



**CellaVision AB (publ)**  
**Financial Report – Quarter 3 – 2006**  
**January 1—September 30, 2006**

- Net sales increased by 40% to SEK 11.6 million (8.3) during the quarter and by 37% to SEK 39.3 million (28.6) accumulated.
- Operating loss amounted to SEK -2.3 million (-4.8) during the quarter and to SEK -7.3 million (-12.4) accumulated.
- Liquid assets amounted to SEK 18.2 million by the end of the quarter.
- During the quarter a system was delivered to the first client in Canada.
- The transfer of production of the CellaVision DM96™ to Kitron Flen AB was completed during the quarter.

## **1. Operations**

### **GENERAL**

CellaVision AB (publ) is an emerging high-tech company with a core competence in development of software for automatic image analysis of cells and cell changes and for applications in health and medical care. The company offers cutting-edge expertise in sophisticated image processing, image analysis and automated microscopy.

The company currently focuses on the following three products: CellaVision™ DM8, CellaVision™ DM96, and CellaVision™ Diff IQ. CellaVision DM96 and DM8 are analyzers which automate manual differential counts of white blood cells and characterizations of red blood cell morphology. CellaVision™ Diff IQ is a software for education and competency testing of manual blood cell differentials in laboratories.

The company's products are sold to hospital-laboratories and independent commercial laboratories. Today CellaVision is represented in Europe, the U.S. and to some extent in Asia. CellaVision markets and sells its products through a number of exclusive distributors except for the Nordic market where CellaVision sells direct.

### **MARKET AND SALES**

Interest for digital morphology continued to grow in Europe and the USA and CellaVision's products are becoming an increasingly important component in the line of automatic laboratory instruments. The quarter's sales were strong and the accumulated net sales after three quarters is 37% higher compared to the same period the previous year, and is on the same level as net sales for the entire year of 2005. During the period, Europe accounted for 52% of net sales, the USA for 43%, and the rest of the world for 5%.

During the quarter, CellaVision's products were approved for the Canadian market. CellaVision is now selling directly to Canada and has during the third quarter delivered a CellaVision DM-product to one of the larger hospital laboratories in the Toronto area. In the beginning of October yet another three CellaVision DM-products were delivered to another Canadian client.

Another hospital in Denmark, the University Hospital of Aalborg, replaced their DiffMaster™ Octavia, CellaVision's first generation of cell morphology products, with the CellaVision DM96 during the quarter. Along with the installations made in 2005 at Odense University Hospital and Rigshospitalet in Copenhagen, this means that CellaVision now has its most automated product in three out of four Danish university hospitals.

During the quarter the company's products have been presented at the international conference for clinical chemistry, *AACC*, in Orlando, USA, and at two regional conferences in Canada, the *2006 ACMLT Convention* and the *2006 OSMT Conference*.

#### **PARTNERSHIPS AND AGREEMENTS**

The project regarding the transfer of production of the CellaVision DM96 to Kitron Flen AB was completed during the quarter. The increased costs for the quarter compared to those of the previous year can partly be explained by the costs of this project.

#### **RESEARCH AND DEVELOPMENT**

During the quarter, the company has further developed softwares, amongst other things in regard to improvements of functions for user support, and cost reduction of hardware platforms, including the transfer of production.

At the end of the quarter, CellaVision had a patented portfolio containing 17 innovations, which so far have generated 22 patents.

## **2. Sales, financial results, and capital expenditures**

Net sales for the third quarter amounted to SEK 11.6 million (8.3), and accumulated to 39.3 (28.6), 40 and 37 percent higher than the same period the previous year, respectively. Europe accounts for 52% (64) of the sales, the USA for 43% (31), and the rest of the world for 5% (5). The gross profit of the quarter amounted to 55% (39) and accumulated to 55% (47). This improvement in gross profit is partly due to the negative effect of SEK 1.1 million due to write-down of DiffMaster inventory during nine months in 2005, and partly due to that capitalized development projects are fully written down by the 31st of March and therefore have not resulted in any write-downs during the second and third quarter of 2006. The corresponding write-down for the third quarter 2005 was SEK 0.9 million and SEK 2.8 million for the nine months of 2005.

The net loss for the quarter amounted to SEK -2.4 million (-4.9), and accumulated to SEK -7.6 million (-12.6). Total expenses for the quarter amounted to SEK 8.7 million (8), and accumulated to SEK 29.1 million (25.8). At the end of the first quarter, the number of employees was higher compared to the same period last year, 34 vs. 33, which is reflected in the somewhat higher expense level in 2006 compared to the previous year. Yet another reason for the higher expense level in 2006 compared to 2005 is the cost of moving the production of CellaVision DM96 from Lund to Kitron in Flen.

The company has not undertaken any development projects in phases in which expenditures shall be capitalized. No depreciations on capitalized development expenditures from earlier periods have been booked as costs of goods sold in the quarter as these were completely depreciated by the 31st of March, 2006 (SEK 0.9 million). These depreciations accumulate to SEK 0.9 million (2.8). Capital expenditures amounted to SEK 1.7 million (0.1) during the period.

## **3. Financing**

Liquid assets amounted to SEK 18.2 million (6.5) at the end of the quarter. The cash flow before changes in working capital amounted to SEK -2.7 million (-2.7) for the quarter and SEK -5.4 million (-8.6) accumulated. The average monthly cash flow before changes in working capital amounted to SEK -0.6 million (-1) during nine months.

## **4. Personnel**

The company management team has been enhanced by Jeanette Bengtsson, employed as Operations Manager. Jeanette has extensive experience from the Med Tech industry in Operations, QA and Regulatory Affairs. The most recent employer was Cresco Ti Systems and AstraTech.

At the end of the quarter, the company had 34 (33) employees (FTE), of which 9 (9) were women.

## 5. Event after the reporting period

Peter Åkerlund, present CFO at CellaVision AB, will be leaving the company in January 2007. The recruitment of a new CFO at CellaVision AB is ongoing.

## 6. Consolidated Accounts

| <b>Consolidated income statement</b> | <b>Q 3 2006</b>  | <b>Q 3 2005</b>  | <b>9 MONTHS 2006</b> | <b>9 MONTHS 2005</b> | <b>12 MONTHS 2005</b> |
|--------------------------------------|------------------|------------------|----------------------|----------------------|-----------------------|
| <b>All amounts in KSEK</b>           | <b>JUL - SEP</b> | <b>JUL - SEP</b> | <b>JAN - SEP</b>     | <b>JAN - SEP</b>     | <b>JAN - DEC</b>      |
| Net sales                            | 11 589           | 8 273            | 39 280               | 28 609               | 39 017                |
| Cost of goods sold                   | -5 174           | -5 053           | -17 504              | -15 196              | -19 390               |
| <b>Gross profit</b>                  | <b>6 415</b>     | <b>3 220</b>     | <b>21 776</b>        | <b>13 413</b>        | <b>19 627</b>         |
| Selling expenses                     | -3 102           | -2 921           | -9 534               | -9 000               | -13 556               |
| Administrative expenses              | -2 468           | -2 640           | -9 136               | -8 220               | -10 795               |
| R & D expenses                       | -3 280           | -2 387           | -10 490              | -8 511               | -11 470               |
| Other operating income               | 134              | 0                | 158                  | 0                    | 0                     |
| Other operating expenses             | 0                | -92              | -55                  | -45                  | -295                  |
| <b>Operating result</b>              | <b>-2 301</b>    | <b>-4 820</b>    | <b>-7 281</b>        | <b>-12 363</b>       | <b>-16 489</b>        |
| Interest income                      | 57               | 24               | 177                  | 120                  | 163                   |
| Interest expenses                    | -127             | -123             | -451                 | -396                 | -407                  |
| <b>Result after financial items</b>  | <b>-2 371</b>    | <b>-4 919</b>    | <b>-7 555</b>        | <b>-12 639</b>       | <b>-16 733</b>        |
| Tax                                  | 0                | 0                | 0                    | 0                    | 0                     |
| <b>Net result</b>                    | <b>-2 371</b>    | <b>-4 919</b>    | <b>-7 555</b>        | <b>-12 639</b>       | <b>-16 733</b>        |

| <b>Per share data</b>                             | <b>Q3 2006</b>   | <b>Q3 2005</b>   | <b>9 MONTHS 2006</b> | <b>9 MONTHS 2005</b> | <b>12 MONTHS 2005</b> |
|---|------------------|------------------|----------------------|----------------------|-----------------------|
|   | <b>JUL - SEP</b> | <b>JUL - SEP</b> | <b>JAN - SEP</b>     | <b>JAN - SEP</b>     | <b>JAN - DEC</b>      |
| Net result, undiluted, SEK                        | -0,10            | -0,24            | -0,32                | -0,63                | -0,81                 |
| Net result, diluted, SEK                          | -0,10            | -0,24            | -0,32                | -0,63                | -0,81                 |
| Weighted average number of shares, undiluted, SEK | 23 852           | 20 151           | 23 852               | 20 151               | 20 578                |
| Weighted average number of shares, diluted, SEK   | 23 852           | 20 151           | 23 852               | 20 151               | 20 578                |
| Number of shares at end of period, undiluted, SEK | 23 852           | 20 151           | 23 852               | 20 151               | 23 852                |
| Number of shares at end of period, diluted, SEK   | 23 852           | 20 151           | 23 852               | 20 151               | 23 852                |

<sup>1</sup>Items from the income statement are calculated in relation to the number of shares before dilution, based on the weighted average number of shares and diluted based on the number adjusted for warrants outstanding at the end of the period.

| Quarterly results          | Q1<br>2004 | Q2<br>2004 | Q3<br>2004 | Q4<br>2004 | Q1<br>2005 | Q2<br>2005 | Q3<br>2005 | Q4<br>2005 | Q1<br>2006 | Q2<br>2006 | Q3<br>2006 |
|----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>All amounts in KSEK</b> |            |            |            |            |            |            |            |            |            |            |            |
| Net Sales                  | 5 545      | 8 108      | 6 780      | 9 410      | 9 088      | 11 248     | 8 273      | 10 408     | 9 061      | 18 630     | 11 589     |
| Gross profit               | 1 397      | 3 155      | 3 298      | 2 655      | 4 309      | 5 884      | 3 220      | 6 214      | 5 043      | 10 318     | 6 415      |
| Gross profit in %          | 25         | 39         | 49         | 28         | 47         | 52         | 39         | 60         | 56         | 55         | 55         |
| Expenses                   | -9 706     | -10 260    | -7 725     | -9 411     | -8 467     | -9 269     | -8 040     | -10 340    | -9 739     | -10 602    | -8 716     |
| Operating result           | -8 309     | -7 105     | -4 427     | -6 756     | -4 158     | -3 385     | -4 820     | -4 126     | -4 696     | -284       | -2 301     |
| Net result                 | -8 389     | -7 106     | -4 512     | -4 886     | -4 280     | -3 440     | -4 919     | -4 094     | -4 835     | -349       | -2 371     |
| Operating cash flow        | -5 688     | -8 127     | -7 272     | -3 499     | -491       | -8 206     | -6 571     | -1 600     | -118       | -1 901     | 3 507      |

### **Consolidated Balance Sheet**

| <b>Assets</b>                              | <b>SEP 30</b> | <b>SEP 30</b> | <b>DEC 31</b> |
|--|---------------|---------------|---------------|
| <b>All amounts in KSEK</b>                 | <b>2006</b>   | <b>2005</b>   | <b>2005</b>   |
| Subscribed, unpaid, new shares             | 0             | 0             | 1 266         |
| <i>Intangible assets</i>                   |               |               |               |
| Capitalized development expenditures       | 0             | 1 822         | 881           |
| Tangible assets                            | 1 670         | 1 451         | 1 302         |
| Current assets                             | 37 683        | 33 068        | 42 791        |
| <b>TOTAL ASSETS</b>                        | <b>39 353</b> | <b>36 341</b> | <b>46 240</b> |
| <b>Shareholders equity and liabilities</b> | <b>30 SEP</b> | <b>30 SEP</b> | <b>31 DEC</b> |
| <b>All amounts in KSEK</b>                 | <b>2006</b>   | <b>2005</b>   | <b>2005</b>   |
| Shareholders equity                        | 18 985        | 5 814         | 26 561        |
| Provisions                                 | 1 680         | 1 220         | 1 240         |
| Long term liabilities                      | 0             | 0             | 0             |
| Current liabilities                        | 18 688        | 29 307        | 18 439        |
| <b>TOTAL EQUITY AND LIABILITIES</b>        | <b>39 353</b> | <b>36 341</b> | <b>46 240</b> |

| <b>Consolidated Cash Flow Statement</b>                                      |                  |                  |                          |                          |                           |
|--|------------------|------------------|--------------------------|--------------------------|---------------------------|
|  | <b>Q3 2006</b>   | <b>Q3 2005</b>   | <b>9 MONTHS<br/>2006</b> | <b>9 MONTHS<br/>2005</b> | <b>12 MONTHS<br/>2005</b> |
| <b>All amounts in KSEK</b>   | <b>JUL - SEP</b> | <b>JUL - SEP</b> | <b>JAN - SEP</b>         | <b>JAN - SEP</b>         | <b>JAN - DEC</b>          |
| Operating result   | -2 301           | -4 820           | -7 281                   | -12 363                  | -16 489                   |
| <b>Cash flow from operating activities before changes in working capital</b> | <b>-2 731</b>    | <b>-2 683</b>    | <b>-5 353</b>            | <b>-8 620</b>            | <b>-8 444</b>             |
| Changes in working capital   | 6 238            | -3 888           | 6 841                    | -6 648                   | -8 424                    |
| <b>Cash flow from operating activities</b>                                   | <b>3 507</b>     | <b>-6 571</b>    | <b>1 488</b>             | <b>-15 268</b>           | <b>-16 868</b>            |
| <b>Investing activities</b>  |                  |                  |                          |                          |                           |
| Capitalized development expenditures   | 0                | 0                | 0                        | 0                        | 0                         |
| Acquisition of tangible assets   | -1 604           | -17              | -1 730                   | -101                     | -133                      |
| Disposal of tangible assets  | 0                | 0                | 0                        | 0                        | 0                         |
| <b>Cash flow from investing activities</b>                                   | <b>-1 604</b>    | <b>-17</b>       | <b>-1 730</b>            | <b>-101</b>              | <b>-133</b>               |
| <b>Cash flow from financing act.</b>   | <b>-960</b>      | <b>-615</b>      | <b>830</b>               | <b>2 725</b>             | <b>15 364</b>             |
| Changes in cash and cash equivalents   | 943              | -7 203           | 588                      | -12 644                  | -1 636                    |
| Translation difference   | -18              | -18              | -11                      | -4                       | 67                        |
| Cash and cash equivalents, beginning of period                               | 17 240           | 13 730           | 17 588                   | 19 157                   | 19 157                    |
| <b>Cash and cash equivalents, end of period</b>                              | <b>18 165</b>    | <b>6 509</b>     | <b>18 165</b>            | <b>6 509</b>             | <b>17 588</b>             |

| <b>Financial ratios</b>                    | <b>SEP 30<br/>2006</b> | <b>SEP 30<br/>2005</b> | <b>DEC 31<br/>2005</b> |
|--|------------------------|------------------------|------------------------|
| Equity assets ratio, %                     | 48%                    | 16%                    | 57%                    |
| Net debt/equity ratio                      | -0,52                  | 2,26                   | -0,33                  |
| Return on shareholders equity, %           | Neg.                   | Neg.                   | Neg.                   |
| Return on capital employed, %              | Neg.                   | Neg.                   | Neg.                   |
| Interest-bearing liabilities               | 8 357                  | 9 622                  | 8 793                  |
| Number of employees at end of period (FTE) | 34                     | 33                     | 32                     |
| Shareholders equity per share (Undiluted)  | 0,80                   | 0,29                   | 1,29                   |

**Equity/assets ratio**  
Shareholders equity in relation to total assets.

**Net debt/equity ratio**  
Net borrowings divided by shareholders equity.

**Return on shareholders equity**  
Net profit/loss in relation to average shareholders equity.

**Return on capital employed**  
Profit/loss after financial items plus financial expense in relation to average capital employed.

**Shareholders equity per share**  
Shareholders equity in relation to the number of shares at end of period. Splits and share issues are taken into account.

| <b>Changes in<br/>shareholders equity</b><br>All amounts in KSEK | <b>JAN – SEP<br/>2006</b> | <b>JAN - SEP<br/>2005</b> | <b>JAN - DEC<br/>2005</b> |
|--|---------------------------|---------------------------|---------------------------|
| <b>Opening balance</b>   | <b>26 561</b>             | <b>18 148</b>             | <b>18 148</b>             |
| New share issue  | 0                         | 0                         | 25 266                    |
| Fundraising cost   | 0                         | 0                         | -632                      |
| Translation difference   | -21                       | 305                       | 512                       |
| Net result   | -7 555                    | -12 639                   | -16 733                   |
| <b>Closing balance</b>   | <b>18 985</b>             | <b>5 814</b>              | <b>26 561</b>             |

## 7. Other information

On September 30, 2006, the Group consisted of the parent company and the subsidiaries: CellaVision Inc. and CellaVision International AB.

The company applies all applicable recommendations from the Swedish Accounting Council except for RR 27 and RR 29.

The accounting principles are unchanged since the annual report 2005.

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Lund, October 26 2006

The Board of CellaVision AB (publ), corporate ID 556500-0998

### **CellaVision AB (publ)**

**CellaVision AB** is an emerging high-tech company with a core competence in development of software for automatic image analysis of cells and cell changes and for applications in health and medical care. The company offers cutting-edge expertise within sophisticated digital image analysis, artificial intelligence and automated microscopy. It develops and markets systems for automatic differentials of white blood cells and red morphology, and software for education and quality assurance of differentials.

The company headquarters are in Lund, Sweden. The company also has a U.S. subsidiary in Jupiter, FL, USA. For more information, please visit [www.cellavision.com](http://www.cellavision.com).