

Annual Report 2002
CellaVision AB (publ)



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Corporate identity no. 556500-0998

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What happened in 2002

- ▶ Net sales up 70 %, totaled MSEK 13,7 (8,0). Operating loss MSEK -49,4 (-53,0) and net loss MSEK -49,1 (-53,1).
- ▶ 16 (10) systems sold and 6 (1) rental agreements.
- ▶ CellaVision received it's first DiffMaster™ Octavia order in the US.
- ▶ DiffMaster Octavia is implemented in routine use in 8 Nordic hospitals, of which 5 are university hospitals.
- ▶ The company obtained 8 new patents during 2002, and has now a patent portfolio of 14 patented innovations.
- ▶ New distribution agreements for Belgium, Netherlands, Luxembourg, Austria, Switzerland, Spain, Portugal and Ireland.
- ▶ The Swedish Industrial Development Fund invested MSEK 15 in CellaVision during October 2002.

Key Figures <i>All amounts in SEK thousands</i>	2002	2001	2000	1999
Net sales	13 669	8 043	0	0
Operating loss	-49 433	-53 037	-30 357	-11 089
Cash flow for the year	-44 635	-65 593	-32 029	-20 250
Equity	48 664	82 604	66 673	21 691
Cash balance	39 239	49 654	60 680	12 903
Solvency	66%	72%	79%	71%
Number of employees	46	49	39	23

Share capital and ownership

Shareholders

CellaVision's shareholder structure as of December 31, 2002 is presented in the table below. By the end of 2002 CellaVision had a total of more than 600 shareholders.

Shareholders	Number of shares	Capital and votes , percent
H & B Capital LP	2 276 182	16,9
Christer Fåhræus	1 827 445	13,5
Företagskapital Kompanjonfond KB (3i)	1 578 786	11,7
Förvaltnings AB Metallica	1 387 105	10,3
Life Equity Sweden KB	909 091	6,7
Swedish Industrial Development Fund	545 455	4,0
Other	4 981 143	36,9
TOTAL	13 505 207	100,0

Warrants

As of December 31, 2002 the company has three different warrant-programs, of which one program is an employee warrant-program. The outstanding warrants entails the right to subscribe to 1 012 300 new

shares. If all warrants are utilized the payment amounts to MSEK 33,6 of which TSEK 152 refers to share capital. The distribution of warrants between the programs is presented in the table below.

Program	Outstanding warrants	Additional shares with full redemption	Strike price SEK	Payment with full redemption	Maturity date
2001/2004	60 000	120 000	30 SEK	3,6 MSEK	2004-01-01
2000/2003	146 150	292 300	41 SEK	12,0 MSEK	2003-06-08
2002/2005	600 000	600 000	30 SEK	18,0 MSEK	2005-05-15

Convertible loan

At the special general meeting held on October 11, 2002 it was decided to issue a convertible loan with a nominal value of MSEK 10. The Swedish Industrial Development Fund supplies the loan. The conversion rate depends on the company's net sales during the first 6 month of 2003. The lowest possible conversion rate is SEK 15 and the highest SEK 27,50. Conversion can be made between June 30 and September 30, 2003.

With full conversion, between 363 636 and 666 667 new shares will be issued which corresponds to between 2,7 and 4,9 percent of the total number of shares. Conversion will not supply the company with any new liquid funds.

Shareholder Agreements

H&B, Christer Fåhraeus, Företagskapital, Swedish Industrial Development Fund and Metallica have entered a consortium agreement. Among other things, this agreement regulates the election of board members and stipulates limitations concerning the transfer of shares between the aforementioned parties. The agreement will become void in conjunction with the Company's shares being quoted publicly.

Share capital

As of December 31, 2002, CellaVision's share capital totaled TSEK 2 026 distributed between 13 505 207 shares with a nominal value of SEK 0.15 each. Each share provides one vote and each person entitled to vote at shareholders' meetings may vote using the full number of shares owned and represented by said person without any limit on the number of votes. All shares provide equal rights to shares in the Company's assets and profits. The development of the share capital is presented in the table below.

Year	Transaction	Increase in number of shares	Total number of shares	Increase in share capital SEK	Total share capital SEK	Nominal value per share SEK
1994	New share issue	500	500	50	50	100
1996	New share issue	150	650	15	65	100
1996	New share issue	110	760	11	76	100
1997	Bonus issue	760	1 520	76	152	100
1997	Split 1000:1	1 518 480	1 520 000	0	152	0,10
1997	New share issue	75 000	1 595 000	8	160	0,10
1997	New share issue	122 000	1 717 000	12	172	0,10
1998	New share issue	100 000	1 817 000	10	182	0,10
1998	New share issue	158 000	1 975 000	16	198	0,10
1999	New share issue	1 296 750	3 271 750	130	327	0,10
1999	New share issue	333 332	3 605 082	33	361	0,10
2000	Bonus issue	0	3 605 082	180	541	0,15
2000	New share issue	1 354 454	4 959 536	203	744	0,15
2000	Exercise of warrants	2 500	4 962 036	0	744	0,15
2000	Exercise of warrants	1 000	4 963 036	0	744	0,15
2000	Exercise of warrants	2 000	4 965 036	0	745	0,15
2000	Exercise of warrants	22 000	4 987 036	3	748	0,15
2000	Exercise of warrants	88 000	5 075 036	13	761	0,15
2000	Exercise of warrants	3 000	5 078 036	0	762	0,15
2000	Exercise of warrants	11 500	5 089 536	2	763	0,15
2001	Exercise of warrants	15 000	5 104 536	2	766	0,15
2001	Bonus issue	5 104 536	10 209 072	766	1 531	0,15
2001	New share issue	2 656 070	12 865 142	399	1 930	0,15
2002	Exercise of warrants	94 610	12 959 752	14	1 944	0,15
2002	New share issue	545 455	13 505 207	82	2 026	0,15

DIRECTORS' REPORT

The Board and CEO of CellaVision AB (publ), corporate identity number 556500-0998, submits the following directors' report concerning the fiscal year January 1, 2002– December 31, 2002.

Operations

Christer Fåhræus founded CellaVision in 1994. The company has cutting-edge expertise within digital image analysis. The company's business idea is to develop and market system solutions for automated medical microscope analysis. Today, operations are focused on three products, DiffMasterTM, MICRO21®, and CellAtlasTM. DiffMaster and MICRO21 are both systems for automated differential counting of white blood cells. CellAtlas is a web-based tool for education and quality assurance.

Sales, result and investments

The year resulted in sales of 16 (10) systems and 6 (1) rental agreements. The group's net sales during 2002 totaled MSEK 13,7 (8,0) and the net loss amounted to MSEK -49,1 (-53,1).

The group's expenses excluding financial items and tax totaled MSEK 54,3 (54,5). Development expenditure was capitalized in the amount of MSEK 1,0 (0) and the result was charged with MSEK 3,4 (3,4) in amortizations on development expenditure. The purchase of the assets in Triangle Imaging Inc. during 2001 resulted in a goodwill of about MSEK 8. The goodwill is amortized over a period of 5 years. 2002 the result was charged with amortization on goodwill with MSEK 1,6 (0,7). Investment in fixed tangible assets totaled MSEK 2,0 (3,3) and depreciations on tangible fixed assets amounted to MSEK 1,7 (1,3). Examples of investments in tangible fixed assets are computers and office equipment.

The Company's monthly cash flow before changes in working capital and excluding financing activities averaged during the year to MSEK -3,4 (-3,7).

Liquidity and financing

As of December 31, 2002, the Group's liquid funds, including short-term investments, totaled MSEK 39,2 (49,7). The Group's cash flow from current operations before changes in working capital totaled MSEK -41,1 (-44,2).

In October 2002 the Swedish Industrial Development Fund invested MSEK 15 in CellaVision and netted a former interest-bearing loan of MSEK 10 against a non interest-bearing convertible loan. The conversion rate depends on the company's net sales during the first 6 month of 2003. The lowest possible conversion rate is SEK 15 and the highest SEK 27,50. Conversion can be made between June 30 and September 30, 2003.

Shareholders equity within the Group, as of December 31, 2002, totaled MSEK 48,7 (82,6) and equity per share totaled SEK 3,61 (6,42) (excl. outstanding warrants).

Financial policy

The Company has a financial and foreign currency policy that, in brief, entails the following. After securing sufficient liquid funds for current operations, the Company shall, with due consideration for a sufficient margin to cover unforeseen events, use the estimated surplus funds to invest in interest-bearing securities with the highest possible rating and/or deposit the surplus in a Swedish bank. All investments of surplus liquid funds shall be made in Swedish crowns. No investments in individual securities shall exceed MSEK 100. Contracted net flows in foreign currencies within 6 months shall be hedged 100 percent. Forecasted net flows within 3 months shall be hedged 50 percent.

Market

The DiffMaster Marketing and Sales activity level has been very high in the European market during 2002. DiffMaster was introduced on the American market at the large exhibition AACC (American Association of Clinical Chemistry) in Orlando in July and August. CellaVision has since the start sold 19 DiffMaster and signed 5 rental agreements

- 2001, 7 DiffMaster sold and 1 rental agreement signed.
- 2002, 12 DiffMaster sold and 4 rental agreement signed.

CellaVision Inc handles Marketing and Sales of MICRO21 on the American market. Marketing activities are mainly focused on the American east and west coast.

By the end of 2002 the installed MICRO21 base totaled 69 instruments, of which 56 was acquired from Triangle Imaging Inc. 2001.

CellaVision has signed agreements for distribution for several European markets. Sysmex Europe GmbH was given the exclusive right to market and sell DiffMaster in Germany, Belgium, The Netherlands, Luxembourg, Austria and Switzerland. An exclusive distribution agreement has also been signed with IZASA S.A regarding distribution of DiffMaster in Spain and Portugal. IZASA S.A is the market-leader in Spain within the field of hematology-diagnostics. An agreement for distribution in Ireland was signed with Serosep Ltd.

Negotiations regarding the distribution in the U.S. will continue during 2003. The process has been more time consuming than first expected.

There is a great acceptance in all markets for automated microscopy, digital cell images and a large acknowledgement for CellaVision and its products. Lead times are however considerable, from 6 up to 18 months, due to local requirements for evaluation of new technologies as well as time consumption to secure financing for instruments of this size.

Research and development

The product development at CellaVision focuses on improved software for DiffMaster, e.g. automated pre-characterization of red blood cells, tools to quantify the number of platelets, improved user interface and better performance in regard to speed and pre-classification of white blood cells. These improvements give the user the ability to use DiffMaster for a broader use within the hematology field. DiffMaster also gives a significant performance increase when analyzing slides with a low number of white blood cells, something that today is very time-consuming when done manually.

Furthermore, the development in rationalizing the analytical process in order to be able to provide a high-performing system for the laboratories with the biggest volumes of analysis continues. This is primarily done by changing the hardware platform.

The company obtained patent on 8 additional innovations during 2002, and now has a patent portfolio of 14 patented innovations.

Organization and employees

CellaVision group includes two subsidiaries, CellaVision Inc. and CellaVision International AB. Today, personnel are employed in the Parent Company and CellaVision Inc. The number of employees at year-end was 46 (49).

Board of directors

During the year, the Board held 11 meetings at which minutes were kept, including two by phone conference and one by correspondence. At the board meeting held on August 26, 2002 Lars Gatenbeck shouldered the chairmanship from the previous chairman Hans Harvig. At the special general meeting held on October 11, 2002, in connection with the share issue to the Swedish Industrial Development Fund, Matts Hertsberg took place on the board of directors. At the same time Hans Harvig resigned.

The Board has appointed a committee from its members that deals solely with financing matters. Each month, the Board gets reports on the Company's activities, liquidity, result, and financial position.

Essential events after the end of the year

In January the Board of Directors decided to reduce the operating expenses by approximately MSEK 10 compared to last year. As a consequence of this decision five employees in Lund and two at the US-subsiidiary were redundant. The expense-reduction is done in order to reduce the risk-exposure in the present insecure financial climate and also to shorten the company's time to break-even.

Proposal for the appropriation of the accumulated deficit – Parent company

Loss brought forward	0
Loss for the year	-39 003 758
Total	-39 003 758

The Board and CEO propose that the accumulated deficit, SEK -39 003 758 be balanced against the share premium reserve, which will be reduced by an equivalent amount. The group's accumulated loss as of December 31 , 2002 totals SEK -51 713 670.

Annual general meeting

The annual general meeting will be held on May 21, 2003, at 5 pm on CellaVision's premises in Ideon in Lund, Delta 5, Scheelevägen 19 A.

INCOME STATEMENT

All amounts in SEK thousands	Notes	Group		Parent company	
		1 jan-31 dec 2002	1 jan-31 dec 2001 ¹	1 jan-31 dec 2002	1 jan-31 dec 2001 ¹
Net sales	1	13 669	8 043	7 626	3 850
Cost of goods sold	8	-8 762	-6 949	-7 042	-5 343
Gross profit		4 907	1 094	584	-1 493
Selling expenses		-20 918	-17 737	-10 475	-12 617
Administrative expenses		-12 278	-13 185	-12 270	-13 183
Research and development expenses		-20 792	-23 509	-20 792	-23 509
Other operating income		0	370	0	0
Other operating expenses		-352	-70	-352	-70
Operating loss	2, 3, 4, 5, 6, 7, 8	-49 433	-53 037	-43 305	-50 872
<i>Profit/Loss on financial investments</i>					
Interest income	9	1 799	1 260	5 797	1 634
Interest expenses		-1 425	-1 279	-1 496	-1 266
Loss after financial items		-49 059	-53 056	-39 004	-50 504
Tax	10	-49	0	0	0
Net loss of the year		-49 108	-53 056	-39 004	-50 504
Earnings per share		-3,76	-5,09	-2,98	-4,84
Diluted earnings per share		-3,34	-4,47	-2,65	-4,26

¹The principal for allocating expenses between functions was changed during 2002. The profit and loss statements for 2001 have been recalculated according to the new principle.

BALANCE SHEETS – ASSETS

All amounts in SEK thousands	Notes	Group		Parent company	
		31 dec 2002	31 dec 2001	31 dec 2002	31 dec 2001
Subscribed shareholders contribution, unpaid		0	22 301	0	22 301
Fixed assets					
<i>Intangible fixed assets</i>					
Capitalized development expenditure	5	11 332	13 772	11 332	13 772
Goodwill	6	5 060	7 823	0	0
Total intangible fixed assets		16 392	21 595	11 332	13 772
<i>Tangible fixed assets</i>					
Equipment	7	3 956	3 771	2 747	3 641
Total tangible fixed assets		3 956	3 771	2 747	3 641
<i>Long-term financial assets</i>					
Shares in group companies	11	0	0	100	100
Loans to group companies		0	0	18 604	17 772
Total long term financial assets		0	0	18 704	17 872
Total fixed assets		20 348	25 366	32 783	35 285
Current assets					
<i>Inventory</i>					
Finished products and goods for resale		7 253	9 317	4 852	2 535
Advance to supplier		858	0	858	0
Total inventory		8 111	9 317	5 710	2 535
<i>Current receivables</i>					
Accounts receivables		3 655	5 526	2 173	2 594
Other receivables		743	1 602	739	1 602
Receivables, Group companies		0	0	2 800	2 098
Prepaid expenses accrued revenue	12	1 591	1 580	1 466	1 535
Total current receivables		5 989	8 708	7 178	7 829
Cash and bank balances		39 239	49 654	38 404	49 211
Total current assets		53 339	67 679	51 292	59 575
Total assets		73 687	115 346	84 075	117 161

BALANCE SHEET – SHAREHOLDERS EQUITY AND LIABILITIES

All amounts in SEK thousands	Notes	Group		Parent company	
		31 dec 2002	31 dec 2001	31 dec 2002	31 dec 2001
Shareholders equity					
<i>Restricted equity</i>	13				
Share capital		2 026	1 930	2 026	1 930
Legal reserve		2 207	2 207	2 187	2 187
Other restricted reserves		96 145	129 506	95 269	128 630
Total restricted equity		100 378	133 643	99 482	132 747
<i>Retained losses</i>					
Profit/Loss brought forward		-2 606	2 017	0	0
Loss of the year		-49 108	-53 056	-39 004	-50 504
Total retained losses		-51 714	-51 039	-39 004	-50 504
Total shareholders equity		48 664	82 604	60 478	82 243
Provisions		394	140	240	140
<i>Long-term liabilities</i>					
Liabilities to credit institutions	14	13 790	9 461	13 790	9 461
Total long-term liabilities		13 790	9 461	13 790	9 461
<i>Current liabilities</i>					
Liabilities to credit institution	14	916	10 362	916	10 362
Accounts payable		3 363	5 900	3 286	5 855
Tax liabilities	10	49	330	0	0
Other liabilities		480	704	480	526
Liabilities to group companies		0	0	0	3 570
Accrued expenses and prepaid revenues	15	6 031	5 845	4 885	5 004
Total current liabilities		10 839	23 141	9 567	25 317
Total shareholders equity and liabilities		73 687	115 346	84 075	117 161
Pledged assets	16	1 080	666	1 080	666
Contingent liabilities		-	-	-	-

CASH-FLOW STATEMENT

All amounts in SEK thousands	<i>Group</i>		<i>Parent company</i>	
	1 jan-31 dec 2002	1 jan-31 dec 2001	1 jan-31 dec 2002	1 jan-31 dec 2001
Operating activities				
Operating loss	-49 433	-53 037	-43 305	-50 872
<i>Adjustment for non cash items</i>				
Depreciations on tangible/intangible assets	6 697	5 414	4 877	4 703
Write-down of inventory	600	0	0	0
Changes in accrued expenses	882	2 610	259	1 799
Tax paid	-342	0	0	0
Interest income received	1 763	2 124	4 762	1 115
Interest paid	-1 284	-1 279	-1 355	-1 231
Cash-flow from operating activities before changes in working capital	-41 117	-44 168	-34 762	-44 486
<i>Changes in working capital</i>				
Increase/Decrease in inventory	-542	-6 997	-3 175	0
Increase/Decrease in accounts receivables	1 461	-5 526	421	-2 594
Increase/Decrease in other current receivables	856	156	161	-1 942
Increase/Decrease in accounts payable	-2 525	2 588	-2 569	2 543
Increase/Decrease in other current liabilities	425	380	-46	3 564
Cash-flow from operating activities	-41 442	-53 567	-39 970	-42 915
<i>Investing activities</i>				
Capitalized development expenditure	-1 003	0	-1 003	0
Goodwill	0	-8 748	0	0
Acquisitions of tangible fixed assets	-2 190	-3 278	-545	-3 149
Cash-flow from investing activities	-3 193	-12 026	-1 548	-3 149
<i>Financing activities</i>				
New share issue	16 892	51 641	16 892	51 641
Payment from new share issue 2001 received 2002	22 301	0	22 301	0
Cost of fundraising	-219	-5 591	-219	-5 591
Loans raised	669	8 619	669	8 619
Loans repaid	-5 362	-102	-8 932	-102
Long-term loans, group companies	0	0	0	-17 282
Cash-flow from financing activities	34 281	54 567	30 711	37 285
Changes in cash and cash equivalents	-10 354	-11 026	-10 807	-8 779
Currency translation loss in Cash and bank	-61	0	0	0
Cash and cash equivalents, beginning of period	49 654	60 680	49 211	57 990
Cash and cash equivalents at end of period	39 239	49 654	38 404	49 211

ACCOUNTING PRINCIPLES

General

The annual report is prepared in accordance with the Swedish Annual Accounts Act and generally accepted accounting principles in Sweden. The company follows all applicable recommendations from the Swedish Financial Accounting Standards Council.

Consolidated accounts

The financial statements for the Group include the Parent Company, CellaVision AB, and the wholly owned subsidiaries CellaVision Inc and CellaVision International AB. The consolidated accounts have been prepared in accordance with the purchase method. This implies that assets and liabilities of consolidated companies are shown at the market value according to an established purchase analysis. Should the purchase value of shares in subsidiaries exceed the estimated value of the company's net assets according to the purchase analysis, the difference will be made up of Group goodwill, written off over an estimated time of economic life.

Internal sales and internal intercompany financial balances have been eliminated from the Group accounts. The Group applies the current method of translating the foreign subsidiary accounts. This means that all the assets and liabilities of the subsidiary are translated according to the closing day rate¹, whereas items in the income statement are translated at the average rate². The translation differences that occur are partly an effect of the difference between the income statements average rate and the closing day's rate at the end of the year and partly due to net assets being translated at different rate at year end compared to the rate when CellaVision Inc was established in June 2001. The translation differences related to the net result and long-term financial intercompany balances are carried directly to shareholders equity. For other translation differences see under "Exchange gains and losses".

Revenue recognition

In the case of the sale of instruments to an end-customer, the revenue represents both payment for the instrument and payment for updating of software. The entire revenue pertaining to both the instrument itself and the software-updates is booked as income when the material risks and

benefits associated with the instrument have been transferred to the customer.

In the case of the sale of instruments to a distributor, the revenue represents both payment for the instrument and payment for updating of software. The entire revenue pertaining to both the instrument itself and the software-updates is booked as income when the material risks and benefits associated with the instrument have been transferred to the distributor. In the case of the sale of service and maintenance to an end-customer, the revenue represents payment for service and maintenance of an instrument. The entire revenue is recognized over the contract period.

In the case of the sale of new software-applications to an end-customer, the revenue represents payment for a new software-application to an instrument. The entire revenue is recognized over the contract period.

In the case of the placement of instruments based on payment per analysis, the revenue for each period represents both payment for use of the instrument and payment for servicing and updating of software. The revenue comprises a fixed and a variable component. The variable component depends on the number of analyses performed by the instrument. Revenues occur on a monthly basis during the period covered by the agreement.

Development

Research expenditures are expensed when it occurs. Expenditures for the development of future products are expensed up to and including the prototype stage. Subsequent expenditures prior to commercialization are capitalized. Expenditures for the development of existing applications and hardware platforms are expensed when incurred. To handle this in a good way the Company employs project accounting, under which all development expenditures are allocated to projects. Such expenditures includes:

- ▶ goods and material
- ▶ instrument
- ▶ consulting fees for technology and design
- ▶ salaries and payroll overheads

Depreciation of computer and other equipment is not capitalized. A depreciation plan based on an economic life of five years commences

¹ Closing day rate SEK/USD: 8,8250 (10,6675)

² Average rate SEK/USD: 9,7255 (10,5715)

when products subject to development are launched in the market.

Exchange gains and losses

Realized and unrealized exchange-rate differences and translation differences pertaining to costs and intercompany balances of an operating nature are reported as administrative expenses. Translation differences due to short-term financial intercompany balances are reported as interest- income and expenses respectively.

Intangible assets

Intangible assets comprise capitalized development expenditures and Group goodwill. All are reported at acquisition value, less accumulated depreciations according to plan.

Tangible assets

Tangible assets comprise instruments, equipment and computers. All are reported at acquisition value, less accumulated depreciation according to plan.

Depreciation according to plan

Depreciation according to plan is based on the acquisition value of the asset concerned and the estimated economic life. Depreciation according to plan:

- ▶ Development expenditures 5 years
- ▶ Group goodwill 5 years
- ▶ Instruments 5 years
- ▶ Equipment 5 years
- ▶ Computers 3 years

Leasing

The Group has no financial leasing agreements. Operational leasing primarily pertains to office rent, computer equipment and vehicles.

Receivables and liabilities

Receivables are reported at the amount that is expected to be received. Liabilities are reported at nominal amounts. Receivables and liabilities in foreign currencies are valued at the year-end rate.

Inventory

The inventory is valued at the lowest of acquisition value (FIFO) and actual value. The inventory includes both products ready for sale, and components for additional instruments.

Cash-flow statement

The cash-flow statement has been prepared in accordance with the indirect method. Cash, bank balances and current investments are all reported as liquid assets.

Pensions

All pension commitments have been taken over by insurance companies.

Notes 1 – 2

Not 1. Sales

Sales per geographical area	2002		2001	
	Group	Parent company	Group	Parent company
The Nordic countries	2 486 ¹	2 486 ¹	887	887
USA	7 202 ²	1 159	4 192	0
The rest of the world	3 981	3 981	2 964	2 964
Total	13 669	7 626	8 043	3 850

¹Of which 515 (129) is rental income.

²Of which 1 181 (596) is rental income.

Not 2. Personnel

A. Average number of employees	2002		2001	
	Number of employees	Of which men	Number of employees	Of which men
Parent company	39	33	40	34
Subsidiary	6	3	2	1
Total	45	36	42	35

B. Salaries and other remuneration	2002		2001	
	Board and CEO	Other employees	Board and CEO	Other Employees
Parent company	1 248	15 422	1 423	17 306
Subsidiary	0	3 674	0	1 631
Total	1 248	19 096	1 423	18 937

Senior managers

As decided by the annual general meeting, directors fees to be paid until the next annual meeting were 400 (400). 100 of which is to be paid to the chairman of the board. This amount has not yet been paid. Salaries and remuneration (excl. social fees), including pension premiums, were paid to the CEO in the parent company in fiscal 2002 totaling 1 567 (1 301). The period of notice for the CEO is twelve months if notice of termination is given by the Company, and six months if notice of termination is given by the CEO. In the event that notice of termination is given by the Company, or by the CEO in response to a significant breach of contract by the company, the CEO is entitled to severance pay equal to twelve months' salary. No additional severance pay applies.

C. Social security and pension expenses	2002		2001	
	Social security	Of which pension	Social security	Of which pension
Parent company	8 062	2 550	8 710	2 750
Subsidiary	1 025	158	107	68
Total	9 087	2 708	8 817	2 818

D. Capitalized development expenditure	2002		2001	
	Group	Parent company	Group	Parent company
Capitalized personnel expenses from development projects	746	746	0	0
Total	746	746	0	0

Notes 3 – 6

Not 3. Audit fees

	2002		2001	
	Group	Parent company	Group	Parent company
Fees paid to the companies auditors				
Audits	90	90	180	90
Other assignments	63	63	534	244
Total	153	153	714	334

Not 4. Leasing expenses

	2002		2001	
	Group	Parent company	Group	Parent company
<i>Future leasing expenses referring to non terminable leasing agreements</i>				
- Within 1 year	3 258	2 889	3 836	3 415
- Later then 1 year but within 5 years	1 220	1 220	5 014	4 593
- Later then 5 years	0	0	0	0
Total¹	4 478	4 109	8 850	8 008

¹ Of which 3 875 refers to office rent.

Not 5. Capitalized development expenditure

	2002		2001	
	Group	Parent Company	Group	Parent company
Opening balance	13 772	13 772	17 215	17 215
Acquisitions	1 003	1 003	0	0
Depreciations for the year	-3 443	-3 443	-3 443	-3 443
Total	11 332	11 332	13 772	13 772

Not 6. Goodwill

	2002		2001	
	Group	Parent company	Group	Parent company
Opening balance	7 823	0	0	0
Acquisitions	0	0	8 534	0
Depreciations for the year ¹	-1 556	0	-711	0
Currency translation difference ²	-1 207	0	0	0
Total	5 060	0	7 823	0

¹ The depreciations on goodwill for 2002 at closing day rate amounts to -1 412.

² The group goodwill is calculated in USD since it arose when the assets in Triangle Imaging Inc were acquisitioned.

Notes 7 – 8

Not 7. Tangible fixed assets

	2002		2001	
	Group	Parent company	Group	Parent company
Opening balance	6 638	6 508	3 601	3 601
Acquisitions	2 038	545	3 278	3 148
Disposal	-36	-36	-241	-241
Closing balance	8 640	7 017	6 638	6 508
Accumulated depreciations, brought forward	-2 867	-2 867	-1 843	-1 843
Depreciations for the year	-1 698	-1 434	-1 260	-1 260
Reversal of accumulated depreciations on disposed assets	31	31	236	236
Accumulated depreciations carried forward	-4 534	-4 270	-2 867	-2 867
Currency translation difference	-150	0	0	0
Residual value	3 956	2 747	3 771	3 641

Not 8. Distribution of depreciations

	Capitalized development expenditure	2002		Capitalized development expenditure	2001	
		Goodwill	Equipment		Goodwill	Equipment
A. Group						
Cost of goods sold	-3 443	0	-194	-3 443	0	0
Selling expenses	0	-1 556	-471	0	-711	-280
Administrative expenses	0	0	-148	0	0	-168
Research and development expenses	0	0	-885	0	0	-812
Total	-3 443	-1 556	-1 698	-3 443	-711	-1 260

	Capitalized development expenditure	2002		Capitalized development expenditure	2001	
		Goodwill	Equipment		Goodwill	Equipment
A. Parent company						
Cost of goods sold	-3 443	0	-194	-3 443	0	0
Selling expenses	0	0	-207	0	0	-280
Administrative expenses	0	0	-148	0	0	-168
Research and development expenses	0	0	-885	0	0	-812
Total	-3 443	0	-1 434	-3 443	0	-1 260

Notes 9 – 12

Not 9. Profit/Loss on financial investments

	2002		2001	
	Group	Parent company	Group	Parent company
Interest income	1 799	2 797 ¹	1 260	1 634
Dividend income	0	3 000	0	0
Total	1 799	5 797	1 260	1 634

¹Of which 1 004 refers to transactions within the group.

Not 10. Taxes

	2002		2001	
	Group	Parent company	Group	Parent company
Provisions in previous years	330	0	330	0
Tax paid	-330	0	0	0
Provisions	-49	0	-330	0
Tax reported	-49	0	0	0
Loss carry-forwards	171 724	171 724	130 125	130 125
Deferred tax benefit not reported	48 083	48 083	36 435	36 435

Not 11. Shares in group companies

	Reg. number	Reg. office	Number of shares	Nominal value	Percent of cap./votes	Booked value
CellaVision International AB	556500-4299	Lund	1 000	100Tkr	100%	100Tkr
CellaVision Inc.		USA	10	1kr	100%	1 kr

Not 12. Prepaid expenses and accrued revenues

	2002-12-31		2001-12-31	
	Group	Parent company	Group	Parent company
Office rent	755	755	738	738
Pension premiums	132	132	94	94
Accrued interest income	253	253	80	44
Other	451	326	668	659
Total	1 591	1 466	1 580	1 535

Notes 13 – 14

Not 13. Changes in shareholders equity

A. Group	Share capital	Legal reserve	Additional paid-in capital	Retained losses	Total
Opening balance	1 930	2 207	129 506	-51 039	82 604
New shares issued	14	0	1 878	0	1 892
Appropriation of losses	0	0	-50 504	50 504	0
New shares issued ¹	82	0	14 918	0	15 000
Fundraising cost	0	0	-219	0	-219
Calculated interest on convertible loan ²	0	0	566	0	566
Loss for the year	0	0	0	-49 108	-49 108
Translation difference	0	0	0	-2 071	-2 071
Closing balance	2 026	2 207	96 145	-51 714	48 664
B. Parent company	Share capital	Legal reserve	Additional paid-in capital	Retained losses	Total
Opening balance	1 930	2 187	128 630	-50 504	82 243
New shares issued	14	0	1 878	0	1 892
Appropriation of losses	0	0	-50 504	50 504	0
New shares issued ¹	82	0	14 918	0	15 000
Fundraising cost	0	0	-219	0	-219
Calculated interest on convertible loan ²	0	0	566	0	566
Loss of the year	0	0	0	-39 004	-39 004
Closing balance	2 026	2 187	95 269	-39 004	60 478

¹ New shares issued to Swedish Industrial Development Fund.

² The amount refers to calculated interest on the convertible loan from the Swedish Industrial Development Fund.

Not 14. Liabilities to credit institutions

	2002		2001	
	Group	Parent company	Group	Parent company
<i>Long-term liabilities</i>				
County council fund for technology procurement and product development	4 215	4 215	4 461	4 461
Swedish Industrial Development Fund ¹	9 575	9 575	5 000	5 000
Total	13 790	13 790	9 461	9 461
<i>Current liabilities</i>				
County council fund for technology procurement and product development	916	916	462	462
Swedish Industrial Development Fund	0	0	9 900	9 900
Total	916	916	10 362	10 362

¹The Swedish Industrial Development Fund

At the special general meeting held on October 11, 2002 it was decided to issue a convertible loan with a nominal value of MSEK 10. The Swedish Industrial Development Fund supplied the loan. An existing loan from The Swedish Industrial Development Fund with a nominal value of MSEK 10 was offset against a new loan without interest. The booked value of the convertible loan is calculated on the basis of market interest rate according to Swedish Accounting Standards Councils, standard number 3 (RR3). The calculated interest was entered to additional paid-in capital. The conversion rate depends on the company's net sales during the first 6 month of 2003. The lowest possible conversion rate is SEK 15 and the highest SEK 27,50. Conversion can be made between June 30 and September 30, 2003.

Notes 15 - 16

Not 15. Accrued expenses and prepaid revenue

	2002		2001	
	Group	Parent company	Group	Parent company
Vacation pay liability	1 481	1 347	1 112	1 112
Directors fee	531	531	531	531
Social security expenses	883	870	825	825
Other	3 136	2 137	3 377	2 536
Total	6 031	4 885	5 845	5 004

Not 16. Pledged assets

A bank guarantee for a total of 1 080(666) has been submitted to a supplier. The bank guarantee is outstanding until 2003-10-31.

Lund, Sweden April 29, 2003

Lars Gatenbeck
Chairman of the board

Christer Fähræus

Peter Benson

Christer Pettersson

Matts Hertsberg

Christer Nilsson

Leif Smeby

Yvonne Mårtensson
CEO

Our auditors report was submitted in Malmö, Sweden on April 30, 2003

Per-Arne Pettersson
Authorized public accountant

AUDIT REPORT

To the Annual General Meeting in CellaVision AB Company registration number 556500-0998

We have examined the annual report, consolidated financial statements, accounts, and administration by the board of directors and CEO of CellaVision AB for the fiscal year January 1–December 31, 2002. The board of directors and CEO are responsible for the accounting records and administration of the Company. Our responsibility is to express an opinion on the annual report, consolidated financial statements, and administration of the Company based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards in Sweden. This means that we planned and performed our audit to obtain reasonable assurance that the annual report and consolidated financial statements do not contain any material misstatements. An audit entails examining a selection of the underlying documentation to verify amounts and other information reported in the accounting records. An audit also includes evaluating the accounting principles and their application by the board of directors and CEO in addition to an overall appraisal of the information compiled in the annual report and consolidated financial statements. As a basis for our opinion on liability, we have examined material decisions, actions, and circumstances in the Company to determine whether or not the CEO or any member of the board could be liable to the Company for damages. We have also examined whether or not the CEO or any member of the Board in some other way has acted in contravention of the Companies Act, the Annual Accounts Act, or the Company's articles of incorporation. We believe that our audit has provided a reliable basis for the following statements.

The annual report and consolidated financial statements were prepared in accordance with the Annual Accounts Act and thus provide a true and fair view of the Company's and the Group's earnings and financial position in accordance with generally accepted accounting principles in Sweden. We recommend that the annual general meeting adopt the income statements and balance sheets of the parent company and the Group, appropriate the loss by the parent company according to the proposal in directors' report, and discharge the CEO and board members from liability for fiscal 2002.

Malmö, April 30, 2003

Per-Arne Pettersson
Authorized public accountant

FIVE-YEAR SUMMARY

Income statement

All amounts in SEK thousands	2002	2001	2000	1999	1998
Net sales	13 669	8 043	0	0	0
Cost of goods sold	-8 762	-6 949	0	0	0
Gross profit	4 907	1 094	0	0	0
Selling expenses ¹	-20 918	-17 737	-7 396	-1 425	0
Administrative expenses ¹	-12 278	-13 185	-11 005	-6 968	-3 020
Research and development expenses ¹	-20 792	-23 509	-11 891	-4 268	-13 886
Other operating income	0	370	0	1 599	0
Other operating expenses	-352	-70	-66	-27	-4
Operating loss	-49 433	-53 037	-30 358	-11 089	-16 910
Profit/Loss on financial investments	374	-19	447	-249	-550
Tax	-49	0	-295	-67	0
Net loss for the year	-49 108	-53 056	-30 206	-11 405	-17 460

¹The principal for allocating expenses between functions was changed during 2002. The profit and loss statements for 2001, 2000, 1999 and 1998 have been recalculated according to the new principle.

Balance sheet

All amounts in SEK thousands	2002	2001	2000	1999	1998
Assets					
Intangible fixed assets	16 392	21 595	17 215	12 730	4 684
Tangible fixed assets	3 956	3 771	1 758	1 370	1 663
Current assets	53 339	89 980	65 912	16 431	912
Total assets	73 687	115 346	84 885	30 531	7 259
Shareholders equity and liabilities					
Shareholders equity	48 664	82 604	66 673	21 691	-1 739 ¹
Long-term liabilities	13 790	9 461	6 304	3 726	3 927
Current liabilities	11 233	23 281	11 908	5 114	5 071
Total shareholders equity and liabilities	73 687	115 346	84 885	30 531	7 259

¹Negativ shareholders equity arose when recalculation according to the Swedish Accounting Standards Councils, standard number 15 (RR15) was made.

FIVE-YEAR SUMMARY

Financial ratios	2002	2001	2000	1999	1998
Shareholders equity, TSEK	48 664	82 604	66 673	21 691	-1 739 ¹
Capital employed, TSEK	63 369	102 427	77 977	25 895	3 930
Interest-bearing liabilities, TSEK	14 706	19 823	11 304	4 204	5 699
Net investments, TSEK	3 005	12 026	5 603	8 260	4 518
Cash-flow, TSEK	-44 635	-65 593	-32 029	-20 250	-20 349
Interest coverage ratio, multiple	-33,43	-40,48	-28,79	-14,95	-30,30
Net indebtedness, multiple	-0,50	-0,36	-0,74	-0,40	-3,25
Equity/Assets ratio, percent	66	72	79	71	-24
Percent of risk-bearing capital	66	72	79	71	-24
Return on equity, percent	Neg.	Neg.	Neg.	Neg.	Neg.
Return on capital employed, percent	Neg.	Neg.	Neg.	Neg.	Neg.
Average number of employees	45	42	31	19	15
Number of employees at end of period	46	49	39	23	20

¹Negativ shareholders equity arose when recalculation according to the Swedish Accounting Standards Councils, standard number 15 (RR15) was made.

Capital employed

Total assets less deferred tax liabilities and non-interest-bearing liabilities.

Net investments

Tangible and intangible investments, adjusted for divestments.

Cash flow

Profit after financial items plus depreciation, with deductions for tax paid, adjusted for a decrease/increase in working capital excluding liquid assets, with deductions for net investments in fixed assets.

Interest coverage ratio

Profit/loss after financial items plus financial expense in relation to financial expense.

Net indebtedness, multiple

Net debt in relation to shareholders equity.

Equity/assets ratio

Shareholders equity in relation to total assets.

Percentage of risk-bearing capital

Total of shareholders equity and deferred tax liabilities in relation to the balance-sheet total.

Return on equity

Net profit/loss in relation to average shareholders equity.

Return on capital employed

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

Average number of employees

Number of employees at the end of each month, divided by 12.

Net earnings per share

Net profit/loss in relation to the weighted average number of shares. Splits and share issues are taken into account.

Net earnings per share after full dilution

Net profit/loss in relation to the weighted average number of shares plus the number arising from full dilution. Splits and share issues are taken into account.

Shareholders equity per share, undiluted

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

Shareholders equity per share, diluted

Shareholders equity in relation to the number of shares at year-end, and assuming full dilution. Splits and share issues are taken into account.

Per share data	2002	2001	2000	1999	1998
Net loss, undiluted, SEK	-3,76	-5,09	-3,52	-1,88	-4,67
Net loss, diluted, SEK	-3,34	-4,47	-3,25	-1,81	-4,35
Shareholders equity, undiluted, SEK	3,61	6,42	6,55	3,01	-0,44
Shareholders equity, diluted, SEK	6,04	7,41	9,85	4,42	3,75
Weighted average number of shares, undiluted, thousands of shares	13 057	10 430	8 580	6 062	3 742
Weighted average number of shares, diluted, thousands of shares	14 713	11 858	9 300	6 322	4 012
Number of shares at end of period, undiluted, thousands of shares	13 505	12 865	10 179	7 210	3 950
Number of shares at end of period, diluted, thousands of shares	15 184	14 293	11 630	7 810	5 187

Board of directors

Peter Benson

Båstad, born 1955.

Senior adviser. Other Board positions Optovent AB, Antula AB, Biogaia AB, Ortivus AB and Virogates Aps.

Number of shares: 13 200

Warrants: Right of option to acquire 30 000 shares.

Lars Gatenbeck

Djursholm, born 1956.

CEO and Partner, H&B Capital and Life Equity Sweden. Other Board positions Aerocrine AB, Cancerföreningen, Hormos Medical Ltd, Neoventa Medical AB, Perbio Science AB, Profdoc ASA and Pyrosequencing AB.

Christer Nilsson

Täby, born 1952.

Investment Director and Advisor of 3i Nordic plc. Other Board positions Accra Teknik AB, NeoPharma AB and Syncon.

Leif Smeby

Lund, born 1944.

CSO of Gambro. Other Board positions SSF programs at Chalmers University of Technology.

Number of shares: 1 285

Christer Fåhraeus

Lund, born 1965.

CEO of Anoto AB. Founder of CellaVisions and CEO until July 1998. Other Board positions Anoto AB and Precise Biometrics AB.

Number of shares: 1 827 445

Matts Hertsberg

Stockholm, born 1953

Board member of CellaVision AB and B4Driving AB. Previous positions include Venture Manager, IM Venture AB, Director Business Development, Cultor Ltd, Helsinki, and various managerial positions within Cultor Ltd.

Christer Pettersson

Kista, born 1950.

Negotiator. Other Board positions Time Care AB, STT Emtec AB, Munken of Sweden AB, Prolight Diagnostics AB and Elektron ESI AB.

Executive management

Yvonne Mårtensson, f 1953.

CEO since 1998. Has 20 years of experience in international marketing and sales. Joined CellaVision from HemoCue AB where she served her last two years as U.S head of marketing and sales. Board member of ProLight Diagnostics AB and Sydsvenska Industri- och handelskammaren, Regionstyrelsen, Södra Skåne.

Number of shares: 15 000

Warrants: Right of option to acquire 80 000 shares.

Peter Åkerlund, born 1961.

Chief financial officer. Employee since 1998. Has several years of experience from accounting and controlling, most recently in a position of the Gambro group.

Number of shares: 5 000

Warrants: Right of option to acquire 56 000 shares.

Lars Juliusson, born 1964

Sales Manager, employee since 2000. Has many years of experience in selling various optical equipment to hospitals. He joined CellaVision from Zeiss where he was Sales Manager for the Swedish Microscopy Department. Lars was earlier CellaVision's Sales Manager in the Nordic countries and he participates in the executive management since March 2003.

Number of shares: 0

Warrants: Right of option to acquire 24 000 shares.

Johan Ericsson, born 1958.

Vice President of Engineering. Employee since 2000. Has more than ten years of experience from software and hardware development, the past six years in management positions. He joined CellaVision from Axis Communications AB, where he was General Manager of Engineering.

Number of shares: 2 000

Warrants: Right of option to acquire 67 500 shares.

Hans-Inge Bengtsson, born 1958.

QA-manager. Employee since 2001. Has 15 years experience of blood analyses and clinical laboratories. The most recent employer was PolyPeptide Laboratory AB where he worked as Manager of Quality Control.

Number of shares: 200

Warrants: Right of option to acquire 27 400 shares.