Annual Report 2004

PhotoCure ASA

Company Profile

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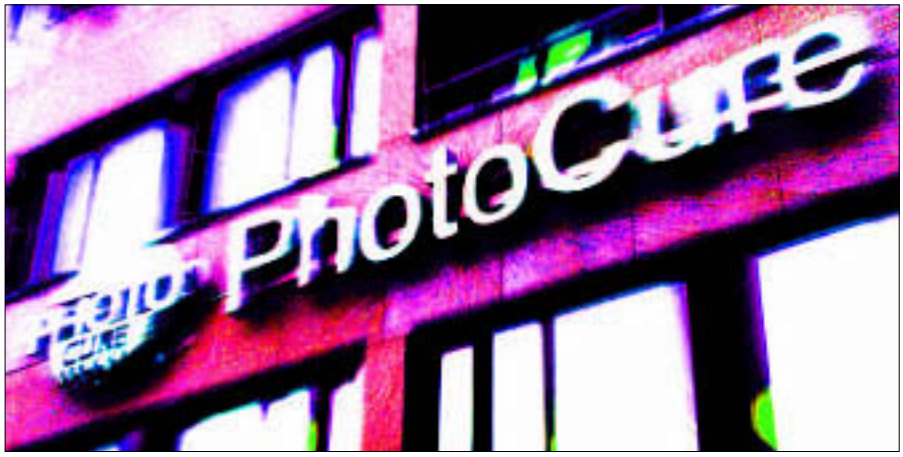
Cover illustration: Bladder cancer with Hexvix fluorescence.



PhotoCure ASA is a Norwegian pharmaceutical company founded in 1993 and listed on Oslo Stock Exchange. The Company develops and sells pharmaceuticals and medical devices based on proprietary photodynamic technologies, targeting key dermatology and oncology markets.

PhotoCure has two products with marketing authorisations: Metvix®, which is a product developed for the treatment of skin cancer (basal cell carcinoma) and pre-cancerous skin lesions (actinic keratosis), and Hexvix®, which is developed for the detection of bladder cancer. Both products are based on the same photodynamic technology, which combines a light-sensitive drug with a light source to destroy or detect the diseased cells. PhotoCure is currently testing both products for new indications and aims to develop a pipeline of follow-on products and technologies.

PhotoCure is also developing photochemical internalisation (PCI), a technology for light-directed drug delivery. The PCI technology was developed to introduce therapeutic molecules in a biologically active form specifically into diseased cells. PCI Biotech AS, a subsidiary of PhotoCure, was established in 2000 to ensure an optimal development of the PCI technology.

PhotoCure has its headquarters in Oslo, Norway. The company uses to a large extent external suppliers for functions such as production, R&D, and regulatory matters. PhotoCure profits from a strong academic network as well as skilled and experienced development staff in-house.

OUR CORE VALUES

Respect and Care

Bring out the best in your colleagues.

Give constructive feedback.

Talk to each other instead of about each other.

Integrity

Be true to your values.

Stand up for your rights and opinions.

Take responsibility for decisions made.

Courage

Dare to fail.

Dare to do things you've never done before.

Dare to choose differently.

President's Statement

After 7 years at the helm, Vidar Hansson resigned from his position as President and CEO of PhotoCure in December 2004. I would like to take the opportunity to thank him for the hard work he has put into the company since 1997. PhotoCure was initially founded as a pure research and development company. Research and development is still a very important part of our work and we continue to explore the use of our technology in new areas. However, with one product already on the market and the launch of a second product around the corner, marketing and sales has become more important to the company. To be able to face the challenges that this entails, we have made some strategic changes in the organisation over the past few months. New staff in key positions has strengthened the company´s competence in marketing and sales, and this is also reflected in the new management.

We achieved several important goals in 2004. Our biggest achievement was obtaining approval for Hexvix in Sweden and the subsequent filing of marketing applications in 26 other EU/EEA countries. Thanks to the outstanding efforts of our team, Hexvix was approved only three years after initiation of our first pre-clinical/clinical studies. This is approximately half the time compared to industry standard. We are now ready to move into a new phase with Hexvix, and we have started preparations for the first launch.

Another major achievement in 2004 was the approval of Metvix in the USA for the treatment of pre-cancerous skin lesions. The American pharmaceutical market is the world's largest, and consequently there were large expectations related to the US marketing applications for Metvix. Unfortunately, not everything went as planned in the US, and FDA's rejection of Metvix for the treatment of basal cell carcinoma was a temporary setback for PhotoCure. However, as BCC is important for the success of Metvix, we will continue our work to obtain an approval.

In Europe, Metvix is just out of the starting blocks, and we are expecting several new Galderma launches and increased sales revenues for 2005. Soon we'll have our second product on the market, and this means an even stronger focus on marketing and sales. We are facing the coming year with optimism, and our solid professional competence combined with our ability to adapt make us well prepared to meet the challenges that await us.

In PhotoCure we base our work on three core values: Courage, Integrity, and Respect & Care. *Courage* to choose differently, *Integrity* to stand up for our actions and *Respect and Care* towards colleagues, collaboration partners and clients. Our goal is to become a leading company in photodynamic therapy, and the best way to achieve that is through enthusiastic and motivated employees. By uniting the valuable resources that exist within our organisation and by creating a positive and including work environment, we will strengthen our position in photodynamic therapy to the benefit of our company, shareholders, clients, patients, and society as a whole.

Sincerely yours,

Dr. Kjetil Hestdal
President and CEO

Kjetil Hestdal (M.D., Ph.D.) assumed the position as President and CEO of PhotoCure on 1 January 2005.

VISION

Leadership in photodynamic therapy

MISSION

To bring innovative medical therapies to patients worldwide through efficient development and commercialisation of PDT.

The PhotoCure Share

Following an average price of NOK 53.70 during the first 11 months of 2004, FDA's rejection of Metvix for the treatment of BCC sent the share price down to NOK 39.50 by the end of the year.

PhotoCure ASA is a public limited company with headquarters in Oslo, Norway. The company's shares were listed on the main list of the Oslo Stock Exchange in 2000. The ticker symbol is PHO (Reuters PHO.OL).

Performance Over the Year 2004

From a starting point of NOK 54.50 at the beginning of 2004, the PhotoCure share remained relatively stable throughout the year, with an average price of NOK 53.70 from January to November. In December, however, FDA's rejection of PhotoCure's Metvix application for the treatment of BCC (skin cancer) caused the share to end the year at NOK 39.50, a decrease of 27% compared to the beginning of the year.

Trading Volume

During the course of 2004, the average daily trading volume of PhotoCure's shares reported on or to the Oslo Stock Exchange was approximately 48,000 shares. One round lot consists of 200 shares. A total of 12.1 million shares were traded on the Oslo Stock Exchange in 2004.

Market Capitalisation

PhotoCure's market capitalisation at the end of 2004 was NOK 695 million (NOK 949 million in 2003).

Shares and Share Options

At the end of 2004, the outstanding number of shares was 17,582,704 shares. In addition, PhotoCure had a total of 171,746 outstanding share options and warrants at the end of 2004. Of these, 121,746 options were held by employees of the company.

Financial Events 2005

PhotoCure intends to release its quarterly financial statements during 2005 on the following dates:

3 May 2005	Report 1st Quarter 2005
12 August 2005	Report 2nd Quarter 2005
28 October 2005	Report 3rd Quarter 2005

The company's Annual General Meeting will be held in Oslo on 3 May 2005.

Shareholder Information

Information from PhotoCure is distributed through stock exchange notices, press releases, reports and presentations. This information is available on Oslo Stock Exchange's website www.ose.no and/or PhotoCure's website www.photocure.com. On PhotoCure's website there is also other useful information about PhotoCure and its products as well as coverage by financial analysts.

Share Ownership

PhotoCure had 2,264 shareholders as of 31 December 2004. Domestic shareholders in Norway hold 87.9 % of the shares.

PhotoCure Share Price for 2004

Top Ten Shareholders as of 31 December 2004

Shareholder	Number of Shares	% of issued share capital
Radiumhospitalets Forskningsstiftelse	3 759 000	21.4%
Gezina AS	960 373	5.5%
Odin Norge	950 632	5.4%
Brown Brothers Harri S/A Permanent -Hunter Hall	650 500	3.7%
Ferd Invest	550 000	3.1%
Brown Brothers Harri S/A Hunter Hall Global	396 800	2.3%
Norsk Hydros Pensjonskasse	393 728	2.2%
Vidar Hansson/Varak AS	375 500	2.1%
Sig. Bergesen D.Y. og almennyttige stiftelse	352 750	2.0%
Marlin Verdi AS	345 000	2.0%

Shareholders According to Size of Shareholding as of 31 December 2004

Shareholdings	Number of Shareholders	Number of Ordinary Shares	Percentage of Ordinary Shares
1-999	1 369	372 486	2.12%
1 000-9 999	713	1 776 899	10.11%
10 000-99 999	157	4 409 750	25.08%
100 000-499 999	20	4 153 064	23.62%
500 000 and more	5	6 870 505	39.08%
Total	**2 264**	**17 582 704**	**100.0%**

Corporate Governance

The Norwegian Code of Practice for corporate governance is a guideline for listed companies to help regulate the division of roles between shareholders, the board of directors and executive management more comprehensively than is required by legislation. The intention of the Code of Practice is to strengthen the confidence in listed companies among shareholders, the capital market and other interested parties. PhotoCure bases its policy for corporate governance on the Norwegian Code of Practice.

The Norwegian Code of Practice for corporate governance	**PhotoCure**
1. Implementation and reporting on corporate governance	
• Sound corporate governance policy implemented.	Yes
• A report on corporate governance included in the annual report.	Yes
• Basic corporate values and ethical guidelines.	Yes
2. Business	
• The company's business is defined in the articles of association.	Yes
• The company has clear strategies for its business within the scope of the definition of its business in its articles of association.	Yes
3. Equity and dividends	
• The company should have an equity capital at a level appropriate to its objectives, strategy and risk profile.	Yes
• The board of directors should establish a clear dividend policy.	Yes
• Mandates to increase the companys share capital should be restricted and limited in time to the next general meeting.	Well defined mandates up to two years
4. Equal treatment of shareholders and transactions with close associates	
• The company should only have one class of shares.	Yes
• Independent third party valuation of all material transactions between the company and shareholders, board members, management or close associates of any such parties.	Yes
• Guidelines to ensure that members of the board of directors and the executive management notify the board if they have any material direct or indirect interest in any transaction entered into by the company.	Yes
5. Freely negotiable shares	
• All shares are freely negotiable with no form of restriction on negotiability.	Yes
6. General meetings	
• The board of directors should take steps to ensure that as many shareholders as possible may exercise their rights by participating in general meetings of the company, and that general meetings are an effective forum for the views of shareholders and the board.	Yes
7. Nomination committee	
• The company should have a nomination committee, elected by the general meeting.	Yes
• The nomination committee should be laid down in the company's articles of association.	No*
• The members of the nomination committee should be selected to ensure broad representation of shareholder interests	Yes
• The nomination committee should justify its recommendations.	Yes

*Proposed for the annual general meeting 3 May 2005.

8. Board of directors: composition and independence	
• The composition of the board of directors should ensure that the board can attend to the common interests of all shareholders and meets the company's need for expertise, capacity and diversity.	Yes
• The chairman of the board of directors should be elected by the general meeting.	No
• The annual report should provide information to illustrate the expertise and capacity of the members of the board of directors and identify which members are considered to be independent.	Yes
9. The work of the board of directors	
• The board of directors should produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation.	Yes
• The board of directors must ensure that the company has good internal control in accordance with the regulations that apply to its activities, including the company's own corporate values and ethical guidelines.	Yes
• The board of directors should evaluate its performance and expertise annually.	Yes
10. Remuneration of the board of directors	
• The remuneration of the board of directors should reflect the boards responsibility, expertise, time commitment and the complexity of the company's activities.	Yes
• The remuneration of the board of directors should not be linked to the company's performance. The company should not grant share options to members of its board.	Yes
11. Remuneration of the executive management	
• The board of directors should establish guidelines for the remuneration of the members of the executive management. These guidelines should be communicated to the general meeting for information.	Yes
• Share option schemes and arrangements to award shares to employees should be approved in advance by the general meeting. Proposals on share option schemes should include details of the allocation criteria, the actual value of the option schemes, the accounting consequences for the company and the potential share dilution.	Yes
12. Information and communications	
• The board of directors should establish guidelines for the company's reporting of financial and other information based on openness and taking into account the requirement for equal treatment of all participants in the securities market.	Yes
• All information distributed to the company's shareholders should be published on the company's web site at the same time as it is sent to shareholders.	Yes
13. Take-overs	
• The board of directors should not seek to hinder or obstruct take-over bids for the company's activities or shares unless there are particular reasons for this.	Yes
• Any transaction that is in effect a disposal of the company's activities should be decided by a general meeting, except in cases where such decisions are required by law to be decided by the corporate assembly.	Yes
14. Auditor	
• The auditor should submit the main features of the plan for the audit of the company to the board of directors annually.	Yes
• The auditor should participate in meetings of the board of directors that deal with the annual accounts.	Yes
• The auditor should at least once a year present to the board of directors a review of the company's internal control procedures, including identified weaknesses and proposals for improvement.	Yes

Articles of Association

The Articles of Association of PhotoCure ASA are in Norwegian. The following is merely a translation of the actual Articles of Association.

Articles of Association for PhotoCure ASA

As of 31 December 2004

§ 1

The Company's name is PhotoCure ASA. The Company is a public limited company.

§ 2

The Company's headquarters are located in Oslo, Norway.

§ 3

The purpose and main business of the Company is to operate in photodynamic therapy and related areas, and anything thereby connected.

§ 4

The share capital of the company amounts to NOK 8,791,352 divided on 17,582,704 shares at NOK 0.50 each, registered by name and fully paid in. All shares in the Company shall be registered with the Norwegian Registry of Securities (VPS).

§ 5

The Board of Directors of the Company shall consist of up to 7 members. The Board of Directors appoints a chairman and a deputy chairman among its elected members.

The Board of Directors can grant power of attorney. The authorised signatory of the Company is exercised by the chairman of the Board of Directors and the deputy chairman together, or three board members together.

§ 6

The Annual General Meeting is held each year before 1 July.

The General Meeting decides on:

1. Approval of Profit and Loss Account and Balance Sheet.
2. Employment of net income or coverage of net loss based on the finalised balance sheet and payment of dividends.
3. Election of the Board of Directors and decision on remuneration to the board members.
4. Appointment of auditor and decision on her/his remuneration.
5. The General Meeting shall also address and decide on cases listed in the summons and other matters required by law and directions.

§ 7

Extraordinary general meetings are held when the Board of Directors finds it necessary, or when it is required by the Company's auditor or shareholders representing a minimum of 1/10 of the share capital, and when information on matters to be treated is enclosed.

§ 8

All current laws and regulations pertinent to public limited companies apply to PhotoCure at all times.

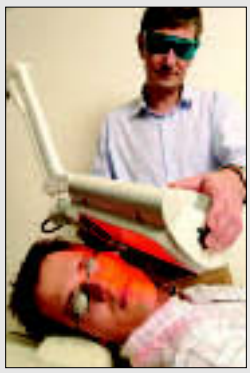
Milestones

Hexvix®

- Hexvix approved in all EU/EEA countries in March 2005
- Clinical phase III studies in Europe and the US/Canada show that Hexvix improves the detection of all types of bladder cancer, in particular highly malignant CIS tumours

Metvix®

- Revenues increased to NOK 82.4 million in 2004 (NOK 60.3 million in 2003)
- Galderma initiated launch of Metvix in Australia, Belgium, Italy and Switzerland
- Approval obtained in the USA (actinic keratosis), Czech Republic, Estonia, Hungary, Latvia, Lithuania, the Netherlands, Portugal, Poland, Slovakia and Slovenia. Metvix is now approved in 27 European countries, Australia and New Zealand
- A total of 195 centres are now established in the Nordic countries



Research and Development

- PhotoCure is currently developing new ALA derivatives for diagnosis and treatment of early-stage cancers in internal organs
- Clinical pilot studies are ongoing in patients with colorectal cancer and cervical pre-malignancies
- Clinical pilot study in patients with moderate to severe acne is initiated

PCI Biotech AS

- The company's proprietary photosensitiser proved efficient both in laboratory and animal studies
- Results from animal studies demonstrate that photochemical internalisation can provide significant improvement in gene therapy tumour treatment

HEXVIX®

Hexvix is a pharmaceutical product developed for the diagnosis of bladder cancer. The Hexvix procedure, which combines the Hexvix solution with blue light, gives a more accurate diagnosis than current standard cystoscopy with white light. The product is approved for sales and marketing in all EU/EAA countries.

Hexvix is the first pharmaceutical product on the market that improves visual inspection of the bladder and is approved for patients with known or suspected bladder cancer.

Bladder Cancer

Bladder cancer is the third most common malignant cancer worldwide and patients with bladder cancer have a good prognosis if diagnosed early and treated adequately. The present diagnostic methods are effective for large papillary (finger-like) tumours. However, for the diagnosis of flat tumours like carcinoma in situ (CIS), which is an aggressive cancer with a high potential for progression, the results are inadequate, often with tumours that remain undetected. Inadequate diagnosis of small, papillary tumours, and variable quality of tumour surgery, result in frequent tumour recurrence in 50-70% of the bladder cancer patients. An improvement in early tumour detection and surgery could avoid life-threatening conditions and reduce the number of surgical procedures, including removal of the bladder (cystectomy).

Approximately four million visual bladder inspections (cystoscopies) in white light are performed in the USA and Europe every year. Among cancer patients, US health care expenditure is highest in patients with bladder cancer. Therefore, new diagnostic methods and treatments are highly needed to improve the management of these patients. Hexvix meets this medical need as it represents an improvement of both the cystoscopic detection of bladder cancer and tumour surgery.

Bladder Cancer Diagnosis and Treatment

The most common initial sign of bladder cancer is hematuria (blood in the urine). The appearance of gross hematuria or persistent microscopic hematuria should lead to an evaluation of the entire urinary tract, including ultrasound, urine testing and visual inspection of the bladder in white light. Hexvix is an adjunct procedure to standard cystoscopy, which introduces tumour fluorescence to improve overall tumour detection. In addition, Hexvix will help the urologist to perform better tumour surgery, which may reduce tumour recurrence and avoid removal of the bladder.

Hexvix – Mechanism of Action

Hexvix consists of the Hexvix solution combined with a proprietary blue light source. It improves the diagnosis of all types of bladder cancer as the use of tumour fluorescence gives a far better visualisation of the lesions than standard white light cystoscopy. The bladder is instilled with 50 mL Hexvix solution for one hour. Malignant tissue will then selectively accumulate photoactive porphyrins (photosensitisers), which emit red fluorescence when illuminated with blue light. After bladder evacuation of the Hexvix solution, the urologist inspects the bladder first in white light (standard procedure) then in blue light (Hexvix fluorescence), simply by pushing a button on the cystoscope (equipment used for the inspection).

Clinical Studies

The effect and safety of Hexvix has been documented in three major clinical phase III studies in Europe and the US/Canada. The studies included 553 patients and showed an overall

improvement in the detection of all types of bladder tumours compared to standard cystoscopy. The improvement was best for detection of CIS tumours (58%). In 25% of the patients, more papillary tumours were found with Hexvix than with the standard procedure alone. The benefits of improving tumour detection were documented by showing that every fifth (21%) patient was recommended a more adequate treatment after bladder inspection with Hexvix, compared to inspection with standard white light. Hexvix has only showed negligible side effects.

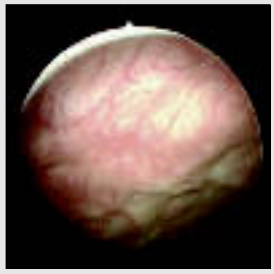
To further document the clinical benefits of Hexvix, a large multicentre study in the US/Canada and Europe has started to show a reduction in recurrence, as a result of improved tumour detection and more complete tumour surgery.

Hexvix Closer to Commercialisation

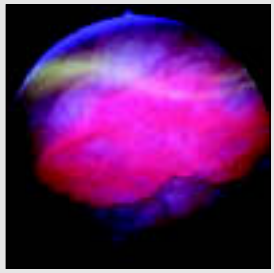
The first marketing approval for Hexvix was issued by the Swedish Medical Products Agency in September 2004, and in March 2005, Hexvix received approval in all EU/EEA countries through the Mutual Recognition Procedure. PhotoCure is currently preparing the first launch of Hexvix.

PhotoCure plans to use the same market model as for Metvix, with own responsibility for sales and marketing in the Nordic countries and a global marketing partner for sales and marketing in the rest of the world.

A health economic study has been performed to provide a basis for price and reimbursement in Europe. The use of Hexvix is estimated to cost 390 euros per patient and will give positive health economic benefits and improved patient management.

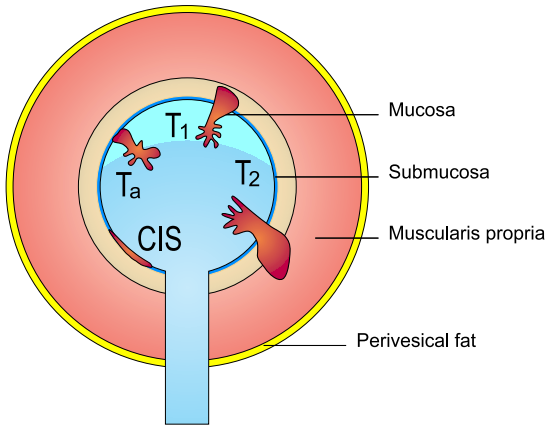


A bladder inspected with standard white light cystoscopy.



A cancer lesion (carcinoma in situ) detected only when using Hexvix fluorescence cystoscopy.

Urinary bladder with superficial cancer tumours.



METVIX®

Metvix is a pharmaceutical product developed for the treatment of skin cancer (BCC) and pre-cancerous skin-lesions (AK). Metvix is a non-surgical treatment, based on photodynamic therapy, which uses light to destroy the diseased cells. The product is approved for the treatment of BCC and AK in most European countries, Australia and New Zealand, and for AK in the US. Several clinical studies are ongoing to explore the possibility of using Metvix in other indications.

Metvix is developed for the treatment of skin cancer (BCC) and pre-cancerous skin lesions (AK).

Actinic Keratosis and Basal Cell Carcinoma

In white populations, basal cell carcinoma (BCC) of the skin is the most common malignant tumour. More than 1.7 million cases of BCC are reported each year in Europe, Australia and the US, and the incidence is rising by 3-5% per annum. BCC normally affects skin that is highly exposed to sunlight, such as the face, ears, and scalp.

Even though BCC lesions are normally not invasive or metastatic (will not spread to internal organs), they have a considerable capacity for causing local destruction. In disposed individuals, tumours are often multiple, either at presentation or over time.

Actinic keratoses (AKs) are pre-cancerous skin lesions, which appear as a scaly or crusty bump on the skin surface. Like the BCC lesions they mainly occur in sun-exposed areas such as the face, scalp and hands. AK lesions are not malignant in themselves, but if left untreated, they may transform into the malignant skin cancer known as squamous cell carcinoma (SCC). This risk is relatively low for single lesions, but increases over time and with the presence of multiple lesions. SCC lesions may grow rapidly and become locally invasive. Unlike BCC lesions, they also have significant potential to metastasise. AK lesions should therefore be treated to avoid development into malignancy.

Since BCC and AK lesions usually appear on visible parts of the body, a good cosmetic result is an integral part of an effective treatment. The traditional treatment options are surgery, cryosurgery (freezing), and curettage. Usually they provide effective tumour destruction, but all have limitations. Surgery may result in disfigurement and a need for reconstructive surgery. Moreover, lesions recurring after surgery may be difficult to treat due to scarring. Cryosurgery and curettage are recommended for superficial BCC lesions and AK only, and will result in depigmented areas and/or scars that are quite noticeable in sun-damaged skin.

Benefits with Metvix

Metvix, PhotoCure's treatment for AK and BCC, is a photodynamic therapy (PDT) that combines the Metvix cream with a proprietary red light source (the Aktilite lamp). The cream is applied to the lesions and destroys the cancerous cells when illuminated with the red light. This procedure provides a precisely directed treatment that clears the lesions and leaves healthy skin unharmed. Metvix treatment is easy to perform and is offered by dermatologists on an outpatient basis. Moreover, it gives excellent results, both in terms of lesion clearance and cosmetic outcome.

Worldwide Clinical Trial Programs

Metvix treatment is extremely well-documented. PhotoCure has performed clinical trials at more than 100 clinics and hospitals across 3 continents to document the safety and efficacy of Metvix. The pivotal trials have been published in journals with high impact factors in dermatology, such as Journal of the American Academy of Dermatology, British Journal of Dermatology, Archives of Dermatology, Journal of Dermatologic Treatment, and Journal of the European Academy of Dermatology and Venerology.

Price and Reimbursement

In addition to high efficacy, Metvix offers advantages that patients value very highly, such as an excellent cosmetic outcome and the avoidance of invasive, "cold steel" procedures. A recently published Australian study showed that patients would be willing to pay up to 900 Australian dollars (approximately 500 euros) above the price of surgery for the advantages offered by Metvix.

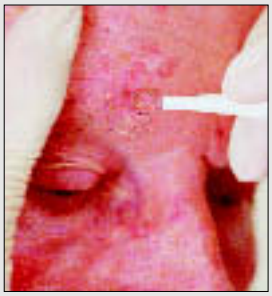
Galderma and PhotoCure have sought reimbursement in all countries where Metvix is approved. Systems for procedure coding and reimbursement of drugs vary between countries, and with the current focus on health costs, the systems are under constant scrutiny and revision.

Marketing & Sales Activities

PhotoCure is handling the sales and marketing of Metvix in the Nordic countries, while Galderma is responsible for sales and marketing in the rest of the world. During 2004, Metvix was launched in several new countries, including important markets such as Australia, Belgium, Italy and Switzerland. The launch activities were mainly directed at dermatologists and included establishment of training centres, distribution and installation of lamps, seminars, and participation at local and national congresses. At the European Academy of Dermatology and Venerology (EADV) congress in Florence, Galderma's booth was entirely dedicated to Metvix and Aktilite. There was also a separate satellite symposium in addition to the presentations that were given during the formal lecture sessions.

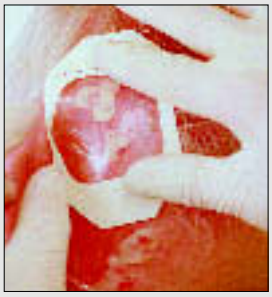
The European Society for Photodynamic Therapy (Euro-PDT) is an organisation for dermatologists working with PDT. Euro-PDT had their annual meeting in Stirling, Scotland in 2004. This meeting gathered more than 300 dermatologists to discuss recent progress within the field of PDT.

Metvix is now approved in 29 countries worldwide. In the Nordic countries, Metvix is offered at 195 of the 400 existing dermatology clinics. PhotoCure is focussing on increasing the general knowledge about Metvix among health personnel, as well as providing techni-



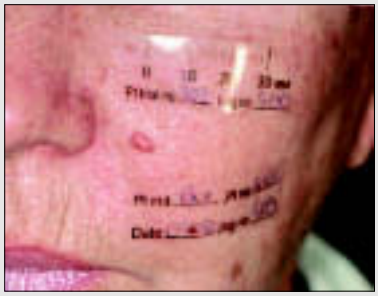
Crusts and scales are removed...

...Metvix is applied to the lesion...

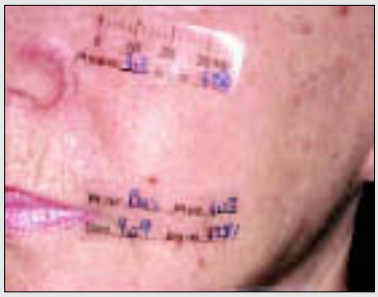


...the cream is covered with plastic film and left to work for three hours...

...the area is then illuminated with Aktilite for about ten minutes, and the cacerous cells are destroyed.



Modular basal cell carcinoma.



Complete response three months after treatment with Metvix.

cal and practical support for already existing Metvix clinics. Galderma is planning several new launches in 2005 and further marketing applications are scheduled to be filed.

New Indications

PhotoCure is currently running clinical trials in patients with Bowen's disease (a superficial form of SCC), and in patients who have received organ transplants. Organ transplant recipients take immunosuppressive medication in order to avoid rejection of the transplanted organs, and long-term use of such medication leads to the development of skin cancer and other skin lesions such as warts. In the ongoing clinical trial, organ transplant recipients are treated with Metvix several times to determine the efficacy in clearing skin lesions and preventing the occurrence of new lesions. This study will be finalised in 2007.

METVIX HISTORY

Milestones	Countries Completed
Approvals 2001	Austria, Belgium, Denmark, Finland, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Norway, Spain, Sweden, UK
Approvals 2002	New Zealand
Approvals 2003	Australia, Switzerland, Malta
Approvals 2004	US (actinic keratosis), Czech Republic, Estonia, Hungary, Latvia, Lithuania, Netherlands, Portugal, Poland, Slovakia, Slovenia
Pending marketing applications	US (basal cell carcinoma), Brazil, South Africa, Russia, Mexico
Launches 2001	Sweden
Launches 2002	Denmark, Finland, Norway
Launches 2003	Germany, New Zealand, UK
Launches 2004	Australia, Belgium, Italy, Switzerland

New Products

PhotoCure is developing new ALA derivatives for the diagnosis and treatment of early-stage cancers in internal organs, particularly colon cancers. Colorectal cancer is the third most frequent and lethal cancer in the US, with the diagnosis of approximately 145,000 new patients and the death of 57,000 patients reported in 2003 (American Cancer Society, 2003). In the EU countries, the number of new cases of colorectal cancer in 2000 was approximately 265,000 and the number of reported deaths was 141,000.

The majority of patients with colorectal cancer are diagnosed with invasive tumour that has spread to the outside of the colon, resulting in a 5-year survival of only 60-65%. Since most patients with colorectal cancer can be cured if the tumour is detected at an early stage, routine inspection of the entire colon (colonoscopy) is suggested. In the US, screening is recommended in people at age 50, and in Europe public screening programs have been initiated. These recommendations will increase the need for endoscopies, and increase the demand for more sensitive procedures.

Improving Diagnosis and Treatment

The ALA derivatives are precursors to photoactive porphyrins that accumulate in tumour tissue. When illuminated with white light, the tumour emits fluorescence, which may be utilised for diagnosis. This may be particularly useful for the detection of flat pre-cancerous lesions, which are easily missed during standard white light inspection. Light at a different wavelength and dose is cytotoxic to the tumour and may be used for the treatment of superficial cancer.

Other Potential Applications

PhotoCure is also investigating the use of ALA derivatives for other indications, including the diagnosis and treatment of pre-cancerous conditions (dysplasia) in the oesophagus and the cervix.

Clinical Studies Ongoing

PhotoCure has initiated clinical pilot studies in patients with colorectal cancer and cervical pre-malignancies to show the feasibility of these procedures. Positive results will lead to initiation of larger clinical programs to document clinical benefits.

PhotoCure is developing new ALA derivatives for the photodynamic diagnosis and treatment of early-stage cancers in internal organs, in particular colon cancers. PhotoCure is also investigating the use of ALA derivatives for other indications, including pre-cancerous conditions in the oesophagus and the cervix.

Research and Development Partners

PhotoCure uses a global network of academic institutions and third party contract research organisations to give the company access to world-class research at an affordable cost.

PhotoCure operates its research and development activities through a "virtual" structure, based on collaborations with several outstanding academic institutions globally and a number of third party contract research organisations. This approach gives the company access to world-leading research, whilst allowing it to manage development costs prudently and perform the work rapidly. The company has a number of research projects with several institutions. Major and long-term agreements have been entered into with the following:

Norwegian Radium Hospital Research Foundation, Norway

PhotoCures most important and long-standing research relationship is with the Norwegian Radium Hospital Research Foundation (RF), which is affiliated to the Norwegian Radium Hospital (NRH). The main patents covering Metvix, Hexvix, and the PCI technology were all filed by the NRH. Under the terms of this agreement, PhotoCure supports the RF with research and development funding and gains access to, and an option to acquire all of the new photodynamic therapy technologies developed by the NRH. In February 2003, the parties entered into a new three-year agreement, in which PhotoCure has a unilateral option to extend the agreement on an annual basis, up to a total of five years. A separate agreement has been entered into between the RF and PCI Biotech, covering the PCI technology.

Swiss Federal Institute of Technology and the Municipal University Hospital in Lausanne, Switzerland

PhotoCure has an agreement with the Swiss Federal Institute of Technology and the Municipal University Hospital in Lausanne to collaborate in the development of Hexvix. PhotoCure has a first right of refusal to intellectual property from the research relating to the use of Hexvix for the diagnosis and treatment of bladder cancer.

University of Geneva, Switzerland

A collaboration with the University of Geneva has been established to research on derivatives of ALA, especially in the field of formulation development.

Drug Discovery Laboratory (DDL), Norway

DDL is a research-based company that provides laboratory service and consulting to the pharmaceutical industry. DDL assists PhotoCure with the synthesis of new chemical entities for photodynamic therapy as well as with the intellectual property strategy and implementation under the terms of the cooperation agreement.

Contract Research Organisations (CROs)

PhotoCure makes extensive use of CROs in pre-clinical, clinical and regulatory projects. The CROs are carefully screened and selected for each project. Project management is always handled by PhotoCure's core team of highly skilled professionals. The intricate task of coordinating a network of small and large CROs as well as several freelance experts, is a core competency in PhotoCure, and a key factor in our regulatory successes.

All of PhotoCure's research and development partners comply with applicable international standards such as Good Laboratory Practice (GLP), Good Manufacturing Practice (GMP) and Good Clinical Practice (GCP).

PCI Biotech AS

PhotoCure's subsidiary, PCI Biotech AS, was established in 2000 to commercialise its proprietary technology, photochemical internalisation (PCI). PCI addresses the large and rapidly growing drug delivery market. There is a great interest in the pharmaceutical industry for delivery technologies that could improve the efficacy and specificity of existing products, and/or that could extend product life by providing additional patent protection. In addition, the emerging class of therapeutic macromolecules is largely dependent on efficient and specific delivery systems for realisation of their great therapeutic potential.

The PCI Technology

PCI is a technology for light-directed drug delivery and was developed to introduce therapeutic molecules in a biologically active form specifically into diseased cells. Many therapeutic targets of interest are located inside the cell and have, until now, been highly inaccessible for important classes of therapeutic molecules. This is essentially true for new classes of therapeutic macromolecules, such as proteins, oligonucleotides and DNA, but also for some small molecule drugs, e.g. certain cytotoxic agents for cancer treatment. The scope of the PCI technology is to render such molecules active in the desired area of the body only, potentially making the therapies substantially more specific.

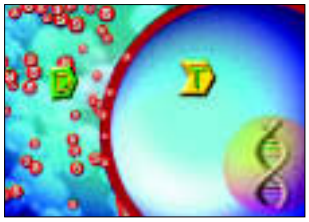
PCI Biotech is developing a new proprietary photosensitiser specially designed for use in the PCI technology. This photosensitiser will be a key product for PCI Biotech, developed for sale to end users as well as to companies that will license the PCI technology for delivery of their proprietary therapeutic molecules.

PCI Development Progressing

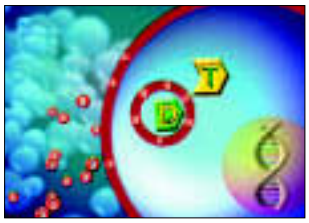
During 2004, PCI Biotech made substantial progress in the development of its photosensitiser. Synthesis and purification procedures have been developed, and up-scaling and production for the first clinical studies are planned to start in the near future. Furthermore, the efficiency of the substance has been documented both in the laboratory and in animal studies. The substance will now be documented for use in humans. In planned clinical "proof-of-concept" studies PCI will be used to enhance the delivery of an approved drug for treatment of selected cancer indications. The clinical studies will be performed in collaboration with clinicians at The Norwegian Radium Hospital (NRH), and are expected to commence in the beginning of year 2006.

Another important achievement in 2004 is the demonstration that PCI can significantly improve gene therapy treatment in an animal cancer model. It is generally acknowledged that the main obstacle for realising the therapeutic potential of gene therapy is to obtain efficient,

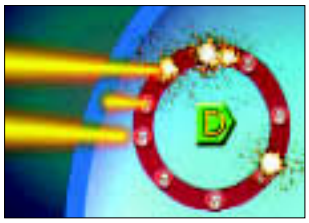
PCI Biotech AS is a subsidiary of PhotoCure, established to commercialise its proprietary photochemical internalisation technology (PCI). The PCI technology was developed to introduce therapeutic molecules in a biologically active form specifically into the diseased cells.



The photosensitiser (S) and the drug (D) are injected into the body and carried by the blood stream to the target cell, containing the therapeutic target molecule (T).



The photosensitiser and the drug are taken up by the cell, but the drug is unable to reach the target, as it is encapsuled in an endosome with photosensitiser in the membrane.



Illumination activates the photosensitiser in the membrane of the endosome. The membrane is destroyed and the drug molecule is released.

The drug molecule can now bind to its therapeutic target, initiating a therapeutic response.

specific and safe delivery of genes to the target tissue in the patient. Our results indicate that PCI can accomplish this task.

Future Prospects

PCI Biotech's business focus is to develop its proprietary photosensitiser for cancer treatment. The company will also seek to enter into commercial agreements with companies having therapeutic products that can benefit from the PCI delivery technology, especially within the cancer area. In a longer-term strategy, the PCI technology will be developed for new emerging classes of therapeutic molecules, e.g. macromolecules such as genes for gene therapy. Typically, such development is expected to be done in collaboration with biotech or pharmaceutical companies developing such molecules.

At present, approximately 20 full time scientists at the NRH perform research in PCI and related areas. PCI Biotech has all rights for commercial exploitation of new results from this research. In addition, PCI Biotech is collaborating with leading academic groups worldwide for further development of the PCI technology.

Other Potential Target Diseases

In addition to cancers, other potential target diseases such as cardiovascular, eye, skin and autoimmune diseases (rheumatoid arthritis) will also be pursued in a long-term strategy. Furthermore, the possibilities for using PCI as a delivery system for DNA vaccines will be explored.

GALDERMA S.A.

Galderma, PhotoCure's global marketing parner for Metvix®, is one of the world's leading pharmaceutical companies, focusing exclusively on the research, development and marketing of dermatological products. The company had global revenues of 586.2 million euros in 2004. Its expertise spans a broad spectrum of skin, hair and nail diseases.

Created in 1981, Galderma is a joint venture between Nestlé and L'Oréal, its parent company is based in Switzerland. Galderma today employs 2,300 persons and is headed by President and CEO Humberto C. Antunes. The company deploys a worldwide network of thirty-three wholly-owned subsidiaries and exclusive sales agents. Galderma Corporate Services offices are in Paris-La Défense.

To drive its sustained growth, Galderma commits a full 13.6 percent of revenues to research and development activities. Three R&D centers are dedicated to discovering new molecules and developing them worldwide. A new state-of-the art R&D center dedicated exclusively to dermatology was recently inaugurated to replace the current facilities in Sofia Antipolis. Galderma deploys equally sophisticated high-tech production facilities in France, Canada and Brazil.

Galdermas ongoing development is anchored in its portfolio of highly successful dermatological products that are today marketed in more than seventy countries. The mainstay of the portfolio is Differin®, the first home-grown dermatology product indicated for topical treatment of acne. Other flagship products for treating rosacea and fungal nail infections help bolster Galdermas position as the worlds third leading dermatology company.

Galderma recently made its first foray into a number of fast-growing therapeutic areas following the acquisition or licensing of several strategic products, including Metvix for non-surgical treatment of skin cancer using photodynamic therapy.

Acknowledged the world over for its expertise, Galderma aims to become the world's number one dermatology company.

Galderma's R&D center in Sofia Antipolis, France

Licensing milestones

2002	Signing fee	12 million euros
2003	EU approvals	2 million euros
2004	US approval AK	3 million euros

Directors' Report

PhotoCure is a pharmaceutical research and development company, registered on Oslo Stock Exchange. The company has a solid technology platform within photodynamic diagnosis and therapy, with the possibility to meet medical needs in a number of areas. The company has two products approved for sales and marketing; Metvix® for the treatment of skin cancer and pre-cancerous skin lesions, and Hexvix® for the detection of bladder cancer.

In 2004, PhotoCure received marketing approval from the Swedish Medical Products Agency for its second pharmaceutical product, Hexvix. Hexvix will be launched in Sweden during 2005, and marketing applications have been filed in 26 other European countries. PhotoCure's first product, Metvix, which is developed for the treatment of skin cancer and pre-cancerous skin lesions, is now available for sale in several European countries and in Australia. During 2004, sales revenues from Metvix increased by 58%, and Galderma, PhotoCure's global sales and marketing partner for Metvix, initiated launch processes in a number of new countries. Total operating revenues for 2004 amounted to NOK 82.4 million, an increase of 37% from 2003. Operating costs increased from NOK 114.0 million in 2003 to NOK 122.7 million in 2004, and the net loss was decreased from NOK 53.7 million in 2003 to NOK 40.3 million in 2004.

Hexvix approved in Sweden

The first marketing approval for Hexvix, PhotoCure's product for the detection of bladder cancer, was issued in September, when Hexvix was approved by the Swedish medical authorities. The current standard method for detecting bladder cancer is cystoscopy (visual bladder inspection) with white light. The Hexvix cystoscopy uses blue light, and is the first pharmaceutical product on the market that improves the detection of bladder cancer. Hexvix is approved for the detection of bladder cancer in patients with suspected or known bladder cancer.

Based on the Swedish approval, marketing applications were filed in 26 other EU/EAA countries through the Mutual Recognition Procedure. National marketing authorisations will be issued in each country following approval of the Hexvix product information.

Improved results with Hexvix

Treatment with Hexvix consists of the Hexvix solution combined with a blue light source. The method gives better results than standard cystoscopy with white light for all types of bladder cancer, as the blue fluorescence detects more tumours. Bladder cancer is one of the most common cancer diseases. It is also one of the most expensive cancers to treat, because the risk of recurrence is so high that patients usually need to be re-examined over several years. In addition, multiple treatments are often required. As Hexvix provides a more accurate diagnosis than standard methods, patients may receive a more effective treatment at an earlier stage and thus the chances of recurrence are reduced. This results in an improved quality of life, as patients are less likely to undergo surgery. The Hexvix procedure is simple to use and easy to implement. Hexvix may also be used as an aid during removal of cancer tumours in the bladder.

Hexvix has a substantial market potential

Each year, more than four million cystoscopies are performed in the US and Europe in order to detect or rule out bladder cancer. In these areas only, almost 200,000 new cases of bladder cancer are reported each year, and each patient goes through an average of 20 cystoscopies.

PhotoCure collaborates with Karl Storz to develop Hexvix in conjunction with Karl Storz' D-light-system (cystoscopy with blue light). The method is already approved in Sweden and the two products are currently being tested together for the diagnosis of bladder cancer, with the intent to obtain a joint marketing approval for the two products in the US.

In addition to following up the European marketing applications for Hexvix, PhotoCure is now focussing on preparations for the first Hexvix launch as well as evaluation of possible partners for marketing and sales of the product in markets outside the Nordic region.

PhotoCure is also developing Hexvix as a treatment for bladder cancer. When the photosensitive molecules are activated with a more powerful light source, the cancer cells are destructed. PhotoCure has initiated a clinical study with Hexvix for the treatment of bladder cancer and the preliminary results are promising.

Increased sales revenues for Metvix

The sales figures for Metvix, PhotoCure's product for the treatment of skin cancer and precancerous skin lesions, have increased substantially in 2004, both in the Nordic countries and in other markets.

During 2004, Metvix sales in the Nordic countries increased by 65% to NOK 16.9 million. In the markets outside the Nordic region, where Galderma is responsible for marketing and sales, sales revenues increased by 52% to NOK 20 million in 2004.

Signing and milestone payments for Metvix amounted to NOK 41 million, an increase of 29% compared to 2003.

Metvix launched in new markets

During 2004, Galderma launched Metvix in a number of new markets. The new launches included important markets such as Australia, Belgium, Italy and Switzerland. As a part of the launch process, Galderma hosted several successful launch symposia and established multiple training centres, where health personnel who wish to start offering the Metvix treatment will get necessary information and guidance. Galderma is in charge of installing new Aktilite® lamps, and provides the clinics with support for initial treatments with Metvix.

In 2004, Metvix was approved for the treatment of actinic keratosis (pre-cancerous skin lesions) and basal cell carcinoma (skin cancer) in the Netherlands, Portugal and nine of the new EU member states. In addition, further marketing applications were filed in South Africa, Brazil and Russia. Metvix is now approved for sales and marketing in 27 European countries, Australia and New Zealand. Galderma is planning to launch Metvix in Poland, Portugal, the Netherlands, the Czech Republic, Slovenia and Hungary in 2005, while marketing applications will be filed in a number of new countries. In the Nordic region, PhotoCure will focus on increasing the knowledge of Metvix among health personnel and patients, in addition to providing support to already existing clinics.

In July 2004, the American regulatory authorities (the Food and Drug Administration, FDA) approved Metvix for the treatment of pre-cancerous skin lesions (actinic keratosis, AK). The approved trade name for Metvix in the United States is Metvixia™. PhotoCure's CureLight lamp is used in the studies that form the basis of the approval, and PhotoCure is currently in dialogue with the FDA regarding the documentation necessary to get the new Aktilite lamp approved in the USA.

Regarding the US Metvix application for the treatment of skin cancer (basal cell carcinoma, BCC), PhotoCure received a rejection from the FDA in December 2004, as they require further documentation before they can approve Metvix for this indication. PhotoCure is now discussing the studies required for an approval of the application with the FDA. It is expected that these studies will take more than two years.

Metvix promising for new indications

Ongoing clinical studies with Metvix have generated promising results in the treatment of Bowen's disease, a type of skin cancer that occurs in the outermost layer of the skin. Compared to standard treatment methods, Metvix shows better results both clinically and cosmetically. Metvix has also proved to be effective in the treatment of actinic keratosis and Bowen's disease in organ transplant patients with immunodeficiency, and there is reason to believe that the Metvix treatment may prevent new skin lesions in these patients. The total number of organ recipients worldwide amounts to approximately 400,000 each year. This reflects a substantial market potential, as these patients often have multiple lesions. Moreover, PhotoCure has initiated a study with Metvix in patiens with moderate to severe acne.

PCI Biotech continues development of new technology

PhotoCure's subsidiary, PCI Biotech AS is developing a new technology for specific delivery of therapeutic molecules to the diseased area of the body. The product development targets the large and fast-growing drug delivery market. In the pharmaceutical business, there is a large demand for technologies than can improve the efficacy and selectivity of existing products. Moreover, new biomolecules such as proteins, oligonucleotides and genes, are dependant on effective and specific drug delivery systems to realise their full therapeutic potential. PCI Biotech is developing a new and specific photosensitising substance to be used in the PCI technology, and aims to start clinical studies with this substance within one year.

Financial situation

Total operating revenues for the PhotoCure Group amounted to NOK 82.4 million in 2004, compared to NOK 60.3 million in 2003. The increase is attributable to increased sales as well as increased milestone payments from Galderma of 1 million euros. The Group generated an operating loss of NOK 40.3 million in 2004, compared to an operating loss of NOK 53.7 million in 2003. The reduction of the operational loss is due to increased revenues and reduced R&D costs. All R&D costs in 2004 have been expensed.

Net financial income totalled NOK -4.5 million in 2004, a reduction from NOK 10.9 million in 2003. This is due to a writedown of shares as well as a reduction in liquid funds and lower interest rates. The Group's net loss amounted to NOK 44.7 million in 2004, compared to NOK 42.8 million in 2003. PhotoCure ASA (the parent company) generated a net loss of NOK 42.1 million, compared to a net loss of NOK 38.7 million in 2003. The Board of Directors of PhotoCure proposes that the net loss be covered by a transfer from other equity capital. After this transfer, the equity capital of PhotoCure ASA totals NOK 109.8 million, of which NOK 39.6 million are distributable reserves. The equity capital of the Group amounted to NOK 87.5 million as of 31.12.2004, giving an equity ratio of 50%.

The Group has adopted a conservative investment strategy for its liquid funds. These are invested in bank deposits and in money market funds with maturity periods of up to one year. The yield on the company's liquid funds is dependant on money market interest rates and may therefore vary over time. As of 31.12.2004, the Group's liquid funds amounted to NOK 138 million. Net cash flow from operations amounted to NOK -47.1 million in 2004, compared to NOK -70.5 million in 2003. PhotoCure received a milestone payment of 3 million euros from Galderma in 2004 in connection with the approval of AK in the USA.

Costs and revenues of the Group accrue in different currencies. The Group is therefore, to a certain extent, influenced by the effect of exchange rate fluctuations. The associated risks are continuously evaluated. PhotoCure does not currently use any financial derivates.

PhotoCure does not recognise deferred taxes as an asset in the balance sheet due to uncertainty of when the company will be able to utilise the deferred taxes. All R&D costs are expensed in the tax accounts as of 31.12.2004. PhotoCure is in dialogue with

the tax authorities to clarify whether this practice may be continued.

PhotoCure wrote down its shares in Algeta AS by NOK 6.25 million. The Board of Directors confirms the assumption that the company is a going concern and the financial report for 2004 is elaborated in accordance with this. Since the end of the financial year of 2004, there have been no events, other than those stated in this report, that are of major significance to the evaluation of the company's financial situation or results.

Organisation

The founder of the company, Professor Vidar Hansson, resigned from his position as President and CEO on 31 December 2004. The Board of Directors would like to thank him for the great contribution he has made to the company since the start in 1997. Kjetil Hestdal, former Chief Operating Officer, took over as President and CEO from the same date. In September 2004, Pål Bråthen was employed as Vice President Business Development and Christian Fekete was employed as the new CFO in November 2004. In February 2005, Grete Hogstad was employed as the new Vice President Marketing and Sales. In addition, Hilde Morris, Vice President Research and Development, and John Afseth, Vice President Business Operations, are included in the company's management team.

PhotoCure's office is located in Oslo. At the end of 2004, the PhotoCure Group had 36 employees, two of whom were employed in the subsidiary PCI Biotech AS. The Group makes considerable use of external suppliers for production, research and development as well as regulatory work. The working environment in the company is considered to be good. No accidents or injuries were reported in 2004. In the Group, the absence from work due to illness totalled 305 working days in 2004, which equals 3.6% of total working days. In the parent company, the absence from work due to illness totalled 300 working days, which equals 3.7% of total working days.

PhotoCure's goal is to be a workplace that provides equal opportunities for men and women. The Group aims to ensure that no employees are discriminated on account of gender in any area The company has traditionally recruited from environments where men and women are relatively evenly represented. Of the company's 34 employees, 20 are women, and the distribution of men and women is balanced in most areas. Women are represented in the Board of Directors and in the management. The average salary for men is higher than for women and this is caused by the fact that there are fewer women in executive positions. Working hour arrangements in the company are not dependant on gender.

The company does not pollute the external environment.

Other matters

In April 2002, PhotoCure ASA filed papers in an Australian court to invalidate patent no. 624985 assigned to Queen's University in Kingston, Canada. The patent is licensed to DUSA Pharmaceuticals, Inc. and relates to a method using 5-aminolevulinic acid in photodynamic therapy. In the papers submitted to the court, PhotoCure asserts that publications predating the Queen's University patent preclude the patenting of 5-aminolevulinic acid for photodynamic therapy. DUSA has filed a cross-claim in the same proceeding. The trial was held in the spring of 2004 and no sentence has yet been pronounced.

Future prospects

PhotoCure's primary focus in 2005 will be to continue its close cooperation with Galderma to ensure increased sales of Metvix. PhotoCure has initiated preparations for the first Hexvix launch and is working to establish a licensing agreement for marketing and sales of the product outside the Nordic region.

In the Nordic region, PhotoCure will concentrate on raising the general awareness of Metvix by focussing on the product's properties and new possibilities. Galderma is planning to carry out extensive marketing activities in 2005 and initiate new launches in their market areas. PhotoCure expects to receive marketing approval for Hexvix in several EU/EAA countries during 2005.

Oslo, 23 February 2005

Erik Engebretsen, *Chairman of the Board*

Per-Olof Mårtensson, *Deputy Chairman*

Halvor Bjerke, *Board Member*

Birgit Stattin Norinder, *Board Member*

Lars Lindegren, *Board Member*

Kjetil Hestdal, *President and CEO*

Income Statement

PhotoCure ASA

(Amounts in NOK 000s)

Parent				Group		
2004	**2003**		**Note**	**2004**	**2003**	**2002**
		Operating revenues				
36 811	23 365	Sales revenues		36 855	23 380	10 892
40 954	31 774	Signing and milestone revenues	1	40 954	31 774	14 331
1 750	2 350	Other operating revenues	1	4 597	5 150	3 486
79 515	**57 489**	**Total operating revenues**		**82 406**	**60 304**	**28 709**
		Operating expenses				
13 051	9 514	Cost of goods sold	4	13 066	9 514	5 832
32 920	24 492	Payroll expenses	2,3	34 684	27 756	18 795
1 528	1 661	Ordinary depreciation	5	1 530	1 677	1 269
29 435	35 841	External R&D expenses		31 718	38 377	77 300
40 205	35 595	Other operating expenses	6	41 671	36 635	35 039
117 139	**107 103**	**Total operating expenses**		**122 669**	**113 959**	**138 235**
-37 624	**-49 614**	**Operating income**		**-40 263**	**-53 655**	**-109 526**
		Financial income and expense				
4 644	13 992	Financial income	7	4 687	14 014	20 271
-9 129	-3 083	Financial expenses	7	-9 149	-3 126	-6 750
-4 485	**10 909**	**Net financial income**		**-4 462**	**10 888**	**13 521**
-42 108	**-38 705**	**Income before tax**		**-44 725**	**-42 767**	**-96 005**
0	0	Tax expense	8	0	0	0
-42 108	**38 705**	**Net income for the year**		**-44 725**	**-42 767**	**-96 005**
		Incl. minority interest in the amount of		-284	-441	-906
		Net income per share	9	-2.54	-2.44	-5.51

Balance sheet as of 31 Desember

PhotoCure ASA

(Amounts in NOK 000s)

Parent				Group	
2004	**2003**		**Note**	**2004**	**2003**
		Fixed assets			
		Machinery and equipment			
2 080	3 221	Machinery and equipment	5	2 080	3 222
		Financial fixed assets			
1 861	1 710	Accrued pension plan assets	3	1 750	1 582
23 859	23 859	Investment in subsidiaries	10	0	0
0	6 250	Investment in shares	10	0	6 250
25 720	**31 819**	**Total financial fixed assets**		**1 750**	**7 832**
27 800	**35 040**	**Total fixed assets**		**3 829**	**11 054**
		Current assets			
		Inventory			
17 498	23 124	Inventory	4	17 533	23 167
		Receivables			
7 413	5 782	Accounts receivable		7 413	5 782
0	11	Receivables from group companies	17	0	0
6 848	5 609	Other receivables		8 733	7 554
14 261	**11 402**	**Total receivables**		**16 146**	**13 336**
		Investments			
111 219	170 309	Securities	11	111 219	170 309
		Cash and cash equivalents			
25 666	11 815	Cash and cash equivalents	12	26 733	15 536
168 645	**216 650**	**Total current assets**		**171 631**	**222 348**
196 444	**251 690**	**Total assets**		**175 460**	**233 402**

PhotoCure ASA

(Amounts in NOK 000s)

Parent				Group	
2004	**2003**		**Note**	**2004**	**2003**
		Equity			
		Paid-in capital			
8 791	8 789	Share capital	13	8 791	8 789
58 302	58 108	Additional paid-in capital	13	58 302	58 108
3 135	2 970	Other paid-in capital	13	3 135	2 970
70 228	**69 867**	**Total paid-in capital**		**70 228**	**69 867**
		Retained earnings			
39 611	81 719	Retained earnings	13	17 138	61 577
		Minority interest			
		Minority interest		13 169	453
109 839	**151 586**	**Total equity**		**87 535**	**131 897**
		Liabilities			
		Other long term liabilities			
13 219	13 519	Other long term liabilities	15	13 219	13 519
		Current liabilities			
7 418	8 325	Accounts payable		7 539	8 571
6 886	2 205	Employee withholding taxes and social security tax		6 991	2 458
48 205	63 839	Deferred income	1	48 205	63 839
10 877	12 216	Other current liabilities	16	11 972	13 118
73 386	**86 585**	**Total current liabilities**		**74 707**	**87 986**
86 605	**100 104**	**Total liabilities**		**87 926**	**101 505**
196 444	**251 690**	**Total equity and liabilities**		**175 460**	**233 402**

Oslo, 23 February 2005
The Board of Directors of PhotoCure ASA

Erik Engebretsen	Per-Olof Mårtensson	Halvor Bjerke
Chairman of the Board	*Deputy Chairman*	*Member of the Board*
Lars Lindegren	Birgit Stattin Norinder	Kjetil Hestdal
Member of the Board	*Member of the Board*	*President and CEO*

Cash Flow Statement

PhotoCure ASA

(Amounts in NOK 000s)

Parent				Group		
2004	**2003**		**Note**	**2004**	**2003**	**2002**
		Cash flow from operations				
-42 108	-38 705	Loss before taxes		-44 725	-42 767	-96 005
1 528	1 661	Ordinary depreciation		1 530	1 677	1 269
6 250	0	Write-down of shares		6 250	0	0
0	19	Gain on sale of machinery and equipment		0	19	0
-151	-198	Change in pension liability		-168	-153	383
465	640	Other items		465	640	-1 244
5 626	2 965	Change in inventory		5 634	2 965	-21 845
-1 631	-3 701	Change in accounts receivables		-1 631	-3 701	-1 940
907	-5 733	Change in accounts payables		-1 032	-9 143	9 784
-15 634	-15 634	Change deferred income		-15 634	-15 634	79 473
301	-11 512	Change in other short-term items		2 208	-4 409	-20 781
-44 449	**-70 198**	**Net cash flow from operations**		**-47 103**	**-70 506**	**-50 906**
		Cash flow from investments				
-429	-381	Investments in machinery and equipment		-429	-381	-3 887
42	204	Sales of fixed assets (sales price)		42	204	0
0	0	Investment in subsidiary		0	0	-19
0	-1 250	Investments in other companies		0	-1 250	-5 000
-387	**-1 427**	**Net cash flows from investing activities**		**-387**	**-1 427**	**-8 906**
		Cash flow from capital transactions				
0	0	New loans		0	0	0
-600	-300	Payment on loans		-600	-300	0
197	5 883	Paid-in equity		197	8 575	4 137
-403	**5 583**	**Net cash flow from capital transactions**		**-403**	**8 275**	**4 137**
-45 239	**-66 042**	**Net change in cash during the year**		**-47 893**	**-63 658**	**-55 675**
182 124	**248 166**	**Cash and cash equivalents as of 01.01**		**185 845**	**249 503**	**305 178**
136 885	**182 124**	**Cash and cash equivalents as of 31.12**	**12**	**137 952**	**185 845**	**249 503**

Notes to Financial Statement for 2004

The notes to the financial statements include both the PhotoCure Group and the parent company PhotoCure ASA ("the Company") and are representative for both, except where explicitly indicated.

Accounting principles

The accompanying financial statements are presented in accordance with the Accounting Act of 1998 ("the Accounting Act") and generally accepted accounting principles in Norway.

Consolidation principles

The group accounts include the parent company PhotoCure ASA and its subsidiaries, i.e. companies in which the parent company directly or indirectly owns more than 50 percent or has power to control.

The group accounts indicate the cumulative financial net loss and position of the economic entity consisting of PhotoCure ASA and it's subsidiaries. The subsidiaries are consolidated on a line-by-line basis within the group accounts. The minority's share of net result after tax is presented as a separate line item. Share of net result is normally calculated based on the subsidiary's net result after tax as this is entered in the group accounts after eliminations. Negative minority share is recognised as a reduction to retained earnings.

Uniform principles have been utilised in the preparation of group accounts, the subsidiaries use the same principles as the parent company. All significant group transactions and intercompany balances have been eliminated. The subsidiaries appear at cost within the parent company accounts.

Consolidation

Acquisition of entities is recognized on the basis of the acquisition method unless otherwise stated. The acquisition method prescribes that the entity's assets and liabilities that exist at the date of acquisition are recorded at market value. Consideration exceeding that, which relates to identifiable assets and liabilities is classified as goodwill. For partially owned subsidiaries, the minority's share of excess values is included in identified assets and liabilities in the balance sheet. The minority owners' share of excess values is included in minority interests in the group's equity.

Revenue recognition

Revenues relating to products are recognised upon delivery, i.e. at the point of transfer of both the majority of risk and control. Estimated returns are recognised as a reduction to revenues.

Payment in connection with signing of licensing agreement is recognised over the minimum contract period, and milestones related to regulatory approvals and product launches relating to license agreements, are recognised upon achievement.

Royalty revenues are recognised upon the licensee's sale of licensed products.

Research and development

All costs related to research and development are expensed as incurred until national marketing approval for the product is obtained. Fixed assets are valued at purchase price. Fixed assets are written down to market value in the event of value impairment not considered to be temporary, in accordance with generally accepted accounting principles. Such write-downs are reversed when the conditions causing to the impairment in value are no longer present. Long-term debt is recognised at the face value together with transaction costs.

Contributions from the government

Contributions received from the government are recognised at the value of the contributions at the transaction date. Contributions are recognised in the statement of operations in the same period as the corresponding revenues or costs. Contributions are not recognised until fulfilment of the relevant conditions is considered probable. Contributions are classified as other operating income within the income statement.

Contributions from the government that are subject to a conditional repayment clause are recognised as a liability, and repayments in the form of royalty etc., are recognised as instalments.

Assessment of balance sheet items

Unless otherwise stipulated, the following principles are applied:

Assets relating to the operating cycle, as well as receivables due within one year from the time of acquisition are classified as current assets. Other assets are classified as fixed assets. The same principle is applied to the classification of liabilities. Long-term debt that matures within one year is therefore classified as a current liability.

Current assets are valued at the lower of cost and market value. Current liabilities are recognised at cost.

Fixed assets are valued at purchase price. Fixed assets are written down to market value in the event of value impairment not considered to be temporary, in accordance with generally accepted accounting principles. Such write-downs are reversed when the conditions causing to the impairment in value are no long-

er present. Long-term debt is recognised at the face value together with transaction costs.

Currency

Monetary items in foreign currency are translated at prevailing rates as of the balance sheet date. Realised and unrealised currency gains and currency losses are included within net loss. Transactions in foreign currencies are recorded at prevailing rates as of the transaction date.

Receivables

Account receivables and other receivables are presented at face value less a provision for doubtful accounts. The provision is based on an individual evaluation of the realisable value of each receivable.

Current investments

Securities are placed in a money market fund with a life of less than one year in underlying securities. Money market funds are carried at market value.

Inventory

Stock of purchased inventory is valued on the basis of the lower of cost and market value, and on the basis of the first in-first out principle.

Fixed and intangible assets

Fixed and intangible assets are capitalised and depreciated on a straight-line basis over the estimated useful life. Expenditures for maintenance and repair costs are expensed as incurred as operating costs. Expenditures for improvements are capitalised and depreciated at the same rate as the underlying asset.

Write-downs of plant and equipment are made upon identification of a decrease of value, which is not considered to be temporary. If the need for write down is identified, the asset is written down to the lower of book value and net realisable value. Best estimate is utilised in connection with the determination of net realisable value. Assets are grouped and evaluated on the basis of the lowest level of aggregation of identifiable and independent cash flows. Prior write-downs may be reversed to the extent that the basis for the write-down is no longer present.

Pensions

Pension costs and pension liabilities are calculated straight line on the basis of an assumed discount rate, rate of salary progression, pension and social benefit allowances, rate of return on plan assets, and actuarial assumptions on mortality, early retirement, etc. Pension assets and liabilities appear as a net amount in the financial statements. Changes in pension liability arising from changes in pension plan benefits are recognised over the expected remaining earning period. Changes in pension liabilities and pension funds that are due to changes in the assumptions used are recognised over the expected remaining earning period if the change value as of the beginning of the year exceeds ten percent of the greater of the gross pension plan assets or liability (Corridor). Only the part of the change value exceeding ten percent is amortised. Social security tax is accrued on the net pension liability.

Net period pension expense appears as an element of salary expense, and consists of the periods earned pension, interest expense on pension liability, and expected return on pension assets.

Share options and warrants

Options/warrants are issued to employees at exercise prices, which reflect, at a minimum, market value at the time of issuance, and therefore have no intrinsic value at the time of issuance. Options/warrants are not discounted to reflect time value. Social security taxes relating to retained options/warrants are accrued as salary expense over the options/warrants economic life.

Warrants issued to non-employees are recognised at fair market value and are accrued on the basis of the underlying agreement.

Taxes

Tax expense is comprised of taxes payable for the current period and the change in deferred taxes. Deferred taxes are calculated at 28% of the temporary differences that exist between tax and accounting values, and tax operating loss carry forwards. Tax assets and liabilities resulting from temporary timing differences that reverse or may be reversed in the same periods are offset against one another. Recognition of a deferred tax asset is subject to probable future application.

Cash flow statement

The cash balance is defined as the total of cash, bank deposits, and money market funds. The cash flow statement is based on the indirect method.

Equity transactions

Expenditures relating to stock issuance are recognised as a reduction of stock issuance proceeds.

Net loss per share

Net loss per share is calculated by dividing net loss related to weighted average common stock outstanding during the period. Diluted net loss per share also reflects outstanding options.

NOTE 1 - OPERATING REVENUES

All revenues originate from the same business area, including research, development, production and sales of pharmaceutical products and associated medical devices.

Signing fees in the amount of NOK 15.6 million is included in sales and milestone revenues in 2004 and NOK 15.6 million in 2003. The remaining NOK 48.2 million of the signing fee are included as deferred income in the balance sheet as of 31 December 2004, and NOK 63.8 million as of 31 December 2003. Milestone payments included in sales and milestone revenues was NOK 25.3 million in 2004, and NOK 16.2 million in 2003.

Other operating income includes public contributions in the amount of NOK 4.6 million for 2004 and NOK 4.8 million for 2003 to the group, and NOK 1.4 million for 2004 and NOK 1.6 million for 2003 to the parent company.

Geographic distribution of sales revenues:		**Group**	
(Amounts in NOK 000s)	**2004**	**2003**	**2002**
The Nordic region	16 851	10 233	5 928
Outside the Nordic Region	20 004	13 147	4 964
Total	**36 855**	**23 380**	**10 892**

NOTE 2 - LABOUR COSTS, ADDITIONAL COMPENSATION COSTS, NUMBER OF EMPLOYEES, ETC

	Group			**Parent**	
(Amounts in NOK 000s)	**2004**	**2003**	**2002**	**2004**	**2003**
Wages	23 862	20 269	18 226	22 637	17 866
Social security tax	4 575	4 210	3 156	4 375	3 839
Social security tax on employee share options/warrants	8	256	-6 127	8	256
Pension expenses	4 126	1 932	2 041	3 936	1 628
Other compensations	2 113	1 089	1 500	1 964	903
Total labour costs	**34 684**	**27 756**	**18 796**	**32 920**	**24 492**
Average number of employees (weighted)	37.0	36.7	34.8	35.0	32.5

Compensation to CEO and Board of Directors (BoD)	**CEO**	**BoD**
(Amounts in NOK 000s)		
Wages	1 425	1 140
Bonus acquired in period 1997-2001	5 973	
Pension premium	98	
Other compensations	16	

All compansation to the CEO relates to the former CEO, who resigned on 31 December 2004.

The new CEO is entitled to a bonus up to 25% of his ordinary salary depending of compliance with certain conditions. He is guaranted a bonus of 1/3 of maximum bonus. The CEO is given an option of totally 20,000 shares with a three year term after the commencement. Exercise price equals market price at the time of allocation. Moreover, the CEO may claim compensation for a maximum of 24 months beyond the dismissal period. If the CEO receives other compensations for his services during the 24-month period, the amount of other compensations received will be deducted from the compensations to be paid by the Company the last twelve months of the compensation period. The CEO is at the age of 67 entitled to a pension of 66% of his ordinary salary.

Share options/warrants earned by PhotoCure employees as of 31 December 2004*:

Total share options/warrants	Exercise price	Exercise period
41 000	NOK 100-129	01.01.2003 – 31.12.2006
36 328**	NOK 107.50	Up to 1/3 may be exercised at the earliest in 2003, up to 2/3 at the earliest in 2004 and all by 31.12.2005
17 515**	NOK 34.50	Up to 1/3 may be exercised at the earliest in 2004, up to 2/3 at the earliest in 2005 and all by 31.12.2006
26 903**	NOK 53.50	Up to 1/3 may be exercised at the earliest in 2005, up to 2/3 at the earliest in 2006 and all by 31.12.2007

* Conditional award of share options/warrants for 2005 is not included in this table.

** Including 16 233 share options/warrants earned by the management, for more information see note 14.

In connection with the Company's incentive policy, all employees have been granted share options/warrants to Company stock. Subscription price is at a minimum set at the market value at the time of subscription issuance (please also refer to note 15). The Board of Directors has not been allotted any share options/warrants. The Board of Directors of PhotoCure ASA has for 2005 continued the incentive programme for Company employees, including Company management. 195,000 contingent share options/warrants have been be issued for 2005, in which each share option/warrant provides a right to subscribe to one share in the Company. Such options/warrants will be earned if certain benchmark goals as specified in the 2005 budget are obtained. 1/3 of the share options/warrants may be exercised each year starting in 2006 and ending in 2008. All the share options/warrants must be exercised by 31 December 2008. Of these share options/warrants, 20,000 were issued to the Chief Executive Officer, 10,000 were issued to the Chief Financial Officer, 10,000 were issued to the Vice President of Research and Development, 10,000 were issued to the Vice President Business Development, 10,000 were issued to the Vice President Marketing and Sales, and 10,000 were issued to the Vice President of Business Development. In addtition, the following share options/warrants were issued in February 2005; 40,000 were issued to the CEO, 25,000 to the CFO, 25,000 to the Vice President R&D, 25,000 to the Vice President Marketing and Sales, 25,000 to the Vice President Business Operations and 25,000 to the Vice President Business Development.

In connection with the Company's employee co-ownership programme, selected employees of PhotoCure ASA have been offered to subscribe shares in the Company, in which portions of payable amounts have been deferred. Upon sale of shares acquired in connection with this programme, the Company shall be entitled to the portion of proceeds, which corresponds with the difference between the subscription price and the market value of stock as of the date of subscription. In the event that such stock is held for 10 years, a final settlement, based on the same principles, will be effectuated. In the event that such shares are sold within a specified period, the Company has, on the basis of defined terms, pre-emptive rights. As of 31 December 2004, 25,000 shares were subscribed to in connection with the programme (please also refer to note 14).

Auditor

The auditor's fee for statutory audit in 2004 was NOK 322,000 for the group and NOK 280,000 for the parent company.

Auditor's fees are specified in the following table:

Auditor's fees: (Amounts in NOK 000s)	**Group**	**Parent**
Statutory audit	220	190
Audit related services	65	53
Tax related services	37	37
Total	**322**	**280**

NOTE 3 - PENSION LIABILITIES

The Group is enrolled in a collective pension arrangement ("the Plan") through Nordea Liv Norge AS.
The Plan is in compliance with Norwegian Standards for Accounting.

The pension benefit calculation is based on the following assumptions:

	2004	**2003**	**2002**
Expected long term rate of return on plan assets	6.50%	7.50%	7.50%
Discount factor	5.50%	6.50%	6.50%
Rate of salary progression	2.50%	3.50%	3.50%
Yearly adjustment of G*	2.00%	3.00%	3.00%
Increase in pension benefits	2.00%	3.00%	3.00%

* G is the basic amount in the National Insurance

Underlying actuarial assumptions relating to demographic factors and terminations are in line with standard insurance industry guidelines. The dicount factor are based on long-term company bonds with a base of 10 year governmental bonds plus a risk premium of 0.5% and regarded average remaining ecomonic life of the Plan. The calculation is based on coverage of 29 employees in the Group and 25 employees in the parent company.

Current year net periodic pension expense was calculated as follows:

	Group			Parent	
(Amounts in NOK 000s)	**2004**	**2003**	**2002**	**2004**	**2003**
Service Cost	1 444	1 616	1732	1 279	1 362
Interest expenses	306	291	223	285	268
Actual return on plan assets	-320	-294	-199	-315	-281
Net amortisation and deferral	45	47	91	55	53
Social security tax	223	272	194	204	226
Net pension expense	**1 698**	**1 932**	**2 041**	**1 508**	**1 628**

Pension liability:

	Group		Parent	
(Amounts in NOK 000s)	**31.12.04**	**31.12.03**	**31.12.04**	**31.12.03**
Projected benefit obligation	-7 321	-6 378	-6 751	-5 753
Plan assets at fair value	7 931	6 787	7 380	6 233
Unrecognised net loss	1 142	1 183	1 232	1 230
Net plan assets before social security tax	**1 752**	**1 592**	**1 861**	**1 710**
Social security tax	-2	-10	0	0
Accrued plan assets (liabilities)	**1 750**	**1 582**	**1 861**	**1 710**

NOTE 4 - INVENTORY

	Group		Parent	
(Amounts in NOK 000s)	**31.12.04**	**31.12.03**	**31.12.04**	**31.12.03**
Raw materials	13 718	18 973	13 718	18 973
Finished goods	3 815	4 194	3 780	4 151
Total inventory	**17 533**	**23 167**	**17 498**	**23 124**

NOTE 5 - PLANT AND EQUIPMENT

	Group	Parent
(Amounts in NOK 000s)	**Machinery & equipment**	**Machinery & equipment**
Purchase price 01.01.2004	7 573	7 526
Additions	429	429
Disposals	-359	-359
Purchase price 31.12.2003	**7 643**	**7 596**
Accumulated depreciation 01.01.2004	4 351	4 305
Depreciation expenses	1 529	1 528
Disposals	-317	-317
Accumulated depreciation 31.12.2004	**5 563**	**5 516**
Book value 31.12.2004	**2 080**	**2 080**
Book value 01.01.2004	3 222	3 221
Expected economic life	3-5 years	3-5 years
Depreciation method	Linear	Linear

NOTE 6 - OTHER OPERATING EXPENSES

	Group			Parent	
(Amounts in NOK 000s)	**2004**	**2003**	**2002**	**2004**	**2003**
Marketing expenses	10 414	6 535	7 720	10 382	6 407
Travel expenses	5 511	5 634	5 039	5 439	5 509
Patent and legal expenses	11 214	11 031	10 032	10 072	9 483
Other expenses	14 532	13 435	12 248	14 312	14 196
Total other operating expenses	**41 671**	**36 635**	**35 039**	**40 205**	**35 595**

NOTE 7 - FINANCIAL ITEMS

	Group			Parent	
(Amounts in NOK 000s)	**2004**	**2003**	**2002**	**2004**	**2003**
Interest income	3 145	10 426	18 404	3 115	10 317
Interest income group	0	0	0	0	104
Foreign exchange gains	1 542	3 588	1 867	1 529	3 571
Total financial income	**4 687**	**14 014**	**20 271**	**4 644**	**13 992**

	Group			Parent	
(Amounts in NOK 000s)	**2004**	**2003**	**2002**	**2004**	**2003**
Interest expenses	103	435	459	103	435
Foreign exchange loss	2 644	2 549	6120	2 624	2507
Write-down of financial assets	6 250	0	0	6 250	0
Other financial expenses	152	142	171	152	141
Total financial expenses	**9 149**	**3 126**	**6 750**	**9 129**	**3 083**

NOTE 8 - TAXES

Tax expense consists of the following:	Group			Parent	
(Amounts in NOK 000s)	**2004**	**2003**	**2002**	**2004**	**2003**
Taxes payable on net income	0	0	0	0	0
Change in deferred tax	0	0	0	0	0
Tax expense	**0**	**0**	**0**	**0**	**0**

Taxes payable was calculated as follows:	Group			Parent	
(Amounts in NOK 000s)	**2004**	**2003**	**2002**	**2004**	**2003**
Net loss before tax	-44 725	-42 767	-96 005	-42 108	-38 705
Expected nominal rate	-12 523	-11 975	-26 881	-11 790	-10 837
Permanent differences	1 171	-720	-840	1 498	-379
Write down of deferred tax asset	11 352	12 695	27 721	10 292	11 217
Taxes payable on net loss	**0**	**0**	**0**	**0**	**0**

Specification of the basis for deferred tax assets and liabilities

Temporary differences:	**Group**		**Parent**	
(Amounts in NOK 000s)	**2004**	**2003**	**2004**	**2003**
Fixed assets	-2 823	-2 635	-2 810	-2 617
Securities	0	0	0	0
Inventory	-52	0	-52	
Liabilities	-13 947	-12 257	-13 947	-12 257
Net pension asset	1 750	1 582	1 861	1 710
Loss carry forward	-418 403	-379 623	-389 499	-354 523
Total	**-433 475**	**-392 933**	**-404 446**	**-367 688**
Deferred tax asset (28%)	-121 373	-110 021	-113 245	-102 953
Deferred tax asset not recognized	121 373	110 021	113 245	102 953
Book value of deferred tax asset	**0**	**0**	**0**	**0**

The operating loss carry forward expires according to the following schedule:

(Amounts in NOK 000s)	**Group**	**Parent**
2006	1 121	1 121
2007	6 721	6 721
2008	380	11 380
2009	38 430	38 430
2010	73 406	73 153
2011	99 246	90 836
2012	103 014	91 801
2013	45 919	40 695
2014	39 166	35 362
Total	**418 403**	**389 499**

PhotoCure has tax-based expensed all R&D costs as of 31 December 2003. The Company is in dialogue with the Norwegian tax authorities on whether they can continue this practice in 2004.

RISK per share amounted to NOK 0 as of 31 December 2003 and is estimated by the Company to amount to NOK 0 as of 31 December 2004.

NOTE 9 - NET LOSS PER SHARE (GROUP)

Net loss per share	2004	2003	2002
W.A.S.O.*	17 581 769	17 503 849	17 417 589
Avg. net loss per share	-2.54	-2.44	-5.51
W.A.S.O.* (diluted)**	17 587 760	17 503 849	17 586 161

* Weighted Average Shares Outstanding

** Average net loss per diluted share is excluded from calculation when this results in antidilution.

PhotoCure had issued 171,746 share options and warrants at the end of 2004.

NOTE 10 - INVESTMENTS IN SUBSIDIARIES AND OTHER COMPANIES

Company	Location	Year of acquisition	Company share capital 31.12.04	Ownership and voting share 31.12.04	Book value 31.12.04	Equity 31.12.04	Net income 2004
PCI Biotech AS	Oslo, Norway	2000	NOK 222,000	89.14%	NOK 23.9 mill	NOK 1.5 mill	NOK -2.6 mill
PhotoCure Australia Pty Ltd	Melbourne, Australia	2000	AUD 12	100%	NOK 0	NOK 0	NOK 0

PhotoCure owns 12,500 shares in Algeta AS, corresponding to 6.8% of the company shares. Algeta AS is a Norwegian company that develops radioactive drugs for the treatment of cancer. The shares are written down by NOK 6.25 million to NOK 0 in 2004.

NOTE 11 - SECURITIES

The Company's securities portfolio consists of investments in money market funds, which invest in securities with duration of less than a year. Rate of return is in line with the going market rate for similar securities. Investments as of 31 December 2004 were as follows:

(Amounts in NOK 000s)	Book value	Market value	Return
DnB Asset Management ASA	89 207	89 207	2 358
Storebrand Fondene AS	22 012	22 012	552
Total	**111 219**	**111 219**	**2 910**

NOTE 12 - CASH DEPOSITS

Restricted cash as of 31 December 2004:

(Amounts in NOK 000s)	Group	Parent
Restricted cash	5 521	5 465

NOTE 13 - EQUITY

Equity in parent

(Amounts in NOK 000s)	Share capital	Share premium reserve	Other restricted capital	Other equity	Total equity
Equity as of 31.12.2003	**8 789**	**58 108**	**2 970**	**81 719**	**151 586**
Accrued subscription rights			165		**165**
Share issue employees	2	194			**197**
Net loss of the year				-42 108	**-42 108**
Equity as of 31.12.2004	**8 791**	**58 302**	**3 135**	**39 611**	**109 839**

Equity in group

(Amounts in NOK 000s)	Total paid-in capital	Other equity	Minority interest	Total equity
Equity as of 31.12.2003	**69 867**	**61 577**	**453**	**131 897**
Equity transactions in parent	362			**362**
Net loss of the year		-44 441	-284	**-44 725**
Equity as of 31.12.2004	**70 229**	**17 137**	**169**	**87 534**

NOTE 14 - SHARE CAPITAL AND SHAREHOLDER INFORMATION

Registered share capital in PhotoCure ASA was comprised of the following as of 31 December 2004:

Share outstanding	Par value	Book value of share capital
17 582 704	NOK 0.50	NOK 8 791 352

All shares reflect identical rights to the Company, including equal voting rights.

The Board of Directors was authorised by the General Assembly on 15 April 2004 to issue 2.25 million shares, of which (a) 1.8 million shares relates to the financing of the company's development, while issuance of (b) 0.45 million shares relates to issuance of stock to employees and to certain strategic partners. The remaining authorisation as of 31 December 2004 was 2.25 million shares. Authorisation relating to (a) remains effective through the annual general assembly in 2005, while authorisation relating to (b) remains effective for two years. Previously reported authorisations have expired.

The following table provides an overview as to the status of authorisations as of 31 December 2004:

(Amounts in number of shares)	Ordinary share issue	Employee issue
Issue authorisation general assembly 15.04.04	1 800 000	450 000
Share issues pursuant to general assembly 15.04.04	0	0
Remaining issue authorisation	**1 800 000**	**450 000**

In addition, subscription rights to 121,746 shares were issued to employees (see note 2), and remain unexercised, as well to 50,000 shares to strategic partners (see below).

As described in Note 2, selected employees in PhotoCure ASA have been offered share subscriptions, where portions of the payments are deferred. The company will receive a maximum payment of NOK 2.1 million from those who as of 31 December 2004 have acquired shares under this arrangement.

PhotoCure ASA has entered into a research and development contract in which a strategic partner has been issued subscription rights to 50,000 shares. Such rights may be exercised at a maximum of 12,500 shares per year as of 1 January of each year, for a period of three years, from 1 January 2002 through 1 January 2005, provided that the cooperation agreement is not cancelled. The subscription rights are exercisable through 31 December 2005. The issue price is NOK 125 per share, and the total value of all subscription rights was estimated at NOK 3,135,000 at the time of issuance. The strategic partner assists PhotoCure ASA in the development of new substances and in patenting issues.

The value of subscription rights is calculated on the basis of Black-Scholes model for valuation of options.

Ownership structure

The primary shareholders in the Company as of 31 December 2004, were:

	Shares	Ownership percentage
Radiumhospitalets Forskningsstiftelse	3 759 000	21.4%
Gezina AS	960 373	5.5%
Odin Norge	950 632	5.4 %
Brown Brothers Harri S/A Permanent -Hunter Hall	650 500	3.7%
Ferd Invest	550 000	3.1%
Brown Brothers Harri S/A Hunter Hall Global	396 800	2.3%
Norsk Hydros Pensjonskasse	393 728	2.2%
Vidar Hansson/Varak AS	375 500	2.1%
Sig. Bergesen D.Y. og almennyttige stiftelse	352 750	2.0%
Marlin Verdi AS	345 000	2.0%
Vicama AS	344 121	2.0%
MP Pensjon	216 300	1.2%
Skagen Vekst	200 000	1.1%
R. Ulstein Loen AS	198 400	1.1%
Vikerud Verdi AS	183 600	1.0%
Total with greater than 1% ownership	**9 876 704**	**56.2%**
Total other	7 706 000	43.8%
Total shares outstanding	**17 582 704**	**100.0%**

Shares owned directly or indirectly by members of the Board of Directors, Chief Executive Officer, and management, and related parties to such as of 31 December 2004:

Name	Position	Number of shares	Subscription rights*
Erik Engebretsen**	Chairman of the Board	27 000	0
Per-Olof Mårtensson	Deputy Chairman	3 000	0
Halvor Bjerke	Member of the Board	5 550	0
Lars Lindegren	Member of the Board	24 377	0
Birgit Stattin Norinder	Member of the Board	0	0
Kjetil Hestdal***	CEO	122 873	8 000
Christian Fekete	CFO	0	0
Hilde Morris	VP Strategic Marketing	0	3 800
Pål Bråthen	VP Business Development	0	0
John Afseth	VP Business Operations	37 200	4 433
Auditor		0	0

* Please refer to Note 2 for more information about subscription rights.

** CEO in Gezina AS which owns 960 373 shares

*** Vidar Hansson was CEO until 31.12.04. He had 375 500 shares as of 31.12.04.

Kjetil Hestdal is the new CEO as of 01.01.05.

NOTE 15 - LONG TERM LIABILITIES

The Company has a risk loan outstanding to Innovasjon Norge with a remaining face value of NOK 1.5 million. Ongoing biannual loan instalments of NOK 300,000 commenced 10 July 2003. The loan is going at floating interest rate, currently at 5.9% p.a.

PhotoCure ASA has previously received a contribution of NOK 10.4 million from Innovasjon Norge. This contribution contains a conditional repayment clause in form of royalties. Conditional royalty payments are based on accumulated sales revenues from the Company's dermatological products over certain levels, earned until 31 December 2005. The accumulated royalty liability has a NOK 12.5 million cap. The estimated conditional repayment liability is recognised in the balance sheet as of 31 December 2004 as a long-term liability of NOK 12.3 million, despite the fact that complete or partial achievement of the repayment clause is uncertain.

NOTE 16 - OTHER CURRENT LIABILITIES

	Group		Parent	
(Amounts in NOK 000s)	**2004**	**2003**	**2004**	**2003**
Provision for external R&D expenses	2 300	2 806	2 300	2 806
Provisions for bonuses, holiday allowances, wages	4 704	5 484	4 639	5 246
First year instalment on long-term debt	600	600	600	600
Other accrued costs	4 368	4 228	3 338	3 564
Total other current liabilities	**11 972**	**13 118**	**10 877**	**12 216**

NOTE 17 - INTERGROUP BALANCES

	Parent	
(Amounts in NOK 000s)	**2004**	**2003**
Other receivables	0	11
Other current liabilities	0	110
Total (net)	**0**	**-99**

NOTE 18 - RELATED PARTY TRANSACTION

In February 2003, the Company renewed the collaboration agreement with The Norwegian Radium Hospital Research Foundation (NRH RF). Under this agreement, the Company is allowed access to, and an option to obtain, new technology and "know how" within the field of photodynamic therapy (PDT) developed at the Norwegian Radium Hospital (NRH). As consideration, the Company makes financial contributions toward research and development. The agreement covers a period of three years and gives PhotoCure a unilateral right to extend it annually for two additional years.

During 2004, the Company, under the terms of the contract, made payments in the amount of NOK 1 million to research and development services, at arms-length terms, to NRH/NRH RF.

NOTE 19 - FINANCIAL RISK

The return on the Company's investments in securities depends on the interest rate obtained in the money market, and may therefore vary significantly over time.

The Company receives income and incurs costs in various currencies. Consequently, the Company is exposed to currency risk. The Company makes continuous assessments as to whether steps should be taken to reduce this risk.

The Company is currently not using any hedging or other risk-reducing securities.

NOTE 20 - OTHER LIABILITIES

In order to satisfy conditions relating to the going concern assumption for its subsidary, PCI Biotech AS, PhotoCure ASA has issued a guarantee with an upper limit of NOK 6 million, in which the continued operations of its subsidiary PCI Biotech AS are guaranteed through 30 June 2006. The guarantee will expire upon the effectuation of a share increase in which equity of an amount sufficient to ensure the fulfillment of the going concern assumption for PCI Biotech AS.

The Company rents office space in Hoffsveien 48 in Oslo. Yearly rental expenses amount to NOK 2.4 million, including shared costs. The rent is adjusted yearly to reflect the change in the consumer price index. The effective date of the rental agreement is 1 September 2000, and is mutually binding through 31 August 2005, at which time the agreement expires. PhotoCure ASA has an option to extend the agreement for an additional five years at the going market rate.

NOTE 21 - SIGNIFICANT NON-RECURRING TRANSACTIONS

On 19 December 2001, PhotoCure ASA entered into a licensing agreement with Galderma S.A. The agreement became effective as of February 2002 and PhotoCure received at the same time EUR 12 million. The agreement provides Galderma with exclusive rights to the global marketing of the Metvix cream and to PhotoCure's light sources relating to photodynamic treatment, outside the Nordic Area. In connection with this agreement, PhotoCure received EUR 3 million in 2004, and is entitled to an additional EUR 13 million upon the granting of marketing approval, and product launch of Metvix in certain regions. PhotoCure will, in addition to royalties, receive milestone payments from Galderma on the basis of global sales of Metvix in excess of EUR 25 million per year, as well as payment for production of light sources and Metvix. Irrespective of actual sales, PhotoCure is guaranteed significant royalties.

NOTE 22 - OTHER MATTERS

In April 2002, PhotoCure filed papers in an Australian court to invalidate Australian patent no. 624985 assigned to Queen's University in Kingston, Canada. The patent is licensed to DUSA Pharmaceuticals Inc. and relates to a method for photodynamic therapy using 5-aminolevulinic acid. In the papers that were filed, PhotoCure asserts that publications, which predate the Queen's University patent precludes the patenting of 5-aminolevulinic acid for photodynamic therapy. DUSA has put forward a cross-claim. The trial was held in 2004, but there has not yet been a ruling in the case.

NOTE 23 - IFRS

IFRS implementation

All companies listed on the Oslo Stock Exchange must from 1 January 2005 present financial statements complying with the International Financial Reporting Standards (IFRS) from IASB. Financial disclosures in 2005 must include comparative amounts for 2004. Based on the current IFRS rules and the interpretation of these, PhotoCure has evaluated the consequenses of implementing the IRFS and has identified certain areas where the IFRS may influence the Company's accounts. The IFRS is under continuous development and changes must be anticipated until implementation in 2005.

Pension expenses

PhotoCure utilises a contribution based pension arrangement whereby a "corridor" is used for all actuarial gains and losses. This corridor will be removed when implementing IFRS and the deviation of estimate will be incurred as equity as of 1 January 2004. The effect of this are considered to be insignificant for the company. Future consequences of IFRS will be that the corridor is removed and that the discount rate is adjusted more often. Both factors will produce larger fluctuations in the pension commitment.

Share options/warrants for employees

PhotoCure utilises an incentive scheme with share options/warrants to the employees. Options/warrants are issued to employees at exercise prices, which reflect, at a minimum, market value at the time of issuance, and therefore have no intrinsic value at the time of issuance. The IFRS rules states all shares-based payments to be incurred as expenses in the income statement at fair price at the time of issuance. This applies to all agreements/transactions that were made after 7 November 2002 and that are not fully contributed by

1 January 2005. The intention is to make sure that the expense is displayed in the income statement. These agreements are to be incorporated in the opening balance of 1 January 2005 and in the comparison figures for 2004. Nonetheless, this arrangement will have zero effect on equity as the opposite entry for the expense is the equity. The effect on net result are considered to be insignificant for the Company. The effect on equity is zero. Share options to suppliers are already incurred as expenses in the income statement at market value and IFRS brings therefore no change.

Arrangement of the accounts

Companies will be free to choose between the nature of expenses or their function as a way to arrange their accounts when the IFRS is implemented. PhotoCure will continue to use the nature of expenses as its way to arrange its accounts.

R&D

Expenses related to R&D are to be incurred as intangible assets if certain criterias are met according to the IFRS. The IFRS gives no concrete guideline in regards to when a pharmaceutical product enters the developing phase. PhotoCure considers a product to enter the developing phase when a marketing authorisation has been obtained. As PhotoCure has used this principle up till now, the same principal will be used after the implementaion of the IFRS.

Auditor's report for 2004

To the Annual Shareholders' Meeting of PhotoCure ASA

We have audited the annual financial statements of PhotoCure ASA as of 31 December 2004, showing a loss of NOK 42,108,000 for the parent company and a loss of NOK 44,725,000 for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the balance sheet, the statements of income and cash flows, the accompanying notes and the consolidated accounts. These financial statements and the Directors' report are the responsibility of the Companys Board of Directors and Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway. Those standards and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements have been prepared in accordance with law and regulati ons and present the financial position of the Company and of the Group as of 31 December 2004, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the Company's management has fulfilled its duty to properly register and document the accounting information as required by law and accounting standards, principles and practices generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and comply with law and regulations.

Oslo, 23 February 2004
Ernst & Young AS

Henning Strøm
State Authorised Public Accountant (Norway)

Note: The translation to English has been prepared for information purposes only.

Board of Directors

Erik Engebretsen, born 1948, was elected as a Director of PhotoCure in 2001 and Chairman of the Board in 2002. Mr Engebretsen is a graduate of the Norwegian School of Management and holds an MBA and MS from the University of Wisconsin-Madison. He is the Managing Director of Gezina AS, a private venture and investment company. Previously he has served as Chief Executive Officer and Chief Financial Officer in various public companies. He is a member of the Board of Directors of a number of public and private companies.
Mr. Engebretsen's term expires in 2006.

Per-Olof Mårtensson, born 1937, was elected as a Director of PhotoCure in 1996 and Deputy Chairman of the Board in 1998. He is currently Chairman of the Board of Karo Bio after being President and Chief Executive Officer of the same company. Before joining Karo Bio, he held various senior management positions in the pharmaceutical industry, including Executive Vice President of Pharmacia AB, President of AB Leo, Vice President of Pharmaceutical Operations of Astra AB and Member of the Advisory Board of HealthCap AB, a Swedish investment fund in the medical field. He is also a member of the Board of Directors of a number of public and private companies, including Maxim Pharmaceuticals Inc. and BioInvent International AB. Mr. Mårtensson's term expires in 2006.

Halvor Bjerke, born 1946, was elected as Director of PhotoCure in 1996 and served as Chairman of the Board from 1998 to 2002. Mr Bjerke is a practising lawyer. He was Vice President and Company Secretary of Saga Petroleum ASA for 12 years (ending 1999), after having served in the same position in GECO. Earlier, he was employed by the Norwegian Ministry of Finance and the Norwegian Inland Revenue. Mr Bjerke served as Chairman of the Board of the Norwegian Radium Hospital Research Foundation from 1996 to 2002 and is currently Chairman of the Board of Medprobe AS and Chairman of the Comission of Appeal for the Norwegian R & D Tax Refund (SkatteFUNN). Mr. Bjerke's term expires in 2006.

Lars Lindegren, born 1937, was elected as a Director of PhotoCure in 2000. He is currently Chairman of the Board of Metcon Medicin AB and serves on the Board of Wilhelm Sonesson AB, Angiogenetics Sweden AB and Gallileo Genomics Inc. He has held various senior management positions in the pharmaceutical industry including Executice Vice President of Pharmacia AB and President of Astra Pharmaceuticals International. Mr. Lindegren's term expires in 2006.

Birgit Stattin Norinder, born 1948, was elected as a Director of PhotoCure in 2003. Mrs. Norinder is a trained pharmacist and she has held senior management positions in various international pharmaceutical companies, including Pharmacia & Upjohn, Glaxo Group Research, Astra, Pfizer and Parke-Davis. She has also served as CEO of Prolifix Ltd., a biotech company with a focus on oncology. In addition, she serves on the boards of Probi AB, Antisoma Plc, InDex Pharmaceuticals AB and the Swedish Foundation of Strategic Research.
Mrs. Norinder's term expires in 2005.

Executive Officers

Kjetil Hestdal - President and CEO

Kjetil Hestdal, M.D., Ph.D., born 1960, has served as President and CEO since January 2005. Dr. Hestdal held the position as Vice President Research and Development from January 1997 and was promoted to Chief Operating Officer in November 2004. Before joining PhotoCure, Dr. Hestdal served as the Project Manager/Medical Expert at Sandoz (now Novartis) and as Senior Scientist at Rikshospitalet. Dr. Hestdal holds a Ph.D. in immunology.

Kjetil Hestdal holds directly or indirectly 122,873 shares in PhotoCure. In addition he holds 8,000 share options in the Company.

Christian Fekete - CFO

Christian Fekete, born 1961, has served as the Chief Financial Officer since November 2004. He holds an MBA from the Kenan Flagler Business School, University of North Carolina, USA and an Academy Diploma from the Royal Norwegian Naval Academy. Mr. Fekete has held several leading positions within finance and business development, more recently as Director of KPMG Corporate Finance, Director of Business Development in Thrane-Gruppen and Finance Director in various Coca-Cola companies. He is a deputy chairman member of Medi-Stim ASA, a publicly listed medical technology company.

Christian Fekete holds no shares or share options in PhotoCure.

Pål Bråthen - Vice President Business development

Pål Bråthen, born 1960, joined PhotoCure in September 2004. He has a degree in International Management from the Norwegian School of Management. He has more than 15 years of senior management experience in international sales, marketing and business development activities with the publicly listed companies Axis-Shield, Alpharma and Tomra Systems.

Pål Bråthen holds no shares or share options in PhotoCure.

Hilde Morris - Vice President Research and Development

Hilde Morris, DVM, born 1957, has served as Vice President Research and Development since October 2004. She has previously served as Vice President Strategic Marketing in PhotoCure. Dr. Morris ran a private veterinary practice before joining Schering Norge as Medical Director in 1986. From 1990 to 1999 she worked as Clinical Project Director in Nycomed Imaging, after which she joined PhotoCure as Clinical Project Director. Dr Morris has a degree in veterinary medicine and she attended the Program for Management Development at Harvard Business School in 2002.

Hilde Morris holds no shares in PhotoCure. She holds 3,800 share options in the Company.

John Afseth - Vice President Business Operations

John Afseth, DDS, Ph.D., born 1954, has served in various VP functions since April 1998. Before joining PhotoCure, Dr. Afseth has held senior management positions in Dynal (VP Marketing and Sales), Medinnova SF (CEO), and Abbott Labs (General Manager Norway and Denmark). Dr. Afseth had previously an academic career as Associate Professor in Microbiology at the University of Oslo.

John Afseth holds directly or indirectly 37,200 shares in PhotoCure. In addition he holds 800 share options in the Company.

Grete Hogstad - Vice President Marketing and Sales

Grete Hogstad, born 1956, joined PhotoCure in February 2005. She has a degree in pharmacy from the University of Oslo, as well as a business degree from the Norwegian School of Management. She has held various leading positions in Marketing and Sales in Alpharma and Novo Nordisk Pharma, and is a founding member of the Generics Association in Norway. Mrs. Hogstad was previously Director Sales and Marketing for Norway, Sweden and Finland in Alpharma.

Grete Hogstad holds no shares or share options in PhotoCure.

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