# Customer Vision

ANNUAL REPORT 2001

PYROSEQUENCING

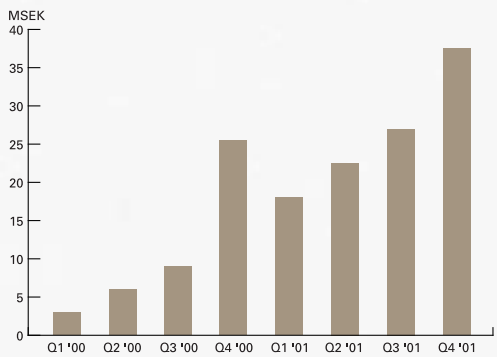
Pyrosequencing AB develops, manufactures and sells solutions for rapid applied genetic analysis based on its proprietary Pyrosequencing™ technology, a simple-to-use DNA sequencing technique Pyrosequencing leads the global market in Applied Genomics with over 150 systems sold to major pharmaceutical and biotech companies and prestigious research institutions worldwide.

Leveraging its success in the Life Sciences market, the Company is expanding the business through a newly established Molecular Diagnostics Business Unit. The Unit is identifying new product opportunities and developing clinically useful molecular diagnostic assays through collaborations with academic and commercial partners in disease diagnosis, clinical prognosis and pharmacogenomics.

**2001 Highlights**

- Increased revenues by 134 percent to MSEK 108.2 ($10.2 million) compared to year 2000 revenues
- Expanded installed base to more than 150 systems and 18 customers now have two or more systems
- Sold four 384-well systems under the Company's Preferred Technology Program (PTP™)
- Formed a Molecular Diagnostics business and established ten research collaborations to develop diagnostic tests and related intellectual property
- Launched new products including new software and reagents for sequence analysis, sample preparation and applications for population based-research
- Completed a worldwide sales and distribution network adding new distributors in Europe, the Middle East and Asia Pacific
- Obtained three U.S. patents for diagnostic and therapeutic responses in cardiovascular disease, as well as for the core Pyrosequencing technology

**Pyrosequencing AB revenue**



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## Information to Shareholders

Annual General Meeting
The Annual General Meeting of Pyrosequencing AB will be held on Monday, April 22, 2002 at 4:00 p.m. (local time) at Radisson SAS Hotel Gillet, Dragarbrunnsgatan 23, Uppsala, Sweden.

To be entitled to participate in the Meeting, the shareholder must be entered in the share register on April 12, 2002 and must be registered with the Company as an attendee.

The Company's share register is kept by the Securities Register Centre (Sw. V rdepapperscentralen 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 12, 2002. 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 fax +46 18 59 19 22 or by telephone +46 18 56 59 00, no later than 4:00 p.m.(local time) on April 19, 2002. At the 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 nancial reports

| | | |
|---|---|---|
| Interim Report January | March, 2002 | April 22, 2002 |
| Interim Report January | June, 2002 | August 8, 2002 |
| Interim Report January | September, 2002 | October 24, 2002 |

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

# Shareholders, Employees, Customers and Friends

In 2001, Pyrosequencing confirmed its position as a leading global supplier of systems for rapid applied genetic analysis. To date, we have sold over 150 systems worldwide. The growth potential for the Applied Genomics market remains strong. New discoveries in the field of genomics continue to pose new challenges about what makes us individuals, what keeps us healthy, and what is curative. At Pyrosequencing, our vision is to enable the life sciences community by giving utility to the massive amount of genomic information, and to ultimately improve human health.

## Re ections

In 2001, sales rose from 46.2 MSEK ($4.4M) to 108.2 MSEK ($10.2M). The PSQ™96 System continues to win customers in all market segments. We also maintained high gross margins – on average 72 percent – significantly more than the industry average. This is a strong confirmation of our business model. In spite of this impressive growth, we experienced the effects of industry consolidation that affected the decision-making process at some pharmaceutical and biotech companies, and a deterioration in economic conditions that is leading customers to manage capital expenditures more carefully. In addition, we faced some customer deferments in capital equipment purchases following the tragic events of September 11th. Yet, Pyrosequencing continued to outsell the competition in the number of systems sold and the diversity of our customer base.

We are inspired by our strong and growing customer relationships. Their continued high level of satisfaction is an indicator of our excellent performance. In the last four months of 2001, eight existing customers purchased an additional Pyrosequencing system – bringing the total to 18 repeat customers.

With our characteristic speed to market, we launched a high-throughput 384-well system during the year through an early-access plan. This highly customized Preferred Technology Program (PTP™) validated our ability to service customers from start-up to large-scale research using the same reliable and cost-efficient technology. I am pleased to report that we met our objective to obtain orders for four of these systems in 2001.

## Focusing on Customers

We launched several new products this past year including software to enhance SNP analysis, an allele frequency application, software and reagents for sequence analysis, new methods to enhance sample preparation for Pyrosequencing™, and we demonstrated haplotyping and multiplexing capabilities. Now more than ever before, pharmaceutical companies, biotechnology companies and academic research institutions worldwide are benefiting from the accuracy, robustness and flexibility of our technology.

Our customers continue to provide valuable information through our dedicated sales force for developing and enhancing products. This input has given rise to a new family of products. These offerings, expected to launch in 2002, will again distinguish Pyrosequencing as a company that discovers, develops and delivers products with customers in mind.

Throughout the year, we strengthened our global presence while maintaining a direct sales and support network in major markets in the U.S. and Europe. Further, we established a strong presence in Asia Pacific ahead of the strong market expansion that is predicted over the next few years. Our distribution network there is part of the overall strategic plan to lead and develop important markets.

As a catalyst for driving the post-genomics market, Pyrosequencing hosted a showcase meeting on the practical applications of Applied Genomics. The event, which was the first of its kind since the completion

“ We are inspired by our strong and growing customer relationships. Their continued high level of satisfaction is an indicator of our excellent performance.”

of the Human Genome Project, featured a prestigious panel of scienti c and nancial thought leaders who discussed how genomic information is being applied to help understand human disease and to develop better drugs.

**Seeing New Opportunities**

An important achievement in 2001 was the establishment of a Molecular Diagnostics Business Unit to develop routine, gene-based clinical diagnostics for major disease areas based on Pyrosequencing technology. Industry analysts estimate 2001 revenues in the molecular diagnostics market at $1.2 billion, with an annual growth rate of 15-20 percent.

In less than one year, we established ten diagnostic research collaborations with prestigious clinical researchers and commercial partners in infectious disease, cardiovascular disease, genetic disorders and hematology/oncology. These collaborations are aimed at accelerating the development of rapid diagnostic tests and related intellectual property. We intend to leverage our intellectual property in cardiovascular disease and drug response through a signi cant partnership with Genomics Collaborative, Inc. The aim of the collaboration is to discover and validate important markers for cardiovascular disease.

We believe that the unique features of our technology, particularly the robustness, ease of use, exibility and sequence validation, are essential for success in this market and will enable Pyrosequencing to become the premier molecular diagnostics technology platform.

**Behind the Scenes**

During the year, we completed the construction of our new manufacturing facility in Sweden and began working aggressively toward establishing GMP conditions and ISO 9001 compliance. We believe that the progress made in 2001 will be instrumental in maintaining the necessary high quality systems.

**Envisioning the Future**

We greeted the millennium with a clear vision. We leveraged the momentum from our life sciences efforts - introduced a high-throughput system, launched a suite of applications, and established ten collaborations in molecular diagnostics - and are now rmly rooted in a new age. We remain the only tools company whose technology is speci cally discovered, developed and dedicated for Applied Genomics - the future of medicine and human health. There is still enormous unexploited potential in Pyrosequencing technology, and we are committed to bringing its many bene ts to market.

Thank you for your continued support,

*Erik Walldén*
President and Chief Executive Of cer
Pyrosequencing AB

# Seeing the Bene ts

In 2001, Pyrosequencing sold 88 PSQ™ 96 Systems and, through its early-access Preferred Technology Program (PTP™ ), received orders for four high-throughput systems. By year's end, Pyrosequencing had a total installed base of more than 150 systems. The Company logged eight repeat sales in the last four months of 2001 and now counts 18 multi-system customers - a testament to a strong technology, service-oriented culture, and sound business model. Customers have made Pyrosequencing the leader in DNA sequencing systems for applied genetic analysis, both in terms of the number of systems sold and the diversity of its customer base.

**Scope of the Market**

The most rapid growth in the Applied Genomics market continues to be in the moderate-throughput sector. Scalability has proven to be an important feature of short-read sequencing technologies as many customers note aggressive plans to increase their capacity to process samples. With a single technology for moderate and high-throughput sequencing, Pyrosequencing is well positioned to meet the demands of research programs throughout their life cycle, as well as to capture new business opportunities in other market segments.

The SNP market segment continues to be the fastest growing application with pharmaceutical companies and major academic centers playing a leading role. Association studies that aim to correlate genetic variability with disease and drug response (pharmacogenomics) are expected to be the most prevalent. Major cost-savings in drug discovery and development aside, pharmacogenomics will result in signi cant improvements in health care. By 2010, experts predict that in the U.S. alone, the health care industry will save up to $1.3 billion per year, and the number of reported adverse drug reactions will decrease by 550,000.

" Customers have made Pyrosequencing the leader in DNA sequencing systems for applied genetic analysis, both in terms of the number of systems sold and the diversity of its customer base."

**Panoramic View**

Pyrosequencing introduced several new products in 2001. The Company's customized high-throughput system, launched early in the year, is easily integrated with front-end robotics and informatics systems, which can process up to 100,000 assays per day. Additionally, Pyrosequencing launched sequence analysis software (SQA) and reagent kits for the PSQ 96 System; Allele Quanti cation (AQ) software, Primer Design software, and a new sample preparation method that enhances the SNP and SQA applications. These new capabilities have also enabled customers to perform haplotyping (identifying groups of SNPs) and multiplexing (pooling more than one sample per well) as well as rapid and easy assay conversion.

With less than two years since its rst product introduction, Pyrosequencing already supports a wide variety of applications - all on one platform. Thus, the technology enables cost savings while providing unparalleled exibility for broad utility. Finally, Pyrosequencing established a Molecular Diagnostics Business Unit that represents a signi cant longer-term market opportunity as the practical applications of genomic information are translated into routine clinical testing.

**Realizing the Utility**

The exibility, robustness and scalable nature of Pyrosequencing technology, together with its ability to provide contextual sequence information, has enabled customers to successfully apply this technology to diverse applications.

**Bacterial and Viral Typing**

In 2001, world-leading microbiologist *Professor Lars Engstrand* of Uppsala University, Sweden, one of Pyrosequencing's collaborators, used Pyrosequencing technology to develop a protocol for identifying *Bacillus anthracis,* the causative agent of anthrax. On the basis of

**" Pyrosequencing technology is enabling us to genotype some of our most dif cult assays. The exibility of the Pyro method as well as its ef ciency provides us with accurate and reproducible results, which is essential to offering the most valuable information to pharmaceutical partners."**

Mark Rabin, Ph.D., FACMG. Senior Director, HAP™ Typing Facility, Genaissance Pharmaceuticals, Inc.

his work, the German Armed Forces purchased a PSQ 96 System to identify and type bacteria and viruses used as biological weapons, such as smallpox and anthrax.

## “ We have found Pyrosequencing to be a  exible, versatile, and ef  cient platform for SNP genotyping.”

Rick Kittles, Ph.D., Co-Director, Molecular Genetics, National Human Genome Center at Howard University

### Population Research

Genetic research on the African American population is a focus at the National Human Genome Center at Howard University, Washington, D.C. *Dr. Rick Kittles,* Co-Director, Molecular Genetics, is studying SNPs related to complex diseases in African Americans. In a genetic association study of prostate cancer, Dr. Kittles identi  ed a key SNP in the CYP17 gene associated with aggressive prostate cancer in this population group.

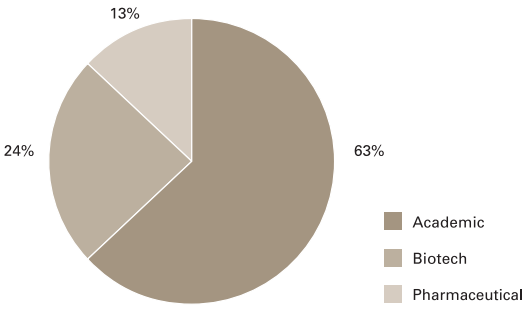
### Pharmacogenomics

Genaissance Pharmaceuticals is analyzing gene variability among populations and its association with drug response. The Company is applying Pyrosequencing technology to analyze informative SNPs in order to identify important combinations of SNPs that can be used as markers for predicting drug response. The markers are used by pharmaceutical partners to validate targets, improve the success rate of clinical trials and to manage the life cycle of approved drugs.

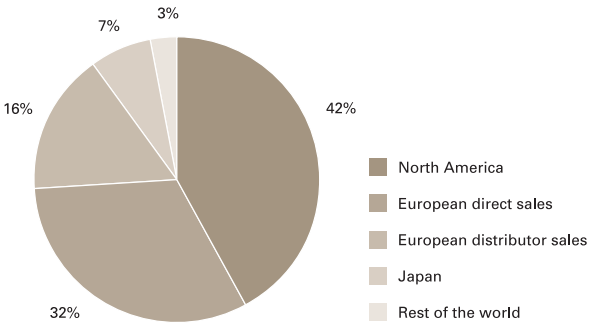
### Diagnostic Testing

*Benjamin Roa, Ph.D.,* Director of the Baylor DNA Diagnostic Lab in the Department of Molecular & Human Genetics at Baylor College of Medicine, is using Pyrosequencing technology for diagnostic testing applications. Dr. Roa’s laboratory performs 40 different DNA diagnostic tests,  ve of which have already been validated using Pyrosequencing technology. These results were presented at a recent American Society of Human Genetics (ASHG) conference. Expanded applications of Pyrosequencing technology are planned for diagnostic testing of speci  c mutations associated with other inherited disorders. “ Pyrosequencing is an effective platform for detecting speci  c mutations in a diagnostic setting” says Dr. Benjamin Roa.

**PSQ™ 96 System, installed base by customer.**




**PSQ™ 96 System, installed base by region.**




# Accelerating Diabetes Research

At Washington University School of Medicine, St. Louis, three different labs are using the PSQ 96 System for a variety of applications. These applications range from association studies, where the goal is to identify disease genes, to pharmacogenomics applications that focus on identifying the best medicines for individual patients.

Inside the lab of *Dr. Alan Permutt*, Professor of Medicine and of Cell Biology and Physiology in the School of Medicine, researchers are studying individuals of Ashkenazi Jewish decent with Type 2 diabetes mellitus. The study, supported in part by a grant from the NIH, utilizes Pyrosequencing's PSQ 96 System and accompanying Allele Quanti cation software and reagents. The goal of the research is to determine the frequency with which certain alleles are found in an individual's DNA and correlate these patterns with diabetes. The analysis compares allele frequencies in pooled DNAs from 150 patients and 150 controls. Once allele frequency differences are determined, researchers genotype the surrounding SNPs to help de ne chromosomal regions that may be important

Dr. Alan Permutt, Professor of Medicine and of Cell Biology and Physiology in the School of Medicine at Washington University







" Through our research, we hope to uncover the genetic basis for Type 2 diabetes. We keep our eyes open to new technologies that get us to the right answers, faster. Pyrosequencing is one such technology that makes it possible for us to move forward rapidly." Dr. Alan Permutt

markers for diabetes. The researchers follow up by determining the full SNP genotype of each individual. Results to date show that Pyrosequencing technology determines the frequency of SNPs in these pooled samples with a remarkable accuracy and speed when compared to individual genotyping approaches.

Dr. Permutt believes that genetic research will have a direct impact on patient care in the form of better disease diagnosis, prognosis and teatment.

According to *Jon Wasson,* Research Lab Manager, Division of Endocrinology, Diabetes and Metabolism, and a colleague of Dr. Permutt, " The ability to perform accurate and reliable frequency analyses on pooled population samples enables researchers to examine SNPs in a more time and cost-ef cient manner, even for very large samples. Pyrosequencing technology allows us to accelerate our analysis of critical markers in disease-associated genes and with a very high degree of con dence in our results."


BMZ

# Optimizing Antibodies

The value of using monoclonal antibodies as promising therapeutics and as useful tools for screening potential drug targets is well documented. MorphoSys AG, a human antibody company with a comprehensive collection of antibody libraries, has developed a unique method for generating synthetic human antibodies that can be used to screen, select, validate and optimize novel drug targets. These synthetic antibodies are similar to the antibodies found in the human body and therefore are expected to be recognized but not rejected by the body.

*Dr. Sabine Kraft,* Teamleader Research & Development at MorphoSys, is applying Pyrosequencing technology to determine the exact sequence of part of the antibody that is important in generating speci city and diversity. Understanding these regions of antibodies is critical in selecting and validating the most promising targets for therapeutic development or for target screening. For example, in a pool of 20, 100 or more antibodies capable of binding to a particular target, researchers would not know which of the antibodies share the same sequence and which are different and therefore, might warrant further analyses. The PSQ 96 System offers Dr. Kraft and her colleagues a rapid, cost-effective solution for obtaining the speci c sequence information they need to select, validate and optimize the best antibodies for their customers.

Dr. Sabine Kraft, Teamleader Research & Development, MorphoSys AG

"We need to determine very quickly which antibody targets to interrogate further. We were looking for a technology that is easy to use and would provide us with more immediate results. With Pyrosequencing technology it is possible to identify the unique antibody clones in a matter of minutes by simply looking at the sequence patterns displayed in the Pyrogram" and comparing them to other antibodies." Dr. Sabine Kraft

# On the Horizon: Molecular Diagnostics

With its ease-of-use and flexibility as well as its ability to provide actual sequence information, Pyrosequencing technology is ideally suited to develop molecular diagnostics products. As an expansion of its strategy, the Company established a Molecular Diagnostics Business Unit in January 2001 to provide routine, gene-based clinical diagnostics in select disease areas including infectious disease, cardiovascular disease, genetic disorders and hematology/oncology. Consistent with the Company's business model, this new venture will apply Pyrosequencing technology to develop additional products. Pyrosequencing is using independent collaborators to evaluate the feasibility of specific diagnostic tests and to develop the intellectual property surrounding these tests. These efforts will drive Pyrosequencing technology into a new and even larger market. Industry analysts estimate 2001 revenues in the molecular diagnostics market at $1.2 billion, with an annual growth rate of 15-20 percent.

Since its inception, this business unit has established ten molecular diagnostics research collaborations - a significant accomplishment for the first year. Each collaboration has the potential to yield multiple product opportunities, to contribute unique intellectual property, and to position Pyrosequencing technology as the premier solution for molecular diagnostics.

**Molecular Diagnostics Collaborations**

| Collaborator | Research Area |
|---|---|
| University of Uppsala | *Infectious Disease*<br>*H. pylori, M. tuberculosis* |
| Scottish Meningococcus and Pneumoccocus Reference Laboratory | *N. meningitidis* |
| Cleveland Clinic Foundation | Bacterial typing |
| Genomics Collaborative, Inc. | *Cardiovascular Disease*<br>Hypertension, myocardial infarction |
| University of California, San Francisco | *Genetic Disorders*<br>Multiple sclerosis |
| University of Geneva | Down Syndrome |
| Children's Hospital of Philadelphia | Hearing loss |
| Genzyme Genetics | Cystic fibrosis |
| Pel-Freez | *Hematology/Oncology*<br>Human Leukocyte Antigens |
| Mayo Clinic | MEN2 oncogene |


## Focal Point

Current clinical diagnostics methods often rely on time-consuming and costly methods for culturing samples and detecting genetic mutations. In addition, many diagnostic tests are not sensitive enough to detect individual strains or subtypes of bacteria and viruses. For example, in the field of infectious diseases a timely identification of a pathogen can be critical in avoiding the use of inappropriate antibiotic treatments that may lead to drug resistance. Further, the waiting time for results may cause unnecessary anguish as in testing for Down Syndrome or other genetic disorders. Organ or bone marrow transplantation requires immediate testing and current methods often fail to adequately match donors with patients, resulting in a high incidence of transplant rejection. Pyrosequencing aims to address these shortcomings by providing accurate, more rapid tests that detect disease-associated genetic alterations and provide sequence data for resistance typing and the identification of infectious agents - all on one platform.

" Pyrosequencing technology is likely to become an important and commonly used molecular sequencing technology of the future. It has the potential to turn the microbiology community on its' ear." Dr. Gary Procop


## The Cleveland Clinic Foundation

In November 2001, Pyrosequencing entered into a collaborative research agreement with the prestigious Cleveland Clinic Foundation to develop methods to identify mycobacteria using Pyrosequencing technology. Slow-growing mycobacteria cause serious infections such as tuberculosis, which is estimated to cause morbidity and mortality in one- fth of the world's population.

Recent changes in molecular biology and technological advances are enabling, for the rst time, molecular diagnostics to be applied to routine clinical testing. However, many of the technologies are complicated and rely on time-consuming culturing and biochemical analyses. With faster, more accurate diagnostics, clinicians will be able to prescribe the most effective medication quickly while avoiding unnecessary antibiotics.

Under the direction of *Dr. Gary Procop, M.D., M.S.,* Section Head, Clinical Microbiology,The Cleveland Clinic Foundation, researchers are examining a variety of molecular methods to more rapidly identify mycobacteria. A study is underway to analyze 250 known mycobacteria in order to evaluate Pyrosequencing as a method for identi cation. To date, Dr. Procop and his colleagues have sequenced more than 100 clinically relevant mycobacteria using the PSQ 96 System, and each time the technology has provided the correct results and much faster when compared to conventional methods.

Gary Procop, M.D., M.S.
Section Head, Clinical Microbiology,
The Cleveland Clinic Foundation


“ Pyrosequencing has distinct advantages over other genotyping methods.”

# Unveiling High-throughput Capabilities

In February 2001, Pyrosequencing introduced a high-throughput system through an early access program. The Preferred Technology Program (PTP™) enables customers to advance to a 384-well system that is capable of performing up to 100,000 assays per day. As part of the program, Pyrosequencing works closely with each of its customers to integrate front- end robotics and informatics systems. The Company received orders for four high-throughput systems into different market segments in just ten months of launching this program - a clear demonstration of customer con dence in Pyrosequencing technology.

With this initial entry into the high-throughput market segment, Pyrosequencing is now capable of accommodating customers from early-stage through to high-volume Applied Genomics research programs. This allows customers to avoid time-consuming scale-up and training, while reducing their cost - per assay.

**Oxagen Limited**

Oxagen was already a PSQ 96 System customer when the company decided to invest in a high-throughput, 384-well PTP system. Oxagen is developing novel therapeutics and diagnostics based on detailed data on complex disease from large familial studies.

*Bryan Dechairo,* Group Leader Genotype Analysis, and colleagues at Oxagen employ a very focused approach to determining the speci c genes that may be involved in the susceptibility to and progression of complex diseases, such as osteoporosis, coronary artery disease, and endometriosis. As a rst step, researchers identify the region to be interrogated by performing whole genome scans on the DNA of large patient populations. Once regions of interest linked to the disease have been identi ed, Pyrosequencing technology is used to sequence short stretches of DNA to genotype important SNPs and other mutations in promising candidate genes within these linked regions.

Oxagen is committed to identifying and selecting the best technologies to address unique aspects of their research and this is evidenced by the plethora of highly sophisticated equipment and automation tools in their labs. Although the company has tried other genotyping technologies, such as those that detect single base changes in DNA, without the actual sequence information that Pyrosequencing provides, it is dif cult to know whether the result obtained is, in fact, derived from the SNP of interest. This is particularly critical when examining low frequency SNPs where researchers cannot rely on standard quality control methods.

" Pyrosequencing has distinct advantages over other genotyping methods. First and foremost is the exibility it offers in designing assays. You don't need to place the primer right next to the SNP, which makes the assay much easier to design. Secondly, and perhaps most importantly, Pyro provides the sequencing information that con rms the results, it's a built-in quality control that other technologies can't offer. I can literally click on the genotype [as it appears on the computer screen] and know what it is and know that it is correct", says Bryan Dechairo.

Oxagen continues to pursue an aggressive strategy to accelerate the discovery of many more complex disease genes and potential drug targets. Pyrosequencing technology enables them to keep pace with research demands by offering a genotyping technology that can be scaled up to meet high-throughput needs. Pyrosequencing is working with Oxagen to increase SNP typing capacity and reduce costs through ef cient running of the PTP 384-well system.

Bryan Dechairo, Group Leader Genotype Analysis and colleagues, Oxagen.

# Leveraging Intellectual Property in Cardiovascular Disease

Pyrosequencing and Genomics Collaborative, Inc. (GCI), a functional genomics company, established a signi cant partnership in November 2001 that will take Applied Genomics to a new level. Pyrosequencing's technology and GCI's extensive database of clinical samples are being used to generate hundreds of thousands of genotypes. This collaboration builds upon Pyrosequencing's intellectual property in cardiovascular disease to identify and validate SNPs implicated in cardiovascular disease with disease predisposition or drug response.

GCI's Global Repository contains 5,000 cardiovascular patient samples including human DNA, serum and tissues along with detailed patient information. The collaboration seeks to validate Pyrosequencing's cardiovascular SNP markers, to identify additional markers, and to develop diagnostics and targeted therapeutics.

To date, the Company has transferred to GCI speci c SNP assays related to Pyrosequencing's intellectual property. Researchers at GCI have begun to validate these markers in clinical samples. In addition to evaluating the SNPs in de ned clinical samples, the analysis will include an assessment of SNP frequencies across diverse ethnic populations. The partnership will also focus on identifying important markers that are useful in monitoring disease progression and in predicting adverse events in patients receiving commonly prescribed cardiovascular drugs.

“ This is the kind of innovative collaboration that promises to deliver real value in cardiovascular product development.” Michael Pellini, CEO of Genomics Collaborative, Inc.

# Results Before Your Eyes

Pyrosequencing™ technology owes its accuracy and reliability to an elegant cascade of enzymatic reactions. First, samples are processed to yield a single stranded DNA template. Nucleotides (A, C, T or G) are added, like building blocks, to the growing DNA strand. If they are complementary to the unpaired nucleotide that exists in the template strand, pyrophosphate is released and triggers an enzymatic cascade that produces a light flash proportional to the amount of base incorporated. [The enzyme luciferase is what actually generates the light. It is the same enzyme that is responsible for the firefly's light and is the reason why the Company has chosen the firefly for its logo.] A special camera detects the light and records it digitally, as peaks on a graph called a Pyrogram™. The results are displayed in an easy-to-read format of real-time sequencing by synthesis.

**Protecting the Light**

The United States Patent Office has affirmed the novelty of the Company's sequencing by synthesis technology by awarding Pyrosequencing two new patents in 2001. The patents relate to the core technology: the first broadly covers methods for DNA sequencing based on the real-time detection of pyrophosphate, while the second covers enhancements to the unique enzymatic cascade.

**Product Watch**

Pyrosequencing introduced several new applications in 2001. The Company's DNA Sequence Analysis software (SQA) and reagent kits for the PSQ 96 System enable accurate novel and confirmatory sequencing of DNA strands'. Pyrosequencing also launched Allele Quantification software which is an important tool for determining the frequency of SNPs in different populations. This allows genetic variability studies to be carried out much faster and at a lower cost. In addition, these products offer improved efficiencies through multiplexing (pooling more than one sample per well) and haplotyping (identifying groups of SNPs).

Pyrosequencing's new Primer Design software enables researchers to rapidly design primers for use when analyzing SNPs with Pyrosequencing technology. The design tool offers a convenient method for evaluating and selecting optimal primers and can be conveniently accessed via the Web or used in-house. The Company also introduced a sample preparation method that is designed to enhance its SNP and SQA solutions.

Pyrosequencing is the only supplier of sequencing and analysis systems discovered, developed and dedicated for the Applied Genomics market. The Company's instruments, software and reagents currently support multiple applications on one platform. As a result, customers report substantial benefits in efficiency, cost-savings and flexibility.

**Pyrosequencing will expand the PSQ 96 platform in 2002 to increase capacity, address assay cost and facilitate laboratory automation**

### Future Perspective

Pyrosequencing's flexible, accurate core technology facilitates a product-driven research and development program with three simple steps: address customer needs, foresee market direction and develop technology applications to meet demands.

The Company is currently investigating applications of fluorescence technology for the purpose of incorporating Pyrosequencing technology in microfluidics or microarray platforms. These systems are expected to be suitable for several different applications including high-throughput research and molecular diagnostics.


Pyrosequencing will expand the PSQ 96 platform in 2002 to increase capacity, address assay cost and facilitate laboratory automation for processes such as sample preparation. In line with the Company's commitment to deliver superior products, high quality systems are continually being developed and enhanced.

While customers are already using Pyrosequencing technology for multiplexing and haplotyping, the Company formally validated these functions in 2001. These capabilities will be incorporated into new product offerings that will also provide new functionality such as tri-allelic sample analysis and assay design support.

Molecular diagnostics will likely play an increasing role in the research agenda as the Company identifies and prioritizes product opportunities through its research collaborations and explorations of the market.

# 2001 timeline


## January

**Pyrosequencing forms Molecular Diagnostics Business Unit to expand technology applications into a new market. Aim is to develop diagnostic tests and related intellectual property via collaborative research agreements.**

**Pyrosequencing adds distribution agreements in Eastern and Central Europe and the Middle East.**

Researchers sequence genome of *E. coli* bacterium to identify genes that turn benign bacteria into agents of disease.

Researchers from pharma and biotech map the rice genome.

## February

**Pyrosequencing sells rst high-throughput PTP system to The Wallenberg Consortium North.**

**Pyrosequencing hosts showcase meeting on practical applications of applied genomics entitled " Where Do We Go From HUGO?," featuring industry and academic experts.**

*Nature* and *Science* publish first analysis of the human genome sequence.

1.4M SNPs included in genetic variation map created for disease gene discovery and tracing human population history.

Researchers at the National Human Genome Research Institute (NHGRI) develop a new genetic test for breast cancer.

University of North Carolina commits $245M to create genome program.

## March

**Pyrosequencing licenses uorescent detection technology for DNA sequencing.**

**Pyrosequencing releases SNP software for allele frequency determination.**

Canadian government gives $300M (US $194M) to Genome Canada for genomics research.

NIH allocates $58M to sequence the genome of the laboratory rat.

## April

**Pyrosequencing launches SQA software and reagent kits for rapid DNA sequence analysis in clinical research and forensics.**

International Genomics Consortium initiates project to profile cancer gene activity in 10,000 tumors.

## May

**U.S. patent issued to Pyrosequencing for use of SNP patterns in predicting cardiovascular disease and drug response.**

*Nature* reports that SNPs occur in large blocks throughout the human genome suggesting it will be easier to map genes for common diseases.

Using new tools provided by the Human Genome Project, scientists find a new tumor suppressor gene involved in breast, prostate and other cancers.

U.S. FDA accelerates approval of Gleevec™, the first cancer-fighting or smart bomb drug that targets a specific defect in cancer.

## June

**Children's Hospital of Philadelphia and Pyrosequencing collaborate on hearing loss research for the development of diagnostic tests.**

**Pyrosequencing launches a new sample preparation method that enhances SNP and SQA solutions.**

Industry report indicates genomics technologies can cut $300M and two years time from the drug development process.

Genetic variant in transforming growth factor beta-1 gene reported to lessen breast cancer risk in older women.

## July

**Pyrosequencing completes worldwide distribution network with the addition of four new agreements in Asia Paci c.**

**Pyrosequencing and Professor Lars Engstrand of Clinical Bacteriology, Uppsala University, collaborate on DNA-based tests for infectious diseases.**

**Pyrosequencing launches Primer Design software to optimize SNP analysis on PSQ™ 96 System.**

*Science* report indicates massive amount of previously undiscovered gene variability in the human population.

The Institute for Genomic Research (TIGR) sequences an infectious strain of *Streptococcus pneumoniae,* which causes pneumonia and meningitis.

International Plant Genetic Resources Institute initiates $25M banana genome project aimed at understanding pest resistance and premature ripening.

## August

**University of Geneva and Pyrosequencing collaborate to analyze genes and develop diagnostic tests for Down Syndrome.**

**Pyrosequencing awarded two additional U.S. patents on core technology.**

**Stanford Genome Technology Center buys Pyrosequencing's PTP system.**

**Oxagen scales up to Pyrosequencing's 384-well PTP system from the PSQ 96 System.**

Researchers identify genetic variant in androgen receptor gene, which provides women with greater protection against breast cancer.

# 2001 timeline

## September

**Pyrosequencing and Dr. Stuart C. Clarke, Scottish Meningococcus and Pneumococcus Reference Laboratory, collaborate to develop tests for disease-causing bacteria.**

FDA approves Trugene™ HIV-1 Genotyping Kit to detect genomic mutations in HIV that cause drug resistance.

Novartis Research Foundation and Scripps researchers compare the two existing human genome maps and conclude human gene number is greater than 30,000.

## October

**Pel-Freez Clinical Systems and Pyrosequencing develop methods for typing human leukocyte antigens important in transplantation.**

Mouse genome is sequenced using same methodology applied to human genome.

International scientists sequence genome of bacterium that causes typhoid *(Salmonella typhi).*

Wellcome Trust initiates $300M post-genomic research project to use DNA information for healthcare advances including world's largest cancer genome study.

## November

**German Army buys Pyrosequencing's PSQ 96 System to type and validate bacteria used in biological weapons.**

**Cleveland Clinic Foundation and Pyrosequencing partner to develop tests for rapid identi cation of mycobacteria associated with tuberculosis.**

**Pyrosequencing and Genomics Collaborative, Inc., collaborate on discovery and development of cardiovascular diagnostics and therapeutics.**

NSF awards $43.8M for *Arabidopsis* plant genome research to define functions of the plant's 25,000 genes.

TIGR develops major center for functional genomics with $25M contract from the National Institute of Allergy and Infectious Diseases.

Using large-scale sequencing, Stanford University and U.C.S.F. researchers discover Osteopontin, a critical gene in multiple sclerosis.

## December

**U.C.S.F. and Pyrosequencing collaborate on analysis of multiple sclerosis genes.**

**Pyrosequencing and Mayo Clinic collaborate on genetic tests for thyroid cancer (multiple endocrine neoplasia type 2 or MEN2).**

**Max Delbr ck Center for Molecular Medicine (MDC) in Berlin buys Pyrosequencing's PTP system for analysis of SNPs associated with complex diseases.**

British scientists sequence chromosome 20, containing genes important in brain-wasting Creutzfeldt-Jakob and severe combined immunodeficiency disease.

Fred Hutchinson Cancer Research Center uses high-precision DNA genotyping (HLA typing) to show mismatches are tolerated in bone-marrow or stem cell transplantation.

## January

Medicare and Medicaid begin reimbursing for HER-2/*neu* breast cancer diagnostic, used for disease diagnosis and treatment monitoring.

Acquisitions, mergers and strategic changes unfold in genomics research market, chie y among lagging companies. Industry watchers believe activity will continue for about 18 months.

Association studies linking genes to diseases begin to increase. These types of studies are expected to grow rapidly.

2002

# Future Imagined

**Mid 2002**

- Pyrosequencing expands presence in the high and medium-throughput sequencing markets with launch of new family of products including systems, software and reagents.

**End of 2002**

- Pyrosequencing recognized as technology of choice for SNP genotyping and short-read sequence analysis.
- Pyrosequencing launches program to develop molecular diagnostics products in selected disease areas.

**2005 and Beyond**

- Patients participating in clinical trials are routinely genotyped to determine predisposition, prognosis and response to drug therapy.
- Molecular diagnostics market exceeds $4 billion in annual sales.
- Pyrosequencing becomes premier technology for molecular diagnostics applications.

# The Pyrosequencing Share

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

**Share Capital**

On December 31, 2001, 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 3,061,000 outstanding stock options, corresponding to 3,061,000 shares if the options are fully exercised. One quotation block comprises 200 shares.

**Share Ownership**

There were 5,126 registered shareholders on December 31, 2001, which is an increase of 82 percent compared with year end 2000, when there were 2,815 registered shareholders.

Non-Swedish investors owned 19.2 percent of the capital. Swedish investors owned 80.8 percent which included 19.2 percent owned by institutions, 19.0 percent owned by mutual funds and 42.6 percent owned by private persons including small corporations.

**Share Price and Trading Volume**

The highest quotation of the Pyrosequencing share in 2001 was 100.00 SEK and the lowest was 25.00 SEK. At the end of the year the price was 37.50 SEK. On December 31, 2001, the total market value of Pyrosequencing AB amounted to 1,304 MSEK.

During the year, 14,938,596 shares were traded, corresponding to 43.0 percent of the total number of shares. Measured in value, the turnover of shares was 775,2 MSEK.

Pyrosequencing is listed on the Stockholm Exchange Attract 40 list. It is the relatively high trading activity of the share that has qualified the Company for quotation on this 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, 2001, had an accumulated deficit of 303.6 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, 6,108,000 options have been authorized, whereof 3,061,000 have been granted as of December 31, 2001. (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 17.6 percent.

**The largest shareholders as of December 31, 2001**

| *Shareholder* | *Number of shares* | *%* |
|---|---|---|
| P l Nyr n | 3,910,557 | 11.2 |
| HealthCap KB | 3,798,184 | 10.9 |
| Mathias Uhl n | 2,966,226 | 8.5 |
| Skandia | 1,356,700 | 3.9 |
| SEB Fonder | 1,290,600 | 3.7 |
| SHB Fonder | 1,238,998 | 3.6 |
| Nordea fonder | 1,100,144 | 3.2 |
| Romo Biotech S.a. | 982,500 | 2.8 |
| Banco fonder | 907,700 | 2.6 |
| CitiBank Lux Fonder | 852,950 | 2.5 |
| Others | 16,365,541 | 47.1 |
| **Total** | **34,770,100** | **100.0** |

Source: garservice och VPC

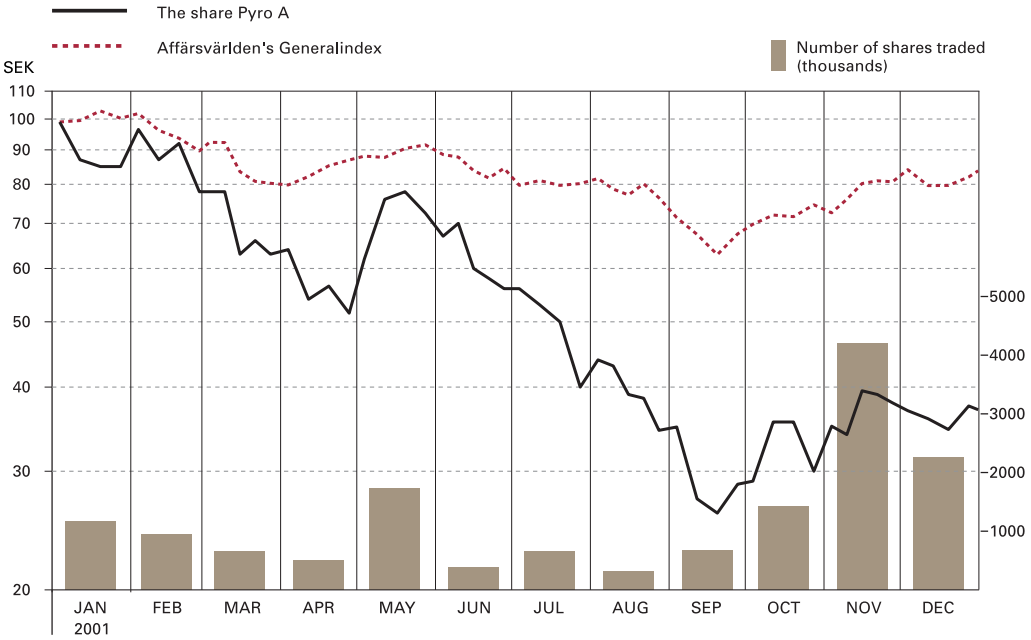
**The shareholders according to size of shareholding as of December 31, 2001**

| *No. of shares per owner* | *No. of owners* | *%* | *No. of shares* | *%* |
|---|---|---|---|---|
| 1 500 | 3,889 | 75.9 | 730,058 | 2.1 |
| 501 1,000 | 621 | 12.1 | 544,037 | 1.6 |
| 1,001 10,000 | 468 | 9.1 | 1,423,800 | 4.1 |
| 10,001 100,000 | 104 | 2.0 | 3,630,194 | 10.4 |
| 100,000 | 44 | 0.9 | 28,442,011 | 81.8 |
| **Total** | **5,126** | **100.0** | **34,770,100** | **100.0** |

Source: gareservice och VPC

**Price chart Pyro A**

Includes the period January 1, 2001 December 31, 2001. Price of the share Pyro A, in SEK.
Number of shares traded in thousands. Index: Aff rsv rldens Generalindex.



# Pyrosequencing People

Following on signi cant growth last year, Pyrosequencing continued to attract highly experienced, dedicated and motivated people in 2001. This team of achievers is responsible for the remarkable progress the Company has made during 2001 in developing and delivering high-quality products and providing responsive customer support.

Pyrosequencing grew to 141 employees from 86 the previous year. This is evidence of the Company's commitment to building and supporting a dedicated global sales and marketing organization, as well as an innovative research and development team. The growth also re ects the Company's 2001 strategic initiative to establish a new business unit to expand the applications of Pyrosequencing technology for the development of molecular diagnostics.

As a young and growing Company, Pyrosequencing continues to maintain a focused operation while fostering an entrepreneurial environment with high industrial standards.

# Pyrosequencing in Figures

# Management Report

**Scope and Type of Operations**

Pyrosequencing AB develops, manufactures and markets systems for automated DNA sequencing and analysis based on the Company's proprietary technology. The main markets for the Company's products are within academic, genomics, biotechnology and pharmaceutical sectors. During 2000, the Company launched the PSQ™ 96 System into the worldwide marketplace. As a result of Pyrosequencing's efforts, orders were received for 60 instruments, of which 53 were booked as revenue during the year. In 2001, the Company received orders for 85 systems and booked revenue related to 88 instruments. In addition, Pyrosequencing received four orders for its high-throughput 384-well system through a Preferred Technology Program (PTP™). The Company uses the percentage of completion method to record revenue related to PTP sales, and as of the end of 2001, revenue on three instruments had been recorded.

In 2001, the Company continued to expand its sales and support capabilities in the major markets of Europe and the United States. In addition, the Company added distributors to complete coverage in Eastern Europe and Asia Paci c. Manufacture of instruments continues at Partnertech AB in tvidaberg, Sweden, and production of reagent kits is being conducted by the Company at its newly constructed facility in Uppsala, Sweden.

**Financial Position**

For the year ended December 31, 2001, Pyrosequencing reported revenues of 108.2 MSEK compared to 46.2 MSEK in the prior year. The increase in sales was due to additional sales of the PSQ 96 System, increased reagent sales and orders for four systems under the PTP program.

Operating expenses increased from 138.6 MSEK in 2000 to 252.1 MSEK in 2001. The increase in operating expenses re ects the costs associated with the Company's continued development of a worldwide sales organization and increased research and development costs related to new product development including additional software products and other enhanced capabilities. The Company reported a net loss of 137.5 MSEK, or (3.96) SEK per share for the year 2001, compared to a net loss of 78.0 MSEK or (2.60) SEK per share for the previous year.

At December 31, 2001, cash, cash equivalents and investments in high-grade debt and equity securities, including investments with maturity dates exceeding 12 months, totaled 665.2 MSEK as compared to 846.7 MSEK at December, 2000. As of December 31, 2001, Pyrosequencing had no debt nancing and total equity amounted to 785.0 MSEK and 922.5 MSEK at December 31, 2000.

**Capital Expenditures**

Capital expenditures for the full year ended December 31, 2001 amounted to 44.9 MSEK compared to 30.0 MSEK for the previous year. The majority of capital expenditures during 2001 consisted of the construction of a new reagents manufacturing operation at the Company's facility in Uppsala and patents and license rights.

**Financial Risk Management**

The objectives for the nance function are to support the commercial activities in the Company and to identify and reduce the nancial risk exposure. The nancial risk exposure is managed according to the nance policy, approved by the Board of Directors. Because Pyrosequencing operates on an international basis and performs its accounting in Swedish Krona, it is subject to risk of changes in the 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 asset holdings and revenues in countries outside of Sweden grow, the magnitude of this risk may grow and the Company may enter into certain transactions to hedge this risk.

For a description of the Company's investment of excess cash see notes 14, 18 and 19 to the nancial statements.

**Marketing and Sales**

2001 was the second year that the PSQ 96 System was available to the market. A total of 88 systems were sold to a wide variety of customers around the world. By the end of the year, 18 customers had ordered more than one system, and the installed base grew to approximately 150 instruments. Pyrosequencing customers take advantage of the broad utility of the technology that is supported by a dedicated group of scientists and technicians.

This year was also marked by the expansion of the Company's marketing, sales and support capabilities. The Company added 14 new sales and technical support people in the U.S. and Europe and completed the network of distributors for the rest of the world. Pyrosequencing expects to continue to make investments in the Company's ability to ful ll customer's needs by providing innovative instruments and the highest level of customer support.

**Research and Development**

In 2001, Pyrosequencing's R&D capacity and capabilities increased substantially in order to support the Company's long- and short-term goals. Pyrosequencing's efforts focused on four different areas of product development.

Several new functionalities were added to the Company's current product family, based on the PSQ 96 System. This included Allele Quanti cation, multiplexing, haplotyping, improved sample preparation protocols and software-supported assay design.

Furthermore, the new high-throughput model for the Pyrosequencing family (the PTP system) was developed and made available to selected customers under a technology access program. Four orders were reported in 2001, and a solid interest for this system has been generated in the market.

A research project was initiated and signi cant results have been achieved in developing a third generation product platform to meet the emerging needs in Applied Genomics. The new technology will be applicable in several different market niches ranging from convenient products for Molecular Diagnostics to cost-ef cient high-throughput systems.

The Company has substantially strengthened its software development resources and the Applications group has increased efforts in molecular diagnostics to support the recently founded business unit. As a part of the Company's quality commitment, the R&D function has continually improved the quality systems with the aim to become ISO compliant.

**Administration**

During 2001, Pyrosequencing expanded its commitment to excellence by providing a high level of infrastructure to support operations. Examples of this commitment include the Company's increased support of a state-of-the-art information technology network to link worldwide operations and to provide mission critical information to employees. Pyrosequencing operates in a dynamic market with international customers and competitors and is therefore committed to having systems in place that will support both research and development programs and marketing efforts.

**Human Resources**

During the year, the Company had an average of 125 employees, 62 more than the preceding year. At year-end 2001, the total number of employees was 141 compared to 86 as of December 31, 2000. This increase re ects the organizational development of the sales and marketing functions as well as research and development activities.

**Account of Board Activities**

Pyrosequencing's Board of Directors consists of seven members, selected by the shareholders at the Annual General Meeting in May 2001. Some of the members have been or are 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 always present during the Board of Directors' meetings. In addition, other of cers of the Company may also be present at various times during the meetings of the Board.

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 seven times in connection with the year-end report, interim reports, the Annual General Meeting and the decision of next year's business plan and budget. One of the seven meetings took place in New York in connection with Pyrosequencing's showcase seminar on the practical applications of Applied Genomics.

The Board of Directors has established the following committees: the Compensation Committee, which decides on terms of employment for the President and CEO and of cers of the Company and the Audit Committee which monitors issues related to the Company's external nancial reporting and audit issues. Pyrosequencing's 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.

## Net sales, earnings and nancial position

| *KSEK (Except per shares and percentages)* | *2001* | *2000* | *1999* | *1998* |
|---|---|---|---|---|
| *Group* | | | | |
| Net sales | 108,176 | 46,223 | 1,310 | 185 |
| Gross profit | 77,621 | 35,602 | 1,057 | 185 |
| Gross margin, %* | 71.8 | 77.0 | 80.7 | 100.0 |
| Loss after financial items | (137,097) | (78,108) | (69,497) | (33,330) |
| Net Loss per share | (3,96) | (2,60) | (5,78) | (9,50) |
| Total assets | 846,817 | 973,573 | 134,038 | 73,711 |
| Equity to assets ratio, %** | 92.7 | 94.8 | 80.2 | 86.9 |
| | | | | |
| *Parent company* | | | | |
| Net sales | 98,307 | 51,901 | 1,252 | |
| Gross profit | 68,469 | 38,109 | 999 | |
| Gross margin, %* | 69.6 | 73.4 | 79.8 | |
| Loss after financial items | (69,287) | (44,386) | (68,215) | (38,229) |
| Total assets | 943,513 | 1,006,016 | 140,718 | 74,940 |
| Equity to assets ratio, %** | 94.3 | 95.1 | 80.2 | 86.2 |

| *Shares* | *2001* | *2000* | *1999* | *1998* |
|---|---|---|---|---|
| Weighted average shares outstanding | 34,769,875 | 29,997,400 | 12,000,000 | 3,500,000 |
| Weighted average shares outstanding after full dilution | 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 | 34,767,400 | 12,000,000 | 3,500,000 |

Two year overview by quarter
*MSEK (Except as a percentage)*

| | **FY2001** | | | | | **FY2000** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Group* | Q1 | Q2 | Q3 | Q4 | FY01 | Q1 | Q2 | Q3 | Q4 | FY00 |
| Net Sales | 19.6 | 24.6 | 26.5 | 37.5 | 108.2 | 3.3 | 6.3 | 10.9 | 25.8 | 46.2 |
| Gross profit | 14.1 | 18.5 | 17.6 | 27.5 | 77.6 | 2.6 | 4.7 | 9.2 | 19.1 | 35.6 |
| Gross margin, %* | 71.9 | 75.0 | 66.2 | 73.5 | 71.8 | 78.1 | 74.1 | 86.3 | 74.3 | 77.0 |
| **Net Loss** | **(23.2)** | **(35.1)** | **(25.4)** | **(53.8)** | **(137.5)** | **(24.6)** | **(26.8)** | **(8.1)** | **(18.5)** | **(78.0)** |

* Gross profit in relation to net sales.
** Total equity in relation to total assets as of December 31.

Please refer to the following income statements, balance sheets, statements of cash ow and additional information regarding the group and the parent company.

# Income statements

| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| **Amounts in KSEK** | **Note** | **2001** | **2000** | **2001** | **2000** |
| Net sales | 1 | 108,176 | 46,223 | 98,307 | 51,901 |
| Cost of goods sold | 2 | (30,555) | (10,621) | (29,838) | (13,792) |
| **Gross pro t** | | **77,621** | **35,602** | **68,469** | **38,109** |
| Selling expenses | | (92,128) | (44,563) | (47,056) | (24,409) |
| Administrative expenses | 3, 4 | (43,461) | (35,519) | (26,883) | (27,192) |
| Research and development costs | | (116,507) | (55,698) | (109,203) | (55,428) |
| Other operating income | | 3,230 | 1,233 | 3,230 | 1,233 |
| Other operating expenses | | (3,224) | (4,028) | (3,224) | (2,824) |
| | 2 | **(252,090)** | **(138,575)** | **(183,136)** | **(108,620)** |
| **Operating loss** | | **(174,469)** | **(102,973)** | **(114,667)** | **(70,511)** |
| **Result from nancial investments** | | | | | |
| Interest income from group companies | | | | 3,632 | 1,289 |
| Interest income from other securities accounted for as fixed assets | | 27,758 | 10,733 | 32,154 | 10,733 |
| Other interest income | | 9,679 | 14,215 | 9,656 | 14,180 |
| Interest expense and similar profit/loss items | 5 | (65) | (83) | (62) | (77) |
| Financial income (net) | | 37,372 | 24,865 | 45,380 | 26,125 |
| **Loss after nancial items** | | **(137,097)** | **(78,108)** | **(69,287)** | **(44,386)** |
| Income taxes | 6 | (419) | 63 | 2,222 | 252 |
| **Loss for the year** | | **(137,516)** | **(78,045)** | **(67,065)** | **(44,134)** |
| Basic Loss per share | | (3.96) | (2.60) | (1.93) | (1.47) |
| Diluted Loss per share * | | (3.96) | (2.60) | (1.93) | (1.47) |

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

# Balance sheets

| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| **Amounts in KSEK** | **Note** | **2001-12-31** | **2000-12-31** | **2001-12-31** | **2000-12-31** |
| **ASSETS** | | | | | |
| **Fixed assets** | | | | | |
| **Intangible assets** | | | | | |
| Patents and license rights | 7 | 24,188 | 11,851 | 24,121 | 11,514 |
| | | 24,188 | 11,851 | 24,121 | 11,514 |
| **Tangible assets** | | | | | |
| Leasehold improvements | 8 | 18,902 | 2,459 | 18,062 | 1,788 |
| Plant and machinery | 9 | 15,587 | 2,503 | 15,587 | 2,503 |
| Equipment, tools, fixtures and fittings | 10 | 18,850 | 13,343 | 15,070 | 9,751 |
| Construction in progress and advice payment for tangible assets | 11 | 1,733 | 17,654 | 1,733 | 17,654 |
| | | 55,072 | 35,959 | 50,452 | 31,696 |
| **Financial assets** | | | | | |
| Participations in group companies | 12 | | | 38,659 | 18,214 |
| Receivables from group companies | | | | 83,802 | 15,406 |
| Deferred tax assets | 13 | 19,650 | 20,100 | 19,650 | 17,400 |
| Other securities held as fixed assets | 14 | 443,245 | 457,148 | 443,245 | 457,148 |
| Other long term receivables | | 730 | 159 | 423 | |
| | | **463,625** | **477,407** | **585,779** | **508,168** |
| **Total xed assets** | | **542,885** | **525,217** | **660,352** | **551,378** |
| **Current assets** | | | | | |
| **Inventories** | 15 | | | | |
| Raw materials and consumables | | 11,231 | 6,343 | 11,231 | 6,343 |
| Semi finished products | | 1,145 | 312 | 1,145 | 312 |
| Finished products and goods for resale | | 15,265 | 5,810 | 12,937 | 4,359 |
| Work in progress in excess of down payment | | 1,740 | | 1,740 | |
| | | **29,381** | **12,465** | **27,053** | **11,014** |
| **Current receivables** | | | | | |
| Accounts receivable trade | | 28,110 | 18,381 | 14,435 | 9,777 |
| Receivables from group companies | | | | 6,114 | 24,512 |
| Other receivables | 16 | 9,480 | 9,911 | 8,197 | 9,554 |
| Prepaid expenses and accrued income | 17 | 15,003 | 18,038 | 14,589 | 19,280 |
| | | **52,593** | **46,330** | **43,335** | **63,123** |
| **Investments** | | | | | |
| Other short term investments | 18 | 194,035 | 370,000 | 194,035 | 370,000 |
| | | **194,035** | **370,000** | **194,035** | **370,000** |
| Cash and bank balances | 19 | 27,923 | 19,561 | 18,738 | 10,501 |
| **Total current assets** | | **303,932** | **448,356** | **283,161** | **454,638** |
| **Total assets** | | **846,817** | **973,573** | **943,513** | **1,006,016** |

# Balance sheets

| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| **Amounts in KSEK** | **Note** | **2001-12-31** | **2000-12-31** | **2001-12-31** | **2000-12-31** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | 20 | | | | |
| **Restricted equity** | | | | | |
| Share capital | | 34,770 | 34,768 | 34,770 | 34,768 |
| New share issue in progress | | | 2 | | 2 |
| Restricted reserves/Share premium reserve | | 1,053,797 | 1,053,762 | 1,060,010 | 1,059,976 |
| | | 1,088,567 | 1,088,532 | 1,094,780 | 1,094,746 |
| **Non-restricted equity** | | | | | |
| Accumulated deficit | | (166,068) | (88,023) | (137,608) | (93,402) |
| Loss for the year | | (137,516) | (78,045) | (67,065) | (44,134) |
| | | (303,584) | (166,068) | (204,673) | (137,536) |
| **Total equity** | | **784,983** | **922,464** | **890,107** | **957,210** |
| **Provisions** | | | | | |
| Deferred tax liabilities | 21 | 89 | 121 | | |
| Other provisions | | 2,652 | 2,652 | | |
| **Total provisions** | | **2,741** | **2,773** | - | - |
| **Current liabilities** | | | | | |
| Accounts payable trade | | 32,101 | 27,860 | 31,723 | 27,546 |
| Down payment in excess of work in progress | | 1,767 | | | |
| Liabilities to group companies | | | | 3,058 | 2,302 |
| Other liabilities | | 3,400 | 1,629 | 5,261 | 3,666 |
| Accrued expenses and deferred income | 22 | 21,825 | 18,847 | 13,364 | 15,292 |
| **Total current liabilities** | | **59,093** | **48,336** | **53,406** | **48,806** |
| **Total equity and liabilities** | | **846,817** | **973,573** | **943,513** | **1,006,016** |
| **Pledged assets** | | | | | |
| Chattel mortgage | | 150 | 150 | | |
| **Contingent liabilities** | | - | - | - | - |

# Statements of Cash Flow

| | Group | | Parent Company | |
|---|---|---|---|---|
| **Amounts in KSEK** | **2001** | **2000** | **2001** | **2000** |
| **Operating activities** | | | | |
| Operating loss after financial items | (137,097) | (78,108) | (69,287) | (44,386) |
| Adjustments for items not affecting cash ow | | | | |
| Depreciation | 12,367 | 5,374 | 10,560 | 4,458 |
| Other items | 1,173 | (149) | (286) | 107 |
| **Cash used in operating activities before changes in working capital** | **(123,557)** | **(72,883)** | **(59,013)** | **(39,821)** |
| **Changes in working capital** | | | | |
| Increase in inventories | (16,916) | (10,976) | (16,039) | (9,525) |
| Increase in accounts receivable trade | (9,729) | (16,900) | (4,658) | (8,296) |
| Decrease/Increase in other current assets | 3,466 | (20,641) | 24,445 | (46,190) |
| Increase in current liabilities | 10,728 | 24,701 | 4,501 | 20,905 |
| **Cash used in operating activities** | **(136,008)** | **(96,699)** | **(50,764)** | **(82,927)** |
| **Investing activities** | | | | |
| Investment in Pyro SARL | | | (68) | |
| Investment in Pyro BV | | (21) | | (187) |
| Purchase of intangible assets | (15,850) | (200) | (15,850) | (200) |
| Purchase of tangible assets | (29,110) | (29,769) | (26,359) | (25,150) |
| Sale of tangible assets | | 22 | | 22 |
| Purchase of short term investments | | (456,000) | | (456,000) |
| Sale of short term investments | 175,965 | 156,350 | 175,965 | 156,000 |
| Sale/purchase of long term investments | 13,903 | (457,148) | 13,903 | (457,148) |
| Increase long-term recievables | (571) | (159) | (89,195) | (24,840) |
| **Cash provided by (used in) investing activities** | **144,337** | **(786,925)** | **58,396** | **(807,503)** |
| **Financing activities** | | | | |
| New share issue | | 958,000 | | 958,000 |
| New share issue expenses | (3) | (86,568) | (3) | (86,568) |
| Options to employees | 36 | 1,392 | 36 | 47 |
| **Cash ow from nancing activities** | **33** | **872,824** | **33** | **871,479** |
| **Net change in cash & cash equivalents** | **8,362** | **(10,800)** | **8,237** | **(18,951)** |
| **Cash and cash equivalents beginning of year** | **19,561** | **30,302** | **10,501** | **29,452** |
| **Exchange rate differences in liquid funds** | - | **59** | - | - |
| **Cash and cash equivalents end of year** | **27,923** | **19,561** | **18,738** | **10,501** |

# Accounting Principles and Notes

Amounts in KSEK

## Note 1

*Accounting principles*

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

**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. If the value of the acquisition exceeds the value of the acquired net assets the excess value is accounted for as goodwill. Goodwill is accounted for as an intangible asset in the balance sheet and is depreciated over its estimated economic lifetime.

*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.

*Taxes*

The Group's income tax expense includes taxes of Group companies based on taxable profit for the period and the change in deferred income taxes.

Deferred income taxes are provided using the liability method to re ect the net tax effects of all temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates. Principal temporary differences arise from untaxed reserves and tax losses carried forward. Deferred tax assets relating to the carry-forward of unused tax losses, are recognized to the extent that it is probable that future taxable profit will be available against which unused tax losses can be utilized.

Temporary differences for untaxed reserves are recorded in shareholders' equity and deferred tax liability in the consolidated 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.

**Valuation principles**

*Revenue recognition*

Pyrosequencing AB develops and sells systems, reagents, accessories, spare parts and services on a worldwide 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. Revenue for PSQ 96 instruments and all reagents are recorded upon sales and acceptance by the customer. Revenue related to instruments sold under the Company's PTP program are recorded using the percentage of completion method.

*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 economic lifetime and allocated linearly. The following depreciation periods are used:

| | 2001 | 2000 |
|---|---|---|
| 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 |

| | 2001 | 2000 |
|---|---|---|
| Patent rights | Patent protection period (8 20 years) | Patent protection period (8 20 years) |
| Other fixed tangible assets | 5 years | 5 years |

*Fixed financial assets*

Fixed financial assets are accounted for using the lower value of acquisition cost or market value.

*Impairment of fixed assets*

The carrying value of fixed tangible and intangible assets are periodically evaluated. If there are indications that the carrying value of a fixed asset is impaired, a comparison is made between the carrying value and the fair value, as measured by the expected future discounted cash ow. When the carrying value exceeds the fair value an adjustment is made. The fair value is determined by comparison market value, if this is available. If the market value is not available, the Board of Directors and Company management decide on a fair value based on the prices of similar assets or, if necessary, by means of other evaluation techniques.

*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 gains/losses are taken into account when calculating the income.

*Short-term investments and other securities held as xed 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 from three to twelve months from the time of acquisition.

*Cash and bank balances*
Cash and bank balances comprise investments with a duration shorter than three months from the time of acquisition.

**Classi cation 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, e.g. Partnertech and Prevas, 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 classi ed according to function*

| | 2001 | 2000 |
|---|---|---|
| *The group* | | |
| Selling expenses | 1,477 | 374 |
| Administrative expenses | 1,758 | 1,410 |
| Research and development costs | 5,635 | 3,590 |
| **Total** | **8,870** | **5,374** |
| | | |
| *Parent company* | | |
| Selling expenses | 280 | 35 |
| Administrative expenses | 1,461 | 1,102 |
| Research and development costs | 5,631 | 3,321 |
| **Total** | **7,372** | **4,458** |

## Note 2

*Average number of employees, salaries, other remunerations and social security*

| | 2001 | 2000 |
|---|---|---|
| *The Group* | | |
| Average number of employees, distributed between men and women | | |
| Women | 66 | 36 |
| Men | 59 | 27 |
| **Total** | **125** | **63** |
| | | |
| Salaries and remunerations | | |
| Board and President | 3,616 | 4,129 |
| Other employees | 73,069 | 35,172 |
| **Total salaries and remunerations** | **76,685** | **39,301** |
| | | |
| Social security expenses according to laws and agreements | | |
| Pension allocations | 14,750 | 9,657 |
| Board and President | 218 | 218 |
| Other employees | 3,988 | 2,639 |
| Total social security expenses and pension allocations | 18,956 | 12,514 |
| **Total personnel costs** | **95,641** | **51,815** |
| | | |
| *Parent company* | | |
| Average number of employees, distributed between men and women | | |
| Women | 50 | 27 |
| Men | 45 | 22 |
| **Total** | **95** | **49** |
| | | |
| Salaries and remunerations | | |
| Board and President | 3,616 | 4,129 |
| Other employees | 38,762 | 21,421 |
| **Total salaries and remunerations** | **42,378** | **25,550** |
| | | |
| Social security expenses according to laws and agreements | 13,135 | 9,047 |
| Pension allocations | | |
| Board and President | 218 | 218 |
| Other employees | 3,803 | 2,216 |
| Total social security expenses and pension allocations | 17,156 | 11,481 |
| **Total personnel costs** | **59,534** | **37,031** |
| | | |
| *Pyrosequencing, Inc. (USA)* | | |
| Women | 14 | 7 |
| Men | 11 | 4 |
| **Total** | **25** | **11** |
| | | |
| Salaries and remunerations | 31,410 | 12,437 |
| Social security expenses according to laws and agreements | 1,175 | 495 |
| Pension allocations | | 393 |
| **Total personnel costs** | **32,585** | **13,325** |

*Pyrosequencing Ltd (UK)*

| | | |
|---|---|---|
| Women | 1 | 1 |
| **Total** | **1** | **1** |
| | | |
| Salaries and remunerations | 677 | 412 |
| Social security expenses according to laws and agreements | 85 | 45 |
| Pension allocations | 101 | 30 |
| **Total personnel costs** | **863** | **487** |

*Pyrosequencing BV (The Netherlands)*

| | | |
|---|---|---|
| Men | 1 | 1 |
| **Total** | **1** | **1** |
| | | |
| Salaries and remunerations | 438 | 560 |
| Social security expenses according to laws and agreements | 50 | 29 |
| Pension allocations | | |
| **Total personnel costs** | **488** | **589** |

*Pyrosequencing GmbH (Germany)*

| | | |
|---|---|---|
| Women | 1 | 1 |
| Men | 1 | |
| **Total** | 2 | 1 |
| | | |
| Salaries and remunerations | 1,170 | 342 |
| Social security expenses according to laws and agreements | 145 | 41 |
| Pension allocations | | |
| **Total personnel costs** | **1,315** | **383** |

*Pyrosequencing SARL (France)*

| | | |
|---|---|---|
| Men | 1 | |
| **Total** | **1** | - |
| | | |
| Salaries and remunerations | 612 | |
| Social security expenses according to laws and agreement | 160 | |
| Pension allocations | 84 | |
| **Total personnel costs** | **856** | - |

*Disclosures concerning bene ts to of cers*

Chairman of the Board
Director's fee 300 KSEK (109).

President
Remunerations and other benefits paid to the president during the year were 2,527 KSEK (3,309 ) including a bonus of 0 KSEK (2,009). The period of termination of contract is 12 months at notice of dismissal. During the last six months of a settlement procedure a reduction should be initiated regarding remunerations from new employment. Pension benefits are according to normal ITP plan.

## Note 3

*Disclosure of 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 Managing Director. 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. In audit fees are audit for subsidiaries included. Everything else is considered as non audit assignements.

*Audit fee and cost reimbursements*

| **2001** | Group | Parent company |
|---|---|---|
| Deloitte & Touche | | |
| Audit assignment | 1,039 | 1,039 |
| Other assignments | 1,523 | 1,393 |
| **Total** | **2,562** | **2,432** |
| Lindebergs Grant Thornton | | |
| Audit assignment | | 30 |
| Other assignments | | |
| **Total** | - | **30** |

| **2000** | Group | Parent company |
|---|---|---|
| Deloitte & Touche | | |
| Audit assignment | 1,419 | 1,419 |
| Other assignments | 3,446 | 3,446 |
| **Total** | **4,865** | **4,865** |
| Lindebergs Grant Thornton | | |
| Audit assignment | 272 | 260 |
| Other assignments | 851 | 851 |
| **Total** | **1,121** | **1,111** |

## Note 4

*Leasing charges*

*The group*

Leasing charges during 2001 amounts to 6,527 KSEK. Future leasing charges amount to 33,963 KSEK. These fall due:

| | |
|---|---|
| Within 1 year | 6,745 |
| 1 5 years | 22,550 |
| After 5 years | 4,668 |
| | **33,963** |

*Parent company*

Leasing charges during 2001 amounts to 4,035 KSEK. Future leasing charges amount to 26,391 KSEK. These fall due:

| | |
|---|---|
| Within 1 year | 4,378 |
| 1 5 years | 17,345 |
| After 5 years | 4,668 |
| | **26,391** |

## Note 5

*Interest expense and similar items*

| | 2001 | 2000 |
|---|---|---|
| *The group* | | |
| Interest expense | 65 | 83 |
| **Total** | **65** | **83** |
| | | |
| *Parent company* | | |
| Interest expense | 62 | 77 |
| **Total** | **62** | **77** |

## Note 6

*Income taxes*

| | 2001 | 2000 |
|---|---|---|
| *The group* | | |
| Current tax | 31 | (13) |
| Deferred tax | (450) | 76 |
| **Total** | **(419)** | **63** |
| | | |
| *Parent company* | | |
| Current tax | | |
| Deferred tax | 2,222 | 252 |
| **Total** | **2,222** | **252** |

## Note 7

*Patents and license rights*

| | 2001 12 31 | 2000 12 31 |
|---|---|---|
| *The group* | | |
| Acquisition value brought forward | 13,919 | 13,719 |
| Purchases | 15,850 | 200 |
| Accumulated acquisition values carried forward | 29,769 | 13,919 |
| Depreciation brought forward | (2,068) | (965) |
| Depreciation for the year | (3,513) | (1,103) |
| Accumulated depreciation carried forward | (5,581) | (2,068) |
| **Residual value according to plan carried forward** | **24,188** | **11,851** |
| | | |
| *Parent company* | | |
| Acquisition value brought forward | 12,571 | 12,371 |
| Purchases | 15,850 | 200 |
| Accumulated acquisition values carried forward | 28,421 | 12,571 |
| Depreciation brought forward | (1,057) | (223) |
| Depreciation for the year | (3,243) | (834) |
| Accumulated depreciation carried forward | (4,300) | (1,057) |
| **Residual value according to plan carried forward** | **24,121** | **11,514** |

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 8

*Leasehold improvements*

| | 2001 12 31 | 2000 12 31 |
|---|---|---|
| *The group* | | |
| Acquisition value brought forward | 2,802 | 1,132 |
| Purchases | 3,636 | 1,670 |
| Transfer from construction in progress | 14,311 | |
| Disposals | (3) | |
| Accumulated acquisition values carried forward | 20,746 | 2,802 |
| Depreciation brought forward | (343) | (56) |
| Depreciation for the year | (1,501) | (287) |
| Accumulated depreciation carried forward | (1,844) | (343) |
| **Residual value according to plan carried forward** | **18,902** | **2,459** |
| | | |
| *Parent company* | | |
| Acquisition value brought forward | 2,054 | 1,132 |
| Purchases | 3,239 | 922 |
| Tranfer from construction in progress | 14,311 | |
| Accumulated acquisition values carried forward | 19,604 | 2,054 |
| Depreciation brought forward | (266) | (56) |
| Depreciation for the year | (1,276) | (210) |
| Accumulated depreciation carried forward | (1,542) | (266) |
| **Residual value according to plan carried forward** | **18,062** | **1,788** |

## Note 9

*Plant and machinery*

| | 2001 12 31 | 2000 12 31 |
|---|---|---|
| *The group* | | |
| Acquisition value brought forward | 3,394 | 2,283 |
| Purchases | 1,374 | 1,075 |
| Disposals | (19) | |
| Transfer from construction in progress | 13,094 | 36 |
| Accumulated acquisition values carried forward | 17,843 | 3,394 |
| Depreciation brought forward | (891) | (355) |
| Depreciation for the year | (1,365) | (536) |
| Accumulated depreciation carried forward | (2,256) | (891) |
| **Residual value according to plan carried forward** | **15,587** | **2,503** |
| | | |
| *Parent company* | | |
| Acquisition value brought forward | 3,394 | 2,283 |
| Purchases | 1,374 | 1,075 |
| Disposals | (19) | |
| Transfer from construction in progress | 13,094 | 36 |
| Accumulated acquisition values carried forward | 17,843 | 3,394 |
| Depreciation brought forward | (891) | (355) |
| Depreciation for the year | (1,365) | (536) |
| Accumulated depreciation carried forward | (2,256) | (891) |
| **Residual value according to plan carried forward** | **15,587** | **2,503** |

## Note 10

*Equipment, tools, xtures and ttings*

| | 2001 12 31 | 2000 12 31 |
|---|---|---|
| *The group* | | |
| Acquisition value brought forward | 19,304 | 9,972 |
| Purchases | 11,903 | 9,606 |
| Disposals | (1,744) | (274) |
| Transfer from construction in progress | 669 | |
| Other adjustments | (74) | |
| Accumulated acquisition values carried forward | 30,058 | 19,304 |
| Depreciation brought forward | (5,961) | (2,593) |
| Disposals | 740 | 80 |
| Depreciation for the year | (5,978) | (3,448) |
| Other adjustments | (9) | |
| Accumulated depreciation carried forward | (11,208) | (5,961) |
| **Residual value according to plan carried forward** | **18,850** | **13,343** |

| *Parent company* | | |
|---|---|---|
| Acquisition value brought forward | 15,142 | 9,917 |
| Purchases | 9,574 | 5,499 |
| Disposals | (740) | (274) |
| Transfer from construction in progress | 669 | |
| Accumulated acquisition values carried forward | 24,645 | 15,142 |
| Depreciation brought forward | (5,391) | (2,593) |
| Disposals | 740 | 80 |
| Depreciation for the year | (4,924) | (2,878 ) |
| Accumulated depreciation carried forward | (9,575) | (5,391) |
| **Residual value according to plan carried forward** | **15,070** | **9,751** |

In other adjustments foreign exchange effects are included.

## Note 11

*Construction in progress and advance payments for tangible assets*

| | 2001 12 31 | 2000 12 31 |
|---|---|---|
| *The group and parent company* | | |
| Acquisition value brought forward | 17,654 | 36 |
| Purchases | 12,153 | 17,654 |
| Transfer to equipment, tools, fixtures and fittings | (669) | |
| Transfer to leasehold improvements | (14,311) | |
| Transfer to plant and machinery | (13,094) | (36) |
| **Residual value according to plan carried forward** | **1,733** | **17,654** |

## Note 12

*Participations in group companies*

| | 2001 12 31 | 2000 12 31 |
|---|---|---|
| *Parent company* | | |
| Acquisition value brought forward | 18,214 | 3,492 |
| Investments | 20,445 | 14,722 |
| **Residual value carried forward** | **38,659** | **18,214** |

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 | 34,717 |
| Pyrosequencing B.V, 34129103 | 100 | 100 | 200 | 166 |
| Pyrosequencing GmbH, HRB 39374 | 100 | 100 | 1 | 216 |
| Pyrosequencing SARL 2001B00976 | 100 | 100 | 500 | 68 |
| Pyrosequencing Ltd, 3938925 | 100 | 100 | 2 | |
| **Total** | | | | **38,659** |

*Registered of ce:*
CEMU Bioteknik AB: Uppsala
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. 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 13

*Deferred tax assets*

| | 2001 12 31 | 2000 12 31 |
|---|---|---|
| *The group* | | |
| Opening balance | 20,100 | |
| Adjustment new accounting principle | | 20,100 |
| Change during the year | (450) | |
| **Total** | **19,650** | **20,100** |
| | | |
| *Parent company* | | |
| Opening balance | 17,400 | |
| Adjustment new accounting principle | | 17,400 |
| Change during the year | 2,250 | |
| **Total** | **19,650** | **17,400** |

As of 2001 12 31, unutilized deductible losses carried forward for the parent company amounts to 315 MSEK and Pyrosequencing Inc. amounts to 94 MSEK.

## Note 14

*Other securities held as xed 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 | Up to 3 years | Unlimited |
| Bank deposits | Up to 3 years | Unlimited |
| Interest rate forward | Up to 3 years | Unlimited |
| Promissory notes issued by a constructing society | Up to 3 years | Max 50% of surplus |
| Certificate/bonds issued by Swedish county councils with the rating K1 and A- | Up to 3 years | Max 10% of surplus |
| Company certificates/bonds with the rating K1 and A- | Up to 3 years | Max 10% of surplus |

## Note 15

*Inventories*

| | 2001 12 31 | 2000 12 31 |
|---|---|---|
| *The group* | | |
| Raw materials and consumables | 11,231 | 6,343 |
| Semi finished products | 1,145 | 312 |
| Finished products and goods for resale | 15,265 | 5,810 |
| Work In progress | 1,740 | |
| **Total** | **29,381** | **12,465** |
| | | |
| *Parent company* | | |
| Raw materials and consumables | 11,231 | 6,343 |
| Semi finished products | 1,145 | 312 |
| Finished products and goods for resale | 12,937 | 4,359 |
| Work In progress | 1,740 | |
| **Total** | **27,053** | **11,014** |

## Note 16

*Other receivables*

| | 2001 12 31 | 2000 12 31 |
|---|---|---|
| *The group* | | |
| VAT receivable | 8,055 | 7,918 |
| Income tax receivable | 516 | 13 |
| Other receivables | 909 | 1,980 |
| **Total** | **9,480** | **9,911** |

| | 2001 12 31 | 2000 12 31 |
|---|---|---|
| *Parent company* | | |
| VAT receivable | 7,931 | 7,918 |
| Income tax receivable | 235 | |
| Other receivables | 31 | 1,636 |
| **Total** | **8,197** | **9,554** |

## Note 17

*Prepaid expenses and accrued income*

| | 2001 12 31 | 2000 12 31 |
|---|---|---|
| *The group* | | |
| Prepaid rent | 870 | 951 |
| Prepaid leasing | 111 | 250 |
| Prepaid insurance | 1,036 | 2,032 |
| Accrued interest income | 12,461 | 13,846 |
| Other accrued income | | 855 |
| Other items | 525 | 104 |
| **Total** | **15,003** | **18,038** |
| | | |
| *Parent company* | | |
| Prepaid rent | 870 | 800 |
| Prepaid leasing | 111 | 250 |
| Prepaid insurance | 1,036 | 2,032 |
| Accrued interest income | 12,461 | 13,846 |
| Accrued interest income group company | | 1,393 |
| Other accrued income | | 855 |
| Other items | 111 | 104 |
| **Total** | **14,589** | **19,280** |

## Note 18

*Other short- term investments*

| | 2001 12 31 | 2000 12 31 |
|---|---|---|
| *The group* | | |
| Nominal value | 196,000 | 370,000 |
| Book value | 194,035 | 363,706 |
| Market value | 194,035 | 363,861 |
| | | |
| *Parent company* | | |
| Nominal value | 196,000 | 370,000 |
| Book value | 194,035 | 363,706 |
| Market value | 194,035 | 363,861 |

(See note 14)

## Note 19

*Cash and bank balances*

The Company is granted a credit of 12,150 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 20

*Equity*

| | *Share capital* | *New share issue in progress* | *Restricted reserves /Share premium reserve* | *Non-restricted equity* |
|---|---|---|---|---|
| *The group* | | | | |
| Balance brought forward 2000 01 01 | 16,792 | | 198,916 | (108,155) |
| Adjustment new accounting principle | | | | 20,100 |
| Bonus issue | 8,396 | | (8,396) | |
| New share issue | 9,580 | | 948,420 | |
| Issue expenses | | | (86,568) | |
| Exchange rate difference | | | | 32 |
| Premium options | | | 1,345 | |
| Redemption of options | | 2 | 45 | |
| Loss for the year | | | | (78,045) |
| **Balance carried forward 2000-12-31** | **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)** |
| | | | | |
| *Parent company* | | | | |
| Balance brought forward 2000 01 01 | 16,792 | | 207,475 | (111,450) |
| Adjustment new accounting principle | | | | 17,400 |
| Bonus issue | 8,396 | | (8,396) | |
| New share issue | 9,580 | | 948,420 | |
| Cancelled options | | | (1,000) | |
| Issue expenses | | | (86,568) | |
| Redemption of options | | 2 | 45 | |
| Group contribution | | | | 900 |
| Group contribution taxes | | | | (252) |
| Loss for the year | | | | (44,134) |
| **Balance carried forward 2000-12-31** | **34,768** | **2** | **1,059,976** | **(137,536)** |
| 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)** |

*Number of shares*

A-shares: 34,770,100

Total: 34,770,100 shares with a nominal value of 1 SEK

*Options*

During 1999 the Company issued one warrant to its subsidiary CEMU to a nominal value of 200 KSEK with the subscription right of 4,200,000 A-shares at an issue price of 83.33 SEK per share. The option rights can be exercised from 1999 04 21 up to and including 2006 04 21. The warrant has been redeemed. During 2000, the Company cancelled 1,200,000 options from this warrant. On April 25, 2000 the Board of Directors, with authorization from the Annual General Meeting, decided to issue a promissory note to a nominal value of 50,000 SEK with 1,200,000 separable warrants to the Company's subsidiary in the United States, Pyrosequencing Inc., to support the issuance of stock options under a plan established by Pyrosequencing Inc. and administered by its Board of Directors. The options can be exercised from January 1, 2001 up to and including December 31, 2009. The exercise price is decided at the time of the respective employment. The total number of options 2001 12 31 is presented below.

| *No. of options authorized* | *Exercise price, SEK* | *Exercise period, beginning* | *ending* |
|---|---|---|---|
| 1,350,000 | 9,33 | 1997 12 31 | 2004 09 30 |
| 162,000 | 31,00 | 1998 06 18 | 2005 06 30 |
| 300,000 | 31,00 | 1998 08 24 | 2005 06 30 |
| 60,000 | 31,00 | 1998 12 15 | 2005 06 30 |
| 36,000 | 83,33 | 1999 04 08 | 2006 04 08 |
| 4,200,000 | 83,33 | 1999 04 21 | 2006 04 21 |
| (1,200,000) | | Cancellation | |
| 1,200,000* | | 2001 01 01 | 2009 12 31 |
| **Total 6,108,000** | | | |

In total 6,108,000 options have been authorized, whereof 3,061,000 have been granted as of December 31, 2001.

*The exercise price is decided on the respective date of each granted option.

Each option entitles the holder to exercise to one share in the Company. The options may be transferred to key persons in Pyrosequencing AB and Pyrosequencing Inc., respectively, according to the stipulations in the Company's option program. The options are transferred on market conditions. All options are freely transferable.

## Note 21

*Deferred tax liabilities*

| | 2001 12 31 | 2000 12 31 |
|---|---|---|
| *The group* | | |
| Deferred tax group patent and license rights | 44 | 94 |
| Deferred tax on untaxed reserves | 45 | 27 |
| **Total** | **89** | **121** |

## Note 22

*Accrued expenses and deferred income*

| | 2001 12 31 | 2000 12 31 |
|---|---|---|
| *The group* | | |
| Accrued social security charges | 2,344 | 2,519 |
| Accrued salaries | 7,695 | 3,537 |
| Accrued vacation pay | 3,756 | 1,783 |
| Deferred interest income | | 6,368 |
| Other deferred income | 4,246 | 795 |
| Other items | 3,784 | 3,845 |
| **Total** | **21,825** | **18,847** |
| | | |
| *Parent company* | | |
| Accrued social security charges | 1,946 | 2,498 |
| Accrued salaries | 2,752 | 1,656 |
| Accrued vacation pay | 3,382 | 1,602 |
| Deferred interest income | | 6,368 |
| Other deferred income | 2,133 | 472 |
| Other items | 3,151 | 2,696 |
| **Total** | **13,364** | **15,292** |

# Proposals for Treatment of Losses

*Group*
Accumulated losses in the group amount to 303,584 KSEK. No allocation to restricted equity is proposed.

*Parent Company*
The Board and the President propose that the accumulated losses of 204,673 KSEK be carried forward.

Stockholm, Sweden, March 11, 2002

*Björn Svedberg*
Chairman

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

*Erik Walldén*
President

Our audit report was submitted on March 11, 2002

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 nancial year 2001. 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 signi cant 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 nancial 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 nancial year.

Stockholm, Sweden, March 11, 2002

Deloitte & Touche AB
*Lars-Gunnar Nilsson*
Authorized Public Accountant

# Group Management

*From left: Harry Wilcox, Viveca Johansson, M rten Winge, Erik Walld n, Magnus Roubert, Bj rn Ekstr m.*

**Erik Walld n**
Born 1949. President and Chief Executive Officer since October 1998. Mr. Walld n has also served as President of the U.S. subsidiary, Pyrosequencing Inc. since December 1999. Prior Mr. Walld n was Vice President of PerSeptive Biosystems Inc., currently a subsidiary of Applied Biosystems, an Applera company. Prior thereto Mr. Walld n 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*

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

**Harry Wilcox**
M.B.A. Born 1954. Executive Vice President and Chief of Finance and Corporate Development as of May 2000. Prior he served as President and Chief Executive Officer of Cambridge NeuroScience, Inc. In addition Mr. Wilcox was a Senior Vice President at Cellcor and a founder and general partner at Highland Capital, a venture capital firm.
*Shares in Pyrosequencing: 0*
*Options: 260,000*

**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*

**Magnus Roubert**
B.Sc. Born 1951. Vice President of Finance and Administration since 1998. Prior Mr. Roubert was CFO at Inter Forward in Stockholm AB and Group Controller at Ovako AB.
*Shares in Pyrosequencing: 300*
*Options: 120,000*

**M rten 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*

# Board of Directors

**Bj rn 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, Viviance AB, Nefab AB, RKI A/S and Salcomp Oy.
*Shares in Pyrosequencing: 6,000*

**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, C Technologies, SEB, among others.
*Shares in Pyrosequencing: 10,000*

**Bj rn Odlander**
M.D., Ph.D. Born 1958, Director since 1997. President of Odlander, Fredrikson & Co. AB, the investment advisor to HealthCap KB, member of the Board of Affibody AB, Biolipox AB, Biostratum Inc., Charterhouse Therapeutics Ltd., Medicarb AB, Melacure Therapeutics AB, NicOx SA, Personal Chemistry AB, Q-Med AB, Trigen Ltd., HealthCap AB, HealthCap 1999 GP AB and Odlander, Fredrikson & Co. AB.
*Shares in Pyrosequencing: 274,519 (through fully and partly owned companies)*

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

**Mathias Uhl n**
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 Teknikh jden AB and KTH N ringslivskontakt AB, member of the Board of KTH Holding AB, Amersham Biosciences Ltd, Skanditek AB, Prevas AB, Vitrolife AB, Personal Chemistry AB, Affibody Technology Sweden AB, Creative Peptides Sweden AB and Magnetic Biosolutions 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*

**Eugen Steiner**
M.D., Ph.D. Born 1954, Director since 1999. 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.

# Glossary

**Allele:** Alternate forms of a gene.

**Allele quanti cation (AQ):** Quanti cation of genetic variants or forms of a gene, whether bacterial or viral within populations of individuals or cells.

**Antibody:** Protein produced by the immune system of humans and higher animals in response to the presence of a speci c antigen.

**Antigen:** Foreign substance that, when introduced into the body, stimulates an immune response.

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

**Assay:** Analytical test.

**Bacterial typing:** Use of genetic information in the identi cation of species and subspecies of bacteria.

**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.

**GMP (Good Manufacturing Practice):** Series of standards set forth by the Food and Drug Administration (FDA) governing the testing and manufacture of pharmaceuticals.

**Haplotype:** Pattern of SNPs in a single chromosome region. Often used as potential markers for disease.

**ISO 9001:** International Standards Organization puts forth quality standards for technology-oriented companies.

**Micro uidics:** Technology based on the transport of nanoliter and picoliter volumes of uids through micro channels within a glass or plastic chips.

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

**Monoclonal antibody:** Highly-speci c antibody that recognizes only one kind of antigen.

**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 consists 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" .

**Primer:** Short polynucleotide chain to which new nucleotides can be added.

**Primer design:** Identi cation of the speci c nucleotide sequence required in a primer to enable the most ef cient assay to be performed.

**PSQ™ 96 System:** Pyrosequencing's first commercially available dedicated bench top system for moderate-throughput genetic analysis. Contains 96-well plate.

**PTP™ (Preferred Technology Program):** Pyrosequencing's customizable system for high-throughput genetic analysis. Contains 384-well plate.

**Sequence Analysis Software (SQA):** Pyrosequencing's software package that utilizes a dedicated algorithm to facilitate short-read DNA sequencing.

**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.

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