



## PYROSEQUENCING AB

### Pyrosequencing Reports Second Quarter Results for Period Ended June 30, 2002

- **Company streamlines business to maximize near-term opportunities;  
implements cost-reduction measures -**

**Uppsala, Sweden, August 8, 2002,** Pyrosequencing AB (Stockholm: PYRO A) today reported second quarter results for the period ended June 30, 2002. Erik Walldén, President and CEO of Pyrosequencing, remarking on the quarter and the Company's strategy said,

***"The recent introduction of three new products has already led to an increase in demand for Pyrosequencing technology and products, as evidenced by the 15 HS and MA systems orders. We finished the quarter with a backlog of 13 systems that were not included in the total revenue due to the pending shipment of new products. While recent market conditions have not been favorable, we continue to view the opportunity in Applied Genomics to be large and growing, particularly within clinical applications. Moving forward, we will seek to exploit the clinical applications of our technology through the core business rather than a separate operating unit, which enables us to more effectively leverage the existing technology platform to capture near-term opportunities in this market segment. Longer-term regulated product development will be pursued through major diagnostic collaborations instead of building the infrastructure to support this. At the same time, we are implementing a cost-reduction plan which will accelerate the route to profitability."***

#### **Second quarter 2002 highlights include:**

- Received 24 new systems orders; 13 were recorded as revenue
- Increased backlog from 2 orders in first quarter to 13 orders
- Launched high sensitivity DNA analysis system, the PSQ™ HS 96A, to provide maximum capability and greater cost-efficiency for SNP and mutation analyses
- Announced a new Vacuum Prep Tool that streamlines preparation of DNA samples for genetic analysis by the PSQ HS 96A
- Expanded research with the University of Geneva to include the development of additional gene-based diagnostics for routine prenatal testing
- Integrated Molecular Diagnostics Business Unit into core business to further exploit near-term opportunities for Pyrosequencing technology for clinical applications
- Initiated Company-wide plan to reduce expenses and position Pyrosequencing for future market growth

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## Summary financial group data (in millions except percentages and share data)

	Six months ended June 30, 2002			Three months ended June 30, 2002		
	2002 USD**	2002 SEK	2001 SEK	2002 USD**	2002 SEK	2001 SEK
Net sales	3.9	36.3	44.2	1.8	16.3	24.6
Gross profit	2.8	25.4	32.5	1.2	11.0	18.5
Gross margin, %	70	70	74	67	67	75
Operating result	(8.6)	(79.4)	(83.6)	(4.8)	(44.6)	(44.6)
Results after financial items	(7.5)	(68.6)	(62.5)	(4.7)	(43.2)	(37.3)
Net results	(9.0)	(82.5)	(58.2)	(5.5)	(50.3)	(35.1)

	2002	2001
Weighted average shares outstanding	34,770,100	34,769,650
Weighted average shares outstanding after full dilution	35,655,068	36,422,035
Common shares outstanding, as of June 30	34,770,100	34,770,100

	As of June 30, 2002		As of December 31, 2001	
	USD**	SEK	USD**	SEK
Cash and short-term investments*	19.1	175.7	24.1	222.0
Securities held as long-term financial assets*	42.1	387.7	48.1	443.2
Other assets	21.1	194.0	19.8	181.6
Total assets	82.3	757.4	92.0	846.8
Shareholder's equity	76.3	702.0	85.3	785.0
Provisions	6.0	55.4	—	—
Other liabilities	—	—	6.7	61.8
Total liabilities, provisions and Shareholder's equity	82.3	757.4	92.0	846.8

\*Total cash and marketable securities = \$61.2 million

\*\*Convenience translation rate: SEK 9.207=1 USD

## Financial Position

For the three months ended June 30, 2002, the Company reported revenues of \$1.8 million compared to \$2.7 million for the comparable period in 2001. Consumable sales rose from the first quarter and as a percentage of revenue increased to 37.8 percent, compared to 28.6 percent for the previous quarter. The Company recorded a backlog of 13 instruments in the second quarter of 2002, compared to 2 in the first quarter of this year.

Gross margins for the second quarter of 2002 amounted to 67 percent, compared with margins of 75 percent for the same quarter in 2001. The decrease in margins partly reflects product sales to distributors who are expanding their pipelines to include the new Pyrosequencing products. As reagent sales grow, the Company anticipates greater efficiencies from its new manufacturing facility that has considerable capacity for increased production.

Operating expenses fell to \$6.0 million for the second quarter of 2002, compared to \$6.8 million for the same period in 2001. The decrease is mainly attributed to capitalization of development costs amounting to \$2.8 million (shown on the balance sheet as capitalized expenditure for development), partially offset by increased sales and marketing expenses related to new products totaling \$0.4 million, and increased spending of \$1.1 million for intensified activities supporting the development of clinical applications.

According to Swedish accounting standards, the Company continues to capitalize costs related to the development of new products. Going forward, we will amortize those costs over the estimated economic life of the related products. During the six months ended June 30, 2002, \$5.4 million of development costs were capitalized.

Pyrosequencing reported a net loss of \$5.5 million, or \$0.16 per share, for the quarter ended June 30, 2002, compared to a net loss of \$3.8 million, or \$0.11 per share, for the same period in the previous year.

At June 30, 2002, cash, cash equivalents and investments in high-grade debt securities, including investments with maturity dates exceeding 12 months, totaled \$61.2 million as compared to \$72.2 million at December 31, 2001. The majority of these investments represent promissory notes issued by the Swedish government, high-grade corporate debt securities, as well as certificates and bonds issued by Swedish county councils. Pyrosequencing has no debt financing.

Pyrosequencing also announced today the implementation of a Company-wide cost reduction plan that adjusts spending to reflect current market conditions and positions the Company for future growth in the Applied Genomics market. Moving forward, this initiative will result in a ten percent reduction in expenses on a monthly basis. Charges of less than \$200,000 related to this cost reduction program will be booked in the third quarter.

## Maximizing Opportunities in Applied Genomics

Based on the success of research and development collaborations initially established through the Molecular Diagnostics Business Unit, Pyrosequencing has identified near-term market opportunities in the clinical applications of its technology. The Company will now pursue these applications through its core business rather than building new infrastructure to support the

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development of regulated clinical products. This approach provides a rapid pathway to further penetrate the clinical research market and generate near-term revenue. To maximize the applications of Pyrosequencing technology in Applied Genomics, Jerry Williamson, former head of the Company's Molecular Diagnostics Business Unit, has been named President of Pyrosequencing, Inc. In this role, Mr. Williamson will be responsible for leading the business in North America.

### **Marketing and Sales**

The Company launched its second major product in 2002, following the introduction of the PSQ™96MA System, a multi-applications solution, several weeks earlier. The new PSQ™ HS 96A System is designed to require significantly less sample material and reagents and therefore is more cost-efficient. It is based on direct customer feedback, and Pyrosequencing expects this product line to attract new customers and further promote the Company's leadership in the Applied Genomics market.

In the second quarter, Pyrosequencing received orders for 15 HS and MA systems to leading pharmaceutical and biotech companies, as well as academic institutions throughout the world. Nearly 25 percent of the Company's customers have already expressed a desire to upgrade to the new multi-applications PSQ 96MA System, while others are interested in the higher throughput and cost-efficient PSQ HS platform. Among the customers this quarter were Genzyme Corporation -- who ordered three systems, North Shore Hospital, Rutgers University, McGill University, MD Anderson Cancer Center, Mayo Clinic Jacksonville, University of Alberta Cross Cancer Institute, Goethe University and IMGM Laboratories. Four of these orders are from repeat customers, indicating a high level of satisfaction with Pyrosequencing. The quarter's sales, coupled with a backlog of 13 systems, is strong evidence of the growing interest these new products are generating and as a result, the Company anticipates a ramp up in revenues in the coming quarters.

As part of the Company's commitment to enhance many aspects of the genotyping process, Pyrosequencing also introduced a Vacuum Prep Tool for use with the PSQ HS 96A System. The hand-held device cuts sample preparation time in half, batch processing 96 DNA samples in less than 15 minutes.

During the second quarter, the Company also hosted 16 technology seminars, spanning the U.S. and four countries in Europe. Presentations by top researchers in the genomics field and live technology demonstrations attracted over 1,000 scientists and industry experts worldwide. The program enabled the sales and marketing team to generate many qualified leads and provided a forum for researchers to explore new methods and ideas in Applied Genomics.

### **Research and Development**

R&D efforts have continued to focus on broadening the applications of the Pyrosequencing technology platform to address the growing needs in Applied Genomics. This includes the development of a product offering that is similar to the standard PSQ 96 bench-top system but designed in a 384-well format that will utilize the newly-released MA software platform. The Company is also advancing several internal assay development projects -- a number of which are directed toward clinical applications, and continues to move forward with its collaborative efforts with academic and commercial partners. Pyrosequencing expects to establish additional

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research and development collaborations to continue expanding the technology's clinical applications.

Following a successful collaboration with The University of Geneva for Down Syndrome, the Company announced the expansion of this research for the development of rapid, DNA-based diagnostics. The collaboration now includes 18, 13, and the X and Y chromosomes, and covers the most common chromosomal anomalies screened during prenatal testing. The Company's other collaborations to develop clinical applications of the technology are at various stages of completion, many of which have resulted in scientific publications highlighting the merits of using Pyrosequencing technology for infectious disease, genetic diseases and pharmacogenomics testing.

### **Human Resources**

At June 30, 2002, the total number of employees in the Pyrosequencing group was 156 compared to 121 at June 30, 2001, and 141 at December 31, 2001.

This report has not been subject to examination by the Company's auditors.

### **Conference Call**

A conference call for analysts and investors will be held today at 10:00a.m. EST/3:00p.m. UK time/4:00p.m. Swedish time. Please contact Claire Rowell at +44 (0) 20 7269 7285 for further details.

Erik Walldén  
President and CEO

### **About Pyrosequencing AB**

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 leads the global market in Applied Genomics with over 180 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 and a high-throughput 384-well system available through a Preferred Technology Program (PTP™), all of which utilize proprietary software and reagent kits. Among Pyrosequencing's customers are AstraZeneca, GlaxoSmithKline, Merck, Schering-Plough, the NIH, the CDC, Yale University, the Karolinska Institute, Genzyme Corp., Biogen, Oxagen, NASA, DuPont Agriculture, Goethe-Universität, and IMG Laboratory. The Web address is [www.pyrosequencing.com](http://www.pyrosequencing.com).

*Certain statements in this press release are forward-looking. These may be identified by the use of forward-looking words or phrases such as "believe," "expect," and "anticipate," among others. These forward-looking statements are based on Pyrosequencing's current expectations. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for such forward-looking statements. In order to comply with the terms of the safe harbor, Pyrosequencing notes that a variety of factors could cause actual results and experience to differ materially from the anticipated results or other expectations expressed in such forward-looking statements. Such uncertainties and risks include, but are not limited to, risks associated with management of growth and international operations (including the effects of currency fluctuations), variability of operating results, the commercial development of the DNA sequencing and genomics market,*

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*nucleic acid-based molecular diagnostics market, and genetic vaccination and gene therapy markets, competition, rapid or unexpected changes in technologies, fluctuations in demand for Pyrosequencing's products (including seasonal fluctuations), difficulties in successfully adapting the Company's products to integrated solutions and producing such products, and the Company's ability to identify and develop new products and to differentiate its products from competitors.*

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## INCOME STATEMENTS

Group\*

Amounts in SEK (in thousands)	1/1/02- 6/30/02	1/1/01- 6/30/01	4/1/02- 6/30/02	4/1/01- 6/30/01
Net sales	36,301	44,194	16,347	24,612
Cost of goods sold	(10,885)	(11,659)	(5,376)	(6,147)
	<b>25,416</b>	<b>32,535</b>	<b>10,971</b>	<b>18,465</b>
Selling expenses	(53,718)	(43,504)	(29,913)	(23,603)
Administrative expenses	(27,035)	(21,714)	(13,219)	(11,933)
Research and development costs	(20,124)	(49,110)	(9,610)	(26,650)
Other operating income	1,800	-	1,398	-
Other operating expenses	(5,757)	(1,770)	(4,215)	(870)
	<b>(104,834)</b>	<b>(116,098)</b>	<b>(55,559)</b>	<b>(63,056)</b>
<b>Operating loss</b>	<b>(79,418)</b>	<b>(83,563)</b>	<b>(44,588)</b>	<b>(44,591)</b>
<b>Result from financial investments</b>				
Result from other securities held as long-term financial assets	9,063	18,024	5,707	7,680
Other interest income	1,630	3,100	(4,383)	(358)
Interest expense and similar profit/loss items	80	(13)	105	(4)
<b>Financial income (net)</b>	<b>10,773</b>	<b>21,111</b>	<b>1,429</b>	<b>7,318</b>
<b>Loss after financial items</b>	<b>(68,645)</b>	<b>(62,452)</b>	<b>(43,159)</b>	<b>(37,273)</b>
Tax (expense) benefit on result for the period	(13,857)	4,219	(7,108)	2,200
<b>NET LOSS FOR THE PERIOD</b>	<b>(82,502)</b>	<b>(58,233)</b>	<b>(50,267)</b>	<b>(35,073)</b>
Net loss per share	(2.37)	(1.67)	(1.45)	(1.01)
Net loss per share after full dilution**	(2.37)	(1.67)	(1.45)	(1.01)

\*Group financial statements represent consolidated operations, internal company transactions eliminated

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

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## BALANCE SHEETS

Group

Amounts in SEK (in thousands)	6/30/02	12/31/01
<b>ASSETS</b>		
<b>Fixed assets</b>		
<b>Intangible assets</b>		
Capitalized expenditure for development	49,431	—
Patents and license rights	22,151	24,188
	<b>71,582</b>	<b>24,188</b>
<b>Tangible assets</b>		
Leasehold improvements	17,963	18,902
Plant and machinery	17,775	15,587
Equipment, tools, fixtures and fittings	17,618	18,850
Construction in progress and advance payments for tangible assets	256	1,733
	<b>53,612</b>	<b>55,072</b>
<b>Financial assets</b>		
Other securities held as financial assets	387,695	443,245
Deferred tax assets	5,850	19,650
Other long-term receivables	687	730
	<b>394,232</b>	<b>463,625</b>
<b>Total fixed assets</b>	<b>519,426</b>	<b>542,885</b>
<b>Current assets</b>		
<b>Inventories</b>		
Raw materials and consumables	10,594	11,231
Semi-finished products	1,579	1,145
Finished products and goods for resale	17,241	15,265
Work in progress in excess of down payment	681	1,740
	<b>30,095</b>	<b>29,381</b>
<b>Current receivables</b>		
Accounts receivable - trade	13,201	28,110
Other receivables	6,689	9,480
Prepaid expenses and accrued income	12,298	15,003
	<b>32,188</b>	<b>52,593</b>
<b>Investments</b>		
Other short-term investments	144,000	194,035
	<b>144,000</b>	<b>194,035</b>
<b>Cash and bank balances</b>	31,697	27,923
<b>Total current assets</b>	<b>237,980</b>	<b>303,932</b>
<b>TOTAL ASSETS</b>	<b>757,406</b>	<b>846,817</b>

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## **BALANCE SHEETS**

### **Group**

<b>Amounts in SEK (in thousands)</b>	<b>6/30/02</b>	<b>12/31/01</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
<b>Restricted equity</b>		
Share capital	34,770	34,770
Restricted reserves/Share premium reserve	1,053,351	1,053,797
	<b>1,088,121</b>	<b>1,088,567</b>
<b>Non-restricted equity</b>		
Accumulated deficit	(303,582)	(166,068)
Net loss for the period	(82,502)	(137,516)
	<b>(386,084)</b>	<b>(303,584)</b>
<b>Total equity</b>	<b>702,037</b>	<b>784,983</b>
<b>Provisions</b>		
Provision for taxes	128	89
Other provisions	4,410	2,652
	<b>4,538</b>	<b>2,741</b>
<b>Current liabilities</b>		
Accounts payable – trade	14,712	32,101
Down payment in excess of work in progress	1,795	1,767
Other liabilities	3,736	3,400
Accrued expenses and deferred income	30,588	21,825
	<b>50,831</b>	<b>59,093</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>757,406</b>	<b>846,817</b>
<b>Pledged assets</b>		
Chattel mortgage	150	150
<b>Contingent liabilities</b>	<b>—</b>	<b>—</b>

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## CHANGES IN EQUITY

<b>Amounts in SEK (in thousands)</b>	<b>Group</b>	
	<b>6/30/02</b>	<b>6/30/01</b>
Balance brought forward 1/1	784,983	902,364
Adjustment new accounting principle	—	20,100
Issue expenses	(444)	(3)
Redemption of options	—	36
Net loss for the period	(82,502)	(58,233)
<b>Balance carried forward 6/30</b>	<b>702,037</b>	<b>864,264</b>

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## STATEMENTS OF CASH FLOWS

### Group

Amounts in SEK (in thousands)	1/1/02- 6/30/02	1/1/01- 6/30/01
<b>Operating activities</b>		
Operating loss after financing items	(68,645)	(62,452)
<b>Adjustments for items not affecting cash flow</b>		
Depreciation	8,073	4,955
Other items	1,250	5
<b>Cash used in operating activities before changes in working capital</b>	<b>(59,322)</b>	<b>(57,492)</b>
<b>Paid taxes</b>	<b>(43)</b>	<b>—</b>
<b>Changes in working capital</b>		
Increase in inventories	(714)	(13,583)
Decrease/Increase in accounts receivable - trade	14,859	(2,088)
Decrease/Increase in other current assets	5,496	(4,560)
Increase in other current liabilities	(8,236)	(4,329)
<b>Cash used in operating activities</b>	<b>(47,960)</b>	<b>(82,052)</b>
<b>Investing activities</b>		
Purchase of intangible assets	(49,431)	(15,277)
Purchase of tangible assets	(5,065)	(19,588)
Sale of tangible assets	602	—
Sale of short-term investments	50,035	369,000
Sale/purchase of long-term investments	55,550	(237,772)
Increase of long-term receivables	43	—
<b>Cash provided by/used in investing activities</b>	<b>51,734</b>	<b>96,363</b>
<b>Financing activities</b>		
New share issue expenses	—	(3)
Options to employees	—	36
<b>Cash flow from financing activities</b>	<b>—</b>	<b>33</b>
<b>Net change in cash and cash equivalents</b>	<b>3,774</b>	<b>14,344</b>
<b>Cash and cash equivalents beginning of period</b>	<b>27,923</b>	<b>19,561</b>
<b>Cash and cash equivalents end of period</b>	<b>31,697</b>	<b>33,905</b>
<b>Cash, cash equivalents and investments in high-grade debt securities</b>	<b>563,392</b>	<b>729,804</b>

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**ACCOUNTING PRINCIPLES**

The accounting principles used in preparation of these financial statements are consistent with those used in the Annual Report except for the implementation of the 2002 Swedish Financial Accounting Standards Council (Redovisningsrådet) recommendations which are presented below.

Statement number 1, Consolidated Financial Statements and Accounting for Investments in Subsidiaries. The Company has adopted this statement from January 1, 2002. This recommendation has no significant effect on the financial statements.

Statement number 15, Intangible Assets. Costs for development projects are capitalized from January 1, 2002. The capitalization reflects the Company's ambition to market and sell a wide range of new products in the field in the near future. Development projects are recognized when they meet with the criteria in the company's project manual. The criteria in the manual comply with the criteria in the recommendation.

Statement number 16, Provisions, Contingent Liabilities and Contingent Assets. Warranty provisions are recognized for each system sold. The warranty period is one year except for in Germany, where the warranty period is two years. The method for calculation of the warranty provision is based on actual warranty costs for previous periods.

Statement number 17, Impairment of Assets. As part of the financial procedure, a review of all assets is performed in order to identify possible impairments. If evidence of impairment is found, the asset's recoverable amount is calculated and booked.

Other 2002 recommendations have not been included in the comments above because they do not have a significant effect on the financial statements.