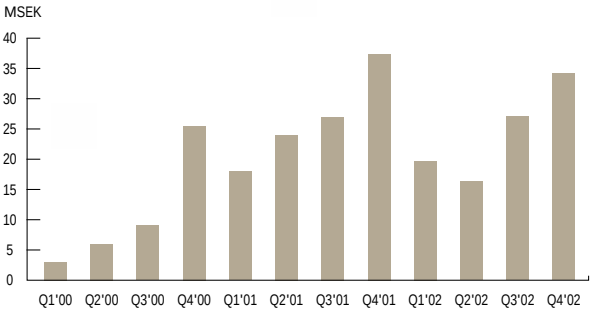
Annual Report 2002

PYROSEQUENCING

Pyrosequencing AB develops, manufactures and sells complete solutions for rapid applied genetic analysis based on its proprietary Pyrosequencing® technology, a broadly applicable DNA sequencing technique. Pyrosequencing is a leader in the global market in Applied Genomics with nearly 250 systems sold to major pharmaceutical and biotech companies and prestigious research institutions worldwide. The Company actively collaborates with industry leaders to develop clinical applications of the technology for disease diagnosis, clinical prognosis and pharmacogenomics testing.

Pyrosequencing products include the bench-top PSQ™ 96, PSQ™ 96MA and PSQ™ HS 96A Systems, all of which utilize proprietary software and reagent kits.

Pyrosequencing AB revenue.



2002 Highlights

- Received 85 new system orders, of which 30 were received in Q4.
- Attracted industry thought-leaders Genzyme, Bristol-Myers Squibb, Schering-Plough, and the National Center for Genotyping in France, bringing our installed base to nearly 250 systems worldwide.
- Introduced a new multi-applications system and a high sensitivity DNA analysis platform, with vacuum-based tool for streamlined sample preparation.
- Demonstrated competitive edge by reducing reagent prices.
- Expanded our intellectual property position with access to nucleic acid technology and to a new infectious disease target gene.
- Significant cost-savings program implemented with cash savings to be recognized in 2003.
- Signed agreement to exclusively distribute Corbett products in the US.
- Closed the year with 471.7 MSEK ($54.3 million) in cash and marketable securities.

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Information to Shareholders

Annual General Meeting
The Annual General Meeting of Pyrosequencing AB will be held on Thursday, April 24, 2003 at 5:00 p.m. (local time) at Radisson SAS Hotel Gillet, Dragarbrunnsgatan 26, Uppsala, Sweden.

To be entitled to participate in the Meeting, the shareholder must be entered in the share register on April 14, 2003 and must be registered with the Company as an attendee.

The Company's share register is kept by the Securities Register Centre (Sw. Värdepapperscentralen VPC AB). Shareholders are registered in the share register either in their own name or via an administrator. Only shareholders registered in their own name are entitled to participate in the shareholder's meeting. Shareholders whose shares have been registered by a bank's trust department or by an individual administrator must have shares registered in their own name in the share register. Such registration – which may be temporary – is made through the administrator and must be carried out no later than April 14, 2003. The administrator should be notified accordingly before this date.

Shareholders wishing to attend the Meeting must notify the Company either in writing to: Pyrosequencing AB, Legal Department, Vallongatan 1, SE-752 28 Uppsala, Sweden or by e-mail to deltagare@pyrosequencing.com or by fax to +46 18 59 19 22 or by telephone to +46 18 56 59 00, no later than 4 :00 p.m.(local time) to April 22, 2003. Upon registration, the shareholder shall state name, personal identification number/registration number, address, telephone number and number of shares as shown in the share register, and documents such as power of attorney, registration certificates, etc., should be enclosed.

Pyrosequencing AB will publish the following financial reports

Interim Report January–March, 2003	April 24, 2003
Interim Report January–June, 2003	August 7, 2003
Interim Report January –September, 2003	October 23, 2003

Financial reports can be ordered from www.pyrosequencing.com or:
Pyrosequencing AB
Investor Relations
Vallongatan 1
SE-752 28 Uppsala,Sweden

A springboard to profitability

In 2002, we successfully launched our second generation genetic analysis systems based on Pyrosequencing's renowned technology. The new PSQ™ 96MA and PSQ HS 96A Systems, have been developed with the short time-to-market that has become our trademark. By this, we have strengthened our long-term position when it comes to meeting the emerging requirements of the market. We have diligently followed the development of the markets and taken decisive measures to adapt our strategies to the current business climate. As a result, we have implemented a program that is estimated to reduce our costs by up to 30 percent. At the same time, we can conclude that the new generation of systems launched during 2002 has been well received by the market giving us confidence in the potential to grow our revenues. The addition of synergistic products in the US market from Corbett has further reinforced our opportunities for accelerating the increase in sales. These important measures have allowed us to plot our path along the road to profitability.

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External Influences

Market conditions have been extremely challenging during 2002. The market for raising cash has essentially disappeared. This has led to significantly weakened economies for most projects, and in particular for projects within the biotech and genomics industry. The willingness to invest in capital equipment has reduced in this sector and we have noted during the year a weakened order intake.

In contrast, the level of activity within academic research related to genomes and their significance for the understanding of life processes seems to have been impacted less by the general economic recession. It is very encouraging to note the dramatic increase of research papers published referring to Pyrosequencing™ technology and products. The market's confidence in Pyrosequencing improves with the increasing number of scientific references to our products. In this way, we will see the commercial value and interest increase within the industrial sector, for both genomics and our products.

New Products

The second generation of Pyrosequencing Systems for DNA sequencing and Applied Genomics was launched during 2002. The PSQ 96MA System is a flexible system that has been developed for a wide range of applications. The PSQ HS 96A System, has been developed to give optimal performance for the analysis of SNPs and mutations. We have also launched an important companion product, the Vacuum Prep Tool, which enables efficient preparation of DNA samples for subsequent analysis by our new systems

The new products have been developed based on the demands of our customers and of the market. The systems provide the customer with low costs per sample, application-targeted software and a high degree of automation. The development of these systems is a very important investment that gives us a significantly better position to develop a sustainable and profitable business in the rapidly emerging market for Applied Genomics.

Collaboration on Distribution

Pyrosequencing and Corbett entered into an agreement at the end of 2002 regarding the distribution of Corbett's products in the US market. The product range includes equipment, accessories and software for the preparation,

handling and detection of DNA and RNA. Our existing customers also need these products. Corbett's products are of the highest quality and they are very competitive. By this agreement we have extended our current product portfolio and this further reinforces our aim of offering our customers a comprehensive range of products.

Molecular Diagnostics

As part of the process of increasing efficiency and the rapid move towards profitability, we consolidated our efforts in the molecular diagnostics with our core business. By this we are now focusing on developing products for the clinical research market. Pyrosequencing will concentrate on the research market. In order to exploit the potential of our technology within the regulated diagnostic markets, we plan to seek a collaboration with a partner.

We have been involved in around ten scientific collaborations with leading clinical research laboratories throughout the world. These have resulted in important publications demonstrating that Pyrosequencing technology is suitable for research within certain specific therapeutic fields. These fields include infectious diseases, cardiovascular diseases, genetic disorders and hematology/oncology. These collaborations have also resulted in intellectual property rights that will be valuable in the context of diagnosis. They have also generated background information for future molecular diagnostic products.

Cost-Savings Program

We have implemented a cost-savings program in order to shorten the time to profitability. As a first step, the corporate functions located at our office in the Boston area, USA, were consolidated to our headquarters in Uppsala, Sweden. This led to a reduction of the staff in our US subsidiary. The second stage of the program to better adapt our costs structure to current business conditions included the downsizing of staff at the head office in Uppsala. These measures, together with other cost saving actions, are calculated to reduce costs by SEK 70 million per year, starting in 2003.

Towards Profitability

In the year of 2002 we have laid the groundwork for reaching profitability.

We have developed the second generation of Pyrosequencing Systems. These systems address a deeper and wider range of customer needs. The products are designed with upgradeability in mind to ensure a longer product life cycle. In summary, we are now in a better position for growth.

We have also brought in external products, through the distribution agreement with Corbett. This arrangement allows us to accelerate our revenue growth.
We have decisively adjusted our costs structure to better match the current market conditions.

The year 2002 has involved a great deal of work and major challenges. Thanks to a clear vision, a fundamentally strong technology and accomplished organization with skilled personel we have been able to lay the necessary foundation for a growing and profitable business.

I would like to thank our shareholders, personnel and customers for the support that you have given us during the year.

Erik Walldén
President and Chief Executive Officer
Pyrosequencing AB

Key events in the development of Pyrosequencing AB

- Pyrosequencing was founded, spring 1997.
- Proof of principle, the first private placement, spring 1998.
- The first functional prototype of a system, autumn 1998.
- Manufacturing and central marketing established, spring 1999.
- The second private placement, autumn 1999.
- Subsidiaries in the US and a sales organization covering the EU established, autumn 1999.
- Launch of the first generation of products, spring 2000.
- Initial Public Offering, listed on the Stockholm Stock Exchange, spring 2000.
- A business unit for molecular diagnostics formed, autumn 2001.
- Launch of the second generation product platform, spring 2002.
- Restructuring and cost-savings program implemented, second half of 2002.
- Molecular diagnostics integrated into the core operations of the company 2002.
- Nearly 250 systems sold throughout the world by the end of 2002.
- Distribution agreement with Corbett to accelerate revenue by the end of 2002.

DNA and Genomics

Deoxyribonucleic acid, DNA, is present in all cells and it determines the inherited characteristics of living organisms. Each DNA molecule consists of the four nucleotides adenine (A), cytosine (C), guanine (G) and thymine (T). These four nucleotides are the chemical building blocks of the DNA molecule. The order of the nucleotides in the DNA molecule is known as the DNA sequence. The complete DNA sequence of an organism is known as its ”genome”.

The human genome is organized into 23 pairs of chromosomes. The genome contains over three billion nucleotides, which are organized into over 30,000 distinct genes. The sizes of the genes vary, with a typical size of around 1,000 nucleotides. The genes determine all of the physical characteristics, such as hair and eye color, of a person. The normal biological functions of cells are controlled by the instructions that are coded in the genes.

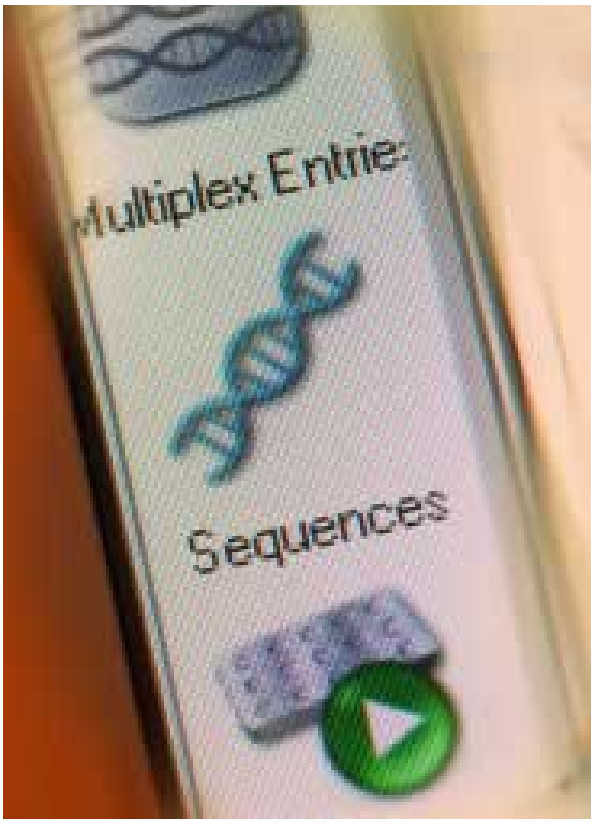
The diversity found in all living organisms arises from the rich variability of the genetic material. Approximately one nucleotide per 300 nucleotides differs from one individual to another, while the remainder are identical. Such a difference is known as a ”polymorphism”. Most polymorphisms do not have any effect, but a polymorphism that affects a gene can give rise to diseases such as cystic fibrosis and hemophilia.

Genomics

Genomics is the study of genes and their functions. Genomics forms the basis for an understanding of how living organisms function, and thus for the understanding of human health and disease. Genomics can be regarded as consisting of two main disciplines: Basic Genomics and Applied Genomics.

Basic Genomics

Determining the sequence of nucleotides along the DNA molecule is known as ”DNA sequencing”, or simply ”sequencing”. The determination of the genome of a species, that is, determining the complete sequence of its DNA, can be regarded as Basic Genomics. This is



a demanding task even for species, such as bacteria, with relatively small genomes. The task is enormous for species with a more extensive genome, such as humans. Work to sequence the complete human genome began in the middle of the 1980s with the aim of developing new medical treatments and diagnostic tests based on genetic information. The project, financed by governments and foundations, is known by the name of HUGO (an acronym for ”The Human Genome Project”). The first draft of the complete sequence of the human genome was presented in 2000. The HUGO project can be regarded as an excellent example of Basic Genomics in which the aim is to collect and organize all information about an organism’s DNA. The DNA of around 100 organisms, everything from bacteria to humans, has now been mapped, and this number is continually increasing.

Genomics forms the basis for an understanding of how living organisms function, and thus for the understanding of human health and disease.

Applied Genomics

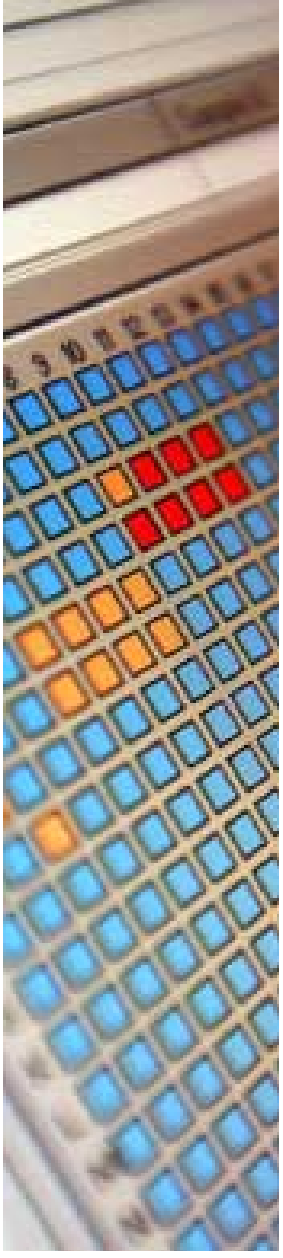
Once a genome has been sequenced, researchers are able to study in detail particular genes and the differences in DNA sequence between individuals within a species. Applied Genomics is the process of analyzing and interpreting this genetic information. The main focus is on understanding how differences in the DNA sequence affect human health but other species are also studied. Many companies and research institutions have invested large sums in Applied Genomics in order to gain knowledge that can be used to improve health care. In contrast to Basic Genomics, Applied Genomics requires high precision analysis of short and medium-length sequences. Two important fields within Applied Genomics are SNP analysis and sequence analysis of short strands of DNA.

SNP analysis and genetic variation

The most common form of genetic variation (polymorphism) is known as single nucleotide polymorphism, or SNP. As the name implies, it arises when a single nucleotide differs between two individuals. It is believed that each individual has over one million SNPs, most of which have no medical consequences at all. Some SNPs, however, give rise to genetic disorders. It is also believed that the occurrence of many common diseases, including cancer, diabetes and cardiovascular disease, are also influenced by SNPs. Other SNPs are considered to explain why different individuals react differently to treatment with drugs. SNP analysis has a major potential value, and this is the reason that it is becoming an important field for commercial and academic research.

Sequence analysis of short DNA strands for genetic identification

Another important field of Applied Genomics is sequence analysis of short stretches of DNA (normally between 10 and 50 nucleotides long). Since the sequence of the four nucleotides along the DNA molecule is uniquely arranged, a length of approximately 20 nucleotides is considered to have a unique sequence. This is therefore a very useful technique for identifying, for example, particularly aggressive bacteria or bacteria that are resistant to antibiotics. Future uses may include routine applications such as disease diagnosis.



Cutting-edge technology

Pyrosequencing has developed and patented a technology specifically designed for Applied Genomics, based on DNA sequencing by synthesis. The technology is characterized by precision, user-friendliness, speed, high productivity, cost-efficiency, flexibility and scalability. This cutting-edge technology satisfies a growing demand for SNP analysis and sequence analysis.

Pyrosequencing is a leader in the global market for Applied Genomics, and has sold close to 250 systems to major pharmaceutical companies, biotechnology companies and respected research institutions throughout the world.

Products include the PSQ 96, the PSQ 96MA and the PSQ HS 96A Systems with associated software, products for sample preparation and optimized reagent kits.

Rapid Analysis

Pyrosequencing technology uses an elegant enzymatic cascade designed to determine the order of nucleotides within a strand of DNA. This enzyme cascade system, consists of four enzymes and specific substrates, produces light whenever a nucleotide is incorporated and forms a base pair with complementary base in a DNA template strand. This light signal, detected by a specially designed camera and seen as a peak in the resulting digital graph known as a Pyrogram™, is proportional to the number of nucleotides incorporated. If there is no incorporation, there is no light.

Advantages

Precise results
The technology gives precise results that are easy to interpret.

User-friendly
The systems are very easy to use and include optimized reagents and user-friendly software. A high level of automation ensures that the systems are extremely robust and that they provide consistent results.

Rapid analysis and high capacity
The increasing number of routine applications that use DNA sequencing, including large-scale SNP investigations, places ever-increasing demands on the ability of analysis methods to process large numbers of samples precisely and exactly.

Cost-efficiency
The cost per sample is very competitive. The technology gives precise results that dramatically reduce the need to repeat analyses in order to verify the results, and this contributes to reducing the total cost per sample. Pyrosequencing technology is very simple to use, leading to significantly lower costs for training and a reduced need for highly qualified personnel to use and maintain the systems.

Scalability
The technology can be adapted to the current and expected needs with respect to capacity of any customer.

Flexibility
Pyrosequencing systems can deal with both SNP analysis and sequence analysis of short strands of DNA, two important areas in Applied Genomics.

Patent

Pyrosequencing's patent portfolio was reinforced during 2002 by the exclusive licensing of a new and complementary technology for DNA sequencing from Harvard Medical School. An agreement was also reached with Biomics AB concerning the rights to genetic variability in the enzyme RNase P and its use for identifying and characterizing bacteria. The company continues to secure values through an active patenting strategy. Key areas for the company are methods and reagents for sequencing by synthesis, instrument technology and software. The company's patent portfolio at the end of 2002 included 35 patents and patent applications, and 6 registered trademarks and applications.

Areas of Application - Some examples

Pyrosequencing technology can be used in many application areas. Four examples are presented here – genetic disorders, microbiology, adverse effects of pharmaceuticals and forensic genetics.

Help to analyze hereditary disorders

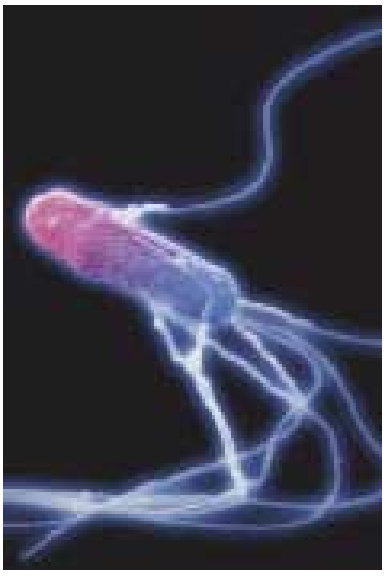
It has been known for many years that a predisposition to disease can be inherited from one generation to the next and that this can be traced to specific genes. Currently, the genetic backgrounds of a relatively large number of diseases are fully or partially known. Certain disorders are the result of a single defective gene, while most disorders – complex disorders – are the result of simultaneous variations in a number of genes. A lot of current genetic research is focused on discovering the causes of complex disorders and understanding the genetic causes of many common disorders. As a result, routine diagnostic laboratories are increasingly using assays based on one or several of the approximately 30,000 genes found in the human genome.

The many disorders for which genetic analysis using Pyrosequencing technology has been used for research within the areas of cystic fibrosis, cardiovascular disease, thrombosis, Down's syndrome, extreme obesity, hereditary deafness, senile dementia and cancer.

One of the most well understood genetic disorders is cystic fibrosis, a disorder of the metabolism that causes the body to produce abnormally thick and viscous mucus, principally in the respiratory tract. The disorder if untreated causes death within a year, but treatment now makes it possible to live over 40 years with the disorder. The disorder is the result of a mutation in a single gene. Both copies of the gene, the maternally and the paternally inherited copy, must be defective in order to develop the disease. Approximately 100 genetic variations are known in humans. Analyses to detect the most common mutations in the US and in Europe have been established during 2002 using Pyrosequencing technology. This technology allows several genetic defects that lie close together, and in some cases even overlap, to be distinguished with high precision.

An integral property of Pyrosequencing technology is the ability to carry out quantitative analysis – the height of the peak in the Pyrogram is proportional to the number of copies of the gene in the sample being analyzed. This property has might be used in the analysis of Down's syndrome. This disorder is caused by the presence of three copies of chromosome 21 (known as "trisomy 21") instead of the normal two. Down's syndrome arises when a person inherits three copies of chromosome 21 instead of two.

Infectious diseases - a rapidly growing problem.



Searching for resistant bacteria

Microbiology is the study of bacteria, viruses and fungi and the infections that these micro-organisms cause. Despite major scientific successes in the field, such as the discovery of penicillin, infectious diseases are still the most common cause of death among children and young people globally. This is why major investments take place every year in microbiological research, both in academic institutions and in pharmaceutical companies.

Infections caused by multiresistant bacteria, such as bacteria that are resistant to penicillin and other types of antibiotic, are a rapidly growing problem within health care. It is important to limit the spread of such an infection when it occurs. The longer the period of time that is allowed to elapse, the greater the cost entailed. Patients must be placed in isolation, wards must be closed and various forms of quarantine measures must be taken. A rapid and accurate typing of the micro-organism causing the outbreak can aid in limiting the spread at an early stage, leading to significant savings. Bacteria develop multiresistance through modifications in the DNA and the ability to modify the DNA is an important property for survival of bacteria. This ability has led to species of bacteria being able to adapt to new conditions and thus surviving through millions of years. Analysis of DNA using Pyrosequencing technology might allow a rapid and accurate determination whether a bacterial strain carries a gene that makes it resistant to antibiotics.

Mycobacteria are a group of bacteria that give rise to particularly troublesome infections with serious symptoms, which can affect, for example, the respiratory tract. One infection caused by a mycobacterium is tuberculosis, which kills two million people per year globally. One reason that mycobacteria are difficult to treat is the difficulty of analyzing the bacteria using conventional methods. The difficulty of analysis leads to a delay in starting the correct treatment. Current methods require cultivation of fairly large quantities of bacteria in the laboratory in order to be able to analyze the material. The most common methods of analysis are relatively insensitive – they require a long period of culture and it is not always possible to obtain sufficient material at all. Pyrosequencing systems, on the other hand, have such a high sensitivity that significantly lower quantities of material are needed and these quantities can be produced rapidly. This increases the reliability of the analysis and reduces the time required to obtain valuable results.

Adverse effects of pharmaceuticals

All drugs that have been approved for use with humans have been subject to rigorous testing and studies to ensure not only that the substance has the expected effect but also that it does not produce unwanted side effects. However, despite these extensive studies, it is not unusual that certain individuals experience serious side effects, or that the desired effect is weak or absent. By mapping the genetic differences between those groups of patients for which the drug functions properly and other groups, it has proved possible to determine with high accuracy which groups should be treated with a certain drug. Some particularly effective drug candidates cannot be approved due to them having a poor function or causing side effects in a small selection of patients. The mapping of genetic differences is expected to enable the approval of these candidates and thus the provision of improved treatment for the groups of patients for which the candidate is suitable. It also reduces the risk for the pharmaceuticals industry that a drug development project will fail.

There are currently only a few examples of the personalized prescription of drugs, but considerable research is being carried out to discover these connections. This is particularly true for the study of side effects. The magnitude of the problem of unwanted side effects can be illustrated by a study carried out in 1998, showing that side effects are the fourth most common cause of death in the US.

Mapping the genetic differences between groups of individuals showing different reactions to a drug is ideally suited to the use of Pyrosequencing technology, and this has developed into an important field for the company's products. In particular, the company has developed special protocols for the analysis of the cytochrome P450 gene family, and these have proved to be particularly useful for mapping side effects. These methods are now frequently used in research and development at pharmaceutical companies.

A study carried out in 1998 showed that unwanted side effects are the fourth most common cause of death in the US.

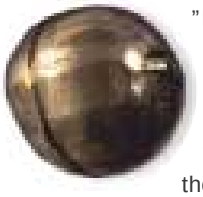
Historical evidence and modern crime investigation

Historical Material

Pyrosequencing technology has been used in several cases to analyze historical material. Several analyses have been carried out by *Dr. Marie Allen* at the Department of Genetics and Pathology at the Rudbeck Laboratory in Uppsala.

A button, discovered in 1924 and now held by the Varberg Museum, Sweden, has traditionally been regarded as the projectile that killed the Swedish King Charles XII at the siege of the fortress at Fredriksten, Norway, in 1718. DNA analysis was performed on the button a few years ago and compared to blood stains in Charles XII's gloves that have been preserved at The Royal Armory in Stockholm. The results show that the same type of DNA is present on the button as on the gloves. It is, however, a relatively common type of DNA, possessed by about one percent of the population. At the same time, the results do not exclude that this rather speculative theory may be true. These analyses were carried out using mitochondrial DNA (more copies of which are present in each cell than nuclear DNA) with the aid of Pyrosequencing technology.

Relics of Saint Birgitta and her daughter have been preserved in a reliquary in Vadstena convent in Sweden since the 14th century. Dr. Allen took specimens from the skulls in the reliquary in the autumn of 2002. Pyrosequencing technology will enable some answers to be given to questions about the relics, including the question of whether the skulls are actually those of a mother and daughter. If this is the case, it can be concluded that the skull in Holland reputed to be that of Saint Birgitta is probably not so. Publication of the results is expected during 2003.



"It is extremely difficult to work with historical material," explains Dr. Allen, "and the amount of DNA is very limited. Testing our newly developed analysis methods on historical material allows us to conclude that the same methods can be used in forensic pathology for modern criminal investigations with small amounts of DNA. Pyrosequencing technology and their instruments play an important role in developing more sensitive and more rapid methods of analysis."

Forensic Genetics

A simple description of forensic genetics is the use of genetic methods to identify individuals from biological material such as blood, sperm, saliva or hair. A major field is the analysis of biological or genetic material found at the scene of a crime. Paternity determination and other investigations of how people are related are also part of forensic genetics. Each individual has a unique genetic "fingerprint" in his or her genetic material in the form of the DNA. Studying specific regions of the DNA that have a high variability allows genetic profiles with a high degree of discrimination to be produced. There is a minute risk that two individuals will have the same profile – in principle, it is only single-egg twins that have identical DNA. Many countries are currently building up databases of the genetic profiles of convicted criminals, comparable to fingerprint databases. As a complement to the traditional DNA analysis of nuclear DNA with a high degree of discrimination, mitochondrial DNA can also be analyzed with a lower degree of discrimination when the amount of DNA available is small.

Current traditional test methods are rather difficult to use, as they take a long time and a lot of work. This is where Pyrosequencing technology comes into the picture, being particularly interesting due to its simplicity and speed. The technology has a number of advantages in this context, not least its precision and the ease of interpreting the results.

Growing market

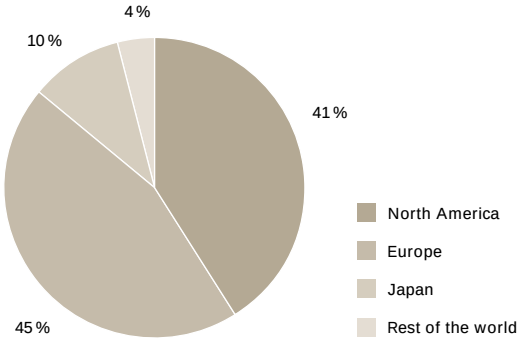
Pyrosequencing's market is Applied Genomics, a field that aims to increase the detailed knowledge of genetic material. An increase in knowledge about these details is considered to be vitally significant in modern medical research. A large number of national projects have been started in many parts of the world that aim to systematically map the occurrence and the significance of genetic variation between individuals. These projects carry out what is known as "SNP analysis". Applied Genomics is a young and rapidly growing market requiring new technology and new methods. A large number of new products and technical solutions have come onto the market in recent years. Pyrosequencing technology is clearly distinguished from its competitors through high quality results and sequence information that the Pyrosequencing analysis systems generate.

The unique properties of Pyrosequencing technology also makes it ideally suitable for applications in the sequence analysis market , the rapid and accurate analysis of short stretches of DNA. Interest in this field is growing rapidly, particularly within the field of microbiological research. Once again, it is the high quality of the experimental results, the robust nature of the systems and their simple operation that gives Pyrosequencing technology significant advantages over competitors. Pyrosequencing has customers in academic institutions, governmental health establishments and companies, particularly in the biotechnology and pharmaceutical industries. The second generation of analysis systems was launched in 2002. Reactions from the market and customers to the first generation guided the development of the second generation. Pyrosequencing can now offer system solutions with a very competitive cost of analysis per sample, user-friendly automation and newly developed software for the processing of experimental results. Together with the new products for rapid and reliable sample preparation, Pyrosequencing now offers comprehensive and robust products that will be competitive in the long-term. A very positive reception from the market has been registered only three months after launch. Pyrosequencing's position as a supplier of leading technology for the rapid and accurate analysis of DNA within Applied Genomics has been further reinforced by the new products launched in 2002.

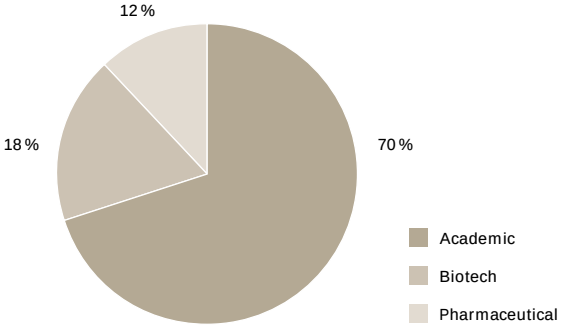
It is the assessment of Pyrosequencing that the market for Applied Genomics will grow steadily in the coming years.

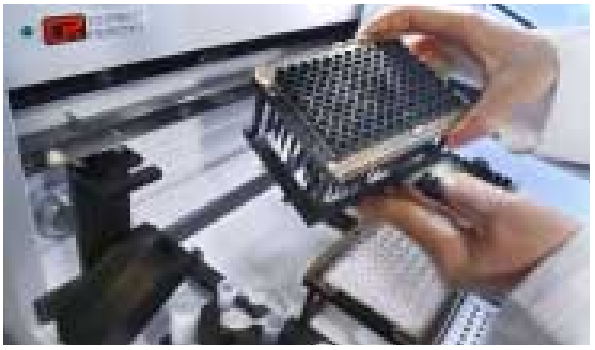
Applied Genomics is a young and rapidily growing market.

PSQ 96 System, PSQ 96MA System and PSQ HS 96A System installed, base by region.



PSQ 96 System, PSQ 96MA System and PSQ HS 96A System installed, base by customer.





Working with Corbett – great opportunities

Pyrosequencing is striving to offer the Applied Genomics market a more comprehensive program of high-quality products. This received a boost towards the end of the year by the establishment of a distribution agreement with Corbett, an Australian based biotechnology company with over 12 years experience in developing specialized equipment for the biotechnology and life sciences markets. The agreement means that Pyrosequencing becomes the exclusive distributor in the US market for Corbett's complete range of thermocycling and sample preparation products. Pyrosequencing's and Corbett's products are excellent complements to each other within the Applied Genomics market.

Corbett's products include the Rotor-Gene 3000, a four-channel, real-time thermocycler that can be used together with most chemical detection systems available on the market. The CAS 1200 is a robotic liquid handling system specially designed to be used together with conventional and real-time thermocyclers. The CAS 1200 offers increased precision and reproducibility while reducing the manual work required to a minimum.

The PalmCycler is a robust and user-friendly system for thermocycling, based on a hand-held computer for programming and visualization. The PalmCycler is easy to program and has space for the storage of hundreds of user programs.

John Corbett, Jr., Managing Director of Bio-Molecular Holdings, the parent company of both Corbett Research and Corbett Robotics commented on the agreement as follows: " Pyrosequencing is an ideal sales partner for our products in the US. Through their dedicated marketing, sales and distribution channels, we hope to accelerate our market penetration in the important market of North America. We also look forward to the potential of joint product development projects arising from this alliance that will further expand our product range."

PSQ 96MA System

The PSQ 96MA System is based on the PSQ 96 System, Pyrosequencing's first generation product that has been marketed since its launch in February 2000. The new system is based on Pyrosequencing proven technology for the real-time analysis of DNA, enabling the DNA sequence of a sample to be determined without any delay. Other important benefits of the technology are that it does not rely on cumbersome separation techniques, nor does it require labeling of samples with, for example, fluorescent dyes. These properties together ensure that the technology makes it possible to develop products for the rapid, accurate and simple analysis of DNA.

The PSQ 96MA System has been developed for the two important fields: SNP analysis and the analysis of short to medium-length DNA sequences. Since the results provide sequence information, there is no need for internal controls, nor is there any need to re-run samples. This leads to a high reliability for the analyses and an extremely advantageous operating economy for the user.

The system can carry out automatic multiplex analysis of SNPs and mutations, and it can quantify allele frequencies. Custom software has been developed for the automatic analysis of short and medium-length sequences. This is particularly useful in, for example, microbiological research.

The benefits of the system include:

- Reduced cost per sample and a higher capacity through multiplex genotyping.
- Rapid and reliable sequencing of DNA samples, including strong secondary structures and cloned material.
- Real-time analysis giving rapid answers and increased efficiency for the user.
- Simple import and export of data, reducing the time needed for input and improving the opportunities for statistical analysis.
- Reduced costs with maintained quality by the pooling and simultaneous analysis of many samples, giving higher productivity.

PSQ HS 96A System

The PSQ HS 96A System is based on a further development of Pyrosequencing technology, giving higher sensitivity. The system is designed for users who need medium to high capacity analysis of SNPs and mutations. This new system is based on Pyrosequencing proven technology for the real-time analysis of DNA, enabling the DNA sequence of a sample to be determined without any delay. Other important benefits of the technology are that it does not rely on cumbersome separation techniques, nor does it require labeling of samples with, for example, fluorescent dyes. These properties together ensure that the technology makes it possible to develop products for the rapid, accurate and simple analysis of DNA.

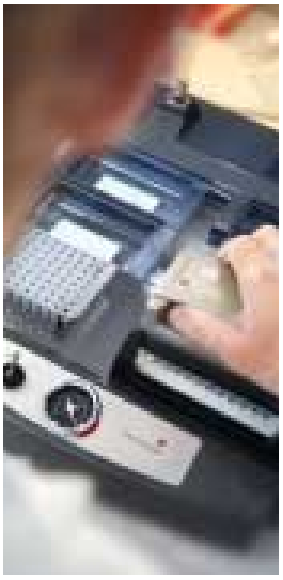
The high sensitivity of the detection system makes it possible to analyze small DNA sample amounts (normally 5–10 µl of the PCR product). This means that less consumables are needed, reducing the cost per sample for the user.

The system can analyze more than 10,000 samples a day, while multiplexing gives even lower costs and even higher capacity. For example, triplex analysis makes it possible to analyze 30,000 samples a day. The system includes an automatic robot arm that feeds the system with 96-well plates, giving up to two hours' unattended analysis. Furthermore, it will be possible in the future to upgrade the system to work with 384-well plates, making it possible to cope with the expected even higher demands for capacity.

The custom software means that the system handles the data generated in an efficient manner. A bar-code reader keeps track of the information on each plate and of the place of the plate in the flow. The system allows automatic multiplex genotyping of SNPs and other mutations, for example insertions/deletions (InDel), quantification of allele frequencies, and the analysis of several consecutive SNPs. The PSQ HS 96 System is a version of the system without automatic functions.

Benefits of the system include:

- High cost-efficiency due to a low cost per sample.
- Reduced costs and higher capacity through multiplex genotyping.
- The possibility of automatic analysis without operator intervention.
- Higher efficiency in the laboratory through real-time detection.
- Efficient data processing.



Vacuum Prep Tool

The Pyrosequencing Vacuum Prep Tool is a hand-held accessory for simple sample preparation for all Pyrosequencing 96-well analysis systems.

The Vacuum Prep Tool exploits the speed of vacuum filtering to prepare 96 samples for one complete plate in a simple procedure. This procedure takes less than 15 minutes. Pipetting, which is normally time-consuming and repetitive, is reduced to a minimum. Only two pipetting steps are required, one at the beginning and one at the end of the procedure. The Vacuum Prep Tool is a robust and reliable accessory that saves a lot of time and increases the efficiency of work at the laboratory bench.

The Vacuum Prep Tool consists of a hand-held unit with 96 disposable filter probes. The unit is connected to a vacuum unit by a tube with an On/Off switch. A simple cleaning procedure, combined with a simple test of the tips' function, means that each set of filter probes can be used more than 50 times.

The Vacuum Prep Tool has been developed in parallel with Pyrosequencing's analysis systems. The units have been designed to function in a unified manner, satisfying stringent requirements on precision and reliability.

The Pyrosequencing Share

Pyrosequencing's shares were quoted for the first time on the Stockholm Stock Exchange on June 30,2000. The introductory price was 100 SEK.

Share Capital

On December 31, 2002, Pyrosequencing AB's share capital amounted to 34.8 MSEK. There are 34,770,100 shares, each with a par value of one SEK. On the same day there were 1,237,967 outstanding stock options, corresponding to 3,438,350 shares if the options are fully exercised. One quotation block comprises 200 shares.

Share Ownership

There were 6,099 registered shareholders on December 31, 2002, which is an increase of 19 percent compared with year-end 2001,when there were 5,126 registered shareholders. Non-Swedish investors owned 11.6 percent of the capital. Swedish investors owned 88.4 percent which included 19.7 percent owned by institutions, 16.0 percent owned by mutual funds and 52.6 percent owned by private persons.

Share Price and Trading Volume

The highest quotation of the Pyrosequencing share in 2002 was 37.50 SEK and the lowest was 4.45 SEK. At the end of the year the price was 7.90 SEK. On December 31, 2001, the total market value of Pyrosequencing AB amounted to 275 MSEK. During the year, 17,859,662 shares were traded, corresponding to 51.4 percent of the total number of shares. Measured in value, the turnover of shares was 282.5 MSEK. Pyrosequencing is listed on the Stockholm Stock Exchange's O list.

Dividends and Dividend Policy

Pyrosequencing AB has never declared or paid any cash dividends on its shares. Pyrosequencing AB currently intends to retain all available funds for use in the Company's business, and does not anticipate paying any cash dividends in the next few years.

The dividend policy of the Company is established by the Board of Directors. It will depend on a number of factors, including future earnings, capital requirements, financial condition and future prospects, and other factors deemed relevant by the Board of Directors.

Under Swedish law, the amount of dividends the Company may declare and pay is limited by, among other things, the amount of profits and distributable reserves. Because the Company has never recorded a profit and as of December 31, 2002, had an accumulated deficit of 473.0 MSEK, the Company is currently unable to pay dividends.

Incentive Program

Since 1997, Pyrosequencing AB has established stock option programs to help attract and retain qualified personnel. Under the option programs, the Board of Directors may grant options to key personnel within the limits established by the shareholders at the Annual General Meeting. In total, 1,898,050 options have been authorized, whereof 1,251,300 have been granted as of December 31, 2002. (For further information see notes to the financial statements). If all of the options that have been authorized were exercised, the share capital would increase by approximately 8.4 percent.

The largest shareholders as of December 31, 2002.

Shareholder	*Number of shares*	*%*
Pål Nyrén	4,100,557	11.8
HealthCap KB	3,798,184	10.9
Mathias Uhlén	2,966,226	8.5
Robur Fonder	1,443,331	4.2
Skandia	1,356,700	3.9
Nordea fonder	1,194,144	3.4
Fjärde AP-fonden	1,059,400	3.0
Tredje AP-fonden	1,003,200	2.9
Romo Biotech S.a.	887,500	2.6
Apotekets pensionsstiftelse	886,100	2.5
Övriga	16,074,758	46.2
Total	**34,770,100**	**100.0**

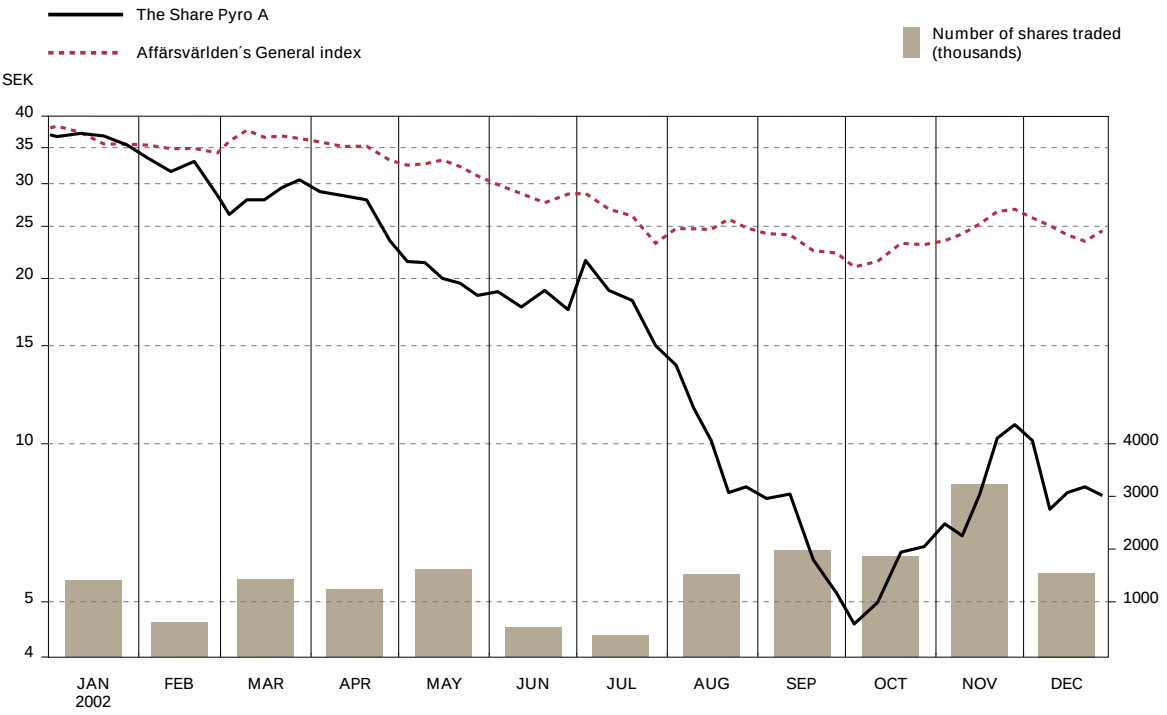
Source: Ägarservice and VPC

The shareholders according to size of shareholding as of December 31, 2002.

No. of shares per owner	*No. of owners*	*%*	*No. of shares*	*%*
1- 500	3,965	65.0	842,193	2.4
501- 1,000	989	16.2	895,799	2.6
1,001- 10,000	1,003	16.4	3,257,137	9.4
10,001- 100,000	100	1.6	3,176,333	9.1
100,001-	42	0.7	26,598,638	76.5
Total	**6,099**	**100.0**	**34,770,100**	**100.0**

Source: Ägarservice and VPC

Price chart Pyro A
Includes the period January 1, 2002 - December 31, 2002. Price of the Pyro A share, in SEK
Numbers of shares traded in thousands. Index: Affärsvärlden's General index.



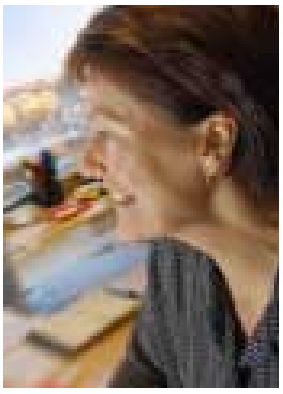
Pyrosequencing People

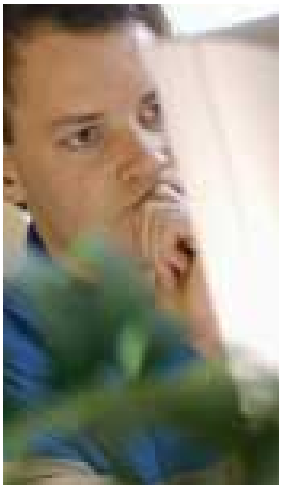
The average number of employees in the group during 2002 was 151. Of these, 75 were women and 76 men. A reduction in personnel took place during the latter half of the year in connection with a tighter focus on core operations and the execution of a cost-savings program. The number of employees in the group on 2 January 2003 was 126, with approximately the same ratio of women to men as during the previous year. Most of the personnel are located at the head offices and production facility in Uppsala. The largest subsidiary is located in the US.

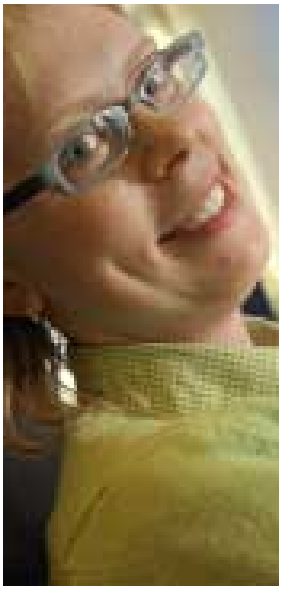
Personnel reduction during the autumn has involved a certain amount of strain, but the personnel in Pyrosequencing have despite this continued to work in a focussed and committed manner to ensure that the company achieves profitability.

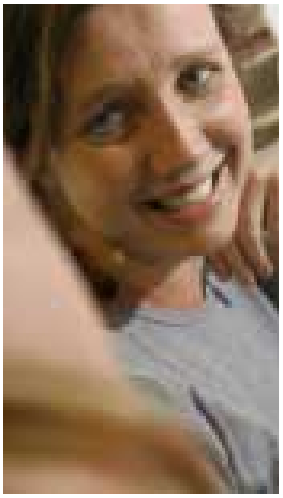
Pyrosequencing is a young company with a focus on growth that creates dynamism and encourages an entrepreneurial spirit. A program for oriented education has continued throughout the year in order to further develop the skills required for carrying out projects in an efficient manner.

The average level of education of our employees is high, and this contributes to the striving of the company to reach a high industrial standard with scientifically developed products. One strategic goal of the global sales organization is to attract personnel with thorough local knowledge. This means that the company can meet the needs of customers in an efficient and dependable manner and can create good relationships throughout the world.









Pyrosequencing in Figures

Management Report

Pyrosequencing AB (556539-3138)

Scope and Type of Operations

Pyrosequencing AB, headquartered in Uppsala Sweden is the parent company of the group. The parent company has a number of wholly owned subsidiaries which cover the Company's major markets including the United States and the major markets of Europe including the United Kingdom and Ireland, France, and Germany. The parent company conducts strategic business development, central marketing, research and development, manufacturing and the administrative functions for the group.

Pyrosequencing develops and manufactures systems for automated DNA sequencing and analysis based on the Company's proprietary technology. The main market for these products are the academic, genomics, biotechnology and pharmaceutical sectors. During 2002 the Company introduced two new systems to replace the PSQ™ 96 System, which was introduced in 2000. The first, the PSQ 96MA is directly based on the original PSQ 96 System but provides users with the ability to perform additional applications based upon enhanced software and chemistries that facilitate longer read lengths. The second major introduction, is a new instrument platform, PSQ HS 96 System. The PSQ HS 96 System allows for the use of smaller sample volumes and lower amounts of reagents providing significantly lower cost per sample for the customer. In addition the PSQ HS 96 System can provide unattended sequencing of 10 microtiter well plates in a single run. The Company also introduced an enhanced sample preparation tool that reduces the time and cost necessary for sample preparation.

During 2002 the Company sold 85 instruments, compared to 88 in 2001. The types of instruments sold include PSQ 96 System, PSQ 96MA System and PSQ HS 96 System. In addition Pyrosequencing sold 26 MSEK of reagents and consumables, compared to 25.4 in the prior year. In the fourth quarter of 2002 Pyrosequencing significantly reduced the prices charged for its reagents to reflect lower manufacturing cost and to maintain its leadership position in applied genomics. The Company is the only supplier of consumables and an intellectual property portfolio protects this position. The Company's patent portfolio at the end of 2002 included 35 patents and patent applications, and 6 registered trademarks and applications.

The Company utilizes its own sales and support organization in the major European markets and the United States. In the other of the European markets and the rest of the world the Company has a network of established distributors.

The Company's systems include an instrument, a computer, software and reagents. The manufacturing of the instruments is subcontracted to Partnertech, Atvidaberg Sweden. Pyrosequencing manufactures reagents and develops its software in its facility in Uppsala Sweden.

Financial Position

For the year ending December 31, 2002, Pyrosequencing reported revenue of 97.6 MSEK down, from 108.2 MSEK in the previous year. The decrease in sales is attributable to a weakened market for capital equipment. More than half of the decrease in revenue is due to a decrease in the exchange rate of the SEK krona versus the US dollar and the Euro.

In 2002, Pyrosequencing announced a cost-reduction program to help advance the Company towards profitability. This announcement described an annualized

reduction in cash operating expenses of 70 MSEK in 2003. The program included a headcount reduction in Sweden and the US.

Gross margin for the year ended December 2002 was 69 percent compared with 72 percent in 2001. The gross margin is negatively affected by a significant over-capacity in the Company's plant for production of reagents. Operating expenses decreased from 252.1 MSEK in 2001 to 239.8 MSEK in 2002. If one were to eliminate the restructuring costs incurred in 2002 the operating expense would have declined to 229.0 MSEK, a decline of 9 percent. The decline in operating expenses is mainly attributable to slightly lower selling expenses and the fact that the company began capitalizing certain development expenses in accordance with Swedish Financial Account Standards Council Statement 15, Intangible Assets. The capitalization of development expenses in 2002 resulted in a reduction of expenses of 50.5 MSEK, net of the related amortization.

The Company incurred a net loss of 168.4 MSEK, or 4.84 SEK per share for the year 2002, compared to a net loss of 137.5 MSEK or 3.96 SEK per share for the previous year. This increase in loss was the net effect of a lower gross profit of 10.5 MSEK, lower operating expenses of 12.3 MSEK, lower net financial income of 13.2 MSEK and higher tax expenses of 19.4 MSEK.

As of December 31, 2002, cash, cash equivalents, short-term investments and long-term financial assets totaled 471.7 MSEK compared to 665.2 MSEK at the end of the prior year. The investments are in high-grade debt securities, including investments with maturity dates exceeding 12 months. Pyrosequencing had no debt financing and total equity amounted to 616.2 MSEK as of December 31, 2002 as compared to 785 MSEK at the end of 2001.

Capital Expenditures

Capital expenditures for the year ended December 31, 2002 amounted to 67.7 MSEK compared to 44.9 MSEK in the prior year. The increase in capital expenditures reflects the capitalization of development costs and increases in investments in other intangible assets of 42.8 MSEK, which is partially offset by a decrease in the purchase of tangible assets of 20.0 MSEK. The majority of the capitalized development costs is cost of development of the Company's new instrument platforms and related software.

Financial Risk Management

The objectives for the finance function are to support the commercial activities of the Company and to identify and reduce financial risk. This risk is managed according to the financial policy, which has been approved by the Board of Directors. Because Pyrosequencing operates on an international basis and reports its financial results in SEK, it is subject to risk of changes in foreign currency exchange rates. The Company is subject to translational risk related to assets it holds in countries other than Sweden and to transactional risk for sales made in countries outside of Sweden. As assets holding and revenues grow in countries outside of Sweden, the magnitude of this risk may grow and the Company may enter into certain transactions to hedge this risk. To date the Company has not hedged the risks mentioned above. For a description of the Company's investment of excess cash see notes 19, 22 and 23 to the financial statements.

Marketing and Sales

2002 reflects the first year that Pyrosequencing had a full complement of sales and support people in the field and that the distribution network was completed. During this year the Company was also able to begin the shift away from mainly generating awareness of its brand and products to beginning to promote the wide range of application that its systems are capable of performing. In 2003 the Company expects to accelerate this emphasis on applications of the technology.

During 2002 Pyrosequencing sold 85 instruments as compared to 88 in the previous year. The introduction of the additional in the middle of the year led to an increase in sales during the fourth quarter. In February 2003 the Company had an installed base of 250 instruments and had received multiple orders from more than 25 customers.

Research and Development

The research and development group was able to complete the development of two instrument systems, release an update of the basic software operating system and to develop a tool for efficient sample preparation. These new products have already received strong market acceptance.

With completion of the development of the two platform products it was possible to restructure the R&D group and reduce some of the one-time costs that were associated with this effort. The group will continue to focus on the development of additional applications for the portfolio of instruments that have been successfully released, with special emphasis on the genetic research applications for these products. During 2002 the Company announced that it would be merging the Molecular Diagnostics business unit into the main life sciences area of the company.

Significant events after December 31, 2002

In December of 2002 the Company signed an exclusive distribution agreement with Bio-Molecular Holdings, Sydney, Australia. This agreement provides that Pyrosequencing will distribute Corbett's line of real-time thermocyclers and sample preparation robots initially in the United States. The agreement contemplates that Pyrosequencing will make an equity investment in Corbett and that the Company's will cooperate in the marketing of Corbett's products. It is expected that the Corbett line can be sold synergistically and that Pyrosequencing will incur little incremental sales costs.

Human Resources

At December 31, 2002, the total number of employees in the Pyrosequencing group was 145, compared to 141 at December 31, 2001. Subsequent to the cost reduction program, the total number of employees was 126 as of January 2, 2003. At the April 22, 2002 Annual General Meeting the shareholders approved an amendment to the Company's stock option program. This program empowers the Board of Directors to authorize additional options representing approximately 3 percent of the capital stock of the Company over the following three years. During 2002 the Board authorized the granting of 335,050 options. If the outstanding stock options are fully exercised the amount of shares will increase by 3,438,350 new shares.

Report of Board Activities

The Pyrosequencing Board of Directors consists of seven members, selected by the shareholders at the Annual General Meeting in April of 2002. Some of the members have been employed by Pyrosequencing or are major shareholders of the Company, and others are elected as independent directors.

The President and CEO is not a board member but is present during the Board of Directors' meeting.

The Board of Directors complies with the adopted Rules of Procedures and the instruction relating to the distribution of work, as well as procedures between the Board of Directors and the managing director. The reporting to the Board of Directors is presented according to the instructions in the Rules of Procedure.

During the year, the Board of Directors met eleven times.

The Board of Directors has established the following committees

The Compensation Committee, which decides on terms of employment for the President and CEO and officers of the Company, and the Audit Committee which monitors issues related to the Company's external financial reporting and audit issues. Pyrosequencing's external auditors report directly to the Audit Committee. The Nomination Committee nominates candidates for membership to the Board of Directors. All directors are elected at the Annual General Meeting.

The Parent Company

For the year ended December 31, 2002, the Parent Company reported sales of 96.6 MSEK as compared to 98.3 MSEK in the prior year. The net loss amounted to 339.0 MSEK compared to 67.1 in the prior year. The result in 2002 includes a write-down in Pyrosqeuencing Inc. to an amount of 179.2 MSEK (see note 8).

The parent company conducts strategic business development, central marketing, research and development, manufacturing and administrative functions for the group.

Proposal for the Treatment of Losses

Group

Accumulated losses for the group amount to 472,969 KSEK. No allocation to restricted equity is proposed.

Parent

The board and the president propose that the accumulated losses of 544,529 KSEK be carried forward.

Net sales, earnings and financial position

KSEK (Except per shares and percentages)	2002	2001	2000	1999	1998
Group					
Net sales	97,581	108,176	46,223	1,310	185
Gross profit	67,169	77,621	35,602	1,057	185
Gross margin, %*	68.8	71.8	77.0	80.7	100.0
Loss after financial items***	(148,530)	(137,097)	(78,108)	(69,497)	(33,330)
Net loss per share	(4.84)	(3.96)	(2.60)	(5.78)	(9.50)
Total assets	678,036	846,817	973,573	134,038	73,711
Equity to assets ratio, %**	90.9	92.7	94.8	80.2	86.9
Parent Company					
Net sales	96,584	98,307	51,901	1,252	–
Gross profit	61,104	68,469	38,109	999	–
Gross margin, %*	63.3	69.6	73.4	79.8	–
Loss after financial items***	(319,307)	(69,287)	(44,386)	(68,215)	(38,229)
Total assets	597,919	943,513	1,006,016	140,718	74,940
Equity to assets ratio, %**	91.8	94.3	95.1	80.2	86.2

Two year overview by quarter
MSEK (Except percentages)

	2002					2001				
Group	Q1	Q2	Q3	Q 4	FY 2002	Q1	Q2	Q3	Q4	FY2001
Net sales	20.0	16.3	27.1	34.2	97.6	19.6	24.6	26.5	37.5	108.2
Gross profit	14.4	11.0	18.3	23.4	67.2	14.1	18.5	17.6	27.5	77.6
Gross margin, %	72	67	68	68	69	71.9	75.0	66.2	73.5	71.8
Net Loss	**(32.2)**	**(50.3)**	**(38.1)**	**(47.8)**	**(168.4)**	**(23.2)**	**(35.1)**	**(25.4)**	**(53.8)**	**(137.5)**

* Gross profit in relation to net sales.
** Total equity in relation to total assets as of December 31.
*** Loss after financial items in 2002 include restructuring costs of 10.8 MSEK in the Group and 5.6 MSEK in the Parent Company.

Shares	2002	2001	2000	1999	1998
Weighted average shares outstanding	34,770,100	34,769,875	29,997,400	12,000,000	3,500,000
Weighted average shares outstanding after full dilution	35,430,362	36,253,375	31,879,928	13,947,430	5,043,900
Total number of common shares outstanding, as of December 31	34,770,100	34,770,100	34,767,400	12,000,000	3,500,000

Income Statements

		Group		Parent Company	
Amounts in KSEK	**Note**	**2002**	**2001**	**2002**	**2001**
Net sales	2	97,581	108,176	96,584	98,307
Cost of goods sold	2	(30,412)	(30,555)	(35,480)	(29,838)
Gross profit		**67,169**	**77,621**	**61,104**	**68,469**
Selling expenses		(100,445)	(92,128)	(58,241)	(47,056)
Administrative expenses	3, 4	(52,754)	(43,461)	(31,319)	(26,883)
Research and development costs		(71,697)	(116,507)	(115,531)	(109,203)
Restructuring costs		(10,808)	-	(5,556)	-
Other operating income		3,533	3,230	3,533	3,230
Other operating expenses		(7,646)	(3,224)	(7,605)	(3,224)
	1	**(239,817)**	**(252,090)**	**(214,719)**	**(183,136)**
Operating loss	10	**(172,648)**	**(174,469)**	**(153,615)**	**(114,667)**
Result from financial investments					
Interest income from group companies		-	-	6,007	3,632
Result from other securities held as					
long-term financial assets	5	17,487	27,758	1,119	32,154
Other interest income and similar profit items	6	6,720	9,679	6,494	9,656
Interest expense and similar loss items	7	(89)	(65)	(89)	(62)
Write-down	8	–	–	(179,223)	–
Financial income (net)	10	24,118	37,372	(165,692)	45,380
Loss after financial items		**(148,530)**	**(137,097)**	**(319,307)**	**(69,287)**
Tax expense	9	(19,848)	(419)	(19,650)	2,222
Net loss for the year	10	**(168,378)**	**(137,516)**	**(338,957)**	**(67,065)**

Net loss per share	(4.84)	(3.96)
Net loss per share after full dilution*	(4.84)	(3.96)

* As the earnings per share would decrease the loss per share when considering dilution, as a result of shares outstanding, the earnings per share have only been calculated without consideration of dilution

Shares	**2002**	**2001**
Weighted average shares outstanding	34,770,100	34,769,875
Weighted average shares outstanding after full dilution	35,430,362	36,253,375
Common shares outstanding, as of December 31	34,770,100	34,770,100

Balance sheets

		Group		Parent Company	
Amounts in KSEK	**Note**	**2002-12-31**	**2001-12-31**	**2002-12-31**	**2001-12-31**
ASSETS					
Fixed assets					
Intangible assets					
Capitalized expenditure for development	11	50,495	-	-	-
Patents and license rights	12	20,228	24,188	20,228	24,121
		70,723	**24,188**	**20,228**	**24,121**
Tangible assets					
Leasehold improvements	13	17,369	18,902	16,600	18,062
Plant and machinery	14	18,063	15,587	18,063	15,587
Equipment, tools, fixtures and fittings	15	15,745	18,850	11,914	15,070
Construction in progress and advance payments for tangible assets	16	94	1,733	94	1,733
		51,271	**55,072**	**46,671**	**50,452**
Financial assets					
Participations in group companies	17	–	–	3,942	38,659
Receivables from group companies		–	–	1,781	83,802
Deferred tax assets	18	–	19,650	–	19,650
Other securities held as financial assets	19	374,387	443,245	374,387	443,245
Other long-term receivables		163	730	–	423
		374,550	**463,625**	**380,110**	**585,779**
Total fixed assets		**496,544**	**542,885**	**447,009**	**660,352**
Current assets					
Inventories					
Raw materials and consumables		11,332	11,231	11,332	11,231
Semi-finished products		1,836	1,145	1,836	1,145
Finished products and goods for resale		18,782	15,265	15,579	12,937
Work in progress in excess of down payment		933	1,740	933	1,740
		32,883	**29,381**	**29,680**	**27,053**
Current receivables					
Accounts receivable – trade		28,328	28,110	20,054	14,435
Receivables from group companies		–	–	329	6,114
Other receivables	20	8,707	9,480	7,885	8,197
Prepaid expenses and accrued income	21	14,219	15,003	13,835	14,589
		51,254	**52,593**	**42,103**	**43,335**
Investments					
Other short-term investments	22	71,700	194,035	71,700	194,035
		71,700	**194,035**	**71,700**	**194,035**
Cash and bank balances	23	**25,655**	**27,923**	**7,427**	**18,738**
Total current assets		**181,492**	**303,932**	**150,910**	**283,161**
Total assets		**678,036**	**846,817**	**597,919**	**943,513**

Balance sheets

		Group		Parent Company	
Amounts in KSEK	**Note**	**2002-12-31**	**2001-12-31**	**2002-12-31**	**2001-12-31**
EQUITY AND LIABILITIES					
Equity	24				
Restricted equity					
Share capital		34,770	34,770	34,770	34,770
Restricted reserves/Share premium reserve		1,054,360	1,053,797	1,058,410	1,060,010
		1,089,130	**1,088,567**	**1,093,180**	**1,094,780**
Non-restricted equity					
Accumulated deficit		(304,591)	(166,068)	(205,572)	(137,608)
Loss for the year		(168,378)	(137,516)	(338,957)	(67,065)
		(472,969)	**(303,584)**	**(544,529)**	**(204,673)**
Total equity		**616,161**	**784,983**	**548,651**	**890,107**
Provisions					
Deferred tax liabilities	25	–	89	–	–
Other provisions	26	370	2,652	370	–
		370	**2,741**	**370**	**-**
Current liabilities					
Accounts payable – trade		18,419	32,101	15,322	31,723
Down payment in excess of work in progress		–	1,767	–	–
Liabilities to group companies		–	–	3,778	3,058
Other liabilities		7,335	3,400	6,776	5,261
Accrued expenses and deferred income	27	35,751	21,825	23,022	13,364
		61,505	**59,093**	**48,898**	**53,406**
TOTAL EQUITY AND LIABILITIES		**678,036**	**846,817**	**597,919**	**943,513**
Pledged assets					
Chattel mortgage		150	150	–	–
Contingent liabilities		-	-	-	-

Statements of Cash Flow

	Group		Parent Company	
Amounts in KSEK	**2002**	**2001**	**2002**	**2001**
OPERATING ACTIVITIES				
Operating loss after financial items	(148,530)	(137,097)	(319,307)	(69,287)
Adjustments for items not affecting cash flow				
Depreciation	24,402	12,367	14,384	10,560
Other items	(3,108)	1,173	(20,370)	(286)
Write-down in group companies	–	–	179,222	–
Cash used in operating activities before changes in working capital	**(127,236)**	**(123,557)**	**(146,071)**	**(59,013)**
Paid taxes	**(10)**	**-**	**-**	**-**
Changes in working capital				
Increase in inventories	(3,502)	(16,916)	(2,627)	(16,039)
Increase in accounts receivable – trade	(68)	(9,729)	(24,025)	(4,658)
Decrease/increase in other current assets	1,557	3,466	(4,884)	24,445
Increase/decrease in other current liabilities	2,236	10,728	(2,572)	4,501
Cash used in operating activities	**(127,023)**	**(136,008)**	**(180,179)**	**(50,764)**
Investing activities				
Investment in Pyrosequencing SARL	–	–	–	(68)
Purchase of intangible assets	(58,690)	(15,850)	(48)	(15,850)
Purchase of tangible assets	(9,039)	(29,110)	(7,287)	(26,359)
Sale of tangible assets	724	–	724	–
Sale of short-term investments	122,335	175,965	122,335	175,965
Sale of long-term investments	68,858	13,903	68,859	13,903
Decrease/Increase of long-term receivables	567	(571)	(15,270)	(89,195)
Cash provided by investing activities	**124,755**	**144,337**	**169,313**	**58,396**
Financing activities				
New share issue expenses	–	(3)	(444)	(3)
Options to employees	–	36	–	36
Cash flow from financing activities	**–**	**33**	**(444)**	**33**
Net change in cash and cash equivalents	**(2,268)**	**8,362**	**(11,310)**	**8,237**
Cash and cash equivalents beginning of year	**27,923**	**19,561**	**18,738**	**10,501**
Cash and cash equivalents end of year	**25,655**	**27,923**	**7,428**	**18,738**
Cash, cash equivalents and investments in high-grade debt securities end of year	**471,742**	**665,203**	**453,514**	**656,018**

Accounting Principles and Notes

Amounts in KSEK

Accounting principles
The accounting principles applied are in accordance with the recommendations and statements of the Swedish Accounting Standards Board and the Annual Accounts Act.

New accounting principles
New recommendations from the Swedish Financial Accounting Standards Council with respect to group accounting (RR1), intangible assets (RR15), allocations, surety bonds and potential assets (RR16) and write-down (RR17) have been followed during 2002. Other new recommendations have not been commented upon since they do not have a significant effect on the financial report.

Consolidated accounts
Group composition
The consolidated accounts comprise the parent company and the companies in which the parent company has a controlling interest. A controlling interest occurs when the parent company, (directly or indirectly), has more than 50 percent of the votes in the subsidiary.

Acquisition accounting
The consolidated financial statements are prepared according to the acquisition accounting method. This means that assets and liabilities are valued as real values according to the established acquisition calculation.

Translation of foreign subsidiaries
The operations of the foreign subsidiaries are classified as integrated, which means that the monetary method is used for the translation of their income statements and balance sheets.

This means that monetary receipts and liabilities in foreign currencies are reported following conversion using the exchange rate at the time of acquisition. Exchange rate effects that arise when converting monetary items are reported in the statement of income.

Balanced development costs
Costs for development projects are balanced within the group from 2002 as specified in RR 15. The balanced costs reflect the ambition of the company to market and sell a wide range of products in the immediate future. Development projects are balanced when they correspond to the criteria specified in the company's project manual, and this means that the assessment has been made that they will become commercially viable. The criteria applied agree with the recommendation. Balanced development costs are written down over the calculated period of use of the asset.

Taxes
Income taxes for the group comprise tax on the declared profit during the financial period, current taxes, and changes in deferred tax assets and tax liabilities. Deferred tax assets and tax liabilities have been accounted using the liability method. When applying this method, the net effect on taxes of current differences between tax value and accounting value of assets and liabilities, known as temporary differences, are reported, applying currently applicable tax rates. Temporary differences arise principally through untaxed reserves and tax-liable deficit deductions. Tax-liable deficit reductions affect deferred tax only to the extent that it is probable that they will be balanced by future tax-liable profits. Temporary differences with respect to untaxed reserves are divided between shareholders' equity and deferred tax liabilities.

The calculated deferred tax liability that can be related to tax-liable temporary differences corresponds to an amount that is considerably lower than the deferred tax assets related to unapplied deficit deductions. This means that the deferred tax liability will not be implemented as current tax. At the same time, it is uncertain when it will be possible to apply deferred tax assets related to temporary differences to balance future tax-liable profits.

The group, based on the reasoning given above, thus has not reported any deferred tax in the balance sheet.

Intercompany transfer pricing
Transactions between Pyrosequencing AB and its subsidiary in the USA, Pyrosequencing Inc., are priced in a similar way to those negotiated between Pyrosequencing AB and its various distributors in Europe and in the Far East.

Earnings per share
Earnings per share are calculated before and after full dilution. Full dilution assumes the conversion of potentially dilutive securities such as stock options into shares of common stock. Both calculations are based on the weighted average number of shares outstanding during the period. Prior period earnings per share have been restated. Because the calculation of fully diluted earnings per share is antidilutive, the effect of stock options on the calculation has been ignored.

Statements of cash flow
The statements of cash flow have been drawn up in accordance with the indirect method.

Valuation principles
Revenue recognition
Pyrosequencing AB develops and sells systems, reagents, accessories, spare parts and services on a world-wide basis either directly to end-users, to end-users via subsidiaries or through distributors. In all cases revenue is recognized net of discounts, applicable taxes including V.A.T. and shipping costs. Income for systems (not including PTP), reagents, accessories, spare parts and services rendered are reported at the delivery and acceptance by the customer. Income for the company's program for PTP are accounted following the principle of successive accounting of profit. This means that income, expenditure and thus profits are related to the accounting period during which the work was carried out.

Fixed tangible and intangible assets
Fixed tangible assets are accounted for at acquisition cost less depreciation according to plan, which is based upon an assessment of the asset's expected period of use and allocated linearly. The following depreciation periods are used:

Fixed intangible assets	2002	2001
Patent rights	Patent protection period (8–20 years)	Patent protection period (8–20 years)
Balanced development costs	3 years	
Other fixed intangible assets	5 years	5 years

Fixed tangible assets	2002	2001
Production tools	5 years	5 years
Leasehold improvements on buildings leased from others	10 years	10 years
Computers	3 years	3 years
Other fixed tangible assets	5 years	5 years

Fixed financial assets
Shares in group companies and assets in group companies reported under the parent company have been valued at the lower of the initial value and the market value (see details below concerning write-down). Information with respect to deferred tax assets is given in the section concerning taxes, above.

Other economic fixed assets have been valued at the lower of the initial value and the market value.

Impairments
The carrying value of fixed tangible and intangible assets together with shares in group companies in the parent company are periodically evaluated as specified in RR 17. If there are indications that the carrying value of a fixed asset is impaired a comparison is made between the carrying value and the recoverable amount. The recoverable amount is the higher of an asset's net selling price and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset. An impairment is made when the carrying value exceeds the recoverable amount.

Leasing agreements
All leasing agreements in the group are accounted for as operating leases, which means that leasing costs are expensed when they arise.

Inventories
Raw materials, consumables, semi-finished products and goods for resale are valued using the lower of acquisition cost or market value. Finished products are valued using the lower of production cost or market value. The value of the inventories is adjusted with regard to the value of any obsolete goods.

Receivables
Receivables are accounted for at the amount expected to be received.

Receivables and liabilities in foreign currency
Receivables and liabilities in foreign currencies are translated at the closing day rate. Unrealized exchange rate gains and losses on operating assets and liabilities are included in the operating result, while unrealized exchange rate gains and losses on financial assets and liabilities are accounted in the net interest income.

Short-term investments
Short-term investments and other securities held as fixed assets Short-term investments are valued using the lower of acquisition cost or market value. An investment is classified as short-term when the maturity is up to twelve months from the time of acquisition.

Allocations
Allocations for guarantees are made for each system sold. The guarantee period is one year with the exception of Germany, where the period is two years. The method for calculating guarantee allocations is based on guarantee costs for earlier periods.

Classification principles
The Company presents an income statement classified according to function, where operating expenses are divided into cost of goods sold, selling expenses, administrative expenses and research and development costs.

Joint costs such as office supplies, electricity, cleaning of premises, rental costs for office equipment, telephone, postal distribution, etc., are allocated to each function. The distribution of joint costs is based on the usage of space and the number of employees.

Cost of goods sold
Cost of goods sold consists of payments to Partnertech for contract manufacturing of instruments and the accessories sold together with the instruments. Other costs are raw materials for the production of reagent kits, salaries to production personnel, packaging and transportation costs, rent payment. Depreciation of production facilities is also included in cost of goods sold.

Selling expenses
Selling expenses mainly consist of salaries and travel costs for the Company's sales and marketing personnel, recruitment costs and costs for marketing campaigns, including fees to advertising agencies and costs for the production of sales material.

Administrative expenses
Administrative expenses mainly consist of salaries and related costs for senior management, financial and other administrative personnel, costs for legal advisors, audit fees, fees to PR consultants, business development costs.

Research and development costs
Research and development costs mainly consist of salaries and other personnel costs, patent costs, fees to consultants and external suppliers, for the development of instruments and software, costs for material for prototypes and test units and other costs in connection with design, development, testing and improvements of the Company's products. Research and development costs are expensed when they arise and are not capitalized in the years reported.

Depreciation classified according to function

	2002	2001
The group		
Cost of goods sold	4,888	3,497
Selling expenses	1,461	1,477
Administrative expenses	2,672	1,758
Research and development costs	15,381	5,635
Total	**24,402**	**12,367**
Parent company		
Cost of goods sold	4,919	3,188
Selling expenses	570	280
Administrative expenses	1,639	1,461
Research and development costs	7,256	5,631
Total	**14,384**	**10,560**

All amounts in KSEK, if not otherwise stated.

Note 1

Average number of employees, salaries, other remuneration and social security

	2002	2001
The group		
Average number of employees, distributed between men and women:		
Women	75	66
Men	76	59
Total	**151**	**125**
Salaries and remuneration		
Board and President	3,910	3,616
Other senior management	8,751	8,066
Other employees	76,441	65,003
Total salaries and remuneration	**89,102**	**76,685**
Social security expenses according to laws and agreements	21,888	14,750
Pension allocations		
Board and President	760	218
Other senior management	1,191	598
Other employees	7,476	3,390
Total social security expenses and pension allocations	31,315	18,956
Total personnel costs	**120,417**	**95,641**
Parent company		
Average number of employees, distributed between men and women:		
Women	56	50
Men	55	45
Total	**111**	**95**
Salaries and remuneration		
Board and President	3,910	3,616
Other senior management	6,112	4,905
Other employees	44,868	33,857
Total salaries and remuneration	**54,890**	**42,378**
Social security expenses according to laws and agreements	19,762	13,135
Pension allocations		
Board and President	760	218
Other senior management	1,191	598
Other employees	7,161	3,205
Total social security expenses and pension allocations	28,874	17,156
Total personnel costs	**83,764**	**59,534**
Pyrosequencing Inc. (USA)		
Women	15	14
Men	18	11
Total	**33**	**25**
Salaries and remuneration		
Other senior management	2,639	3,161
Other employees	26,820	28,249
Social security expenses according to laws and agreements	1,468	1,175
Pension allocations		
Other senior management	-	-
Other employees	-	-
Total personnel costs	**30,927**	**32,585**
Pyrosequencing Ltd. (Great Britain)		
Women	3	1
Total	**3**	**1**
Salaries and remuneration	1,867	677
Social security expenses according to laws and agreements	204	85
Pension allocations	59	101
Total personnel costs	**2,130**	**863**
Pyrosequencing B.V. (The Netherlands)		
Men	-	1
Total	**-**	**1**
Salaries and remuneration	-	438
Social security expenses according to laws and agreements	-5	50
Pension allocations	108	-
Total personnel costs	**103**	**488**
Pyrosequencing GmbH. (Germany)		
Women	1	1
Men	2	1
Total	**3**	**2**
Salaries and remuneration	2,229	1,170
Social security expenses according to laws and agreements	276	145
Pension allocations	-	-
Total personnel costs	**2,505**	**1,315**
Pyrosequencing SARL. (France)		
Men	1	1
Total	**1**	**1**
Salaries and remuneration	657	612
Social security expenses according to laws and agreements	183	160
Pension allocations	74	84
Total personnel costs	**914**	**856**

Disclosures concerning benefits to officers

Principles

Remuneration is paid to the Chairman of the Board and its members as determined by the annual general meeting. No special remuneration has been paid for membership of a committee. Remuneration to the President and other senior managers comprises a basic salary, bonus, other remuneration and pension. The term "other senior managers" is here used to denote the five people who, together with the President, constitute the group management. The membership of the group management is given on Page [44]. The relationship between basic salary and bonus is to be proportional to the responsibility and authority of the manager. The bonus payable to the President is a maximum of 50 percent of the basic salary payable. The bonus payable to other senior managers is a maximum of 30 percent of the basic salary payable. The bonus is based on the results obtained relative to individually specified targets.

Pension allocations and other remuneration for the President and for other senior managers are paid as a part of the total remuneration.

Remuneration

The Board

Remuneration has been paid to the Chairman of the Board totaling: 300 KSEK (300). Remuneration has been paid to other members of the Board totaling: 600 KSEK (600). No member of the board has received any other payment from the company.

President

Salary and other remuneration have been paid to the President during the year totaling: 2,674 KSEK (2,527).

Bonus

The bonus for the President for 2002 has been based to a degree of 50 percent of the invoiced sales of the group and to a degree of 50 percent on individually set targets approved by the Board. The amount of the bonus for 2002 corresponds to 25 percent of the basic salary. The bonus for other senior managers for 2002 has been based to a degree of 50 percent of the invoiced sales of the group and to a degree of 50 percent on individually set targets. The amount of the bonus for 2002 corresponds to 15 percent of the basic salary.

Financial instruments	*Amounts of stock options*
Programs from previous years	
The Board*	750,000
President	450,000
Other senior management	1,188,500
Total stock options	**2,388,500**

* See comments given under the presentation of the Board

Previous option programs have covered all employees. Outstanding option programs have been evaluated using the evaluation model of Black & Scholes. Note 24 Equity gives details with respect to total number of outstanding options, subscription prices and subscription periods.

Pensions

Pension costs relate to the cost that influences the financial result of the current year. The President is entitled to pension from age 60. The pension amounts to 35 percent of the pensionable income, which is here defined as the basic salary. Other senior managers have pension schemes that are covered by the conditions of the ITP scheme.

Severance Pay

The period of notice agreed between the President and the company is 12 months, for both parties. In the event of termination of contract by the Company, severance pay is payable amounting to 12 months' salary. Should the President 12 months after the termination lack income, or receive income that is less than that at the time of termination of contract, the Company is to remunerate the President each month for the difference up to 100 percent of the basic salary for a further 12 months. In the event of termination of contract by the President, no severance pay is payable. The period of notice agreed between other senior managers and the Company is 2 to 12 months.

The process of discussion and decision

The Remuneration Committee has during the year given recommendations to the Board with respect to principles concerning remuneration of senior management. The recommendations have covered the relative amounts of fixed remuneration and bonus, and the size of possible salary increases. Further, the Remuneration Committee has suggested criteria for the assessment of bonus payable, the allocation and magnitude of remuneration in the form of financial instruments, etc., and pension agreements and severance pay.

Note 2

Group internal purchases and sales

During the year the following Group internal purchases and sales were booked:

Sales from the Parent Company to the Group	45 %	[43,880 KSEK]
Purchases by the Parent Company from the Group	0 %	[689 KSEK]

Note 3

Audit fee and cost reimbursements

An audit assignment includes the audit of the annual accounts, the accounting records and the administration of the Board of Directors and the President. The audit assignment includes additional work given by the Company to the auditors and consultations or other assistance resulting from observations made during the audit or completion of such additional work. Audit fees include audit for subsidiaries. Everything else is considered as non-audit assignments.

	2002	2001
The Group		
Deloitte & Touche		
Audit assignment	1,255	1,039
Other assignments	1,139	1,523
Total	**2,394**	**2,562**

	2002	2001
Parent Company		
Deloitte & Touche		
Audit assignment	1,050	1,039
Other assignments	1,065	1,393
Total	**2,115**	**2,432**

Note 4

Leasing charges

The Group

Leasing charges during 2002 amount to 8,603 KSEK. Remaining leasing charges amount to 16,665 KSEK. These fall due:

Within 1 year	8,317
1–5 year	8,348
After 5 years	–
	16,665

Parent Company

Leasing charges during 2002 amount to 4,558 KSEK. Remaining leasing charges amount to 10,299 KSEK. These fall due:

Within 1 year	5,181
1–5 year	5,118
After 5 years	–
	10,299

Note 5

Result from other securities and assets that are long-term assets

	2002	2001
The Group		
Losses incurred selling long-term assets	(2,400)	(3,392)
Exchange-rate differences long-term assets	(19,442)	381
Interest income long-term assets	22,961	35,165
Translation difference	16,368	(4,396)
Total	**17,487**	**27,758**

Parent Company		
Losses incurred selling long-term assets	(2,400)	(3,392)
Exchange-rate differences long-term assets	(19,442)	381
Interest income long-term assets	22,961	35,165
Total	**1,119**	**32,154**

Note 6

Other income from interest and similar income statement items

	2002	2001
The Group		
Income from bank interest	488	424
Income from interest on short-term investments	6,227	5,540
Unrealized exchange rate gains	-	3,626
Tax-free income from interest	5	89
Total	**6,720**	**9,679**
Parent Company		
Income from bank interest	262	401
Income from interest on short-term investments	6,227	5,540
Unrealized exchange rate gains	-	3,626
Tax-free income from interest	5	89
Total	**6,494**	**9,656**

Unrealized exchange rate gains are accounted under 2002 as other operating revenue.

Note 7

Interest expense and similar items

	2001	2001
The Group		
Interest expense	89	65
Total	**89**	**65**
Parent Company		
Interest expense	89	62
Total	**89**	**62**

Note 8

Depreciation

Depreciation in the USA subsidiary is distributed as specified below:

	2002	2001
Parent Company		
Depreciation shares	(52,555)	–
Depreciation long-term assets	(102,548)	–
Depreciation other assets	(24,120)	–
	(179,223)	**-**

Note 9

Income taxes

	2002	2001
The Group		
Current tax	(224)	31
Deferred tax	(19,624)	(450)
Total	**(19,848)**	**(419)**
Parent Company		
Current tax	–	–
Deferred tax	(19,624)	2,222
Total	**(19,650)**	**2,222**

	2002	2001
The Group		
Reconciliation of tax expense		
Income before tax	(148,350)	(137,097)
Tax calculated according to currently valid tax rates for the parent company	41,538	38,387
Effect of other tax rates for overseas subsidiaries	4,539	4,016
Write-down of shares in subsidiaries	–	(50)
Other non-deductible costs	(1,141)	(3,151)
Tax-free income	4,584	2,497
Balancing of intangible assets without accounting for deferred tax liabilities, see note 11	14,139	–
Increase in deficit deduction without equivalent balancing of deferred taxes	(63,981)	(42,169)
Re-evaluation of deferred taxes	(19,650)	–
Deductible costs accounted directly against equity	124	1
Effective tax	**(19,848)**	**(419)**

	2002	2001
Parent Company		
Reconciliation of tax expense		
Income before tax	(319,306)	(69,287)
Tax calculated according to currently valid tax rates for the parent company	89,406	19,400
Write-down of shares in subsidiaries	(50,182)	–
Other non-deductible costs	(238)	(139)
Tax-free income	2	1,137
Increase in deficit deduction without equivalent balancing of deferred taxes	(39,112)	(18,177)
Re-evaluation of deferred taxes	(19,650)	–
Deductible costs accounted directly against equity	124	1
Effective tax	**(19,650)**	**2,222**

Note 10

Effect of exchange rate movements

	2002
The Group	
Effect on net operating profit	(4,277)
Effect on net loss after financial items	(6,232)
Effect on net loss for the year	(6,232)
Parent Company	
Effect on net operating profit	(4,277)
Effect on net loss after financial items	(23,719)
Effect on net loss for the year	(23,719)

Note 11

Balanced development costs

	2002–12–31	2001–12–31
The Group		
Balance brought forward	–	–
Balanced development costs for the year	58,644	–
Depreciation for the year	(8,149)	–
Total	**50,495**	**-**

The development costs balanced for acquisition value refer to costs that can be attributed to development projects that satisfy the requirements specified in RR 15. Depreciation occurs linearly over 36 months from the time at which the product becomes commercially viable.

Note 12

Patents and license rights

	2002–12–31	2001–12–31
The Group		
Acquisition value brought forward	29,769	13,919
Purchases	48	15,850
Accumulated acquisition values carried forward	29,817	29,769
Depreciation brought forward	(5,581)	(2,068)
Depreciation for the year	(4,008)	(3,513)
Accumulated depreciation carried forward	(9,589)	(5,581)
Residual value according to plan carried forward	**20,228**	**24,188**
Parent Company		
Acquisition value brought forward	28,421	12,571
Purchases	48	15,850
Accumulated acquisition values carried forward	28,469	28,421
Depreciation brought forward	(4,300)	(1,057)
Depreciation for the year	(3,941)	(3,243)
Accumulated depreciation carried forward	(8,241)	(4,300)
Residual value according to plan carried forward	**20,228**	**24,121**

Fixed intangible assets mainly consist of patents acquired from non-related parties. These patents have been accounted for at acquisition price. No depreciation has been made on advance payments for fixed intangible assets.

Note 13

Leasehold improvements

	2002–12–31	2001–12–31
The Group		
Acquisition value brought forward	20,746	2,802
Purchases	699	3,636
Foreign currency translation	20	–
Transfer from construction in progress	–	14,311
Disposals	–	(3)
Accumulated acquisition values carried forward	21,465	20,746
Depreciation brought forward	(1,844)	(343)
Depreciation for the year	(2,252)	(1,501)
Accumulated depreciation carried forward	(4,096)	(1,844)
Residual value according to plan carried forward	**17,369**	**18,902**
Parent Company		
Acquisition value brought forward	19,604	2,054
Purchases	531	3,239
Transfer from construction in progress	–	14,311
Accumulated acquisition values carried forward	20,135	19,604
Depreciation brought forward	(1,542)	(266)
Depreciation for the year	(1,993)	(1,276)
Accumulated depreciation carried forward	(3,535)	(1,542)
Residual value according to plan carried forward	**16,600**	**18,062**

Note 14

Plant and machinery

	2002–12–31	2001–12–31
The Group		
Acquisition value brought forward	17,843	3,394
Purchases	5,433	1,374
Disposals	–	(19)
Transfer from construction in progress	1,733	13,094
Accumulated acquisition values carried forward	25,009	17,843
Depreciation brought forward	(2,256)	(891)
Depreciation for the year	(4,690)	(1,365)
Accumulated depreciation carried forward	(6,946)	(2,256)
Residual value according to plan carried forward	**18,063**	**15,587**
Parent Company		
Acquisition value brought forward	17,843	3,394
Purchases	5,433	1,374
Disposals	–	(19)
Transfer from construction in progress	1,733	13,094
Accumulated acquisition values carried forward	25,009	17,843
Depreciation brought forward	(2,256)	(891)
Depreciation for the year	(4,690)	(1,365)
Accumulated depreciation carried forward	(6,946)	(2,256)
Residual value according to plan carried forward	**18,063**	**15,587**

Note 15

Equipment, tools, fixtures and fittings

	2002-12-31	2001-12-31
The Group		
Acquisition value brought forward	30,058	19,304
Purchases	3,351	11,903
Disposals	(744)	(1,744)
Transfer from construction in progress	-	669
Exchange adjustments	109	(74)
Other adjustments	182	-
Accumulated acquisition values carried forward	32,956	30,058
Depreciation brought forward	(11,208)	(5,961)
Disposals	(203)	740
Depreciation for the year	(5,762)	(5,978)
Other adjustments	(38)	(9)
Accumulated depreciation carried forward	(17,211)	(11,208)
Residual value according to plan carried forward	**15,745**	**18,850**
Parent Company		
Acquisition value brought forward	24,645	15,142
Purchases	1,347	9,574
Disposals	(744)	(740)
Transfer from construction in progress	-	669
Accumulated acquisition values carried forward	25,248	24,645
Depreciation brought forward	(9,575)	(5,391)
Disposals	71	740
Depreciation for the year	(3,830)	(4,924)
Accumulated depreciation carried forward	(13,334)	(9,575)
Residual value according to plan carried forward	**11,914**	**15,070**

Note 16

Construction in progress and advance payments for tangible assets

	2002- 12- 31	2001- 12- 31
The Group and Parent Company		
Acquisition value brought forward	1,733	17,654
Purchases	94	12,153
Transfer to equipment, tools, fixtures and fittings	(1,733)	(669)
Transfer to plant and machinery	–	(13,094)
Transfer to leasehold improvements	–	(14,311)
Residual value according to plan carried forward	**94**	**1,733**

Note 17

Participations in group companies

	2002–12–31	2001–12–31
Parent company		
Acquisition value brought forward	38,659	18,214
Investments	17,838	20,445
Depriciations of shares in Pyrosequencing Inc.	(52,555)	–
Residual value carried forward	**3,942**	**38,659**

Investments includes conversion of receivables to shares in Pyrosequencing Inc.

	Share of equity %	Voting power %	No.of shares	Book value
CEMU Bioteknik AB, 556011–2384	100	100	100	3,491
Pyrosequencing Inc., 04–3484142	100	100	100	0
Pyrosequencing B.V, 34129103	100	100	200	166
Pyrosequencing GmbH, HRB 39374	100	100	1	217
Pyrosequencing SARL 2001B00976	100	100	500	68
Pyrosequencing Ltd, 3938925	100	100	2	–
Total				**3,942**

Registered office

CEMU Bioteknik AB:	Uppsala, Sweden
Pyrosequencing Inc:	Boston, USA
Pyrosequencing B.V:	Amsterdam, The Netherlands
Pyrosequencing GmbH:	Hamburg, Germany
Pyrosequencing SARL:	Paris, France
Pyrosequencing Ltd:	London, UK

CEMU Bioteknik AB mainly owns intangible assets and otherwise runs insignificant operations. CEMU Bioteknik AB was acquired on May 12, 1997. The net assets of the company were valued to 3,491 KSEK at the acquisition, the same amount as the purchase price, so no goodwill is accounted for as a result of the acquisition. Pyrosequencing Inc. was established on December 15,1999. The company's main task is to market and sell the products of Pyrosequencing AB in the US. The book value of Pyrosequencing Inc. has been written down to 1 SEK during the year according to RR17. Pyrosequencing B.V., Pyrosequencing GmbH and Pyrosequencing Ltd were acquired during 2000. Pyrosequencing SARL was acquired during 2001. No goodwill has been accounted for as a result of the acquisitions, as the net assets of the companies are valued to the same amount as the respective purchase price. The task of each company is to market and sell the products of Pyrosequencing AB in Europe.

Note 18

Deferred tax assets

	2002–12–31	2001–12–31
The Group		
Balance brought forward	19,650	20,100
Change during the year	(19,650)	(450)
Total	**-**	**19,650**
Parent Company		
Balance brought forward	19,650	17,400
Change during the year	(19,650)	2,250
Summa	**-**	**19,650**

Unused tax-liable deficit deductions for the group amounted on 31 December 2002 to SEK 604 million. The equivalent figure for the parent company was SEK 455 million (SEK 315 million). All deficits may be used without any limit in time. However, it is uncertain when it will be possible to apply these deficit deductions to balance future tax-liable profits. For this reason, the deferred tax assets have been re-evaluated on the accounting date and totally written down.

Note 19

Other securities held as fixed assets

Guidelines for investments
The purchase and sale of securities is only permitted through Swedish banks and/or securities brokers. Surplus liquidity may only be invested in accordance with the list below.

Securities	*Duration*	*Max. permitted amount*
Promissory notes issued by the Swedish Government and companies guaranteed by Swedish Government	Up to 3 years	Unlimited
Bank deposit	Up to 3 years	Unlimited
Interest rate forward	Up to 3 years	Unlimited
Promissory notes issued by building society	Up to 3 years	Maximum 50 % of surplus liquidity
Certificates/bonds issued by Swedish county councils with the rating K1 and A	Up to 3 years	Maximum 10 % of surplus liquidity
Company certificates/bonds with the rating K1 and A	Up to 3 years	Maximum 10 % of surplus liquidity

Note 20

Other receivables

	2002–12–31	2001–12–31
The Group		
VAT receivable	5,477	8,055
Income tax receivable	441	516
Other receivables	2,789	909
Total	**8,707**	**9,480**

	2002–12–31	2001–12–31
Parent Company		
VAT receivable	5,349	7,931
Income tax receivable	172	235
Other receivables	2,364	31
Total	**7,885**	**8,197**

Note 21

Prepaid expenses and accrued income

	2002–12–31	2001–12–31
The Group		
Prepaid rent	1,167	870
Prepaid leasing	252	111
Prepaid insurance	930	1,036
Accrued interest income	10,380	12,461
Other items	1,490	525
Total	**14,219**	**15,003**
Parent Company		
Prepaid rent	1,108	870
Prepaid leasing	235	111
Prepaid insurance	896	1,036
Accrued interest income	10,380	12,461
Other items	1,216	111
Total	**13,835**	**14,589**

Note 22

Other short-term investment

	2002–12–31	2001–12–31
The Group		
Nominal value	71,700	196,000
Book value	71,700	194,035
Market value	70,548	194,035
Parent Company		
Nominal value	71,700	196,000
Book value	71,700	194,035
Market value	70,548	194,035

Book value includes aquisition value and accrued interest.

Note 23

Cash and bank balances

The Company is granted a credit of 13,500 KSEK, automatically renewable on a 12 month basis, provided that none of the parties serves notice of termination. The agreement does not entail any special obligations on the part of the Company. The Company pays an annual fee for maintaining the credit.

Note 24

Equity

	Share capital	*New share issue in progress*	*Restricted reserves /Share premium reserve*	*Non-restricted equity*
The Group				
Balance brought forward 2001–01–01	34,768	2	1,053,762	(166,068)
Issue expenses			(2)	
Redemption of options	2	(2)	36	
Loss for the year				(137,516)
Balance carried forward 2001-12-31	**34,770**	**-**	**1,053,797**	**(303,584)**
Issue expenses			(444)	
Correction			1,007	(1,007)
Loss for the year				(168,378)
Balance carried forward 2002-12-31	**34,770**	**-**	**1,054,3 60**	**(472,969)**
Parent Company				
Balance brought forward 2001–01–01	34,768	2	1,059,976	(137,535)
Issue expenses			(2)	
Redemption of options	2	(2)	36	
Group contribution				(100)
Group contribution taxes				28
Loss for the year				(67,065)
Balance carried forward 2001- 12- 31	**34,770**	**-**	**1,060,010**	**(204,673)**
Issue expenses			(444)	
Adjustment of result, options			(1,155)	(900)
Loss for the year		–		(338,957)
Balance carried forward 2002 - 12 - 31	**34,770**	**-**	**1,058,410**	**(544,529)**

Options

On 21 April 1999, the AGM of Pyrosequencing AB ("the Company") resolved to raise a subordinated loan through the issuance of one debenture with a nominal value of SEK 200,000 to its wholly owned subsidiary CEMU Bioteknik AB ("CEMU"). Attached to the debenture were 700,000 detachable warrants. Each warrant entitles the holder thereof, during the period commencing 1 January 2000 up to and including 21 April 2006, to subscribe for one and a half new ordinary shares in the Company at a subscription price of SEK 83.33. In March 2000, 269,000 of the warrants were transferred to the employees of the Company. The residual of the warrants, i.e. 431,000, have been cancelled in 2000 (200,000) and 2002 (231,000).

In 2000, Pyrosequencing Inc, the Company's wholly owned US subsidiary resolved to implement the 2000 Equity Incentive Plan ("2000 Plan") for their employees. The employees of Pyrosequencing Inc have been granted options under the 2000 Plan entitling them to acquire shares in the Company. The options have been granted free of charge and are contingent upon employment. Each option entitles the holder thereof to acquire one ordinary share in the Company during the period commencing 1 January 2001 up to and including 31 December 2009 at an exercise price set at the date of grant. As per 31 December 2002, 610,000 options have been granted to the US employees under the 2000 Plan. In order to secure the future delivery of shares under the 2000 Plan, the Company resolved to raise a subordinated loan through the issuance of one debenture with a nominal value of SEK 50,000 to Pyrosequencing Inc on 25 April 2000. Attached to the debenture were 800,000 detachable warrants entitling the holder thereof, during the period commencing 1 January 2001 up to and including 31 December 2009, to subscribe for one and a half new ordinary shares in the Company at a subscription price of SEK 28.67. In November 2002, 270,333 of the warrants issued were cancelled.

On 22 April 2002, the AGM of the Company authorized the Board of Directors to implement an International Share Option Plan ("2002 Plan"). In brief, the 2002 Plan means that present and future employees will be granted options free of charge entitling the holder thereof to acquire shares in the Company in the future. The exercise price for the options will substantially correspond to 110 percent of the market value of a share in the Company at the time the options are granted. The options granted may be exercised not earlier than six months and not later than seven years from the time of the grant provided the optionholder is still an employee of the Pyrosequencing Group at the time of exercise. As per 31 December 2002, 268,050 options with an exercise price of SEK 8.69 have been granted under the 2002 Plan. In order to secure fulfilment of the option commitments and to cover social costs or similar taxes which may arise by reason of the 2002 Plan, the Board of Directors on 19 December 2002 further resolved to raise a subordinated loan through the issuance of 335,050 debentures with a nominal value of SEK 0.01 to CEMU. Attached to each debenture was one detachable warrant entitling the holder thereof, during the period commencing on the date of registration of the resolution with the Swedish Patent- and Registration Office up to and including 31 December 2007, to subscribe for one new ordinary share in the Company at a subscription price of SEK 8.69.

			Exercise		
	No. of	No. of	price	Exercise period	
Date	*warrants*	*shares*	*SEK*	*beginning*	*ending*
1997	11,250 *	1,350,000	9.33	1997–11–06	2004–09–30
1998	27,000 *	159,300 [1]	31.00	1998–06–18	2005–06–30
1998	50,000 *	300,000	31.00	1998–11–20	2005–06–30
1998	10,000 *	60,000	31.00	1999–02–15	2005–06–30
1999	6,000 *	36,000	83.33	1999–08–03	2006–04–08
1999	269,000 *	403,500	83.33	2000–01–01	2006–04–21
2000	529,667 **	794,500	28.67 [2]	2001–01–01	2009–12–31
2002	335,050 ***	335,050	8.69 [3]	[4]	2007–12–31
Total	**1,237,967**	**3,438,350**			

* All warrants have been transferred to the employees at market value.

** All warrants are held by the wholly owned subsidiary Pyrosequencing Inc, in order to secure the obligation to deliver shares under the 610,000 options granted under the 2000 Plan.

*** All warrants are held by the wholly owned subsidiary CEMU, in order to secure the obligation to deliver shares and to cover social security costs under the 268,050 options granted under the 2002 Plan.

If all warrants issued are exercised, the number of shares of the Company will increase by 3,438,350 new ordinary shares.

1) Some of the warrants have been exercised in 2000.

2) The exercise price of the options granted under the 2000 Plan has been set at each date of grant.

3) The exercise price of the warrants corresponds to the exercise price of the options granted under the 2002 Plan.

4) As of the date of registration with the Swedish Patent- and Registration Office

Note 25

Deferred tax liabilities

	2002–12–31	2001–12–31
The Group		
Deferred tax group patent and license rights	–	44
Deferred tax on untaxed reserves	–	45
Total	**-**	**89**

Note 26

Allocations for guarantees

	2002-12-31	2001-12-31
The Group		
Allocations for guarantees	370	-
Other allocations	-	2,652
	370	**2,652**
Parent Company		
Allocations for guarantees	370	-
	370	-

Allocations for guarantees are made for each system sold. The allocation is based on the guarantee costs for earlier periods. During the year other allocations have been reclassified into current liabilities.

Not 27

Accrued expenses and deferred income

	2002–12–31	2001–12–31
The Group		
Accrued salaries	8,615	7,695
Accrued vacation pay	5,434	3,756
Accrued social security charges	3,821	2,344
Deferred interest income	–	–
Other deferred income	6,039	4,246
Other items	11,842	3,784
Total	**35,751**	**21,825**
Parent Company		
Accrued salaries	4,907	2,752
Accrued vacation pay	4,835	3,382
Accrued social security charges	3,394	1,946
Deferred interest income	–	–
Other deferred income	2,311	2,133
Other items	7,575	3,151
Total	**23,022**	**13,364**

Stockholm, Sweden, March 14, 2003

Björn Svedberg
Chairman

Mathias Uhlén Board member	*Lars Gatenbeck* Board member	*Eugen Steiner* Board member
Urban Jansson Board member	*Björn Odlander* Board member	*Bengt Samuelsson* Board member

Erik Walldén
President

Our audit report was submitted on March 14, 2003

Deloitte & Touche AB
Lars-Gunnar Nilsson
Authorized Public Accountant

Auditors' Report

To the general meeting of the Shareholders of Pyrosequencing AB (publ)
Corporate identity number 556539-3138

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the president of Pyrosequencing AB for the financial year 2002. These accounts and the administration of the company are the responsibility of the board of directors and the president. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the president, as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the president. We also examined whether any board member or the president has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the company's and the group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden.

We recommend to the general meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the loss for the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the president be discharged from liability for the financial year.

Stockholm, Sweden, March 14, 2003

Deloitte & Touche AB
Lars-Gunnar Nilsson
Authorized Public Accountant

Group Management

Erik Walldén
Born 1949. President and Chief Executive Officer since October 1998. Prior Mr. Walldén was Vice President of PerSeptive Biosystems Inc., currently a subsidiary of Applied Biosystems, an Applera company. Prior thereto Mr. Walldén held a number of positions in biotechnology companies including Pharmacia Biotech AB, today Amersham Biosciences, and Pharmacia Biosensor AB, today Biacore International AB.
Shares in Pyrosequencing: 6,300
Options: 450,000

Viveca Johansson
M.Sc. Born 1953. Vice President of Manufacturing, Life Science Products since 2001.
Mrs. Johansson joined the company in 1998. Prior Mrs. Johansson was Manager of Process Development and manufacturing at Biacore AB.
Shares in Pyrosequencing: 300
Options: 7,500

Jerry Williamson
M.B.A. Born 1963. President Pyrosequencing Inc. Prior to joining Pyrosequencing in 2000, Mr. Williamsson was President and CEO of TechEx. He has more than 18 years of business experience in biotechnology, pharmaceuticals and medical devices/diagnostics.
Shares in Pyrosequencing: 0
Options: 98,000

Mårten Winge
M.Sc. Born 1959. Vice President, Head of Marketing, Sales and Support since April 1999. Prior Mr. Winge was Project Manager at Amersham Pharmacia Biotech AB.
Shares in Pyrosequencing: 0
Options: 81,000

Björn Ekström
M.Sc. Born 1952. Executive Vice President and Chief Technology Officer. Mr. Ekström joined in 1997 and has more than 18 years experience in biotechnology product development. Prior Mr. Ekström was a Director of Exploratory Research at Amersham Pharmacia Biotech AB.
Shares in Pyrosequencing: 450,000
Options: 720,000

Mats-Olof Wallin
B.Sc. Born 1951. Chief Financial Officer since the 1st of March 2003. Prior Mr. Wallin was CFO at Ortivus, a publicly-listed Swedish medical technology company. Prior thereto, for 25 years, Mr. Wallin held leading positions in various financial functions in the Pharmacia Group.
Shares in Pyrosequencing: 0
Options: 0

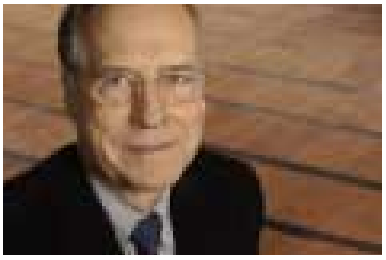
Members who have left the Management Group as of the 28th February 2003

Harry Wilcox
M.B.A. Born 1954. Executive Vice President and Chief of Finance and Corporate Development from May 2000 to the 28th of February 2003 inclusive.
Shares in Pyrosequencing: 0
Options: 260,000

Magnus Roubert
B.Sc. Born 1951. Vice President of Finance and Administration from 1998 to the 28th of February 2003 inclusive. Prior Mr. Roubert was CFO at Inter Forward in Stockholm AB and Group Controller at Ovako AB.
Shares in Pyrosequencing: 300
Options: 120,000

Board of Directors

Björn Svedberg
M.Sc., Dr.hc. Born 1937, Chairman of the Board and Director since 2000. Member of the Board of Gambro AB, Investor AB and Saab AB. Chairman of the Board of Eniro AB, HI3G Access AB, Nefab AB and Salcomp Oy.
Shares in Pyrosequencing: 6,000



Lars Gatenbeck
M.D., Ph.D. Born 1956, Director since 1999. Managing Director and Partner of H&B Capital and Life Equity Sweden KB, Chairman of the Board of Aerocrine AB and Cellavision AB, member of the Board of Perbio Science AB, Profdoc ASA, Neoventa AB, Hormos Medical Ltd, and the Cancer Association. Trustee of the Jubilee Fund of King Gustaf V.
Shares in Pyrosequencing: 6,000

Mathias Uhlén
Ph.D. Born 1954, Deputy Chairman of the Board, Director since 1997. Professor of Microbiology at KTH, Stockholm, member of the Royal Swedish Academy of Sciences and the Royal Swedish Academy of Engineering Sciences. Chairman of the Board of KTH Holding AB and Magnetic Solutions AB, member of the Board of Amersham Ltd, Skanditek AB, Prevas AB, Personal Chemistry AB, Affibody AB, Biovitrum AB and SweTreeGenomics AB.
Shares in Pyrosequencing: 2,966,226

Bengt Samuelsson
M.D., Ph.D. Born 1934, Director since 2000. Professor of physiological chemistry at the Karolinska Institute in Stockholm, member of the Royal Swedish Academy of Sciences, Chairman of the Nobel foundation, member of the Board of Svenska Handelsbanken AB, Pharmacia Corporation, Biostratum Inc., New York Biotechnology Inc. and NicOx SA. Winner of the 1982 Nobel Prize in medicine.
Shares in Pyrosequencing: 6,000

Björn Odlander
M.D., Ph.D. Born 1958, Director since 1997. President of Odlander, Fredrikson & Co AB, the investment advisor to the HealthCap funds, member of the Board of Affibody AB, Biolipox AB, Charterhouse Therapeutics Ltd., Medicarb AB, Melacure Therapeutics AB, NicOx S.A., Personal Chemistry AB, Q-Med AB, Trigen Ltd. and Odlander, Fredrikson & Co AB.
Shares in Pyrosequencing: 274,519
(through fully and partly owned companies)

Urban Jansson
Born 1945, Director since 2000. Chairman of the Board of Plantagen and Proffice, among others. Member of the Board of Addtech, Ahlstrom Corp, Anoto Group, SEB, among others.
Shares in Pyrosequencing: 10,000

Eugen Steiner
M.D., Ph.D. Born 1954, Director since 1999. Managing Director of Creative Peptides AB, Chairman of the Board of Biolipox AB, Global Genomics AB. Director of Nordlander & Roos Fondkommission AB, Setraco AB and VIR A/S.
Shares in Pyrosequencing:*

* Hareya Rasvem S.A.owns 55,000 shares in Pyrosequencing AB and also has the right to acquire 750,000 shares under outstanding options. Dr.Steiner is the sole shareholder of Hareya Rasvem.

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Glossary

Allele: Alternate forms of a gene.

Allele quantification (AQ): Quantification of the statistical occurrence of genetic variants or forms of a gene, whether bacterial or viral within populations of individuals or cells.

Applied Genomics/Applied Genetic Analysis: Applying the biology of hereditary and genetic variation.

Chromosomes: A linear end-to-end arrangement of genes and other DNA found in cells.

DNA: Molecule that carries the genetic information for most living systems.

Gene: A segment of chromosome. Genes direct the synthesis of proteins.

Genetic variation: Differences in DNA sequences among individuals, groups, or populations.

Genome: Total hereditary material of a cell, containing the entire chromosomal set found in each nucleus of a given species.

Genotype: The genetic composition of an organism.

InDel: InDel is the abbreviation for 'Insertion/Deletion'. This is an inherited change in the DNA characterised by either DNA base being added or removed. The size of the insertion or deletion can vary from one base to a large segment of DNA.

Molecular diagnostics: Novel in vitro molecular tests for the improved detection and classification of existing disease.

Mutation: This is an inherited change in DNA sequence.

Multiplexing: Procedures for performing multiple reactions in parallel (simultaneously), greatly increasing speed and throughput such as in the analysis of pooled samples (pooling more than one sample per well).

Mycobacteria: A type of bacteria that causes many infections such as tuberculosis.

Nucleotides: Building blocks of nucleic acids (DNA or RNA) that consist of a sugar, a phosphate molecule and a base (adenine (A), guanine (G), thymine (T), or cytosine (C) for DNA). Thousands of nucleotides are linked to form a DNA or RNA molecule and their sequence determines what proteins will be made.

Pharmacogenomics: The study of the interaction of an individual's genetic makeup and response to a drug. Applying individual genetic variation to the delivery and effectiveness of drugs; "personalized medicine".

Sequencing: Decoding a strand of DNA or gene into the specific order of nucleotides.

SNP (Single Nucleotide Polymorphism): Most common, single-base pair variations within the genetic code of individuals. SNPs may underlie differences in health and responses to drugs.

Thermocycler: An instrument that can be used to achieve a variety of temperatures of a sample in a programmable manner. Such an instrument is essential for carrying out PCR, the most common method for amplifying genetic material prior to analysis.

Triplex: Multiplexing when the number of samples is three.

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