axelsson received salary totalling SEK 6,037 thousand, of which SEK 2,300 thousand comprised variable remuneration. Car allowance was also paid. A defined-contribution pension applies and pension premiums amounting to 30% of fixed remuneration are paid (35% from 1 October 2017). A six-month notice period applies for termination of the CEO's contract by the company and vice versa. In case of termination by the company, a severance payment is payable of up to 12-months' salary. The CEO's employment contract includes a non-competition clause. The retirement age is 65.

#### Defined-contribution pension plans

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

	Group		Parent Compan	
	2017	2016	2017	2016
Payments to defined-contribution plans	14 484	15 009	-	_

# **Endowment insurance**

Endowment insurance includes plans for the CEO and the former CEO of SEK under other financial assets and provisions; refer to Note 30.

# Note 11 Auditors' fees

		Group	Paren	Parent Company	
	2017	2016	2017	2016	
Deloitte					
Audit assignment	998	1 051	810	718	
Audit activities other than					
audit assignment	-	76	_	65	
Tax consultancy	449	211	449	211	
Other services	104	255	46	198	
Other auditors					
Audit assignment	188	200	-	_	
Other services	22	23	_		
Total	1 761	1 816	1 305	1 192	

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

# **Note 12 Operating expenses**

		Group	Paren	t Company
	2017	2016	2017	2016
Raw materials and consumables	-145 554	-137 056	-	_
Changes in inventories of finished goods and work in progress	-821	32 867	_	_
Personnel costs	-284 145	-254 776	-511	-430
Depreciation, amortisation and impairment	-66 949	-54 326	_	_
Other external costs	-205 768	-192 936	-10 594	-14 395
Other operating expenses	-3 216	-3 149	-	-5
Total	-706 453	-609 376	-11 105	-14 830

# Note 13 Net financial items

#### Accounting policies

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

	(	Group	Parent Company		
	2017	2016	2017	2016	
Interest income	347	411	3	1 838	
Foreign exchange gains	10	432	50	1 014	
Dividends from participations					
in Group companies	_	_	70 256	158 432	
Other financial income	168	45	_	_	
Financial income	525	888	70 309	161 284	
Interest expenses	-447	-786	-228	-437	
Impairment of participations					
in Group companies	_	_	-7 280	-7 500	
Other financial expenses	-19	-13	_		
Financial expenses	-466	-799	-7 508	-7 937	
Total	59	89	62 801	153 347	

# Note 14 Exchange-rate differences

#### Accounting policies

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

	(	Group	Paren	Parent Company		
	2017	2016	2017	2016		
In operating income	-3 210	784	48	-5		
In financial items	10	432	50	1 014		
Total	-3 200	1 216	98	1 009		

# **Note 15 Taxes**

#### Accounting policies

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

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

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

(	Group	Parent Company		
2017	2016	2017	2016	
-76 068	-63 984	-	-	
-535	992	-10	0	
-76 603	-62 992	-10	0	
10 692	10 193	-	-	
603	1 327	-	-	
-14 353	-8 257	-	-	
403	-	-	-	
2 945	2 011	_		
-76 313	-57 718	-10	0	
340 915	248 930	62 790	148 734	
-75 001	-54 765	-13 813	-32 722	
-3 879	-1 488	-	_	
-535	992	-10	-	
-386	1 836	_	_	
-743	-2 299	-41	-484	
-	-	-1 602	-1 650	
537	408	-	1	
-	-	15 456	34 855	
142	1 110	-	-	
		_	_	
		_	_	
-76 313	-57 718	-10	0	
	2017 -76 068 -535 -76 603  10 692 603 -14 353 403 2 945 -76 313  340 915 -75 001 -3 879 -535 -386 -743 - 537	-76 068	2017         2016         2017           -76 068         -63 984         —           -535         992         -10           -76 603         -62 992         -10           10 692         10 193         —           603         1 327         —           -14 353         -8 257         —           403         —         —           2 945         2 011         —           -76 313         -57 718         -10           340 915         248 930         62 790           -75 001         -54 765         -13 813           -3 879         -1 488         —           -535         992         -10           -386         1 836         —           -743         -2 299         -41           —         -1 602           537         408         —           —         -15 456           142         1 110         —           3 494         -3 432         —           -80         —         -80         —	

	Deletted t	ax assets	Deferred tax liabilities			
Deferred tax Group	2017	2016	2017	2016		
Untaxed reserves	-	-	-17 656	-18 059		
Intra-Group profit in inventories	_	600	5 164	3 957		
Surplus values fixed assets	_	-	-41 678	-51 029		
Loss carry-forwards	17 010	31 495	-	-		
Temporary differences fixed assets	-8 932	-13 685	1 906	3 107		
Other temporary differences	3 103	3 872	1 094	744		
Total	11 181	22 282	-51 170	-61 280		

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

Change deferred tax assets and -liabilities	2017	2016
Opening balance, net	-38 998	-12 093
Via profil or loss	290	5 274
Via other comprehensive income	-	185
Via acquisitions	-	-31 328
Translation difference	-1 281	-1 036
Closing balance, net	-39 989	-38 998

#### Tax loss carry-forwards

Deferred tax assets attributable to tax loss carry-forwards have been capitalised to the extent it has been estimated these can be used against future taxable profits. Total deferred tax assets of SEK 17.0 million comprise tax loss carry-forwards of SEK 59.7 million in Vitrolife A/S (Denmark) and SEK 15.8 million in Vitrolife Inc. (USA), making a total of SEK 75.5 million.

Tax loss carry-forwards attributable to HertArt Aps (Denmark) amounted to SEK 5.3 million at the closing date. No deferred tax assets were taken into consideration, since these loss carry-forwards are subject to a degree of uncertainty regarding the extent to which they can be used in the future.

Under existing regulations, all loss carry-forwards have no expiry date. However, all loss carry-forwards are subject to restrictions with regard to the proportion of the loss carry-forward that can be used to offset taxable profits in respective years. Of the Group total tax loss carry-forwards 94% is valued as deferred tax assets.

#### Effects of new tax reform in the US

In December 2017, a new tax reform, which enters force on 1 January 2018, was passed in the US. Deferred tax assets and -liabilities in the Group's US company have been recalculated according to the new tax rate, which affected the Group's net income for 2017 negatively by SEK 0.4 million. The new tax reform also implies that the previous time limitation of 20 years for tax loss carry-forwards has been removed. Apart from the above, Vitrolife's assessment is that the new tax reform will not have any material effects for the Group.

# Note 16 Intangible fixed assets

# Accounting policies

#### Goodwill

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

#### Capitalised expenditure for product development

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

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

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

# Production technology

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

#### Trademarks

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

#### Other intangible assets

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

#### Additional expenses

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

#### Amortisation

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

Capitalised expenditure for product development 5-20 years Production technology 4-10 years Patents and customer relations 5-10 years Computer programs 5 years Capitalised expenditure for product development is mainly amortised over a fiveyear period, which corresponds to most products' expected life. The amortisation period for patents tracks the underlying patent's or brand's life, which is between five and ten years.

#### Impairment

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

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

#### Impairment test

The Group's goodwill is attributable to the acquisition of subsidiaries and their operations. Vitrolife consists of four business units whose products are sold by three geographic market organisations, which are reported as the Group's segments. Impairment test of goodwill has been conducted for each business unit - Media, Disposable Devices, Time-lapse and ART Equipment - since these are defined as separate cash-generating units. Goodwill has been allocated to each cash-generating unit based on the underlying operations in the companies to which goodwill is attributable. At the closing date, goodwill is distributed over the cash-generating units as follows; Media SEK 9.3 million, Disposable Devices SEK 111.6 million, Time-lapse SEK 247.9 million and ART Equipment SEK 40.0 million - a total of SEK 408.9 million. The impairment test has been carried out based on forecasts, where the first five forecast years are based on historical growth rates after adjustment for management forecasts. The forecasts have been prepared internally by the management using historical data, the collective experience of management and their best assessment of the company's development potential and market growth. The forecast cash flows after the first five years have been based on a more conservative growth rate of 3% (3) per year. A growth rate of 3% is below the expected growth rate for the market, which is expected to grow by approximately 5-10% per year. The present values were calculated for forecast cash flows using a discount rate before tax of 9.0% (8.5). However, slightly higher discount rates have been used for specific parts of the business. The change in the discount rate between 2017 and 2016 is mainly attributable to increase of the risk-free rate. The key variables in the forecasts are market share and growth, gross margin, selling expenses and investments. The estimate is based on a continued, healthy gross margin and the need for investment has been assessed as that needed to replace existing assets. Working capital has been assumed to change in line with sales and the debt/equity ratio is assessed as unchanged, since growth is expected to occur within the framework of existing operations and with own funds. The recoverable amounts, which in the Group are calculated as the value in use, exceeds the carrying amounts. The management's assessment is that no reasonable changes in the key variables and assumptions will lead to the units' recoverable amounts being less than the carrying amounts.

Impairment tests have also been carried out for the trademarks in the Group. At the closing date, trademarks are distributed over the cash-generating units as follows; Time-lapse SEK 32.9 million and ART Equipment SEK 10.6 million - a total of SEK 43.5 million. The impairment tests have, in all essentials, been based on the same forecasts and assumptions as for goodwill, and the present values for forecast cash flows have been calculated using discount rates in accordance with description above.

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

	Goo	dwill		expenditure development	Production	technology	Trade	marks	Oth	ner	То	tal
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Accumulated cost												
Opening balance	421 209	368 467	120 476	107 278	163 725	84 829	42 734	30 877	37 791	16 368	785 935	607 819
Investments	_	-	962	3 469	-	26	-	-	8	288	970	3 783
Business combinations	_	37 321	-	121	-	75 002	-	9 997	-	20 262	_	142 703
Adjustment acquisition analysis	356	-	-	_	-	-	_	-	-	_	356	_
Reclassifications	_	-	-	_	-	-2 564	_	-18	-	-540	_	-3 122
Sales/disposals	-	-	-3 134	-810	-	-69	-	-	-	-101	-3 134	-980
Translation differences	5 365	15 421	1 554	10 418	4 092	6 501	1 200	1 878	45	1 514	12 256	35 732
Closing balance	426 930	421 209	119 858	120 476	167 817	163 725	43 934	42 734	37 844	37 791	796 383	785 935
Accumulated amortisation												
and impairment												
Opening balance	-17 993	-17 993	-53 477	-35 189	-50 897	-28 404	-401	-415	-14 080	-10 300	-136 848	-92 301
Amortisation	-	-	-17 250	-12 841	-30 898	-24 471	-1	-3	-5 501	-3 657	-53 650	-40 972
Reclassifications	-	-	-	-	-	2 564	-	18	-	540	_	3 122
Sales/disposals	-	-	3 103	671	-	69	-	-	-	-	3 103	740
Translation differences	_	-	-462	-6 118	-1 115	-655	0	-1	327	-663	-1 250	-7 437
Closing balance	-17 993	-17 993	-68 086	-53 477	-82 910	-50 897	-402	-401	-19 254	-14 080	-188 645	-136 848
Committee	400.007	400.046	E4 770	00.000	04.007	110,000	40.500	40.000	10.500	00.744	607 700	C40 007
Carrying amounts	408 937	403 216	51 772	66 999	84 907	112 828	43 532	42 333	18 590	23 711	607 738	649 087

Parent Company	Other	Total
Accumulated cost		
Opening balance 1 Jan 2016	160	160
Closing balance 31 Dec 2016	160	160
Opening balance 1 Jan 2017	160	160
Closing balance 31 Dec 2017	160	160
Accumulated amortisation and impairment		
Opening balance 1 Jan 2016	-160	-160
Closing balance 31 Dec 2016	-160	-160
Opening balance 1 Jan 2017	-160	-160
Closing balance 31 Dec 2017	-160	-160
Carrying amounts		
At 31 Dec 2016	-	-
At 31 Dec 2017	-	-

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

	(	Group	Parent Company		
	2017	2016	2017	2016	
Cost of goods sold	-52 367	-38 606	-	_	
Selling expenses	-56	-70	_	_	
Administrative expenses	-26	-131	_	-	
Research and development expenses	-1 201	-2 165	_	_	
Total	-53 650	-40 972	_	_	

# Note 17 Tangible fixed assets

# **Accounting policies**

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

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

# Additional expenses

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

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

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

#### Depreciation

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

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

	Buildings and land					Equipment, tools, fixtures and fittings		Construction in progress		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	
Accumulated cost											
Opening balance	66 210	62 140	32 380	31 123	122 262	105 548	1 573	1 995	222 425	200 806	
Investments	292	974	851	-	4 981	7 635	3 3 7 9	1 360	9 503	9 969	
Business combinations	-	-	-	-	-	2 353	_	-	-	2 353	
Reclassifications	_	-2 286	245	281	321	3 010	-566	-1 782	-	-777	
Sales/disposals	_	-	-3 745	-142	-5 636	-1 132	_	_	-9 381	-1 274	
Translation differences	-6 208	5 382	-1 101	1 118	-5 259	4 848	-	_	-12 568	11 348	
Closing balance	60 294	66 210	28 630	32 380	116 669	122 262	4 386	1 573	209 979	222 425	
Accumulated decpreciation and impairment											
Opening balance	-18 492	-15 516	-22 639	-20 049	-87 639	-75 600	_	_	-128 770	-111 165	
Depreciation	-2 530	-2 197	-2 205	-2 302	-8 085	-8 573	_	_	-12 820	-13 072	
Impairment	-	-	-	-	-91	-281	-	-	-91	-281	
Reclassifications	_	855	-	330	-	-408	-	-	-	777	
Sales/disposals	_	-	3 499	140	5 526	1 210	-	-	9 025	1 350	
Translation differences	1 999	-1 634	717	-758	4 393	-3 987	_	_	7 109	-6 379	
Closing balance	-19 023	-18 492	-20 628	-22 639	-85 896	-87 639	-	-	-125 547	-128 770	
Carrying amounts	41 271	47 718	8 002	9 741	30 773	34 623	4 386	1 573	84 432	93 655	

Parent Company	Equipment and tools	Total
Accumulated cost		
Opening balance 1 Jan 2016	400	400
Disposals	-388	-388
Closing balance 31 Dec 2016	12	12
Opening balance 1 Jan 2017	12	12
Closing balance 31 Dec 2017	12	12
Accumulated depreciation and impairment		
Opening balance 1 Jan 2016	-388	-388
Depreciation for the year	-	_
Disposals	388	388
Closing balance 31 Dec 2016	-	-
Opening balance 1 Jan 2017	_	_
Depreciation for the year	-	-
Closing balance 31 Dec 2017	_	_
Carrying amounts		
At 31 Dec 2016	12	12
At 31 Dec 2017	12	12

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

	(	Group	Parei	nt Company
	2017	2016	2017	2016
Cost of goods sold	-7 776	-7 747	-	_
Selling expenses	-488	-463	-	_
Administrative expenses	-3 724	-4 039	-	_
Research and development expenses	-832	-823	-	_
Total	-12 820	-13 072	_	_

# **Note 18 Inventories**

#### **Accounting policies**

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

	(	Group	Paren	t Company
	2017	2016	2017	2016
Raw materials and consumables	63 436	57 712	-	_
Products in progress	14 482	13 960	-	_
Finished goods and goods for				
resale	72 638	73 982	_	
Total	150 556	145 654	_	_

Impairment of SEK 1.4 million (1.0) pertaining to obsolescent raw materials and SEK 0.7 million (2.4) for obsolescent finished products was included in the closing inventory. Total obsolescence costs for 2017 amounted to SEK 8.7 million (7.2).

The amount reported as costs for products in stock during the period totalled SEK 305.6 million (249.3).

# Note 19 Accounts receivable

#### Accounting policies

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

#### Accounts receivable

Accounts receivable are recognised after taking into account bad debt losses during the year. In 2017, confirmed bad debt losses in the Group totalled SEK 727 thousand (1,280). For financial risk management concerning accounts receivable; refer to Note 3.

Historically, Vitrolife has had low bad debt losses, and work with collecting due receivables is conducted on a current basis. Several of Vitrolife's customers, e.g. public hospitals, traditionally pay their receivables relatively long past due dates. However, these customers are assessed to be of low risk and they buy new products from Vitrolife on a regular basis.

	•	Group	Parent Company		
	2017	2016	2017	2016	
Accounts receivable	154 606	132 162	-	_	
Less provision for doubtful receivables	-6 370	-5 975	_	_	
Total	148 236	126 187	-	_	

#### Age structure of accounts receivable

2017		Due, num	ber of days:			
Total accounts receivable:	Not due:	0-30	31-60	61-120	>120	Total amount due:
154 606 of which provision	109 411	23 305	4 887	6 891	10 113	45 195
-6 370	-53	-162	-	-	-6 155	-6 317
2016		Due, num	ber of days:			
Total accounts receivable:	Not due:	0-30	31-60	61-120	>120	Total amount due:
132 162 of which provision	87 171	22 876	6 723	3 914	11 478	44 991
-5 975	-579	-133	-132	_	-5 131	-5 396

Provision for doubtful receivables	G	àroup	Parent Company		
	2017	2016	2017	2016	
Opening provision	-5 975	-5 056	-	_	
Reversal of provision for doubtful					
receivables	1 077	905	-	_	
Confirmed credit losses	727	1 280	-	_	
Provision for doubtful receivables	-2 276	-2 791	-	_	
Translation differences	77	-313	-	_	
Closing provision	-6 370	-5 975	-	_	

# Note 20 Prepaid expenses and accrued income

	Group		Paren	t Company
	2017	2016	2017	2016
Insurances	3 321	2 726	_	1 066
Rent and other property expenses	2 427	2 2 1 9	_	-
IT-related expenses	1 329	1 385	_	_
Prepaid marketing activities	949	441	-	_
Other prepaid expenses	1 746	1 335	_	111
Total	9 772	8 106	-	1 177

# Note 21 Cash-flow statements and cash and cash equivalents

# Accounting policies

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

		Group	Parent Company		
	2017	2016	2017	2016	
Interest paid and received					
Interest received	349	395	3	1 838	
Interest paid	-449	-771	-228	-437	
Total	-100	-376	-225	1 401	
Adjustment for non-cash items					
Depreciation, amortisation and					
impairment of assets	66 949	54 326	-	_	
Unrealised exchange-rate					
differences	-718	-1 376	-51	-1 014	
Impairment of participations in					
Group companies, Vitrolife Kft.	_	_	7 280	7 500	
Received dividend from subsidiares	_	_	-70 256	-158 431	
Interest income from subsidiaries	_	_	_	-1 838	
Change of warranty provision	-2 488	2 691	_	_	
Other	1 364	-515	-116	37	
Total	65 107	55 126	-63 143	-153 746	
Sub-components of cash and cash equivalents					
Cash and bank balances	395 963	189 245	5 377	2 974	
Total	395 963	189 245	5 377	2 974	

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

Cash and cash equivalents not used in daily operations is invested in accordance with Vitrolife's financial policy; refer to Note 3. No active asset management was carried out in 2017.

# Note 22 Shareholders' equity

#### **Accounting policies**

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

#### Share capital

Only one class of shares exists and all shares carry the same rights. The number of outstanding shares in the Parent Company amounted to 21,710,115 as of 31 December 2017.

#### Other capital contributed

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

#### Translation reserve

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

#### Accumulated exchange-rate differences in shareholders' equity

	,	aroup
	2017	2016
Opening balance	7 762	-29 612
Exchange-rate differences in foreign subsidiaries	686	37 374
Closing balance	8 448	7 762

The disclosure requirement in Chapter 5, section 14 of the Annual Accounts Act regarding the specification of year-on-year changes in shareholders' equity in the balance sheet are detailed on page 36.

Under the dividend policy for Vitrolife AB (publ), each year, a dividend, or some other form of distribution equal to 30% of net profit for the year after taxes, should be proposed. Thus, in accordance with the above, the Board and CEO intend to propose that the AGM resolve in favour of a dividend of SEK 3.70 per share for 2017, corresponding to a total of SEK 80.3 million. The dividend will be presented to the Annual General Meeting on 26 April 2018 for adoption.

#### Retained earnings including income for the year

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

#### Proposed appropriation of profit

The Board of Directors and the CEO propose that the funds available of SEK 570,107,615, be appropriated as follows:

SEK	
Dividend (SEK 3.70)	80 327 426
Carried forwards	489 780 189
Total	570 107 615

#### Capital management

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

# Note 23 Earnings per share

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

In 2017, the average number of shares outstanding was 21,710,115 (21,710,115). Income for the year attributable to the Parent Company's shareholders was SEK 263,640 thousand (190,368) resulted in earnings per share of SEK 12.14 (8.77), which is both before and after dilution.

# Note 24 Interest-bearing liabilities

#### Accounting policies

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

	(	Group	Paren	it Company
	2017	2016	2017	2016
Long-term portion, bank loans	399	466	-	-
Current portion, bank loans	81	37 390	-	37 311
Total	480	37 856	-	37 311
Maturity date				
In 1-5 years	399	394	-	_
> 5 years	_	72	_	_
Total	399	466	-	_

The utilised portion of overdraft facilities is recognised under long-term bank loans SEK - (-). Refer to Note 3 for loan terms and conditions, and other contractual conditions. Refer to Note 30 for pledged assets and contingent liabilities. During 2017, Vitrolife has repaid the bank loan pertaining to the acquisition of FertiliTech (now Vitrolife A/S); a loan which per 2016 year-end closing amounted to SEK 37.3 million.

During 2017 no new loans have been raised. However, the company Vitrolife GmbH has a EUR denominated loan of SEK 0.5 million at the closing date. Floating interest rates apply for all loans.

Vitrolife's total credit facilities amounted to SEK 50 million (88), of which SEK 0 million (38) was utilised. The credit facilities were used for acquisition loans. The Group's effective interest rate was 1.0% (1.0) in 2017.

# Note 25 Other provisions

#### Accounting policies

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

	Group		Parent Compan	
	2017	2016	2017	2016
Pension obligations	4 014	3 365	-	_
Warranties	3 297	5 678	_	_
Total	7 311	9 043	_	_

# Note 26 Accrued expenses and deferred income

	(	Group	Paren	it Company
	2017	2016	2017	2016
Accrued personnel costs	49 566	43 768	-	-
Audits and consultancy services	735	755	446	402
Annual report	346	248	300	248
Board fees	1 415	1 415	1 415	1 415
Other taxes abroad	4 082	5 139	-	_
Other accrued expenses	4 241	3 201	415	_
Deferred income	13 171	8 374	_	_
Total	73 556	62 900	2 5 7 6	2 065

# Note 27 Financial instruments

#### Accounting policies

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

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

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

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

#### Assets and liabilities valued at amortised cost

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

# Financial assets measured at fair value in profit or loss

Other shares and participations relate to holdings of unlisted shares, that have been valued based on the latest transaction (transfer of shares), hence fair value is estimated to correspond to book value. Such valuation methods are classified as level 3 according to the fair value-hierarchy in IFRS 13. There is no observable data regarding value except when there have been separate transactions in the company's shares. During 2017, transactions have occurred indicating a value of the item of about SEK 6 million, but the valuation is assessed as not reliable enough since the transaction volume was equivalent to only around 2% of total number of shares in the company.

Assets as per balance sheet		easured at sed cost	Financial assets fair value in prof or loss		
	2017	2016	2017	2016	
Other shares and participations	-	-	3 746	3 746	
Other financial fixed assets	5 422	5 133	-	_	
Accounts receivable	148 236	126 187	-	_	
Other receivables	128	1 502	-	_	
Cash and cash equivalents	395 963	189 245	_		
Total	549 749	322 067	3 746	3 746	

Liabilities as per balance sheet		neasured at ed cost	Financial liabilities at fair value in profit or loss	
	2017	2016	2017	2016
Borrowings	480	37 856	-	_
Accounts payable	30 598	24 286	-	_
Other liabilities	3	221	-	_
Accrued expenses and deferred income	12 517	14 198	-	_
Total	43 598	76 561	_	_

# Parent Company

Financial assets and liabilities totalled SEK 780.0 million (796.3), and SEK 13.9 million (38.1) respectively. During 2017, a write-down by SEK 7.3 million of the shares in the Hungarian subsidiary Vitrolife Kft. has been made in connection with the liquidation of the company during the first quarter of 2017. Based on future earning potential, no impairment has been deemed necessary for other shares in subsidiaries. No forward covers were carried out for the currency components included in the above amounts.

# **Note 28 Leasing**

#### Accounting policies

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

#### Leasing

Vitrolife leases premises in Gothenburg, Sweden. Sterile rooms have been built and paid for by Vitrolife. The current lease agreement expires on 31 October 2023.

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

Other significant leasing agreements for premises are the following:

	Lease expiry
Tokyo, Japan	30 Nov 2018
San Diego, USA	30 Jun 2019
Bruckberg, Germany	31 May 2021
Viby, Denmark	30 Apr 2023

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

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

In 2017, expensed leasing totalled SEK 17,843 thousand (15,631).

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

	(	Group		Parent Company	
	2017	2016	2017	2016	
Within one year	16 396	13 617	-	_	
In two to five years	37 180	23 506	_	-	
More than five years	4 432	1 725	_	-	
Total	58 007	38 848	_	_	

# Note 29 Participations in Group companies

		Parent Company	
Participations in Group companies	2017	2016	
Opening cost	777 720	730 396	
Acquisition, MTG	_	54 824	
Increase share capital, Vitrolife GmbH	8	_	
Formation of company, Vitrolife BVBA	181	-	
Impairment, Vitrolife Kft.	-7 280	-7 500	
Closing carrying amount	770 629	777 720	

			Number of		Carrying amount	Carrying amount
Company	Corp. Reg. No.	Domicile	shares	Share, %*	2017	2016
Companies owned by Vitrolife AB:						
Vitrolife, Inc.	84-1547804	Denver and San Diego, USA	500 000	100	173 220	173 220
Vitrolife Sweden AB	556546-6298	Gothenburg, Sweden	5 000 000	100	178 386	178 386
Vitrolife Pty Ltd.	102959964	New South Wales, Australia	1	100	0	0
Vitrolife KK	0104-01-081049	Tokyo, Japan	200	100	850	850
Vitrolife Ltd.	04628698	Warwick, UK	1 025	100	11 935	11 935
Vitrolife Kft.**	06-09-017195	Budapest, Hungary	n/a	100	_	7 280
A.T.S. Srl***	12758490150	Milan, Italy	n/a	70	6 760	6 760
HertArt Aps	32840787	Greve, Denmark	166 667	100	5 856	5 856
Vitrolife A/S	27 40 67 93	Aarhus, Denmark	374 120	100	338 609	338 609
Vitrolife GmbH	HRB 4525	Bruckberg, Germany	3	100	54 832	54 824
Vitrolife BVBA	0685.675.182	Londerzeel, Belgium	186	97.3****	181	_
Total					770 629	777 720

<sup>\*</sup> Share of voting power is equal to share of ownership.

Dividend to minority shareholders in the company A.T.S. Srl amounted to SEK 577 thousand during 2017.

<sup>\*\*</sup> Company liquidated during first quarter of 2017.

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

<sup>\*\*\*\*</sup>Remaining share of 2.7% is owned by Vitrolife Sweden AB.

# Note 30 Pledged assets and contingent liabilities

#### **Accounting policies**

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

	Group		raren	Farent Company	
Pledged assets	2017	2016	2017	2016	
Floating charges	20 000	20 000	3 100	3 100	
Endowment insurance	3 157	2 612	-	_	
Total	23 157	22 612	3 100	3 100	

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

		Group	Parent Company	
Contingent liabilities	2017	2016	2017	2016
Guarantee, Swedish Customs	200	200	-	_
Endowment insurance, difference				
between cost and market value	375	209	_	_
Total	575	409	-	_

# Note 31 Related parties

#### Related parties

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

#### Transactions with other key individuals in senior positions

The Board members of Vitrolife have not received any other remuneration in addition to the Board fees during 2017. For further information; refer to Note 10.

	2017	2016
Board members	1 615	1 557
Executive Management	18 402	14 351
Total	20 017	15 908

# Note 32 Events after the closing date

The Board's proposal for dividend amounts to SEK 3.70 (2.60) per share.

On January 11, Vitrolife acquired exclusive global licensing rights in the IVF field regarding a technology that can be used for embryo transfer in connection with IVF treatments from CrossBay Medical Inc. Vitrolife intends to commercialise the technology by marketing a unique embryo transfer catheter. Vitrolife estimates that worldwide approximately 2.5 million transfers of embryos to women are carried out each year in connection with IVF treatments and that for this purpose approximately 3 million embryo transfer catheters are used. The global market for embryo transfer catheters is estimated to be approximately SEK 500 million. Vitrolife intends to launch low volumes of the product during the second half of the year in selected markets, amongst other things with a view to collecting customer data on the product's advantages at the same time as preparations take place, for example for high volume production. The acquisition broadens the product range and supports Vitrolife's ambition to offer IVF clinics the most effective products in its efforts to assist patients' desire to have children. The initial purchase price amounted to USD 5 million. The purchase price was paid in cash and was financed by available cash balances. In addition to this initial purchase price, additional purchase prices and royalties may be paid in relation to sales. The acquisition is expected to impact EBITDA per share marginally negatively during 2018-2020 and positively as from 2021.

Vitrolife has received market approval for the time-lapse incubator EmbryoScope in China and thereby becomes the first company to market an approved timelapse incubator in the world's largest IVF market.

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

# **Attestation**

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

Gothenburg, 20 March 2018

Carsten Browall Barbro Fridén Tord Lendau Pia Marions Chairman of the Board Board member Board member Board member

Fredrik Mattsson Jón Sigurdsson Thomas Axelsson Board member Board member CEO

Our auditor's report was submitted on 20 March 2018

Deloitte AB

Fredrik Jonsson Authorised Public Accountant

# **AUDITOR'S REPORT**

This auditor's report is a translation of the Swedish language original. In the events of any differences between this translation and the Swedish original the latter shall prevail.

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

# Report on the annual accounts and consolidated accounts

## **Opinions**

We have audited the annual accounts and consolidated accounts of Vitrolife AB (publ) for the year 2017 except for the corporate governance report on pages 27-29. The annual accounts and consolidated accounts of the company are included on pages 24-50 in this document. In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance report on pages 27-29. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts

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

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

# **Basis for Opinions**

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards

in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. Except to a very limited services reported to the Audit Committee, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or its controlled companies within the EU.

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

#### **Kev Audit Matters**

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

# Revenue recognition

Sales amounts to SEK 1046 million as of 2017 and is generated from four business areas, of which the products are sold by three geographical market organizations. Revenue from the sale of goods is recognized when an agreement with the customer is in place, the delivery has occurred and all key risks and benefits have been transferred to the customer. Revenue is recognized at fair value of what has been received or will be received for goods sold.

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

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

The Vitrolife group disclosures regarding revenue recognition are included in note 5 and 6 on page 41 in the annual report, which provide details of the accounting principles for revenue recognition, the segment information and sales per product group.

Our audit procedures includes, but are not limited to:

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

#### Valuation of goodwill

Goodwill amounts to SEK 409 million as of 31 December 2017 and is related to acquisitions.

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

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

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

For further information, accounting principles are disclosed in note 16, intangible assets, on page 44 and note 4, critical estimates and judgments on page 40 in the annual report.

Our audit procedures included, but were not limited to:

- Evaluating the design of relevant key internal controls to identify indictors of impairment and the reasonability in the assumptions made, that routines are consistently applied and that calculations are made with integrity
- Audit the reasonability in the chosen cash generating units and the allocation of goodwill

- Audit the completeness of relevant notes in the annual report
- Our valuation specialists have been involved in the audit

#### Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-23 and 54-56.

The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

# Responsibilities of the Board of **Directors and the Managing Director**

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

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is

however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

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

#### Auditor's responsibility

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

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

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts.

We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

# Report on other legal and regulatory requirements

#### **Opinions**

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Vitrolife AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

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

#### **Basis for Opinions**

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

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

# Responsibilities of the Board of **Directors and the Managing Director**

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

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

#### Auditor's responsibility

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

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

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

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

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Deloitte AB was appointed auditors of Vitrolife AB by the general meeting of the shareholders on the 27 April 2017 and has been the company's auditors since the 5 May 2014.

# The auditor's examination of the corporate governance statement

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

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

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

Gothenburg 20 March 2018

Deloitte AB

Fredrik Jonsson Authorized public accountant

# **GLOSSARY AND SHAREHOLDER INFORMATION**

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

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

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

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

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

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

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

Embryo: A fertilised egg.

In vitro (Latin "in glass"): A process that has been taken out from a cell to take place in an articficial environment instead, for example in a test tube.

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

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

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

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

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

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

PGS: PGS (preimplantation genetic screening) is a test which detects chromosomally abnormal embryos, which is a common cause of infertility. The percentage of chromosomally abnormal embryos increases with age and these deviations can often not be seen using conventional methods. By investigating chromosomal abnormalities before the embryo is transferred to the woman, the chances of getting pregnant are improved and the risk of a miscarriage can be reduced.

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

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

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

# **ANNUAL GENERAL MEETING 2018**

The AGM of Vitrolife AB (publ) will be held on Thursday, 26 April 2018 at 5:00 p.m. at Vitrolife's premises in Gothenburg. Address: Gustaf Werners gata 2. For more information, please refer to www.vitrolife.com

# DISTRIBUTION OF THE ANNUAL REPORT

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

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

# 2018 REPORTING CALENDAR

January-March Interim Report, Tuesday 24 April January-June Interim Report, Friday 13 July January-September Interim Report, Tuesday 6 November

# INVESTOR RELATIONS

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# **AUDITORS**

The company's auditor is Deloitte AB. Principal Auditor is Authorised Public Accountant Fredrik Jonsson (1971). Fredrik Jonsson has been engaged as Vitrolife's auditor since 2014.

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