



PYROSEQUENCING AB

Pyrosequencing Reports Third Quarter Results for Period Ended September 30, 2002

Uppsala, Sweden, October 24, 2002, Pyrosequencing AB (Stockholm: PYRO A) today reported third quarter results for the period ended September 30, 2002. Erik Walldén, President and CEO of Pyrosequencing, said,

"During the third quarter, the Company received orders for 15 MA and HS systems. The Company has initiated a number of important cost-savings measures to ensure that it is well positioned to meet what we believe is a temporary slowdown. Pyrosequencing is more focused than ever on reaching profitability. We remain confident in the long term commercial opportunities represented by the genomics revolution. Our cash position remains strong, as is our commitment to grow the business organically by penetrating the market with our new systems, and to develop and acquire complementary product lines."

Third quarter 2002 highlights include:

- Received 15 new systems orders, 2 of which were upgrades; 23 systems were recorded as revenue
- Focused on profitability by expanding the Company's cost-savings program to reduce cash expenses by approximately \$7 million in 2003
- Signed two new agreements which provide access to important intellectual property surrounding a unique nucleic acid technology, and to a gene that may be used to identify clinically relevant bacteria
- Demonstrated the broad applications of Pyrosequencing™ technology in a number of publications in major scientific journals and presentations at industry conferences

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Summary financial group data (in millions except percentages)

	Nine months ended Sept. 30,			Three months ended Sept. 30,		
	2002 USD**	2002 SEK	2001 SEK	2002 USD**	2002 SEK	2001 SEK
Net sales	6.8	63.4	70.7	2.9	27.1	26.5
Gross profit	4.7	43.8	50.1	2.0	18.3	17.6
Gross margin, %	69	69	71	68	68	66
Operating result	(12.7)	(117.4)	(117.7)	(4.1)	(37.9)	(34.2)
Results after financial items	(10.9)	(100.9)	(90.6)	(3.5)	(32.2)	(28.2)
Net results	(13.0)	(120.6)	(83.7)	(4.1)	(38.1)	(25.4)

	As of Sept 30, 2002		As of December 31, 2001	
	USD**	SEK	USD**	SEK
Cash and short-term investments*	13.7	126.9	23.9	222.0
Securities held as long-term financial assets*	41.8	387.7	47.8	443.2
Other assets	21.9	203.3	19.6	181.6
Total assets	77.4	717.9	91.3	846.8
Shareholder's equity	71.6	664.0	84.6	785.0
Other liabilities	5.8	53.9	6.7	61.8
Total liabilities, provisions and Shareholders' equity	77.4	717.9	91.3	846.8

*Total cash and marketable securities = \$55.5 million

**Convenience translation rate: SEK 9.274 = 1 USD

Financial Position

For the three months ended September 30, 2002, the Company reported revenues of \$2.9 million, compared to \$2.9 million for the same period in 2001. Consumable sales as a percentage of revenue rose to 32.7 percent, an increase from 25.7 percent for the same quarter in the previous year. The Company recorded an order backlog of five instruments at the end of the third quarter of 2002.

Gross margins amounted to 68 percent for the third quarter of 2002, compared with margins of 66 percent for the same quarter in 2001. The gross margins have been negatively impacted, in part, by the significant excess capacity in the Company's reagent manufacturing facility. As reported in the Marketing and Sales section of this document (page 4), Pyrosequencing has just launched a program to dramatically reduce reagent prices to meet market demand for lower price per genotype. The Company anticipates that this initiative will not only spur new instrument sales but also increase the volume of reagent production in its new manufacturing facility. As a result, gross margins are expected to improve over the next year as the impact from this program is realized.

Operating expenses increased to \$6.1 million for the third quarter of 2002, compared to \$5.6 million for the same period in 2001. Capitalization of development costs amounted to \$0.7 million (shown on the balance sheet as capitalized expenditure for development). According to Swedish accounting standards, the Company continues to capitalize costs related to the development of new products. The costs are amortized over the estimated economic life of the related products. During the nine months ended September 30, 2002, \$6.1 million of development costs were capitalized and \$0.4 million were amortized.

Pyrosequencing reported a net loss of \$4.1 million, or \$0.12 per share, for the quarter ended September 30, 2002, compared to a net loss of \$2.7 million, or \$0.08 per share, for the same period in the previous year. A portion of the difference in the net loss between this quarter and the same quarter in the previous year reflects the reversal of a tax benefit related to the carry-forward of tax losses in 2001. The Company has elected to reverse a portion of this benefit during the third quarter of 2002, which has resulted in an increase in the loss of approximately \$580,000.

At September 30, 2002, cash, cash equivalents and investments in high-grade debt securities, including investments with maturity dates exceeding 12 months, totaled \$55.5 million as compared to \$71.7 million at December 31, 2001. Pyrosequencing has no debt financing.

Pyrosequencing has previously announced that it is focusing more effort on achieving near-term profitability and as a result, the Company has implemented a cost-reduction plan to reflect current market conditions and to position the Company for future growth in the Applied Genomics market. The first part of this cost-reduction plan was announced on August 8, 2002, and mainly covered Pyrosequencing's activities in North America. Costs of \$200,000 related to this first phase have been charged to the results for the third quarter of 2002. The second part of the cost-reduction plan was announced on October 10, 2002, in which notice of termination was given for 23 people at the headquarters in Uppsala, Sweden, and negotiations were subsequently completed in accordance with the Co-determination Act. Closedown costs for this second phase of the cost-reduction plan are expected to be \$700,000 and will be charged to the fourth quarter of 2002. Altogether these measures are expected to reduce costs by \$7 million on a yearly basis from 2003.

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Marketing and Sales

In the third quarter, Pyrosequencing continued to experience strong interest in the Company's new PSQ 96 HS platform and its multi-applications solution (PSQ 96MA System). New customers from the industry this quarter include Bristol Myers Squibb, which is using the new PSQ 96 HSA for pharmacogenomics applications in the development of cytochrome P450 assays (drug metabolism genes). Leading academic centers purchasing instruments included Massachusetts General Hospital, University of California, University of Florida, The London IDEAS Genetic Knowledge Park, Swedish University of Agricultural Sciences, and Centre Hospitalier Universitaire de Reims, France. Keesler Air Force Base in Mississippi, USA, also purchased a PSQ 96MA System this quarter to meet their genetic analysis needs. In addition, two existing customers, Washington University and the National Institutes of Health, upgraded from previously purchased PSQ 96MA Systems to our newly-launched PSQ HS 96 System.

As the customer base continues to grow, so do the applications of Pyrosequencing technology. The broad utility of the Pyrosequencing platform was recently the focus of a number of scientific presentations and poster sessions at the annual conference of the American Society of Human Genetics (ASHG), held last week in Baltimore, Maryland, and at the 5th International Meeting on Single Nucleotide Polymorphisms and Complex Genome Analysis in Reykjavik, Iceland. Clinical applications of Pyrosequencing technology were featured at the 42nd Annual Interscience Conference on Antimicrobial Agents and Chemotherapy. In addition, the results of several studies involving Pyrosequencing technology for bacterial typing and for genotyping of drug metabolizing enzymes were published in major scientific journals and industry publications.

Demand for reduced cost per assay continues to drive competition in the market.

Pyrosequencing is able to meet this demand through further innovations and enhancements in the Company's new reagent production facility. These improvements continue to yield greater efficiencies in the manufacturing process. As a result, Pyrosequencing has just launched a new program to dramatically reduce the prices of its proprietary reagents – in some cases by as much as half. The Company believes that in passing on these cost-savings benefits to customers, Pyrosequencing is once again able to demonstrate its ongoing commitment to deliver high quality products that meet the evolving needs of life sciences researchers worldwide.

Research and Development

During the third quarter of 2002, Pyrosequencing signed two important agreements that expand the Company's intellectual property portfolio to include another complementary DNA technology and access to the use of a well-characterized gene for identifying clinically relevant bacteria. The DNA technology, developed and exclusively licensed from Harvard Medical School, provides the Company with broad access to a unique cleavable fluorescent nucleotide technology that can be used for a variety of applications including analyzing DNA in conjunction with Pyrosequencing's 'sequencing by synthesis' technology or with other platforms.

For expanded clinical applications, the Company has recently developed a number of robust assays for the analysis of important cytochrome P450 metabolizing genes, cystic fibrosis and bacterial typing. This quarter, Pyrosequencing also gained access to intellectual property covering the use of the RNase P gene for the identification and characterization of important infectious bacteria. Pyrosequencing believes that this gene may provide an alternative to the widely-used 16S RNA method. Together, these agreements provide the Company with novel technologies and tools that can be used to develop additional sequencing and detection products.

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Human Resources

At September 30, 2002, the total number of employees in the Pyrosequencing group was 149 compared to 134 at September 30, 2001, and 141 at December 31, 2001.

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

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 200 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, Bristol Myers Squibb, the NIH, the CDC, the Karolinska Institute, Genzyme Corp., Biogen, Oxagen, NASA, DuPont Agriculture, The London IDEAS Genetic Knowledge Park, and the Swedish University of Agricultural Sciences. The Web address is 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, 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- 9/30/02	1/1/01- 9/30/01	7/1/02- 9/30/02	7/1/01- 9/30/01
Net sales	63,396	70,699	27,095	26,505
Cost of goods sold	(19,632)	(20,610)	(8,747)	(8,951)
	43,764	50,089	18,348	17,554
Selling expenses	(76,570)	(62,947)	(22,852)	(19,444)
Administrative expenses	(40,027)	(30,483)	(12,992)	(8,769)
Research and development costs	(41,445)	(73,725)	(21,321)	(24,615)
Other operating income	2,218	2,473	418	2,443
Other operating expenses	(5,303)	(3,133)	454	(1,333)
	(161,127)	(167,815)	(56,293)	(51,718)
Operating loss	(117,363)	(117,726)	(37,945)	(34,164)
Result from financial investments				
Result from other securities held as				
long-term financial assets	11,098	23,515	2,035	5,491
Other interest income	5,288	3,642	3,658	542
Interest expense and similar profit/loss items	114	(48)	34	(35)
Financial income (net)	16,500	27,109	5,727	5,998
Loss after financial items	(100,863)	(90,617)	(32,218)	(28,166)
Tax (expense) benefit on result for the period	(19,718)	6,942	(5,861)	2,723
NET LOSS FOR THE PERIOD	(120,581)	(83,675)	(38,079)	(25,443)
Weighted average shares outstanding	34,770,100	34,769,800	34,770,100	34,770,100
Weighted average shares outstanding after full dilution	35,542,402	36,322,944	35,073,844	35,959,300
Common shares outstanding	34,770,100	34,770,100	34,770,100	34,770,100
Net loss per share	(3.47)	(2.41)	(1.10)	(0.73)
Net loss per share after full dilution**	(3.47)	(2.41)	(1.10)	(0.73)

*Group financial statements represent the consolidated operations of Pyrosequencing with all internal company transactions eliminated

**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

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BALANCE SHEETS

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Amounts in SEK (in thousands)	9/30/02	12/31/01
ASSETS		
Fixed assets		
Intangible assets		
Capitalized expenditure for development	56,190	—
Patents and license rights	21,214	24,188
	77,404	24,188
Tangible assets		
Leasehold improvements	17,410	18,902
Plant and machinery	17,430	15,587
Equipment, tools, fixtures and fittings	17,526	18,850
Construction in progress and advance payments for tangible assets	786	1,733
	53,152	55,072
Financial assets		
Other securities held as financial assets	387,695	443,245
Deferred tax assets	—	19,650
Other long-term receivables	691	730
	388,386	463,625
Total fixed assets	518,942	542,885
Current assets		
Inventories		
Raw materials and consumables	10,729	11,231
Semi-finished products	1,887	1,145
Finished products and goods for resale	17,127	15,265
Work in progress in excess of down payment	939	1,740
	30,682	29,381
Current receivables		
Accounts receivable - trade	22,794	28,110
Other receivables	5,679	9,480
Prepaid expenses and accrued income	12,828	15,003
	41,301	52,593
Investments		
Other short-term investments	102,700	194,035
	102,700	194,035
Cash and bank balances	24,227	27,923
Total current assets	198,910	303,932
TOTAL ASSETS	717,852	846,817

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BALANCE SHEETS

Group

Amounts in SEK (in thousands)	9/30/02	12/31/01
EQUITY AND LIABILITIES		
Equity		
Restricted equity		
Share capital	34,770	34,770
Restricted reserves/Share premium reserve	1,053,351	1,053,797
	1,088,121	1,088,567
Non-restricted equity		
Accumulated deficit	(303,582)	(166,068)
Net loss for the period	(120,581)	(137,516)
	(424,163)	(303,584)
Total equity	663,958	784,983
Provisions		
Provision for taxes	85	89
Other provisions	3,293	2,652
	3,378	2,741
Current liabilities		
Accounts payable – trade	17,528	32,101
Down payment in excess of work in progress	1,640	1,767
Other liabilities	3,464	3,400
Accrued expenses and deferred income	27,884	21,825
	50,516	59,093
TOTAL EQUITY AND LIABILITIES	717,852	846,817
Pledged assets		
Chattel mortgage	150	150
Contingent liabilities	—	—

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CHANGES IN EQUITY

Amounts in SEK (in thousands)	Group	
	9/30/02	9/30/01
Balance brought forward 1/1	784,983	902,364
Adjustment new accounting principle	—	20,100
New share issue in progress	—	40
Issue expenses	(444)	(3)
Redemption of options	—	36
Net loss for the period	(120,581)	(83,675)
Balance carried forward 9/30	663,958	838,862

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STATEMENTS OF CASH FLOWS

Group

Amounts in SEK (in thousands)	1/1/02- 9/30/02	1/1/01- 9/30/01
Operating activities		
Operating loss after financing items	(100,863)	(90,617)
Adjustments for items not affecting cash flow		
Depreciation	15,681	7,546
Other items	(98)	33
Cash used in operating activities before changes in working capital	(85,280)	(83,038)
Paid taxes	(81)	—
Changes in working capital		
Increase in inventories	(1,301)	(16,749)
Decrease/Increase in accounts receivable - trade	5,466	(3,716)
Decrease/Increase in other current assets	5,976	(6,333)
Decrease in other current liabilities	(8,554)	(2,344)
Cash used in operating activities	(83,774)	(112,180)
Investing activities		
Purchase of intangible assets	(59,778)	(15,849)
Purchase of tangible assets	(7,792)	(23,822)
Sale of tangible assets	724	—
Sale of short-term investments	91,335	335,000
Sale/purchase of long-term investments	55,550	(158,818)
Increase of long-term receivables	39	—
Cash provided by/used in investing activities	80,078	136,511
Financing activities		
New share issue in progress	—	40
New share issue expenses	—	(3)
Options to employees	—	36
Cash flow from financing activities	—	73
Net change in cash and cash equivalents	(3,696)	24,404
Cash and cash equivalents beginning of period	27,923	19,561
Cash and cash equivalents end of period	24,227	43,965
Cash, cash equivalents and investments in high-grade debt securities	514,622	694,913

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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.