Annual Report 2007

Photocure ASA

www.photocure.com

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Financial calendar 2008

28 FEBRUARY 2008
Presentation of the report 2007 (webcast)

9 APRIL 2008
Annual general meeting

23 APRIL 2008
Presentation of the first quarter report (webcast)

15 AUGUST 2008
Presentation of the second quarter report (webcast)

24 OCTOBER 2008
Presentation of the third quarter report (webcast)

COMPANY PROFILE

Photocure® is a leading provider of solutions for cancer therapy and diagnosis based on photodynamic technology

Photocure ASA is a fully integrated, globally minded pharmaceutical company listed on the Oslo Stock Exchange.

It is built upon a patented photodynamic technology platform and uses its core competencies to develop and sell pharmaceuticals and medical devices for the photodynamic diagnosis and treatment of precancer and cancer conditions.

Photocure has currently two pharmaceutical products on the market: Metvix®, for the treatment of sun-damaged skin and certain types of skin cancer, and Hexvix® for the diagnosis of bladder cancer. In addition, the company has developed a proprietary light source, the Aktilite® lamp, which is used in combination with the Metvix® cream.

Photocure is continuously developing its pipeline projects for new indications in close cooperation with first-class universities and research centres worldwide. The pipeline in clinical phase includes acne, colorectal cancer and precancerous lesions in the cervix.

PCI Biotech AS was established in 2000 as a subsidiary of Photocure to focus exclusively on the PCI technology. PCI Biotech is developing a technology for light-directed drug delivery called photochemical internalisation (PCI).

Photocure's strategy is to acquire global leadership and build a technology powerhouse position in photodynamic therapy (PDT) and diagnosis (PDD). The company's ambition is to become a centre of excellence in PDT/PDD sales & marketing.

VISION

Leadership in photodynamic therapy.

MISSION

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

OUR CORE VALUES

Integrity

- Be true to the company's ethics & values
- Never compromise on patient security
- Promote and practice openness and transparency in all that you do

Respect and Care

- Bring out the best in your colleagues
- Share your insight & inspiration
- Respect and take responsibility for decisions made

Courage & Passion

- Dare to experiment and fail
- Be impatient on behalf of our products and our patients
- Strive for excellence on behalf of our technology

PRESIDENT'S STATEMENT

Kjetil Hestdal
M.D., Ph.D.

Dear Shareholders,
It gives me great pleasure to address you after a year of significant progress for Photocure. Let me summarize the key achievements:

The commercialization of Hexvix, our photodynamic diagnostic product for the detection of bladder cancer, continues to gain momentum with marketing approvals received in Italy and France. Hexvix is now sold in 16 countries in Europe, with Photocure responsible for marketing and sales in the Nordic region and GE Healthcare commercializing Hexvix in key markets outside this region.

We have made good progress on finalizing the US Phase III study with Hexvix to evaluate the detection and recurrence of bladder cancer lesions. Patient recruitment was completed in 2007 and we expect results to be available in late 2008. Furthermore, our intellectual property position has been strengthened in the US, with the core Hexvix patent being extended until 2019; this provides Photocure with three extra years of market exclusivity in this important area.

Sales of Metvix, our photodynamic therapy targeting pre-cancerous skin lesions and skin cancer, increased by 5,4 % to NOK 54,2 million in 2007. Growth in the Nordic region of 15,6 % compared to the previous year was fuelled by increased demand and price for Metvix in Norway and Sweden. This growth is a result of our continued efforts to strengthen our marketing and sales forces in the region.

In addition, Photocure submitted an application (sNDA) in June 2007 for approval of Aktilite in the US.

The performance achieved in 2007 reflects our clear and consistent commercial strategy, which has seen Photocure develop into a pharmaceutical company with considerable expertise in resarch and product development. The strategy has enabled us to build a strong marketing and sales capability in the Nordic markets. This, combined with our strong commercial partners, gives us a solid platform to continue to grow the sales of Metvix/ Aktilite and Hexvix around the world.

While marketing and sales is clearly important to Photocure following the launches of Metvix and Hexvix, we are still strongly focused on building a powerful and recognized technology position and attaining global leadership in photodynamic therapy (PDT) and diagnosis (PDD). As such we remain fully committed to our development programmes, which is where we see significant potential for the further long term growth of the business. Photocure is continuously developing its pipeline projects for new indications in close cooperation with first-class universities and research centres worldwide. The current clinical pipeline includes a new PDTs for the treatment of acne and precancerous lesions in the cervix, and a PDD product for the detection of colorectal cancer. These are exciting new opportunities with great potential and we are focused on progressing these to market as quickly as possible, initially gaining clinical proof of concept data and then seeking partners after phase II.

However, a unique and strong technology platform is not enough to achieve success. Photocure's solid progress over the past years would not have been possible without hard work of all our dedicated employees and good relations with our partners. At Photocure, we base our work on three core values: Courage and Passion, Integrity, and Respect and Care. In the multifaceted projects of product development and marketing and sales, everyone's contribution is not always visible to the outside world, but every task and contribution is equally important for the end result.

We must always remember Photocure's commitment. We are here to bring new and better diagnostics and medicines to patients. And it is the patients who judge our success. By listening and responding to the needs of patients, medical professionals and payers, Photocure can take great strides towards improving the quality of life of people around the world.

I would also like to recognize the people associated with PCI Biotech, especially the scientists at the Radium Hospital in Oslo, who have built a solid drug delivery platform based on the light-directed drug delivery of therapeutic molecules directly into diseased cells. We are proud that progress at PCI Biotech has advanced to a stage that by de-merging it from Photocure will give it the best possible opportunity to become a successful biotech company in its own right. A greater focus and more resources will enable it to develop its unique drug delivery technology and to release the value that this creates to shareholders.

Finally, I would like to express my gratitude to you, all our shareholders, for your continued support, loyalty and confidence in us. We are glad to have you as a part of our future.

Sincerely,

Kjetil Hestdal, M.D., Ph.D.
President and CEO

HIGHLIGHTS 2007

Hexvix® commercialisation gaining momentum

- Hexvix revenues increased 108% to NOK 20.1 million
- Hexvix approved in Italy
- Hexvix approved in France

Increased sales of Metvix®/ Aktilite®

- Metvix revenues increased by 5.4% in 2007 to NOK 54,2 million
- Submitted application (sNDA) for approval of Aktilite in the US
- Price increase in Norway and Sweden
- Separate Metvix symposium at World Congress of Dermatology with over 500 participants

Important milestones reached in R&D

- sNDA for Aktilite submitted
- Hexvix Phase III study completed inclusion
- Acne Phase IIb inclusions completed
- Colon phase I/II study in detection of colon cancer completed inclusion, results from first 12 patients showed 37 % more polyps detected with Lumacan compared with standard white light colonoscopy
- Cervix phase I/II study in treatment of premalignant lesions in the cervix completed inclusion as planned
- Patent extension secured for Hexvix
- Documentation for extending shelflife for Hexvix and Metvix submitted

PCI Biotech reached important mile stones

- Amphinex™, PCI Biotech's photosensitiser is very well tolerated in toxicological studies and has been produced for clinical studies
- The PCI technology has been documented for delivery of siRNA

KEY FINANCIAL FIGURES 2007

(Amounts in NOK 000s except per share data)

	2007
Total revenues	99 006
Operating profit/loss (-)	-87 450
Net profit/loss (-) for the year	-74 970
Ernings per share	-3.40

HEXVIX®

HEXVIX®
HEXAMINOLEVULINATE

Hexvix® is a pharmaceutical product developed for the photodiagnosis of bladder cancer.

Breakthrough technology

Hexvix represents a breakthrough in bladder cancer diagnostics. The product is based on a unique photodynamic technology, and provides a significantly higher detection rate than standard diagnostic procedures. Hexvix® is approved for patients with known or suspected bladder cancer.

Increasing prevalence of bladder cancer

Bladder cancer is the fifth most common malignant cancer worldwide and approximately four million white light cystoscopies (telescopic examinations of the bladder) are performed in the USA and Europe every year.

Patients with bladder cancer have a good prognosis if diagnosed early and treated adequately. Present diagnostic methods are most effective for large papillary (finger-like) tumours. For the diagnosis of flat tumours like carcinoma in situ (CIS), an aggressive cancer with a high potential for progression, the results are inadequate.

Bladder cancer patients have a 50-70% risk of recurrence, and the high and increasing prevalence of the disease, makes it one of the most expensive cancers for society. Early detection and better surgery could avoid life-threatening conditions and reduce the number of surgical procedures, including removal of the entire bladder.

Bladder cancer diagnosis and treatment

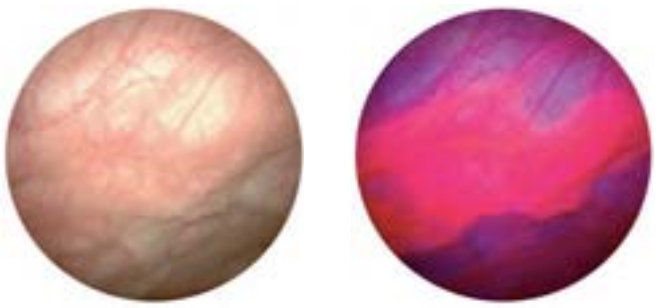
The most common initial sign of bladder cancer is hematuria (blood in the urine). The appearance of gross hematuria or persistent microscopic hematuria should lead to an evaluation of the entire urinary tract, including ultrasound, urine testing and standard white light cystoscopy.

Hexvix is the first diagnostic product on the market that improves cystoscopy. Hexvix is used in combination with white light cystoscopy, and improves the overall tumour detection by introducing tumour fluorescence. Hexvix® is also useful as a tool to help the urologist perform better tumour removal, which may reduce tumour recurrence. Ongoing research will further document the impact of Hexvix on reduced tumour recurrence.

Hexvix® - mechanism of action

Hexvix photodiagnosis requires that the cystoscopic equipment for bladder examinations is equipped with blue light. The Hexvix solution, which is instilled by a catheter, is held in the bladder for one hour, allowing photoactive porphyrins (photosensitisers) to selectively accumulate in the malignant tissue. The urologist then examines the bladder first in white light

WHITE LIGHT VS. HEXVIX FLUORESCENCE



The left photo shows a bladder with cancer using white light cystoscopy. The right photo shows the same bladder using Hexvix cystoscopy. The fluorescent cells are cancer cells.

ADVANTAGES OF HEXVIX®

- Hexvix improves the diagnosis of all types of non-muscle invasive bladder cancer
- Hexvix blue light fluorescence gives a far better visualisation of the tumours than standard white light
- Hexvix identifies 30% more patients with bladder cancer and detects 67% more CIS lesions compared to white light cystoscopy alone
- Every fifth patient receives more adequate treatment when Hexvix is used as a supplement to white light cystoscopy
- Hexvix is useful as a tool to help the urologist perform better tumour surgery
- Hexvix is well tolerated and can easily be implemented in current clinical practice
- Due to improved patient management, Hexvix provides significant health economic benefits

(standard procedure) and then in blue light (Hexvix cystoscopy). When illuminated with blue light, the photoactive porphyrins emit red fluorescence, making the cancer lesions light up in red. Hexvix improves the diagnosis of all types of non-muscle invasive bladder cancer as the tumour fluorescence gives a far better visualisation of the lesions than standard white light cystoscopy.

Worldwide clinical trial programmes

The efficacy and safety of Hexvix® has been documented in three major clinical phase III studies in Europe and the US/Canada. The phase III studies comprised of 553 patients and showed an overall improvement in the detection of all types of bladder tumours compared to standard cystoscopy. The best results were obtained for the detection of carcinoma in situ (CIS) tumours, where Hexvix cystoscopy detected 67% more lesions than white light cystoscopy. Moreover, in 29% of the patients, more papillary tumours were found with Hexvix compared to standard cystoscopy. The benefits of improved tumour detection were documented by showing that every fifth patient (21%) was recommended a more adequate treatment after bladder inspection with Hexvix, compared to standard white light alone. Hexvix has only showed negligible side effects.

Furthermore, a large multicentre phase III study in the US/Canada and Europe as well as one Danish study are ongoing to further document the clinical benefits of Hexvix® cystoscopy on tumour recurrence.

Hexvix® - marketing and sales activities

The first marketing approval for Hexvix was obtained in Sweden in September 2004, and in March 2005 Hexvix received approval in all EU/EEA countries. In 2006, Photocure and GE Healthcare entered into a licensing agreement, whereby GE Healthcare obtained the rights to market Hexvix worldwide except in the Nordic countries where Photocure retains these rights.

Hexvix has been launched in all five Nordic countries by Photocure, and in Austria, Estonia, France, Germany, Netherlands, Portugal, Spain, Italy, Poland, Greece and UK by GE Healthcare. National reference and training centres are now being established in several of the European markets.

The use of Hexvix costs around € 400 per patient and gives positive health economic benefits due to improved patient management. Reimbursement has been granted in Spain, France, Ireland and Denmark, and partial reimbursement in Germany. Processes to obtain reimbursement are ongoing in the rest of Europe.

GE Healthcare

GE Healthcare, Photocure's licensing partner for Hexvix, is one of the world's leading diagnostic imaging companies. GE Healthcare employs more than 45,000 people worldwide committed to serving healthcare professionals and their patients in more than 100 countries.
Headquartered in the Chalfont St. Giles, United Kingdom, GE Healthcare is a $15 billion unit of General Electric Company (NYSE: GE). For more information about GE Healthcare, visit their website at: www.gehealthcare.com.

METVIX®/AKTILITE®

Metvix® cream is a pharmaceutical product developed for the photodynamic treatment of non-melanoma skin cancer and precancerous skin lesions.

What is Metvix® PDT?

Metvix photodynamic therapy (PDT) is an effective, non-invasive treatment for pre-cancerous lesions and non-melanoma skin cancer. The treatment is highly selective and destroys the cancerous cells without harming the surrounding tissue. Metvix PDT is easy to perform and does not require hospitalisation. Metvix is approved for the treatment of actinic keratoses (AK), basal cell carcinoma (BCC) and Bowen's disease (see info box for further explanation).

Skin cancer increasing

Skin cancer is one of the most common cancers in the world. The annual incidence of non-melanoma skin cancer is increasing rapidly, and a new study found that during the past 30 years, women under 40 have tripled the risk of developing skin cancer. This increasing frequency of non-melanoma skin cancer in younger adults, could lead to a dramatic increase in non-melanoma skin cancers as the population ages.

Both non-melanoma skin cancer (mainly BCC) and precancerous lesions (AK) are strongly related to excessive sun-exposure. These lesions usually appear on sun-exposed areas of the body like the hands, arms and head, where treatment-related scarring is particularly visible. Disfiguring scars can cause serious reduction in quality of life for these patients.

Patients prefer Metvix® PDT

Metvix PDT is a treatment that removes cancerous and precancerous lesions effectively, without scarring. Scientific studies show that for BCC, Metvix PDT is just as efficacious as other commonly used treatments, and that for AK, Metvix is more efficacious than other treatments.

In addition to high efficacy, Metvix PDT offers advantages that patients value very highly, such as an excellent cosmetic outcome and the avoidance of invasive surgery. An Australian study shows 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 PDT. In controlled studies, two out of three patients prefer Metvix PDT compared to alternative previous treatments.

Metvix® - mechanism of action

The active ingredient in the Metvix cream is a light sensitive substance, which accumulates selectively in the cancerous cells. Following application of the Metvix cream, the lesions are illuminated with red light from Photocure's Aktilite lamp. This generates reactive oxygen, which destroys the malignant cells. Metvix PDT provides a precisely directed treatment, which clears the lesions and leaves healthy skin unharmed.

New guidelines recommend PDT as first line treatment

New evidence based international guidelines recommend photodynamic treatment (PDT) with red light and Metvix cream as

GALDERMA PHARMA S.A.

Galderma, Photocure's global marketing partner for Metvix, is one of the world's leading pharmaceutical companies specialising in the research, development and marketing of therapeutic, corrective and aesthetics solutions. 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, and had global revenues of 687.3 million euros in 2006. The company deploys a worldwide network of 32 fully-owned subsidiaries, and through its 850 medical sales representatives it reaches almost every physician in the world.

For more information about Galderma, visit their web site at: www.galderma.com.

ADVANTAGES OF METVIX®

- High efficacy and long-term results.
- The treatment is non-invasive and can be administered on an outpatient basis.
- Metvix is tumour-selective and the surrounding healthy tissue is not affected by the treatment.
- The treated area recovers rapidly, as the healthy tissue is not damaged. After 2-3 weeks, the area of the lesion has been replaced by new, healthy skin.
- The cosmetic results are exceptionally good.
- Several separate lesions can be treated simultaneously.
- The treatment can be repeated with good results.

highly effective for pre-cancerous lesions and for common forms of skin cancer. They state that the method is especially good for treatment of larger areas with multiple lesions and for areas of the skin where healing is difficult.

The new guidelines have been developed by an international consensus group of specialists, after a scientific evaluation of clinical studies, and published in February in Journal of the American Academy of Dermatology.

In the guidelines, PDT is recommended as first line treatment for an early stage of the potentially metastatic squamous cell carcinoma and for the very common pre-malignant lesions called actinic keratoses, or solar keratoses. Actinic keratoses (AK) are sun damaged areas, which can turn into the dangerous squamous cell carcinoma. The guidelines note that “Since there is currently no means of distinguishing between AK lesions that will transform and those that will not, it is prudent to treat all AK lesions”.

PDT is also recommended for basal cell carcinoma, based on superior cosmetic results and excellent long term 5-year follow-up data. PDT is not used for squamous cell carcinoma or malignant melanomas.

The guidelines are in accordance with those issued in February this year by the National Institute for Health and Clinical Excellence (NICE), an independent UK organisation.

Worldwide clinical trial programmes

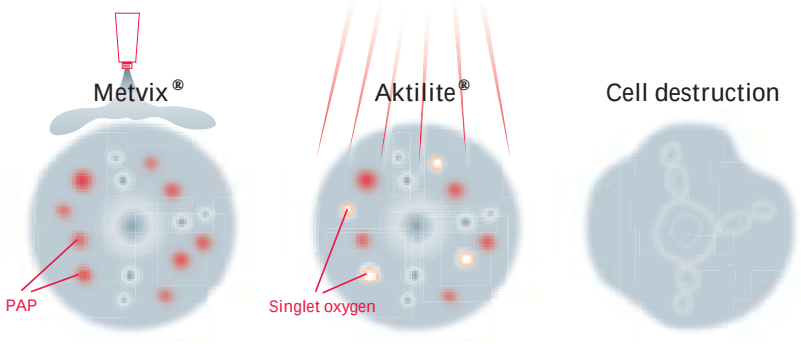
The Metvix treatment is well-documented in over 175 publications and scientific papers. Photocure has performed long-term clinical trials at more than 100 clinics and hospitals across three continents to document the safety and efficacy of Metvix. The pivotal trials have been published in journals with 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.

Approaching new important markets

The Supplement to the New Drug Application (NDA) for Metvix ia™ and Aktilite CL 128 was submitted to the US Food and Drug Administration (FDA) for the treatment of actinic keratoses (AK) in June 2007.

The submission was a supplement to the previously approved NDA for Metvixia™ (Metvixia is the US trade name). The current supplement comprises data from two new pivotal and three supportive phase 3 studies to document the efficacy of Metvixia in combination with the new lamp developed by Photocure, the Aktilite CL 128. In the pivotal studies, 211 patients with multiple AKs in face or scalp were treated with Metvixia Cream or placebo prior to illumination with Aktilite. Both studies showed significantly better response with Metvixia compared to placebo at 3 months after treatment. The results confirm the excellent results seen in earlier phase III studies with Metvix PDT. Photocure expects a response from FDA to the application, in Q2 2008. The filing

METVIX® – MECHANISM OF ACTION



1. Tumour cells accumulate PAPs and become sensitive to light.

2. Exposure to red light in the presence of oxygen generates cytotoxic singlet oxygen species (ROS), which damage cellular membranes leading to tumour cell death.

3. Healthy surrounding tissue hardly accumulates PAPs due to the selectivity of Metvix for tumour cells and therefore healthy tissue is not damaged.

METVIX®/AKTILITE®

of this supplement is a major step towards accessing the US pharmaceutical market with Metvix PDT.

Marketing and sales activities

Photocure is handling the sales and marketing of Metvix in the Nordic countries, while our global licensing partner Galderma is responsible for sales and marketing in the rest of the world. The activities in 2007 were mainly directed at dermatologists and included establishment of training centres, distribution and installation of lamps, seminars, and participation at local and international congresses.

In cooperation with Nordic PDT, an independent specialists group, Photocure arranged a successful PDT congress in november in Oslo with 100 delegates from all over Scandinavia. The main focus for the congress and information towards the market has been to increase the awareness around AK and the importance to treat this sort of early skin cancer.

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.

Globally Metvix attracted high interest at the World Congress of Dermatology in October as new comparative data were released and 5 year efficacy and safety data were presented to 500 dermatologists in Buenos Aires. At a special symposium during the World Congress of Dermatology, 500 dermatologists discussed how photodynamic therapy (PDT) is becoming important in the treatment of non-melanoma skin cancer. They were especially interested in how PDT can be used repeatedly and with less scarring, as well as on larger surfaces of skin.

Metvix is now approved in more than 30 countries worldwide. In the Nordic countries, Metvix is offered at over 200 dermatology clinics. Photocure is focusing on increasing the general knowledge about Metvix among health personnel, as well as providing technical and practical support for already existing Metvix clinics. As a response to the increasing demand for training of health personnel Photocure held several PDT training courses for dermatologists and nurses during 2007. This combined with a higher penetration of Product Area Managers makes Photocure better positioned to meet the increasing interest for PDT. Galderma is planning new launches and marketing application in 2008.

Aktilite® lamps

Aktilite is Photocure's proprietary light source for use in photodynamic therapy (PDT) of skin lesions in combination with the Metvix cream. The lamp is available in two models: Aktilite CL16 and Aktilite CL128. The difference between the two models is the size of the light field: Aktilite CL16 illuminates areas up to 40 x 50 mm, while Aktilite CL128 illuminates areas up to 80 x 180 mm.

The lamps are equipped with light emitting diodes (LEDs), which emit harmless red light of a narrow spectrum with average wavelengths of approximately 630 nm. Illumination with Aktilite activates the photosensitiser in the Metvix cream, leading to selective destruction of the diseased cells, while healthy tissue remains unharmed.

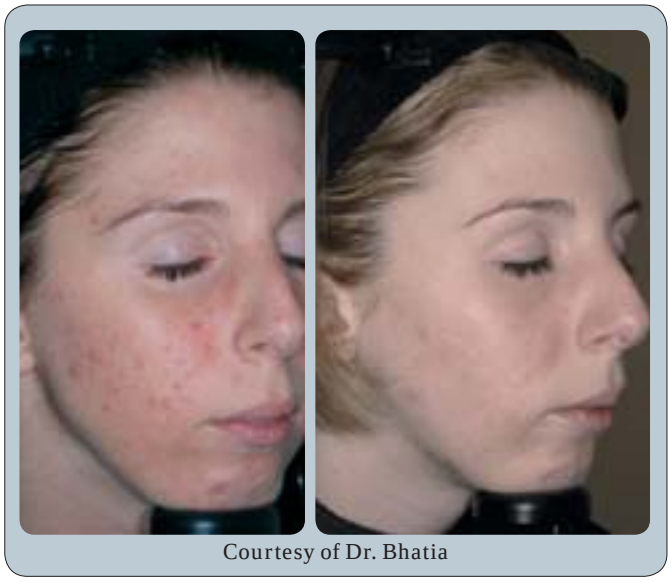
FACTS ABOUT SKIN CANCER

Actinic keratoses (AK) is the most common premalignant skin lesion, frequently found on the hands, arms, head and other sun exposed areas. AK can develop into squamous cell carcinoma (SCC), which is an aggressive type of cancer that grows invasively into deeper layers of the skin and can spread and form metastases.

Basal cell carcinoma (BCC) is the most common malignant skin cancer. They are aggressive tumours that rarely spread to other organs, but cause tissue destruction locally.

Bowen's disease is a pre-stage of SCC where the tumour has not spread, but has the potential to progress into invasive squamous cell carcinoma. It usually looks like a slow-growing red, scaly patch.

NOVEL TREATMENT FOR ACNE



Courtesy of Dr. Bhatia

Excellent results from the Clinical phase IIb studiy in US and Canada for the use of MAL PDT in the treatment of moderate tosevere acne.

Promising product development

Photocure is developing photodynamic therapy (PDT) with methyl aminolevulinate (MAL) for the treatment of moderate to severe acne. PDT works, clinical proof of concept has been demonstrated in acne, and the ongoing clinical phase II studies are on track.

What is acne?

Acne is an inflammatory disease, characterised by plugged pores, pimples and even deeper lumps (cysts or nodules) that occur on the face, neck, chest, back, shoulders and upper arms.

Acne is the single most common skin disease worldwide and affects up to 85% of all adolescents. Adults in their 20s, even into their 40s, can get acne. Even though it is not a life-threatening condition, acne can be upsetting and disfiguring. Severe acne, in some cases also less severe acne, can lead to serious and permanent scarring.

Acne is graded as mild, moderate or severe. Each year, US dermatologists register nearly 3 million visits concerning acne. Of those who seek medical advice from a dermatologist, about 50% have moderate and 20% have severe acne.

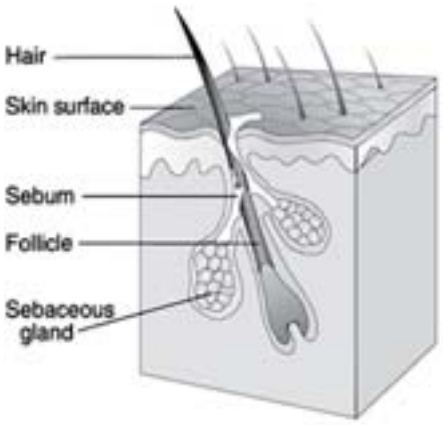
Need for new treatments

Moderate acne is usually treated with oral antibiotics, often in combination with topical retinoids (vitamin A cream) and benzoyl peroxide (a chemical in the organic peroxide family). More severe acne is treated with oral isotretinoin (medication derived from vitamin A), however, both oral antibiotics and isotretinoin have safety concerns that limit long-term usage.

The global pharmaceutical prescription market for acne was approximately $2.5bn in 2006. The market is split between topical treatments ($ 1.4 bn) which are mainly for mild acne and oral treatments ($ 1.1 bn) that are used in moderate and sever acne. Isotretinoin sales are in decline due to price pressure from generics and reduced prescription rates following the introduction of iPLEDGE in the US.

The future pharmaceutical acne market will be influenced both by the public health authorities' initiatives to reduce antibiotic-resistant bacteria, and the governmental programmes to reduce adverse effects of oral isotretinoin. As doctors would like to

ACNE – AETIOLOGICAL FACTORS



- Increased sebum production in sebaceous glands
- Abnormal shedding of skin within the follicle

... causes plugged follicles, which results in:

- Colonisation of bacteria in the follicles
- Inflammation around the follicles

shift away from prescribing oral isotretinoin and antibiotics, there is a need for new efficacious and safe topical treatments for patients with moderate to severe acne.

MAL PDT

MAL is a cream formulation patended by Photocure containing methyl aminolevulinate. MAL PDT is a photodynamic therapy that combines the MAL cream with controlled illumination by a red light source. The cream is applied to the acne area and after a short period, the skin is illuminated with red light. The procedure seems to kill bacteria and have a beneficial effect on sebaceous glands and inflammatory cells.

Development programme

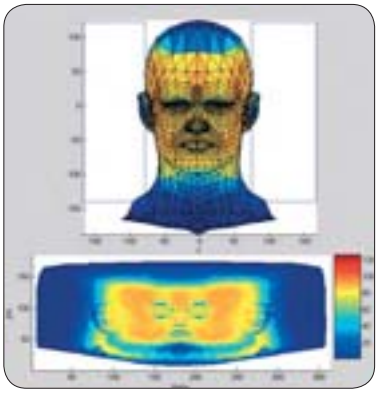
During the first half of 2007, Photocure completed the first part, dose-escalation part, of the confirmatory phase II study. The study is ongoing on 14 sites in US and the second dose-response part is expected to be finalized during 2008.
The data from the dose-escalation part was submitted to FDA for evaluation and they concluded that the selected doses were well tolerated and that we could continue to the dose-response part of the study. They also accepted that we could lower the age limit from 18 to 15 years. The study includes up to 190 patients in total and is designed to select the optimal dosing regime for confirmatory phase III studies.

Another phase II study ongoing on 2 sites in Canada includes up to 40 patients is expected to be finalized during the first quarter 2008. This study investigate the possibility to drop the use of occlusive dressing during the incubation time before illumination. To treat the whole face without using occlusive dressing will simplify the treatment procedure substantially. To increase the patient tolerability, for the treatment, the possibility to reduce the light dose will also be investigated. Pain during treatment is related to the light dose and a reduction in the light dose would reduce the pain. The study will show if the efficacy could be maintained without occlusive dressing and with a lower light dose.

The pre-clinical development programme has been discussed with the American Food and Drug Administration (FDA). These discussions resulted in a common understanding of FDA's requirements and Photocure will continue the pre-clinical program as requested by FDA.

A new lamp, designed for the treatment of larger skin surfaces, such as the whole face, is under development. The lamp is equipped with two adjustable panels with a total of 512 light emitting diodes (LEDs). Computerised modelling has been used to optimise the homogenity of the light field. According to the plan, Photocure will have 50 lamps ready for clinical trials in 2008.

The development of the clinical programme for the phase III studies has been initiated.

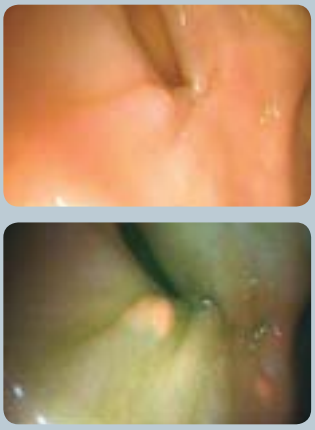


NEW PDT LAMP IN DEVELOPMENT

During the development of the new lamp, computerised modelling has been used to optimise the homogenity of the light field.

LUMACAN™ - COLORECTAL CANCER

Standard and HAL fluorescence imaging of colon adenoma



Courtesy of Dr Mayinger, Munich

"The prevention of colorectal cancer is one of the best kept secrets from the public. It is one of the most powerful prevention strategies that is available, and yet it is not widely known"

Winawer, MD PhD
Memorial Sloan-Kettering, NY, 2005.

Diagnosis of cancer and pre-cancerous lesions in the colon

Colorectal cancer (CRC) is the third most common cancer and the second leading cause of death in both men and women in the US. Worldwide there are nearly one million new cases of CRC and 500,000 deaths each year. As a result of these alarming statistics, the implementation of regular CRC screening programmes has been rapidly increasing over the past five years, and the practice is expected to be adapted in most developed countries with a high CRC incidence.

Colorectal cancer is highly curable if detected at an early stage. However, 60% of all cases are currently diagnosed in advanced stages, giving only 60-65% of the patients a 5-year survival.

The standard white light colonoscopy is very operator dependent and precancerous lesions are often missed during inspection of the colon. Colonoscopy requires extensive training and even for adenomas greater than 10 mm, only about 80 % are detected with standard white light colonoscopy. Therefore, it is a clear medical need and increased interest in new methods that can improve the efficacy of the present procedures for diagnosis of colon cancer.

Hexvix, Photocure's product for diagnosis of bladder cancer, makes use of fluorescence to improve tumour detection and is suitable for inspection of larger areas. Photocure technology has shown promising results in patients with high suspicion of colorectal cancer (CRC,see picture). The procedure, which involves local application in colon of the photosensitiser Lumacan™, followed by a combined white and blue light colorectal inspection, may improve the sensitivity of standard white light colonoscopy. In addition, it may improve the quality of resections of precancerous lesions and tumours, thus further reducing the risk of progression to an invasive disease.

In November 2007, Photocure completed the first phase I/II study in patients with suspected cancer or rectal cancer. After local instillation in colon with Lumacan™, the colon was inspected with standard white light and blue (photodynamic mode) light. The blue light induces selective fluorescence of the precancerous lesions and tumours. Results from the first 12 patients has shown an increased detection rate of 37% with blue light examination compared to white light examination of polyps and adenomas. No systemic or local side effects related to the use of Lumacan™ were reported. The study will be presented at DDW in San Diego in May 2008.

Photocure technology is of great advantage for the gastroenterologist, especially for detection of certain types of flat precancerous lesions (flat adenomas), which are easily overlooked during standard colonoscopy. Due to limited sensitivity of white light colonoscopy, multiple random biopsies are used to increase the detection rate in patients with high risk of flat adenomas, e.g. patients with long-standing inflammatory bowel disease. By improving the detection rate with fluorescence diagnosis in patients with high risk for developing CRC the quality of the diagnose and the patient prognosis will be better.

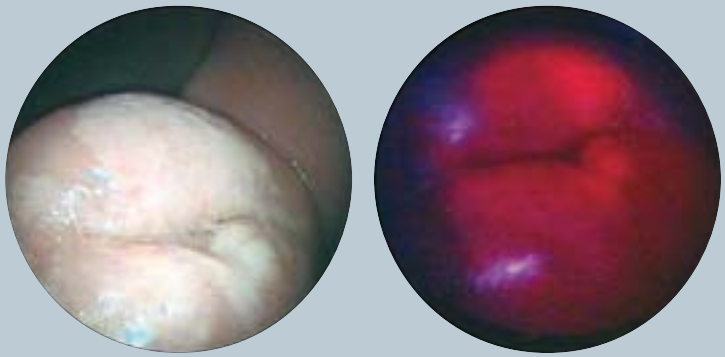
FACTS ABOUT COLORECTAL CANCER

- Colorectal cancer ranks third in terms of both incidence and mortality in developed countries*
- Almost one million new cases of colon cancer are diagnosed worldwide each year, and the disease is responsible for close to 500,000 deaths*
- If detected at an early stage, colon cancer is highly curable, however most cases of colorectal cancer are currently diagnosed in advanced stages
- Premalignant lesions and early stage cancers are asymptomatic*
- Regular CRC screening programmes are recommended by EU and US authorities and are being implemented
- More sensitive screening and diagnostic methods will lead to earlier detection, and increase patient survival

** Source: World Cancer Report (IARC, 2003)*

CEVIRA™ - CERVICAL PRECANCER

Cervical precancerous lesion in white and blue light



Courtesy of Dr Major, Geneva

"My heart hurts every time I have to perform a conization on a young girl. I look forward to a time when viral infection or conditions related to it can be treated in a non-surgical way"

Onsrud, MD PhD
Ullevål University Hospital of Oslo, 2005.

Non-invasive treatment of precancerous lesions of the cervix

Photocure believes that Photocure technology may offer great prospects for retaining organ, sexual and reproductive functions, and could advance gynaecological therapy. One area of interest is photodynamic therapy (PDT) of precancerous lesions of the cervix. PDT is a medical, non-invasive treatment that will preserve the cervical function, as opposed to surgery.

Precancerous lesions develop from persistent infection of human papilloma virus (HPV). Genital HPV infection is quite common; 40-60% of teenagers, 15-25% of ages 20-30 and 5-10% of ages above 30 are infected. In most patients, the condition regresses spontaneously within twelve months. Persistent HPV infection, however, may transform normal cervical tissue into abnormal and precancerous lesions called cervical intraepithelial neoplasia (CIN). Most mild cellular abnormalities regress spontaneously, and there is no medical treatment available. Precancerous lesions (CIN 2 and 3), on the other hand, should be treated to prevent progression to invasive cervical cancer.

Today, CIN 2 and 3 lesions are excised surgically by conisation (removal of a cone-shaped piece of tissue), but this involves a risk of infection, stenosis, infertility or subsequent preterm delivery due to impairment of the cervical function.

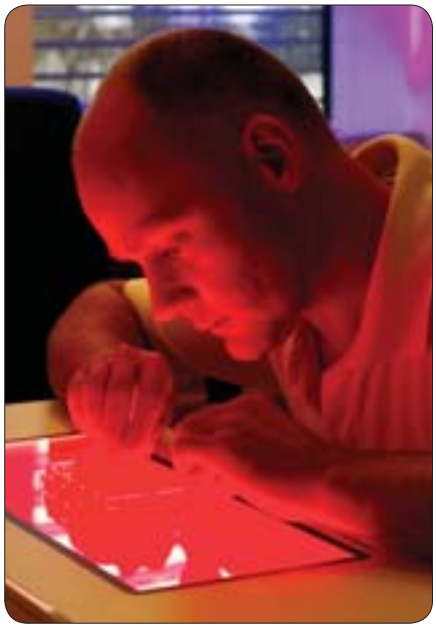
To be able to diagnose and treat CIN lesions before they progress to invasive cervical cancer, cytology screening programmes have been introduced in developed countries. In the US and Europe, screening programmes identify more than one million women with precancerous lesions and more than seven million women with mild cellular abnormalities every year.

PDT based on Photocure technology is a medical, tissue-preserving procedure that may be an excellent alternative treatment for women with HPV infection and cervical precancerous lesions. A recently completed study shows that the use of a topical precursor-based photosensitiser like hexaminolevulinate (HAL) may be effective with only minor local side effects in women with HPV infection and CIN lesions. A clinical study is on-going in Norway and Germany to further document the efficacy and safety profile of topical PDT in women with CIN 2 and 3.

FACTS ABOUT HPV AND PRECANCEROUS CERVICAL LESIONS

- Human papilloma virus (HPV) is a sexually transmitted disease affecting 70% of women during their life-time. 3-10% of the patiens have pepsistent infection with no teatement available.
- Persistent HPV infection may cause cervical precancerous lesions (CIN) and canser.
- Cervical cytology screening programmes detect cellular abnormalities and precancerous lesions in 3.5 mill (~7%) women in the US each year.
- 500,000 US women undergo conisation (cervical surgery) annually due to the presence of precancerous lesions.
- Conisation is an invasive procedure increasing the risk of bleeding, infection, stenosis, infertility and subsequent preterm deliveries.
- There is a medical need for a non-invasive treatment, particularly in young women.
- Prophylactic HPV vaccines are available, but will not be fully effective until 2040.

PCI BIOTECH



PCI is a technology for light-directed drug delivery, and can be used to enhance the effect of drugs by targeted illumination of the diseased areas of the body.

PCI technology

PCI Biotech AS is a subsidiary of Photocure, established in 2000 to commercialise its proprietary technology, photochemical internalisation (PCI). 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 through light-induced endosomal release. The PCI technology has a potential to improve the effect of existing drugs, of emerging treatments such as siRNA and gene therapy, and of other therapies based on nanotechnology or on biotechnological principles.

The scope of the PCI technology is to make therapies more effective and target-specific by rendering the therapeutic molecules active in diseased areas of the body only. In a PCI treatment the proprietary photosensitiser Amphinex™ is delivered systemically to the patient, followed by administration of the drug to be delivered. The delivery of the drug is then induced by targeted illumination of a specific part of the body (e.g. a tumour). This targeted delivery process will ensure efficient therapy in diseased areas, while avoiding unwanted and potentially harmful effects on distant non-target organs.

PCI Biotech business model

The PCI technology will be exploited through a licensing-based business model. PCI Biotech will create value by improving the therapeutic profile of drugs. The company will capture value through licensing deals with pharmaceutical and biotechnology companies.

PCI Biotech will focus on oncology. Cancer is a large and growing disease area and there is a continued need for improved oncology therapies. Amphinex™, in combination with both generic and novel cytotoxics, has the potential to provide a novel solution that can revitalize cancer treatments, and give extended patent protection for many important therapeutic molecules.

PCI Biotech will also invest in developing delivery solutions for siRNA and other macromolecules. There is a great deal of interest in siRNA and deal values are very high. Companies working in this area however face problems in turning these technologies into therapeutics. Since one of the major problems is to achieve delivery of siRNA to the right location in the patient, the PCI technology has the potential to play an important role in changing the treatment paradigm with siRNA, as well as with other macromolecules.

PCI Biotech organisation

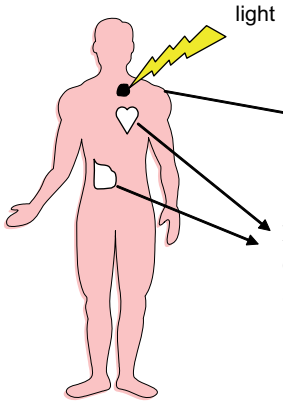
PCI Biotech has an organization of key members that accesses capability through a strategic network of vendors. The core team is likely to comprise 6 or 8 people and will cover business core competencies finance/leadership; pre-clinical leadership; clinical leadership; IP strategy; regulatory strategy; business development; and vendor management. Per Walday has recently been appointed as the new CEO of the company, and recruitment of a medical director is ongoing.

In addition to PCI Biotech's staff, approxi-

PCI – FOR MORE EFFECTIVE AND TARGET-SPECIFIC THERAPIES

By illuminating the area of the body to be treated (black area) the drug is activated specifically in this area.

Distant organs (white areas) are therefore not affected by the drug.



The drug is activated in the illuminated area only (e.g. a tumour).

Distant, non-target organs remain unaffected by the drug.

mately 20 researchers at the Norwegian Radium Hospital are performing PCI related research. 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.

Achievements in 2007

In 2007 PCI Biotech's proprietary photosensitiser Amphinex™ has been produced in the quality and quantity necessary for starting clinical studies. An application for a clinical study has been approved by the regional ethics committee, however the Norwegian medical authorities required more extensive toxicological studies before the study can be commenced. So far AmphinexTM has been very well tolerated in toxicology studies and the required studies are scheduled for completion in March 2008.

In 2007 studies from two different research groups showing that PCI can substantially enhance the delivery of siRNA have been published in acknowledged scientific journals. siRNA is a recently discovered class of oligonucleotides that can silence the expression of specific (e.g. disease-causing) genes. The discoverers of the siRNA principle were awarded the Nobel Prize in Medicine for 2006. siRNA is generally recognised as having a large therapeutic potential, but needs an efficient delivery system to realise its full potential. PCI Biotech has acquired the ownership to two patent applications covering the use of PCI for delivery of siRNA and other oligonucleotides from The Norwegian Radium Hospital Research Foundation.

Animal data showing that PCI can significantly enhance the therapeutic effect of an antibody-based experimental therapeutic molecule (immunotoxin) were presented on the annual meeting of the American Association for Cancer Research in April 2007. Similar molecules are under development by several pharmaceutical and biotech companies, and this class of molecules represents a very interesting possibility for PCI Biotech.

PCI Biotech is a key partner in several large projects on cancer research. These include the CAST Centre for Research Driven Innovation where the goal is to develop therapies targeted to tumour stem cells, and "MEDITRANS", a large EU-project on targeted delivery of nano-medicines. This project will, among other objectives, further explore the use of the PCI technology for siRNA delivery together with leading European drug delivery groups. PCI Biotech is also a member of the newly established "Oslo Cancer Cluster".

In 2007 PCI Biotech received two new grants from the Norwegian Research Council, giving a financial support of approximately NOK 5 mill. per year in the period 2007-2009. This comes in addition to other public funding, giving PCI Biotech a total public funding of approximately NOK 7 mill per year in this period.

PCI Biotech's future

If no adverse results are observed in the ongoing toxicology studies, the first clinical study with Amphinex™ (used in combination with the anticancer drug bleomycin) will commence in 2008 at The Norwegian Radium Hospital. The first study will be performed on several different cancer types, including melanoma, breast and head/neck cancer. The objective is to document the safety of the PCI technology and to define Amphinex™ doses for further studies.

The 5-year vision for PCI Biotech is to be a successful drug delivery company with a portfolio of license agreements and a pipeline of new opportunities.

1 - 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).

2 - 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.

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

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

RESEARCH AND DEVELOPMENT PARTNERS

The Norwegian Radium Hospital in Oslo.

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.

Worldwide network of out–standing collaboration partners

Photocure bases its research and development activities on close collaborations with outstanding academic institutions and a number of third party contract research organisations worldwide. This approach gives the company access to world-leading research, and at the same time allows it to manage development costs prudently and perform the work rapidly. Major and long-term agreements have been entered into with the following:

Norwegian Radium Hospital Research Foundation, Norway

Photocure's 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 and later transferred to Photocure. 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. The current agreement expires in 2010. 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 for research on topical photosensitisers, with emphasis on development of new pharmaceutical formulations.

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 the company's regulatory successes.

Inserm - Lille University Hospital France

Photocure has entered into an agreement with Lille University Hospital including preclinical and clinical research. The focus is on photodiagnosis and photodynamic therapy in gynecology and gastroenterology.

ARTICLES OF ASSOCIATION*

As of 12 September 2007

§ 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 11,046,650.50 divided on 22,093,301 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 seven members. All members are to be elected every year. 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 one board member together, or three board members together.

§ 6 The annual general meeting is held each year before 1 July.

The general meeting decides on:

- Approval of profit and loss account and balance sheet.
- Employment of net income or coverage of net loss based on the finalised balance sheet and payment of dividends.
- Election of the board of directors and decision on remuneration to the board members.
- Appointment of auditor and decision on her/his remuneration.
- The nomination committee is elected by the general meeting and consists of three members who ensure a broad representation of shareholder interests. One of the two largest shareholders should be represented. The members of the nomination committee are elected for a period of one year. The members may be re-elected. The nomination committee's duties are to propose candidates for election to the board of directors and to propose fees to be paid to the board members.
- 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 1/20 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.

** The translation to English has been made for information purposes only.*

SHARES AND SHAREHOLDERS

Photocure ASA is a public limited company with headquarters in Oslo, Norway. The company's shares are listed on the Oslo Stock Exchange, the ticker symbol is PHO (Reuters PHO.OL).

Performance over the year 2007

Starting at NOK 54.25 in January and ending at NOK 46.50 in December, the Photocure share had a decrease of 14.3% in 2007.

Market capitalisation

Photocure's market capitalisation at the end of 2007 was NOK 1027,3 million (NOK 1195 million in 2006).

Shares and share options

At the end of 2007, the outstanding number of shares was 22,093,301 shares. In addition, Photocure had a total of 467,503 outstanding share options and warrants at the end of 2007, all of them held by employees.

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 our products as well as coverage by financial analysts.

Financial events 2008

Photocure intends to release its quarterly financial statements for 2008 on the following dates:

28 February 2008
Presentation of the report 2007 (webcast)

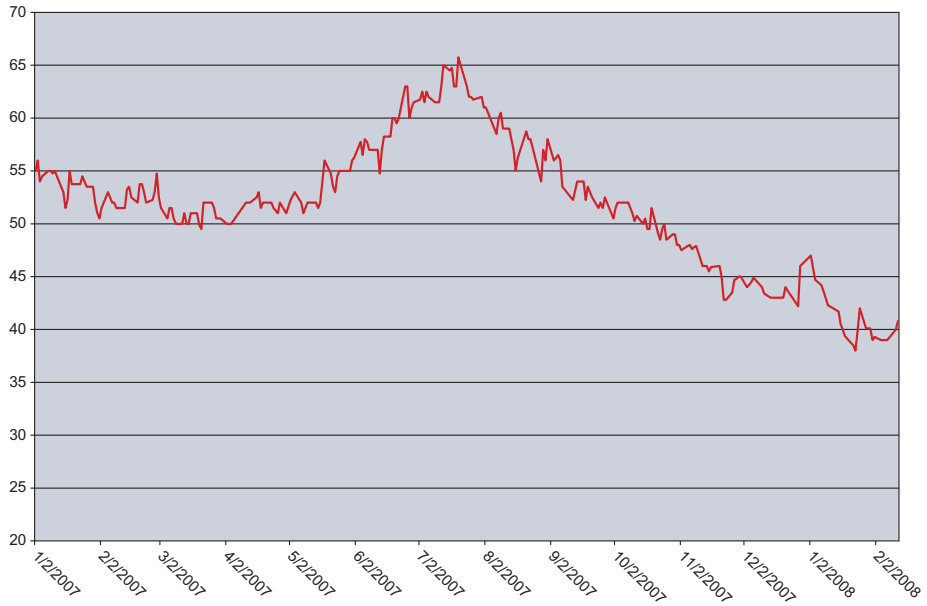
23 April 2008
Presentation of the first quarter report (webcast)

15 August 2008
Presentation of the second quarter report (webcast)

24 October 2008
Presentation of the third quarter report (webcast)

The company's Annual General Meeting will be held in Oslo on 9 April 2008.

Photocure share price for 2007 - March 2008



Ownership structure

The major shareholders of Photocure ASA as per 31 December 2007 were:

	Shares	Shareholding in %
The Norwegian Radium Hospital Research Foundation	3 129 000	14.2 %
Odin Norge	1 669 942	7.6 %
Gezina AS	1 326 306	6.0 %
Orkla	1 250 000	5.7 %
Cogent-Hunter Hall V Trust	873 625	4.0 %
Verdipapirfondet KLP	843 962	3.8 %
Ferd Invest	772 700	3.5 %
Skagen vekst	750 000	3.4 %
Saga equity fund	680 000	3.1 %
Cogent-Hunter Hall G Trust	618 500	2.8 %
Cogent-Hunter Hall G limited	496 000	2.2 %
Vicama AS	439 784	2.0 %
Mirasol verdi	395 000	1.8 %
Vital forsikring ASA	392 684	1.8 %
Holberg Norge Verdipapirfond	337 176	1.5 %
MP Pensjon	335 000	1.5 %
Carnegie Investment	250 000	1.1 %
DnB NOR Norge (IV) VPF	242 336	1.1 %
KLP LP shares	240 000	1.1 %

CORPORATE GOVERNANCE

Photocure is committed to good 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 management more comprehensively than is required by legislation.

Photocure complies with the Norwegian Code of Practice for corporate governance of 4 December 2007. This code is a "comply or explain" guideline and the company's governance structure is according to the guidelines.

Below, the most important parts of Photocure's corporate governance policy are described.

1. Implementation and reporting on corporate governance

Photocure has implemented a sound corporate governance policy, which is presented in the company's annual report and on the company's web site.

2. Business

Photocure's business is clearly defined in the articles of association.

3. Equity and dividends

Photocure's equity is at a level appropriate to its objectives, strategy and risk profile. The company has established a clear dividend policy, and the mandates to increase the company's share capital are well defined and limited in time to the next general assembly.

4. Equal treatment of shareholders and transactions with close associates

Photocure has one class of shares. All material transactions between the company and shareholders, board members, management or close associates of any such parties are valuated independently by a third party. Members of the board of directors and management are obliged to notify the board if they have any material direct or indirect interest in any transaction entered into by the company.

5. Freely negotiable shares

All shares are freely negotiable with no form of restriction on negotiability.

6. General meetings

It is the responsibility of the board of directors 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.

7. Nomination committee

The company has a nomination committee consisting of three members. The nomination committee is elected annually by the general meeting, and the members are selected to ensure broad representation of shareholder interests. The nomination committee is laid down in the company's articles of association.

8. Composition and independence of the board of directors

The composition of the board of directors of Photocure ensures that the board

can attend to the common interests of all shareholders and meets the company's need for expertise, capacity and diversity. All members of the board of directors are presented in the company's annual report. The chairman of the board is elected by the general meeting.

9. The work of the board of directors

The board of directors produces an annual plan for its work and evaluates its performance and expertise annually. The board of directors has an Audit committee and Remuneration committee.

10. Risk management and internal control

It is the responsibility of the board of directors to ensure that the company has sound internal control and systems for risk management that are appropriate in relation to the extent and nature of the company's activities.

11. Remuneration of the board of directors

The remuneration of the board of directors reflects the board's responsibility, expertise, time commitment and the complexity of the company's activities. The remuneration of the board of directors is not linked to the company's performance, and share options are not granted to any members of the board.

12. Remuneration of the executive management

Guidelines for the remuneration of the members of the management have been established by the board of directors and are communicated to the general assembly. Performance related remuneration of the executive management is linked to the value creation for shareholders and is based on quantifiable factors over which the employee can influence.

13. Information and communications

The guidelines for the company's reporting of financial and other information are based on openness and take into account the requirement for equal treatment of all participants in the securities market. Information distributed to the company's shareholders is published on the company's web site at the same time as it is sent to the shareholders.

14. Take-overs

Any transaction that is in effect a disposal of the company's activities is to be decided by a general meeting.

15. Auditor

The auditor submits the main features of the plan for the audit of the company to the board of directors annually. The auditor participates in meetings of the board of directors that deal with the annual accounts and presents at least once a year to the board of directors a review of the company's internal control procedures.

Photocure ASA

Photocure is a pharmaceutical company registered on the Oslo Stock Exchange. Through its technological platform of photodynamic diagnosis and treatment, the company covers medical needs in cancer and other areas.

The company has three products on the market: Metvix, which is used to treat skin cancer and precancerous skin lesions in combination with the Aktilite lamp, and Hexvix for the detection of bladder cancer. In addition, three new products are undergoing clinical testing.

Sales revenues and milestone payments amounted to NOK 99.0 million in 2007 compared to NOK 210.3 million in 2006. The reduction is due to milestone payments for Hexvix of NOK 133.0 million in 2006. Sales revenues increased by 22% in 2007. The change in sales revenues from 2006 is mainly caused by increased sales of Hexvix combined with increased sales of Metvix in the Nordic region.

Operating costs increased with NOK 61.3 million from 2006 to 2007 due to a scheduled escalation of activities within research and development (R&D) as well as marketing and sales. Operating income went from a profit of NOK 78.3 million in 2006 to a loss of NOK 87.5 million in 2007, due to milestone payments in 2006 and the scheduled increase of costs.

Marketing and sales

Better results with Hexvix in bladder cancer diagnosis

Bladder cancer is traditionally detected with cystoscopy (telescopic examination of the bladder) with white light. Hexvix cystoscopy is performed with blue light, and Hexvix is the first registered pharmaceutical on the market to provide better diagnosis of bladder cancer as it detects more tumours than traditional cystoscopy. Hexvix is approved in Europe for the detection of bladder cancer in patients with known or suspected bladder cancer.

Photocure has applied for approval of Hexvix in the USA. The application was filed in June 2005, and in April 2006, US medical authorities requested further documentation. Photocure and GE Healthcare are working together to fulfil the requirements set fourth by the FDA.

Hexvix sales increased by 108% to NOK 21.0 million

In 2007, GE continued the launch of Hexvix in Europe, and Hexvix is now available in 16 European countries.

Sales revenues from Hexvix increased to NOK 21.0 million in 2007, rising from NOK 10.1 million in 2006. Photocures own sales of Hexvix in the Nordic countries increased from NOK 2.1 million in 2006 to NOK 6.0 million in 2007. Sales revenues from GE markets increased from NOK 8.0 million in 2006 to NOK 15.0 million in 2007.

Launching Metvix in new markets

Galderma has applied for marketing approval for Metvix and Aktilite in Canada.

In June 2007, Photocure filed an application for approval of the Aktilite lamp in the US. Photocure is expecting a reply from the American medical authorities (FDA) in May 2008.

Metvix sales increased by 5.2% to NOK 54.2 million in 2007

Revenues from the sales of Metvix/Aktilite increased by 5.2% from NOK 51.6 million in 2006 to NOK 54.2 million in 2007. Sales of Metvix/Aktilite by Photocure in the Nordic countries increased by 15.6% from NOK 19.9 million in 2006 to NOK 23.1 million in 2007. Galderma sales of Metvix/Aktilite decreased by 1.3% from NOK 31.6 million in 2006 to NOK 31.2 million in 2007. This is caused by decreased sales of Aktilite to Galderma. The number of Metvix tubes sold in markets outside the Nordic region increased by 21% in 2007, but the price per tube was reduced, as sales were higher in countries with lower prices.

Research and development

In addition to the commercialised products, Photocure has three projects in clinical development.

Treatment for moderate to severe acne

Photocure is developing a new pharmaceutical product for the treatment of moderate to severe acne. As side effects of existing treatments are severe, there is a large medical need for a new and gentle treatment of acne. In Europe and the US, the sales of medicinal products for the treatment of moderate to severe acne total approximately 1.4 billion dollars annually.

In January 2007, a multicentre phase IIb study including 190 patients was initiated in the USA. The results from this study are expected to be published in 2008. A new specialised lamp with large, flexible LED panels was developed in 2007 for use in the treatment of acne.

Treatment for precancerous lesions of the cervix

In 2006, Photocure initiated a clinical phase I/II dose study for the treatment of precancerous lesions of the cervix. The study includes 72 patients at the university hospitals of Oslo (Norway) and Hanover (Germany), and will be reported in the second half of 2008. In addition, the development of a new formulation for application of the pharmaceutical product to the cervix was initiated, as well as the development of a new light source.

Cervical cancer is caused by an HPV virus infection. There is a large medical need for a gentle, non-invasive treatment for precancerous lesions of the cervix, especially in young women.

Diagnosis of colon cancer

In 2006, Photocure initiated a phase I/II study for fluorescence diagnosis of colon cancer. The study was performed at two hospitals in Germany, and included 32 pa-

DIRECTORS' REPORT

tients with suspicion of colon cancer. The first results from this study, which show a significant increase in detected tumours, were published in "Endoscopy" in February 2008.

The market for colonoscopies is growing rapidly as a result of increasing numbers of screening patients in the EU and the USA. At the same time, there is an increasing acceptance of the fact that standard white light colonoscopy has its limitations, and that fluorescence diagnosis may increase the detection rate of polyps and colon cancer.

PCI Biotech

PCI Biotech continues development of new technology

Photocure's subsidiary PCI Biotech AS is developing a new technology (PCI) to increase the effect of therapeutic molecules specifically directed towards areas of the body that need treatment. In 2007, PCI Biotech sought patent on the use of the PCI technology for delivery of siRNA. In addition, the company has been working on the synthesis of the substance as well as preparing initiation of clinical studies. PCI Biotech is planning to start clinical studies with Amphinex™ in 2008.

PCI Biotech has reinforced the organisation by employing Per Walday as CEO from April 2008. Current CEO Anders Høgset will assume the position as Director of Research and Development.

The Board of Directors of Photocure is planning to de-merge PCI Biotech in the spring 2008 with subsequent listing on the Oslo Stock Exchange (Oslo Axess).

Financial situation

Sales revenues, signing fees and milestone payments in the Photocure Group amounted to NOK 99.0 million in 2007, compared to NOK 210.3 million in 2006.

Total sales revenues from own sales in the Nordic region increased by 32% to NOK 29.1 million in 2007 compared to NOK 22.0 million in 2006. Total sales revenues from licensing partners increased by 17% to NOK 46.2 million in 2007 compared to NOK 39.6 million in 2006.

Signing fees and milestone revenues amounted to NOK 23.8 million in 2007, a reduction of NOK 124.9 million compared to 2006 caused by lower milestone payments from GE Healthcare.

The Group's operating income gave a loss of NOK 87.5 million in 2007, compared to a profit of NOK 78.3 million in 2006. The change in operating income is caused by a NOK 124.9 million reduction of milestone revenues. In addition, R&D expenses increased by NOK 47.4 million and marketing and sales expenses increased by NOK 14.4 million. All costs related to R&D have been expensed in 2007.

Net financial income totalled NOK 12.5 million in 2007, compared to NOK 6.4 million in 2006.

The Group's net income gave a loss of NOK 75.0 million in 2007, compared to a profit of NOK 84.7 million in 2006.

Net income of Photocure ASA (parent company) gave a loss of NOK 65.0 million in 2007, compared to a profit of NOK 88.9 million in 2006. The board of directors of Photocure proposes that the net loss be covered by other equity. After this transfer, the equity of Photocure ASA amounts to NOK 298.0 million, of which NOK 264.2 million are distributable reserves. The equity of the Group amounted to NOK 260.0 million as of 31 December 2007, giving an equity ratio of 86%.

On 3 December 2007, Photocure held an extraordinary general meeting where it was decided to decrease the share premium reserve to NOK 0 through a transfer of NOK 250.7 million to other equity. The execution of the capital reduction was registered in February 2008.

The Group has adopted a conservative investment strategy for its liquid funds. The yield on the company's liquid funds is dependant on money market interest rates and may therefore vary over time. The Group's liquid funds totalled NOK 252.5 million as of 31 December 2007. Net cash flow from operations totalled NOK -97,0 million in 2007 compared to NOK 66.4 million in 2006.

Costs and revenues of the Group accrue in different currencies. The Group is therefore 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 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 December 2007.

In accordance with the Norwegian Accounting Act, § 3.3 (a), the Board of Directors of Photocure confirms the assumption that the company is a going concern and that the financial report for 2006 is based on this. Since the end of the financial year of 2006, 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.

Risk management

Procedures for management of financial risks have been established by the board of directors, and are followed up by the economy section at Photocure in cooperation with an external banking partner. The most important financial risks the company is exposed to are associated with interest risks, liquidity risks, currency risks and credit risks.

Photocure is exposed to changes in interest rates through investment of excess liquidity in mutual funds. The Group's liquidity is only placed in the bank or invested in interest-bearing mutual funds that invest in the Norwegian market with short duration. In order to reduce the currency risk, Photocure always considers the currency exposure when making investments and seeks terms that reduce the company's financial risk.

Organisation

The management of Photocure consists of Kjetil Hestdal, President & CEO; Christian Fekete, CFO; Grete Hogstad, Vice President Marketing and Sales; Inger Ferner Heglund, Vice President Research and Development and Kjell-Erik Nordby who was employed as Vice President Business Operations from 10 April 2007.

Photocure is based in Oslo. By the end of 2007, the Group had 57 employees, of which 4 were employed by the subsidiary PCI Biotech AS. The Group makes considerable use of external suppliers for production, research and development, as well as for regulatory work. The working environment in the company is considered to be good, and no accidents or injuries were reported in 2007. For the Group, absence from work due to illness totalled 283 working days in 2007, which equals 2.28% of total working days. For the parent company, the absence due to illness totalled 253 working days in 2007, which equals 2.17% of total working days.

Photocure aims to be a workplace that provides equal opportunities for men and women. The company has traditionally recruited from environments where men and women are relatively evenly represented. The company has 40% women in the board of directors and 63% women among its employees. Working hour arrangements in the company do not depend on gender.

The company does not pollute the external environment.

Future prospects

Photocure's focus in 2007 will be to continue the cooperation with GE Healthcare on launching Hexvix in Europe, and working for an approval of Hexvix in the USA. At the same time, Photocure and Galderma will be working closely to increase the sales of Metvix/Aktilite in existing markets as well as to introduce the product in new markets. Galderma is planning to launch Metvix/Aktilite in USA as soon as Aktilite is approved.

The focus within R&D will be to conduct clinical studies and to ensure progress in the development of new pharmaceutical products.

Photocure is planning to out-license the MAL acne, Cevira and Lumacan projects after clinical phase II.

In addition, the company is planning to demerge PCI Biotech, followed by listing on the Oslo Stock Exchange (Oslo Axess).

Oslo, Norway, 27 February 2008

Erik Engebretsen,
chairman of the board

Jon Hindar,
director

Kari Krogstad,
director

Lars Lindegren,
director

Birgit Stattin Norinder,
director

Kjetil Hestdal,
President and CEO

INCOME STATEMENT

Photocure ASA

(Amounts in NOK 000s except per share data)

Parent				Consolidated		
2006	**2007**		**Notes**	**2007**	**2006**	**2005**
61 667	75 252	Sales revenues		75 252	61 667	38 007
148 653	23 754	Signing fees and milestone revenues		23 754	148 653	15 634
210 320	**99 006**	**Total revenues**	**1**	**99 006**	**210 320**	**53 641**
-22 251	-17 326	Cost of goods sold	4	-17 326	-22 251	-13 430
188 070	**81 679**	**Gross profit**		**81 679**	**188 070**	**40 211**
2 053	2 258	Other income	3	7 625	5 690	15 235
-8 545	-8 512	Indirect manufacturing expenses	5	-8 512	-8 545	-5 134
-57 088	-97 365	Research and development expenses	5	-112 098	-64 740	-59 958
-25 396	-39 766	Marketing and sales expenses	5	-39 766	-25 396	-25 290
-16 837	-15 738	Other operating expenses	5	-16 378	-16 738	-12 315
-105 813	**-159 123**	**Total other income and expenses**		**-169 129**	**-109 728**	**-87 463**
82 257	**-77 444**	**Operating profit/loss(-)**		**-87 450**	**78 341**	**-47 252**
12 072	14 174	Financial income	9	14 224	11 867	10 178
-5 463	-1 720	Financial expenses	9	-1 744	-5 478	-1 400
6 609	**12 454**	**Net financial profit/loss(-)**		**12 480**	**6 389**	**8 778**
88 866	**-64 990**	**Profit/loss(-) before tax**		**-74 970**	**84 730**	**-38 474**
-	-	Tax expense	10	-	-	-
88 866	**-64 990**	**Net profit/loss(-) for the year**		**-74 970**	**84 730**	**-38 474**
		Attributabel to:				
-	-	Equity holders of parent		-74 187	85 082	-38 210
-	-	Minority interests		-783	-352	-264
-	**-**	**Net profit/loss(-)**		**-74 970**	**84 730**	**-38 474**
		Earnings per share	**12**			
-	-	Basic		-3.40	3.98	-2.19
-	-	Diluted		-3.40	3.97	-2.18

BALANCE SHEET AS OF 31 DECEMBER

Photocure ASA
(Amounts in NOK 000s)

Parent				Consolidated	
2006	**2007**	**ASSETS**	**Notes**	**2007**	**2006**
		Non-current assets			
780	649	Intangible assets	13	779	780
2 178	3 422	Machinery and equipment	13	3 436	2 178
24 651	44 171	Investment in subsidiaries	14		
27 609	**48 241**	**Total non-current assets**		**4 215**	**2 958**
		Current assets			
9 750	12 504	Inventories	15	12 504	9 784
12 621	12 068	Accounts receivable		12 095	12 591
6 275		Interest bearing loan group company			
12 637	16 355	Other receivables		20 128	15 004
31 532	**28 422**	**Total receivables**	**17, 18**	**32 222**	**27 595**
334 187	247 753	Cash and short term deposits	17, 19	252 452	335 085
375 470	**288 679**	**Total current assets**		**297 179**	**372 464**
403 079	**336 920**	**Total assets**		**301 394**	**375 423**

BALANCE SHEET AS OF 31 DECEMBER

Photocure ASA

(Amounts in NOK 000s)

Parent				Consolidated	
2006	**2007**	**EQUITY AND LIABILITIES**	**Notes**	**2007**	**2006**
		Equity			
11 017	11 047	Issued capital	20	11 047	11 017
248 602	250 738	Share premium	20	250 738	248 602
	-250 738	Not registered write down of share premium	20	-250 738	-
6 821	10 984	Other paid-in capital		10 984	6 821
90 146	275 894	Retained earnings		237 472	60 495
		Minority interests		491	-
356 586	**297 924**	**Total equity**		**259 994**	**326 935**
		Liabilities			
		Non-current liabilities			
-	-	Non-current liabilities	21	-	-
1 303	-	Deferred signing fee	22	-	1 303
1 303	**-**	**Total non-current liabilities**		**-**	**1 303**
		Current liabilities			
9 363	11 397	Accounts payable		12 071	10 128
1 517	2 995	Employee withholding taxes and social security tax		3 097	1 576
15 634	1 303	Deferred signing fee	22	1 303	15 634
18 676	23 302	Other current liabilities	23	24 930	19 847
45 190	**38 996**	**Total current liabilities**		**41 400**	**47 185**
46 493	**38 996**	**Total liabilities**		**41 400**	**48 488**
403 079	**336 920**	**Total equity and liabilities**		**301 394**	**375 423**

Oslo, 27 February 2008

The Board of Directors of Photocure ASA

Erik Engebretsen,
chairman of the board

Jon Hindar,
director

Kari Krogstad,
director

Lars Lindegren,
director

Birgit Stattin Norinder,
director

Kjetil Hestdal,
President and CEO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Photocure ASA
(Amounts in NOK 000s)

	Notes	Issued capital	Share premium	Not reg. write down	Other paid-in equity	Retained earnings	Minority interests	Total equity
Equity as of 31 December 2005	**20**	**8 792**	**58 353**	**-**	**4 764**	**-23 444**	**-**	**48 465**
Share issue		2 198	188 410	-	-	-	-	190 608
Share issue employees		27	1 839	-	-	-	-	1 867
Employees' options		-	-	-	2 057	-	-	2 057
Investment in PCI Biotech		-	-	-	-	-792	-	-792
Net profit for the year		-	-	-	-	85 082	-352	84 730
Transfer of negative minority interest		-	-	-	-	-352	352	-
Equity as of 31 December 2006	**20**	**11 017**	**248 602**	**-**	**6 821**	**60 495**	**0**	**326 935**
Share issue		-	-	-	-	-	-	0
Share issue employees		29	2 136	-	-	-	-	2 165
Employees' options		-	-	-	4 163	-	-	4 163
Investment in PCI Biotech		-	-	-	-	-20	1 720	1 700
Share premium transf. to retained earnings		-	-	-250 738	-	250 738	-	-
Net profit for the year		-	-	-	-	-74 187	-783	-74 970
Transfer of neg. minority interest prev year		-	-	-	-	446	-446	-
Equity as of 31 December 2007	**20**	**11 047**	**250 738**	**-250 738**	**10 984**	**237 472**	**491**	**259 994**

STATEMENT OF CHANGES IN EQUITY

Photocure ASA - parent
(Amounts in NOK 000s)

	Notes	Issued capital	Share premium	Not reg. write down	Other paid-in equity	Retained earnings	Total equity
Equity as of 31 December 2005	**20**	**8 792**	**58 353**	**-**	**4 764**	**1 280**	**73 189**
Share issue		2 198	188 410	-	-	-	190 608
Share issue employees		27	1 839	-	-	-	1 867
Employees' options		-	-	-	2 057	-	2 057
Net profit for the year		-	-	-		88 866	88 866
Equity as of 31 December 2006	**20**	**11 017**	**248 602**		**6 821**	**90 146**	**356 586**
Share issue		-	-	-	-	-	-
Share issue employees		29	2 136	-	-	-	2 165
Employees' options		-	-	-	4 163	-	4 163
Share premium transferred to retained earnings		-	-	-250 738	-	250 738	-
Net profit for the year		-	-	-	-	-64 990	-64 990
Equity as of 31 December 2007	**20**	**11 047**	**250 738**	**-250 738**	**10 984**	**275 894**	**297 924**

CASH FLOW STATEMENT

Photocure ASA
(Amounts in NOK 000s)

Parent			Consolidated		
2006	**2007**		**2007**	**2006**	**2005**
88 866	-64 990	Profit/loss(-) before tax	-74 970	84 730	-38 474
1 335	1 355	Ordinary depreciation & amortisation	1 389	1 335	1 125
-	57	(Gain)/Loss on sale of non-current assets	57	-	-5 057
2 325	4 163	Share-based payments expense	4 163	2 325	1 604
1 870	-258	Pension costs/Change in pension commitments	-293	1 970	-219
-7 160	-12 485	Interest income	-12 180	-6 933	-2 160
28	13	Interest expense	13	28	63
-2 121	586	Other items	602	-2 222	-12 649
3 159	-2 754	Change in inventory	-2 720	3 159	4 590
-13 595	-5 442	Change in receivables	-4 627	-9 870	1 444
521	2 034	Change in accounts payable	1 943	933	1 656
-15 634	-15 634	Change in deferred signing fee	-15 634	-15 634	-15 634
6 603	6 103	Change in other accruals	6 603	6 550	-6 749
66 197	**-87 252**	**Net cash flows from operating activities**	**-95 655**	**66 370**	**-70 460**
-	8 552	Repayment of loan from group company			
-1 585	-2 962	Investments in machinery and equipment	-3 141	-1 585	-2 100
-	411	Sale of fixed assets (sales price)	411	-	405
-792	-19 520	Investments in/sale of other non-current asset investments	-	-792	5 000
7 160	12 485	Interest received	12 180	6 933	2 160
4 782	**-1 034**	**Net cash flows from investing activities**	**9 450**	**4 556**	**5 465**
190 608	-	Share issue	1 720	190 608	-
1 867	2 165	Share issue employees	2 165	1 867	52
-44	-13	Interest paid	-13	-44	-80
-600	-300	Repayment of loans	-300	-600	-600
191 830	**1 852**	**Net cash flows from financing activities**	**3 572**	**191 830**	**-628**
262 809	**-86 433**	**Net change in cash during the year**	**-82 633**	**262 756**	**-65 623**
71 377	**334 187**	**Cash and cash equivalents as of 01.01**	**335 085**	**72 329**	**137 952**
334 187	**247 753**	**Cash and cash equivalents as of 31.12**	**252 452**	**335 085**	**72 329**

ACCOUNTING PRINCIPLES

Information about the company and the group

The annual accounts for 2007 for Photocure ASA (the company) and the consolidated annual accounts for the group were approved for publication by the board of directors on 27.2.2008.

Photocure ASA is a public limited company domiciled in Norway. The activities of the group are connected with research, development, production, distribution, marketing and sales of pharmaceutical products and associated medical devices. The company's shares are listed on the Oslo Stock Exchange. The company's address is Hoffsveien 48, NO-0377 Oslo.

Basis for preparation of the annual accounts

The annual accounts of the company and the group have been prepared on the basis of historical cost, except for investments in money market funds which are valued at fair value through profit or loss.

The annual accounts of the company and the group are presented in accordance with International Financial Reporting Standards (IFRS), as laid down by the International Accounting Standards Board and implemented by the EU as per 31.12.2007.

Photocure ASA and its subsidiary companies have NOK as their functional currency, and the presentation currency for the group is NOK. All financial information is reported in whole NOK 1,000 unless otherwise stated.

Principles for the preparation of the consolidated accounts

The group consists of the parent company, Photocure ASA, and the subsidiary companies, PCI Biotech Holding ASA and PCI Biotech AS, which are owned 100 % and 91.4 % respectively. Photocure ASA has owned PCI Biotech AS since 2000, while PCI Biotech Holding ASA was established by Photocure ASA in 2007.

The consolidated accounts include the overall financial result and overall financial position when the parent company Photocure ASA and its subsidiary companies are presented as a single economic unit. Subsidiary companies have been consolidated in full in the consolidated accounts. Minority share of profit after tax is presented on a separate line. Minority shares are included in the group's equity with the sum specified on a separate line in the balance sheet. The share of profit is calculated on the basis of the subsidiary company's profit after tax, as this is included after eliminations in the consolidated accounts. Negative minority shares are recorded as a reduction of other equity.

The consolidated accounts have been compiled on the basis of uniform accounting principles for similar transactions and events under otherwise equal conditions. Inter-company transactions and intra-group balances, including inter-company profits and unrealised profits or losses, are eliminated.

Changes in accounting policies

On 1 January 2006, the accounting policies applied by the parent company Photocure ASA were changed from generally accepted accounting principles in Norway (NGAAP) to IFRS. The company has applied the following voluntary exceptions in IFRS 1: Accumulated non-recorded deviations in estimates from the previous pension scheme, which was concluded on 1 January 2006, are recorded against equity in the opening balance.

There have not been any changes in the group's accounting policies in 2007 compared with the previous year. The following new/revised/supplements to standards and interpretations have been implemented in 2007:

- IFRS 7 Financial instruments - information
- Supplement to IAS 1 Presentation of Financial Statements - capital
- IFRS 8 Operating segments

The group has chosen early introduction from 2007 of the new standard for operating segments, which is obligatory from 2009. IFRS 8 replaces IAS 14 Segment reporting.

The following standards and interpretations have been published, but are not effective and have not been implemented in the annual accounts for 2007:

- Amendment to IFRS 2 – Share-based Payment: Vesting Conditions and Cancellations
- IFRS 3 (revised) – Business Combinations
- IAS 1 (revised) – Presentation of Financial Statements
- IAS 23 (revised) – Borrowing Costs
- IAS 27 (revised) – Consolidated and Separate Financial Statements
- IFRIC 11 – Group and Treasury Share Transactions
- IFRIC 12 – Service concession arrangements
- IFRIC 13 – Customer loyalty programmes
- IFRIC 14 – IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

Photocure ASA and the group do not expect that the implementation of additions / revisions / supplements to standards and interpretations listed up above will have any significant effect on the annual accounts at the time of implementation.

Important accounting valuations, estimates and assumptions

Preparation of the annual accounts in accordance with IFRS requires the use of valuations, estimates and assumptions that have consequences for recognition in the balance sheet of assets and liabilities, the valuation of contingent liabilities, and recorded revenues and expenses.

ACCOUNTING PRINCIPLES

The use of estimates and assumptions is based on the best discretionary judgement of the company's management.
In the process of applying the accounting policies, the company management has made the following valuations and estimates that are of significance for recognised values in the annual accounts for 2007:

- Non-refundable advance payments received in 2006 in connection with the licensing of the Hexvix product and in connection with the exercise of the option for the USA for the same product have been treated as payments for expenses associated with the transfer of rights for the product. Sums received are not deductible and, in the company's view, no conditions or future obligations are associated with these payments. Photocure's subsequent obligation to produce Hexvix is considered by the company's management to be independent of signing and option payments. An obligation in connection with production arises first when the company has a claim for a valuable consideration in the form of an account receivable in relation to a customer and not in connection with the signing of the licence agreement. This is justified on the basis of the actual negotiations with the customer where signing and option payments were negotiated on an independent basis and based on market conditions. Sums received have therefore been recognised as revenue in 2006.
- Deferred income recognition in the balance sheet is related to non-refundable advance payments received in connection with licensing of the Metvix product. The company's management considered that Photocure ASA had an obligation on signing licence agreements for Metvix related to advance payments received and income recognition was deferred and taken straight-line over six years. The estimated income recognition period ends on 1 February 2008.
- The valuation of PCI Biotech AS in the parent company is based on an assessment of the future commercial value of the PCI technology, patents and the results of the studies that are carried out by the subsidiary company.
- Due to uncertainty concerning future financial benefits, expenses for own development are expensed on an ongoing basis, up until national marketing approval for the product and indication are obtained. Further development of the product after marketing permission has been given and a market launch carried out will be recorded on the balance sheet in the extent that this involves significant changes in the product that are likely to generate future economic benefits.

Summary of important guidelines for accounting for the company and the group

a. Classification

Assets / liabilities are classified as current assets / current liabilities when they meet one of the following criteria:
they are expected to be realised in the company's ordinary operating cycle or are kept for sale or consumption
they are expected to be realised within 12 months of the balance sheet date, or
they are in the form of cash or a cash equivalent

All other assets / liabilities are classified as fixed assets / long-term liabilities.

b. Currency

Monetary items in foreign currencies are translated at closing rate of exchange. Realised and unrealised exchange gains and losses are included in financial items unless otherwise stated. Transactions in foreign currencies are recorded at the exchange rate on the date of transaction.

c. Tangible fixed assets

Tangible fixed assets are recorded at cost less accumulated depreciation and write-downs. Tangible fixed assets are depreciated over the expected useful life of the assets, taking any residual value into consideration. Costs accrued for major replacements and updates for tangible fixed assets are added to cost if it is probable that the costs will generate future economic benefits for the company and if the costs can be reliably measured. Ordinary maintenance is charged against income on an ongoing basis.

Tangible fixed assets are depreciated straight-line over the estimated useful life from the time they are available for use as follows:
- production and test equipment
  5 years
- fixtures and fittings and equipment
  3 – 5 years

Intangible assets are amortised straight-line over the estimated useful life from the time they are available for use as follows:
- software programs
  5 years

The book value of tangible fixed assets that are depreciated is tested in respect to loss in value if there are indications of a permanent loss in value. If the book value of an operating asset is higher than the asset's recoverable value, a loss in value is charged against income. The recoverable value is the higher of net sales value and the utility value of the fixed asset. Tangible fixed assets are grouped and valued at the lowest level for measuring cash flows.

If a need for write down is identified, the fixed assets will be valued at the lowest of book value and recoverable value.

Previous write-downs are reversed in the extent that the basis for the write-downs no longer exists. Reversals are limited to book value after deduction for accumulated depreciation, calculated as if the write-down had not taken place.

Profits from the sale of tangible fixed assets and intangible assets are recorded un-

der "Other operating income" while losses are recorded under "Other operating expenses".

d. Research and development

Research costs are expensed on an ongoing basis. Development costs are capitalised as intangible assets only if they are an identifiable asset that is expected to provide future economic benefits and when the acquisition cost of such an asset can be accurately measured. Development costs are capitalised as intangible assets if all of the following criteria are met:

- It is technically possible to complete the asset so that it can be available for use or for sale.
- The intention is to complete the asset for use or for sale.
- The company is able to use or sell the asset.
- The asset will give future economic benefits and demonstrate the existence of a market, or that the asset is useful if it is to be used internally.
- Sufficient technical, financial or other resources are available to carry out the development and to use or sell it, and
- The opportunity exists to reliably measure costs associated with the intangible asset.

When all the above criteria are met, costs related to development will begin to appear on the balance sheet. Costs charged in earlier accounting periods will not be shown in the balance sheet. Due to uncertainty with regard to future financial returns from new pharmaceutical products under development, costs for own research and development are expensed on an ongoing basis until national marketing authorisation for the product and indication are obtained. The sharing of research and development costs with licensing partners is recorded as a cost reduction in the accounts.

e. Investment in subsidiary companies

Shares and investments with the aim of long-term ownership are recorded in the balance sheet as long-term investments and are valued at the lower of cost and fair value. Write-downs for permanent falls in value are based on individual valuations. Any realised and unrealised profits/losses and any write-downs related to these investments will be recorded in the income statement as financial items.

f. Inventories

Raw materials are valued at the lower of cost and net sales value in accordance with the first-in, first-out principle (FIFO). Work in progress and finished products are valued at production cost, including a mark-up for a share of the indirect production costs based on the FIFO principle.

g. Financial assets and liabilities

Financial assets and liabilities are recognised on the balance sheet when the company enters into a binding agreement in regard to the item.

g.1 Trade accounts receivable and other receivables are recorded at amortised cost.

g.2 Cash and cash equivalents include in addition to bank and cash balances, money market funds with securities that have an average life of three months or less.

g.3 Interest-bearing liabilities are recognised at fair value at the time of recognition. In subsequent periods, interest-bearing liabilities are recorded at amortised cost according to the effective interest method.

g.4 Trade accounts payable are recorded at amortised cost.

g.5 Financial income consists of interest income on bank balances and exchange rate gains from currency items. Financial expense consists of interest expense on borrowing and exchange rate losses from currency items.

h. Recognition of revenue

Revenue is rekognised when it is probable that transactions will generate future economic benefits that will accrue to the company, and the revenue can be reliably measured.

Payments received from the sale of products are recorded on the date of delivery; that is to say, when both control and risk have been essentially transferred to the buyer. The return of goods is recorded as a reduction of income.

Signing payments received when licence agreements are entered into are taken up as income according to the content of the agreements. Payments received which are non-refundable and where there are no obligations incumbent on Photocure ASA in connection with the payments are considered to be a sale and taken up as income immediately.

Licence payments in connection with milestone payments associated with regulatory approvals and launches are taken up as income when the milestones are reached.

Licence agreements that give the right to a guaranteed minimum royalty are taken up as income at the time the prerequisite for this is fulfilled. Royalty income is taken up as income in line with the licensee's sale of licensed products.

i. Government grants and assistance

Government grants and assistance are recorded at the value of the grant on the date of transaction. Operating grants are taken up at the same time as the income they will increase or the cost they will reduce. Grants are first taken up as income when the conditions for the grant will be fulfilled and the grant paid out. Grants are classified as other operating income in the income statement.

Grants with conditional repayment are re-

ACCOUNTING PRINCIPLES

corded as a liability and any repayment in the form of royalty or similar is recorded as a repayment of the principal.

j. Licence costs

The group has entered into agreements with external parties with regard to access to technology in the form of licence agreements and agreements that give the right to use patented technology. Royalty-based payments on products are calculated on the basis of sale of the licensed products, and reported in the income statement under cost of goods sold. Licence payments associated with signing payments and milestone payments concerning regulatory approval and product launches are taken up as an expense when they occur and are reported under 'Other operating expenses' in the income statement.

k. Pensions

Agreements have been entered into with effect from 1 January 2006 in regard to contributory pensions for the company's employees. Contributions, which constitute from 5 % to 8 % of the employee's salary, are paid to the employees' pension account. The company's payment of contributions is expensed in the period it is accrued.

The company had a benefit plan until 31 December 2005. The accounting policies applied for this plan are described below. The one-off effect from settlement of the benefit plan, as per
31 December 2005, is included in the pension costs for the year.

Pension costs for the benefit plan and pension obligations were calculated according to straight-line earnings based on assumptions regarding discount rate, future regulation of salaries, pensions and benefits from the Norwegian national insurance scheme, future returns on pension funds and actuarial assumptions in regard to mortality, voluntary resignations, etc. Pension funds and pension obligations are recorded net in the balance sheet. Changes in pension obligations due to changes in pension schemes are allocated over the estimated remaining pensionable service. Changes in pension obligations and pension funds, due to changes in and deviations from the calculation assumptions (changes in estimates), are allocated over the estimated average pensionable service if the deviations at the beginning of the year exceeded 10% of the highest of gross pension obligations and pension funds (corridor). It was only this part of the deviation that exceeded 10% that was amortised. Employers' social security tax were calculated on net pension obligations. Net pension costs for the period were included in salaries and social security costs, and consisted of the total pensionable service for the period, interest expense on calculated pension obligations, and estimated returns on the pension funds.

l. Share-based remuneration

As part of the company's incentive policy, employees have been offered subscription rights to the company's shares. The subscription rights are offered at exercise prices that reflect the market price of the shares at the time of allocation of the rights.

The costs associated with employee equity transactions are reported over the period up until the employees can exercise their subscription rights. The company's equity is increased correspondingly. The fair value of the subscription rights is calculated according to the Black-Scholes model. Each option programme is calculated separately with the actual exercise price and duration of the programme. The subscription rights lapse immediately in the event of termination of the employee's employment with the company. Sosial securety tax on outstanding subscription rights are accrued as personnel costs over the exercise period of the rights based on the intrinsic value of the rights.

m. Tax

The tax expense in the income statement includes both income tax payable for the period and changes in deferred tax. Deferred tax is calculated at 28% of the basis of the temporary differences that exist between the tax values of assets and liabilities, and their accounting values.

Liabilities for deferred tax are included for all temporary differences that increase tax, except when the asset in connection with deferred tax arises as a result of the first-time inclusion of an asset or liability in a transaction that is not in a business combination and affects neither the accounting nor the taxable profit or loss at the time of the transaction.

Assets in connection with deferred tax are included for all tax-reducing temporary differences, the carry-forward of tax deductions and tax losses, to the extent that there is objective proof that there will be sufficient taxable profits against which to offset tax-reducing temporary differences, and the carry-forward of tax deductions and tax losses.

The book values of assets in connection with deferred tax are assessed on every balance sheet date and are reduced to the degree that there is no longer any objective proof that there will be sufficient taxable profits to utilise all or part of any assets in connection with deferred tax. Non-included assets in connection with deferred tax are re-valued on each balance sheet date and are included to the degree that it is probable that future taxable profits will allow the recovery of assets in connection with deferred tax.

n. Provisions

Provisions are recorded when the company has an obligation associated with an event, when it is probable that the obligation will have to be settled and when the obligation can be measured or estimated. When the company expects all or part of a provition

can be charged on to another party, this recharge will be recorded as an account receivable, if there is reasonable certainty that the other party will pay. The cost associated with a provision will be recorded net in the income statement after deduction for the recharge.

o. Contingent liabilities and assets

Contingent liabilities are defined as

- possible liabilities as a result of earlier events where their existence depends on future events;
- liabilities that are not included because it is not probable that they will lead to an outflow of resources from the company; or
- liabilities that cannot be measured with sufficient reliability.

Contingent liabilities are not included in the annual accounts. Notes on significant contingent liabilities are provided, with the exception of contingent liabilities with little probability of occurring.

A contingent asset is not included in the annual accounts, but is reported if there is a specific probability that the benefit will accrue to the company.

p. Events after the balance sheet date

New information regarding the company's financial position on the balance sheet date has been taken into account in the annual accounts. Events after the balance sheet date that do not affect the company's financial position on the balance sheet date, but which will affect the company's financial position in the future, are reported if they are significant.

q. Cash flow statement

The cash flow statement has been prepared according to the indirect method.

r. Equity

Amounts that are distributed to or contributed by shareholders are included directly in equity.

r. 1 The nominal value of own shares is presented in the balance sheet as a negative equity element. The purchase price above the nominal value is recorded as a reduction of retained earnings. Profits or losses arising from transactions in the company's own shares are not included in the income statement.

r. 2 Transaction charges in connection with equity transactions are included directly in equity after deduction for tax. Only transaction charges that are directly attributable to the equity transaction are included directly in equity.

s. Lease agreements

The decision as to whether an agreement is, or contains, a lease is based on underlying conditions in the transaction and requires an assessment of whether fulfilment of the agreement is dependent on the use of a specific asset, and whether this entails a right to use the asset.

The rental sum in operational lease contracts is charged against income on a straight-line basis over the period of the lease. The rental sum is separated from payment for other elements in the contract, and the amounts are included separately.

NOTES

NOTE 1 – SALES REVENUE AND OTHER OPERATING INCOME

Photocure ASA has a license agreement with GE Healthcare for the Hexvix product. According to this agreement, GE Healthcare will be responsible for marketing and distribution outside the Nordic region. GE Healthcare paid a non-refundable signing sum of € 7 million on entering into the agreement and a further non-refundable sum of € 9 million in November 2006 for exercising the option for the USA.

The agreement with GE Healthcare entails payments for a maximum of € 28 million provided that defined milestones are achieved. Non-refundable advance payments received in 2006 in connection with the licensing of Hexvix to other parties and exercising the option for the USA are treated as compensation for costs incurred in association with development of the product and sums received are therefore taken up as revenue in full in the income statement for 2006.

In addition, Photocure ASA shall manufacture and sell Hexvix to GE Healthcare and receive royalty from GE Healthcare for its sales of the product.

The non-refundable payments received in 2002 for Metvix were recorded in the balance sheet as deferred income and taken up as revenue in the income statement straight-line over 6 years as a result of obligations in the licence agreement. The estimate for the income period is updated at the end of each reporting period.

Signing and milestone income for a total of NOK 23.7 million has been included in the 2007 renevue compared with NOK 148.7 million in 2006. This includes signing payments associated with Metvix of NOK 15.6 million in both 2007 and 2006. Deferred income recognition of payments received in connection with signing amounted to NOK 1.3 million as per 31 December 2007 and NOK 16.9 million as per 31 December 2006 respectively.

NOTE 2 – OPERATING SEGMENTS

The company's operating segments follow the business models for marketing, sales and distribution through the company's own organisation and through partners. Sales revenue from own sales (Own Sales) consists of sales to pharmaceutical wholesalers and end users of medical equipment such as hospitals and clinics in the Nordic region. Sales revenue through partners (Partner Sales) includes sales of Metvix and Aktilite lamps to Galderma and sales of Hexvix to GE Healthcare outside the Nordic region. Sales revenue from partners includes royalty on sales from licence partners to end users. Photocure holds the inventory of lamps in Norway. Research and Development (R & D) is a separate segment which includes all costs related to R & D. Government research funding is recognised as other operating income and is offset against operating costs.

The main products of the company are Metvix/Aktilite and Hexvix. Metvix/Aktilite includes the sales of Metvix tubes and Aktilite lamps and ancillary equipment, and royalty on the sales of licence partner to their customers. Hexvix includes the sales of Hexvix pharmaceutical products and royalty on sales from licence partner to their customers.

Income statement – breakdown by operating segments
(Figures in NOK 1,000)

	2007				2006			
	Own Sales	**Partner Sales**	**R & D**	**Total**	**Own Sales**	**Partner Sales**	**R & D**	**Total**
Sales revenue	29 069	46 183	-	75 252	22 028	39 639	-	61 667
Signing and milestone income	-	23 754	-	23 754	-	148 652	-	148 652
Total revenue	**29 069**	**69 937**	**-**	**99 006**	**22 028**	**188 291**	**-**	**210 320**
Cost of goods sold	2 514	14 812	-	17 326	3 893	18 358	-	22 251
Gross profit	26 555	55 125	-	81 679	18 135	169 933	-	188 070
Gross profit %	**91,4 %**	**78,8 %**		**82,5 %**	**82,3 %**	**90,3 %**		**89,4 %**
Other operating income and expenses	35 863	14 605	118 661	169 129	24 555	16 189	68 983	109 728
Operating profit/loss (-)	**-9 308**	**40 520**	**-118 661**	**-87 450**	**-6 420**	**153 744**	**-68 983**	**78 342**
Net financial profit/loss (-)	-	-	-	12 480	-	-	-	6 389
Net profit/loss (-) before tax				**-74 970**				**84 730**

The income statement is broken down according to the Own Sales, Partner Sales and R & D operating segments.
Other operating income and expenses include a share of allocated administration costs for each segment.
Financial items are not naturally attributable to operating segments.

Balance sheet – breakdown by operating segments

(Figures in NOK 1,000)

	2007				2006			
	Own Sales	**Partner Sales**	**R & D**	**Total**	**Own Sales**	**Partner Sales**	**R & D**	**Total**
Assets								
Fixed assets	-	-	-	4 215	-	-	-	2 958
Inventories	5 080	7 424	-	12 504	3 756	6 028	-	9 784
Receivables	6 629	16 345	9 248	32 222	7 652	13 398	6 545	27 595
Cash and cash equivalents	-	-	-	252 452	-	-	-	335 085
Total assets	**11 709**	**23 769**	**9 248**	**301 394**	**11 408**	**19 426**	**6 545**	**375 423**
Equity and liabilities								
Equity	-	-	-	259 994	-	-	-	326 935
Long-term liabilities	-	-	-	-	-	1 303	-	1 303
Current liabilities	-	-	-	41 400	-	-	-	47 185
Total equity and liabilities	**-**	**-**	**-**	**301 394**	**-**	**1 303**	**-**	**375 423**

Inventories and receivables are broken down in relation to operating segments. Other assets cannot naturally be attributed to operating segments.
Long-term liabilites relate to deferred income recognition of signing fees from license partners and which have a remaining life of more than 1 year.
Non-current assets, cash and cash equivalents, equity and current liabilities are not monitored per segment by the management.

Sales revenue – breakdown by product group

(Figures in NOK 1,000)

	2007			2006		
	Own Sales	**Partner Sales**	**Total**	**Own Sales**	**Partner Sales**	**Total**
Metvix/Aktilite	23 053	31 168	54 221	19 948	31 606	51 554
Hexvix	6 016	15 016	21 031	2 080	8 033	10 113
Total	**29 069**	**46 183**	**75 252**	**22 028**	**39 639**	**61 667**

NOTES

NOTE 3 – OTHER INCOME

(Figures in NOK 1,000)

	Group			Parent Company	
	2007	2006	2005	2007	2006
Innovation Norway	-	-	10 400	-	-
Grants from the Norwegian Research Council and Skattefunn	7 463	5 337	4 649	1 600	1 700
Misc. income	162	353	186	658	353
Total	**7 625**	**5 690**	**15 235**	**2 258**	**2 053**

NOTE 4 – COST OF GOODS SOLD

Cost of goods sold includes royalty costs of product sales to licensors of technology.

NOTE 5 – INCOME STATEMENT CLASSIFICATION

With effect from 2007, Photocure has changed its presentation of indirect costs in the income statement from a breakdown by nature of cost to a breakdown by function. In the company's view, this provides a better presentation of the various parts of the overall business activities that the company represents, including marketing/sales and R & D activities. The table below shows the indirect costs in relation to the previous classification.

(Figures in NOK 1,000)

		Group			Parent Company	
	Note	2007	2006	2005	2007	2006
Sales revenue		75 252	61 667	38 007	75 252	61 667
Signing fees and milestone revenue		23 754	148 653	15 634	23 754	148 653
Total sales, signing and milestone revenue		**99 006**	**210 320**	**53 641**	**99 006**	**210 320**
Cost of goods sold		-17 326	-22 251	-13 430	-17 326	-22 251
Gross profit		**81 679**	**188 070**	**40 211**	**81 679**	**188 070**
Other operating income	**3**	7 625	5 690	15 235	2 258	2 053
Payroll expenses	**6**	-49 241	-35 539	-29 369	-47 371	-34 523
R & D expenses excluding payroll expenses / other operating costs		-84 060	-38 200	-38 238	-73 692	-33 381
Ordinary depreciation and amortisation	**13**	-1 389	-1 335	-1 125	-1 355	-1 335
Other operating expenses		-42 063	-40 344	-33 966	-38 962	-38 626
Total operating income and operating expenses		**-169 129**	**-109 728**	**-87 463**	**-159 123**	**-105 813**
Operating profit/loss (-)		**-87 450**	**78 342**	**-47 252**	**-77 444**	**82 257**

Specification of Other operating expenses:	Group			Parent Company	
	2007	2006	2005	2007	2006
Marketing costs	6 925	9 437	7 505	6 925	9 369
Travel costs	5 778	5 777	5 505	5 691	5 758
Patent costs, legal and other fees	13 766	9 519	10 651	11 004	8 011
Other costs	15 595	15 611	10 305	15 342	15 489
Total other operating expenses	**42 063**	**40 344**	**33 966**	**38 962**	**38 626**

NOTE 6 – PAYROLL EXPENSES

(Figures in NOK 1,000)

	Note	Group 2007	Group 2006	Group 2005	Parent Company 2007	Parent Company 2006
Salaries		34 362	25 484	24 038	33 045	24 676
Social security tax		4 852	3 519	3 446	4 671	3 405
Share-based payments		4 163	2 056	1 321	4 163	2 056
Social security tax on share-based payments		118	91	284	118	91
Pension costs	7	2 263	2 296	-439	2 213	2 196
Other benefits		3 483	2 093	719	3 160	2 099
Total payroll expenses		**49 241**	**35 539**	**29 369**	**47 371**	**34 523**
Full-time equivalent positions (FTE)		45.8	33.5	33	42.3	32.3

Share-based payments

As part of the company's incentive policy employees have been granted warrants to the company's shares (the term 'options' is also used). These warrants are no longer valid when the employee has given his/her notice. The board of directors has not been allocated subscription rights.

Share-based payments of NOK 4.2 million have been reported as expense in 2007, while the equivalent figure for 2006 was NOK 2.1 million.

Employees of Photocure ASA had the following option arrangements as per 31 December 2007:

Year of allocation	2005	2006	2006	2007	2007
Option programme	2005	2005	2006	2006	2007
Granted	2005	2006	2006	2007	2007
Number	90 000	81 011	41 500	179 992	75 000
Exercise price (NOK)	34.00	34.00	50.00	50.00	52.50
Date of expiry (31 December xxxx)	2008	2008	2009	2009	2010

In addition, a conditional award of 535,000 options at a price of NOK 52.50 has been awarded provided that certain business goals are achieved.

Allocation of these options will take place in February/March 2008 after an evaluation of goal achievement for 2007.

The number of employee options and average exercise price for Photocure ASA, and developments during the year.

	2007 Number	2007 Average exercise price (NOK)	2006 Number	2006 Average exercise price (NOK)	2005 Number	2005 Average exercise price (NOK
Outstanding at start of year	301 265	49.40	212 335	44.38	121 746	90.10
Granted during the year	265 350	50.71	195 990	37.71	178 000	34.00
Become invalid during the year	22 301	40.82	29 926	34.20	29 583	35.84
Exercised during the year	58 329	37.13	54 718	34.12	1 500	34.50
Expired during the year	18 482	53.50	22 416	111.03	56 328	107.50
Outstanding at end of year	467 503	44.55	301 265	49.40	212 335	44.38
Exercisable options as per 31.12	341 453	42.17	183 248	46.74	102 034	53.90

Average weighted life of outstanding share options is 1.8 years as per 31 December 2007 and 2.1 years as per 31 December 2006.

Average weighted market value of allocated options in 2007 was NOK 7.34 and NOK 7.28 in 2006.

Exercise prices and average life of outstanding share options as per 31 December 2007 were as follows:

No. of options	Exercise price	Average remaining life
171 011	NOK 34.00	1 year
221 492	NOK 50.00	2 years
75 000	NOK 52.50	3 years

Calculation method for market value of subscription rights / employee options

The market value of subscription rights is calculated according to the Black-Scholes method. Volatility is calculated on the basis of the development in historical share price over the last 12-month period. This presupposes that historical volatility indicates future volatility, which is not always the case. Subscription prices are set as the listed price at the time of allocation. Risk-free interest is based on the interest for 3-year Norwegian government bonds. Each option programme is calculated separately with the actual exercise price and life of the programme. The exercise date for the options is calculated on the basis of historical experience in the company and differentiated between senior management and other employees. For option allocations that are conditional on the achievement of certain business goals, a factor is included for the probability that these goals will be achieved. The interest advantage is insignificant and has not been included in the accounts. The table below shows the values that have been used in the model.

	2007	2006	2005
Dividend	-	-	-
Expected volatility (%)	37.38	36.21	41.03
Historical volatility (%)	37.38	36.21	41.03
Risk-free interest (%)	4.75	3.00	2.50
Expected life of options (years)	2.75	2.70	1.83

Other incentive programmes

As part of the company's programme for employee co-ownership, selected employees of Photocure ASA have been given the opportunity to subscribe for shares in the company, where parts of the payment for this are deferred. If shares that are subscribed for within this scheme are sold, that part of the sales price that corresponds to the difference between the subscription price and the market value of the shares at the time of subscription shall devolve to the company. If the shares are owned after 10 years, a final settlement shall be made on the basis of market value in accordance with the same principles. If the shares are sold within a defined period, the company will have pre-emptive right to purchase the shares according to more detailed regulations. As per 31 December 2007, 25,000 shares were subscribed for under this scheme (see also note 20).

NOTE 7 – PENSION COSTS

Up until and including 2005 the group had a collective benefit-based pension scheme for its employees through Nordea Liv Norge AS. From 1 January 2006, the group went over to a contribution-based pension scheme. The new pension scheme meets the requirements in regard to compulsory occupational pensions in Norway from 2006. The one-off effect in connection with settlement of the benefit plan was reported as gain in the 2005 income statement.

As per 1 January 2006, the group had premium/contribution funds of NOK 2.4 million including employers' social security contributions. These funds have been used in 2006 and 2007 to pay parts of contributions and premiums in the contribution-based schemes. The funds have a balance of NOK 0.1 million as per 31 December 2007.

The following assumptions have formed the basis for actuarial calculations of previous benefit schemes:

	2005
Return on pensions funds	5.00%
Discount rate of interest	4.00%
Annual wage inflation	2.50%
Annual adjustment of G	2.00%
Adjustment of current pensions	2.00%

Normally used actuarial assumptions within insurance have been used as assumptions for demographic factors and retirements. The discount rate of interest was set on the basis of the interest rate for 10-year Norwegian government bonds plus the difference between German 10-year and 30-year government bonds in order to arrive at a calculated Norwegian 30-year rate of interest.
The calculations are based on 28 employees in the scheme for the group.

The pension cost for the year is calculated as follows:
(Figures in NOK 1,000)

	Group			Parent Company	
	2007	**2006**	**2005**	**2007**	**2006**
Contribution plan:					
Total pension costs for contribution schemes	**2 263**	**2 296**	**-**	**2 213**	**2 196**
Benefit plan:					
Service costs	-	-	1 700	-	-
Interest expense	-	-	273	-	-
Return on plan assets	-	-	-213	-	-
Not amortisation and deferral	-	-	20	-	-
Social secuerty tax	-	-	300	-	-
Winding up the plan	-	-	-131	-	-
Premium/contribution funds recognised as income	-	-	-2 387	-	-
Net pension cost benefit plan	**-**	**-**	**-439**	**-**	**-**
Total pension cost	**2 263**	**2 296**	**-439**	**2 213**	**2 196**

Net pension assets/(liabilities):
(Figures in NOK 1,000)

	31 Dec 2007	**31 Dec 2006**	**31 Dec 2005**
Pension liabilities	-	-	-8 794
Value of plan assets	-	-	7 914
Unrecognised net loss	-	-	872
Net plan assets before social security tax	**-**	**-**	**-8**
Social security tax	-	-	-123
Net plan assets (-liabilities)	**-**	**-**	**-131**

NOTE 8 – AUDITING FEES

(Figures in NOK 1,000)

	Group			Parent Company	
	2007	**2006**	**2005**	**2007**	**2006**
Statutory auditing	448	322	299	325	285
Other attestation services	50	50	21	27	35
Other services excluding auditing	0	119	48	0	119
Tax advice	96	-	-	96	-
Total	**594**	**491**	**368**	**449**	**439**

NOTES

NOTE 9 – FINANCIAL INCOME AND EXPENSE

(Figures in NOK 1,000)

	Group			Parent Company	
	2007	**2006**	**2005**	**2007**	**2006**
Interest income	12 511	6 974	4 098	12 181	6 955
Interest income group				305	229
Foreign exchange gains	1 713	4 893	1 081	1 689	4 888
Other financial income	-	-	5 000	-	-
Total financial income	**14 224**	**11 867**	**10 178**	**14 174**	**12 072**

	2007	**2006**	**2005**	**2007**	**2006**
Interest expense	13	36	66	13	36
Foreign exchange losses	1 651	5 316	1 140	1 627	5 302
Other financial expense	80	127	194	80	126
Total financial expense	**1 744**	**5 478**	**1 400**	**1 720**	**5 463**

NOTE 10 – TAX

(Figures in NOK 1,000)

Reconciliation of tax against expected nominal rate of tax:

	Group			Parent Company	
	2007	**2006**	**2005**	**2007**	**2006**
Net Profit/loss (-) before tax	-74 970	84 730	-38 474	-64 990	88 866
Expected nominal rate of tax (28%)	-20 992	23 724	-10 773	-18 197	24 882
Permanent differences	485	-3 398	-1 813	944	-2 946
Change in temporary differences	-4 470	5 383	-4 414	-4 647	5 355
Utilised loss carried forward	-	-27 292	-	-	-27 292
Write-down of deferred tax assets	24 977	1 582	17 000	21 901	-
Total tax for the year	**0**	**0**	**0**	**0**	**0**

Specification of basis for deferred tax assets and liabilities

Temporary differences:	Group			Parent Company	
	2007	**2006**	**2005**	**2007**	**2006**
Non-current assets	-592	-665	-682	-584	-665
Inventories	-89	-272	-238	-89	-272
Receivables/liabilities	-470	-4 926	-64	-470	-4 926
Net pension funds / premium fund	37	120	624	31	103
Loss to be carried forward	-133 390	-108 261	-134 033	-119 360	-97 467
Total	**-134 504**	**-114 004**	**-134 393**	**-120 472**	**-103 226**
Write-down of deferred tax assets	134 504	114 004	134 393	120 472	103 226
Book value of deferred tax assets	**0**	**0**	**0**	**0**	**0**

The company has no history of taxable profits and therefore tax assets are valued as NOK 0. The losses carried forward can be carried forward indefinitely.

NOTE 11 – DECISION TO SPIN OFF PCI BIOTECH AS

A decision was taken on 15 November 2007 by the Board of Directors of Photocure ASA to commence the work to demerge the shares of the subsidiary company PCI Biotech AS. Photocure ASA (PC) owns 91.43% of the shares of PCI Biotech AS (PCI).
The Board of Directors has made this decision for two reasons. Firstly, because PCI's focus on drug delivery products is clearly separate from PC's existing and future business areas within diagnosis and therapy. The demerger will therefore allow PC to focus on its commercial goals and on development of the company's R & D projects. Secondly, the Board of Directors of PC believes that a demerger will give PCI the best opportunities for further developing its unique technology for drug delivery products and elucidating the values that this creates for the company's shareholders.

The demerger is carried out by spinning off the shares of PCI Biotech AS and transferring these to PCI Biotech Holding ASA. The shareholders of PC receive as payment 1 share of PCI Biotech Holding ASA for each share of PC they own. The demerger plan and associated documents shall be considered by the Board of Directors of PC on 27 February 2008 and will be presented thereafter to the annual general meeting of the company in April 2008. A capital increase in PCI Biotech Holding ASA will be proposed immediately thereafter where minority shareholders of PCI contribute their shares into the holding company with settlement corresponding to that received by shareholders of PC.

Net profit/loss (-) for PCI Biotech AS consolidated for the last 3 years:

	2007	2006	2005
Other operating income	6 025	3 987	3 049
R & D costs	-14 732	-7 589	-5 098
Other operating costs	-641	-250	-150
Total operating costs	**-15 373**	**-7 839**	**-5 248**
Operating profit/loss (-)	**-9 348**	**-3 853**	**-2 199**
Financial income	354	23	25
Financial expense	-24	-15	-8
Net financial items	**330**	**8**	**17**
Profit/loss (-) before tax	**-9 018**	**-3 844**	**-2 182**
Tax expence	-	-	-
Net profit/loss (-) for the year	**-9 018**	**-3 844**	**-2 182**

NOTE 12 – EARNINGS PER SHARE

Earnings per share (diluted earnings per share) are calculated on the basis of the profit/loss for the year after tax (annual profit/loss after tax adjusted for dilution effects) divided by a weighted average of outstanding shares over the year (weighted average number of outstanding shares over the year adjusted for dilution effects). Antidilution effects have not been taken into consideration.

Earnings per share	**2007**	**2006**	**2005**
Weighted average number of shares	22 071 141	21 308 951	17 583 259
Dilution effect	76 026	59 517	31 028
Weighted average number of shares diluted	22 147 167	21 368 468	17 614 287
Earnings per share in NOK	**-3.40**	**3.98**	**-2.19**
Earnings per share in NOK diluted	**-3.40**	**3.97**	**-2.18**

NOTE 13 – INTANGIBLE ASSETS, MACHINERY AND EQUIPMENT

(Figures in NOK 1,000)

	Group			
	Intangibles software	**Production & Test equipement**	**Furniture & fixture**	**Total mach. & equip.**
Accumulated cost as per 1 January 2006	-	4 257	4 519	8 776
Additions in 2006	-	128	1 457	1 585
Reclassification 2006	889	-	-889	-889
Disposals and scrapping in 2006				-
Accumulated cost as per 31 December 2006	889	4 385	5 087	9 472
Additions in 2007	214	1 138	1 790	2 927
Disposals and scrapping in 2007	-	-28	-2 575	-2 603
Accumulated cost as per 31 December 2007	**1 103**	**5 495**	**4 301**	**9 796**
Accumulated depreciation as per 1 January 2006	-	2 952	3 116	6 068
Ordinary depreciation for 2006	109	674	552	1 226
Disposals in 2006				-
Accumulated depreciation as per 31 December 2006	109	3 626	3 668	7 294
Ordinary depreciation for 2007	216	365	809	1 173
Disposals in 2007	-	-1	-2 105	-2 106
Accumulated depreciation as per 31 December 2007	**325**	**3 990**	**2 371**	**6 360**
Book value as per 31 December 2007	**779**	**1 506**	**1 931**	**3 436**
Book value as per 31 December 2006	**780**	**758**	**1 420**	**2 178**

(Figures in NOK 1,000)

	Parent Company			
	Intangibles software	**Production & Test equipement**	**Furniture & fixture**	**Total mach. & equip.**
Accumulated cost as per 1 January 2006	-	4 257	4 472	8 729
Additions in 2006	-	128	1 457	1 585
Reclassification 2006	889	-	-889	-889
Disposals and scrapping in 2006	-	-	-	-
Acquisition cost as per 31 December 2006	889	4 385	5 040	9 425
Additions in 2007	52	1 138	1 773	2 910
Disposals and scrapping in 2007	-	-28	-2 575	-2 603
Accumulated cost as per 31 December 2007	**941**	**5 495**	**4 237**	**9 732**
Accumulated depreciation as per 1 January 2006	-	2 952	3 069	6 021
Ordinary depreciation for 2006	109	674	552	1 226
Disposals in 2006	-	-	-	-
Accumulated depreciation as per 31 December 2006	109	3 626	3 621	7 247
Ordinary depreciation for 2007	184	365	807	1 171
Disposals in 2007	-	-1	-2 105	-2 106
Accumulated depreciation as per 31.12 2007	**293**	**3 990**	**2 322**	**6 311**
Book value as per 31 December 2007	**649**	**1 506**	**1 917**	**3 422**
Book value as per 31 December 2006	**780**	**758**	**1 420**	**2 178**

Rental costs	2007	2006	2005
Rent of office premises	1 958	1 582	2 177
Rent of equipment	1 364	298	50
Total rental costs	**3 322**	**1 880**	**2 227**

The company rents premises in Hoffsveien 48 in Oslo. The tenancy has been renegotiated in 2007 due to the need for greater space. The current agreements run until 15 September 2008 when they have been renegotiated into one new overall rent that will run for a further period of 3 years until 14 September 2011 without any right to terminate. On the expiry of the renegotiated lease period, Photocure has a right of preference to a further 5-year rent on renegotiated terms. The rent is NOK 2.1 million including share of joint costs for 2008, and NOK 6.0 million for the period from 1 January 2009 to the expiry of the lease on 14 September 2011. Annual adjustment of the rent corresponds to the change in the consumer price index.
Rent of equipment includes medical treatment equipment located at hospitals, and company vehicle. All lease contracts for equipment are short-term, and leasing costs in 2008 are estimated to be NOK 0.8 million.

NOTE 14 – SHARES IN SUBSIDIARY COMPANIES

Company	Location	Year of acquisition	Share capital of company	Equity participation and share of voting rights	Book value	Equity	Profit/ Loss 2007
PCI Biotech AS	Oslo, Norway	2000	323 260	91,43%	43 150 800	5 239 000	-10 139 000
PCI Biotech Holding ASA	Oslo, Norway	2007	1 000 000	100%	1 020 000	1 000 000	-570

NOTE 15 – INVENTORIES

(Figures in NOK 1,000)

	Group		Parent Company	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Raw materials	5 714	7 842	5 714	7 842
Obsolescence in Finished products	-2 629	-2 421	-2 629	-2 421
Finished products	9 479	4 364	9 419	4 329
Total inventories	**12 504**	**9 784**	**12 504**	**9 750**

Raw material inventories are comprised of active substances for pharmaceutical products, and components for lamps. Raw materials and finished products are valued at cost price.
Provisions and write-downs of inventories are included in cost goods sold in the income statement.

NOTE 16 – FINANCIAL INSTRUMENTS

Financial risk

The group employs financial instruments for trade accounts receivable, trade accounts payable, etc. which are directly connected to the daily operations of the company. The group does not employ financial instruments, including financial derivates, for trading purposes. Routines for risk management are adopted by the Board of Directors and implemented by the finance department in cooperation with external banking partners. The most important financial risks to which the group is exposed are associated with interest rate risk, liquidity risk, foreign exchange risk and credit risk. The group's management carries out regular monitoring of these risks and lays down guidelines for how these are to be managed.

(i) Credit risk

The group is primarily exposed to credit risk associated with trade accounts receivable and other current receivables.
Photocure's sales are mainly to the major pharmaceutical wholesalers in the Nordic region and to its licence partners Galderma and GE Healthcare. The credit risk for these is deemed to be low. The group does not have any significant credit risk associated with a single counterparty or several counterparties that can be considered to be a group due to similarities in regard to credit risk. Maximum risk exposure is represented by the book value of the financial assets in the balance sheet.

(ii) Interest rate risk

The group is exposed to interest rate risk through ist investments of surplus funds in securities funds (see note 17). The group does not have any interest-bearing debt. Investment in security funds is made in the form of investments with short-term interest rate risk

(iii) Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's strategy for managing liquidity risk is to have sufficient liquid funds available at any time to meet its financial obligations when they fall due, both under normal and extraordinary circumstances, without risking unacceptable financial loss or damage to the group's reputation.
The group's liquidity shall for risk reasons only be invested in a bank or in an interest-bearing security funds that invests in the Norwegian market. The majority of investments in securities funds shall be in the form of investments in money market unit trusts, but investment can also be made in bond funds with an average maturity of 3 years.

The following table shows an overview of the maturity structure of the group's financial obligations, based on non-discounted contractual payments.

	Remaining period				
	Less than 1 month	**1–3 months**	**3–12 months**	**1–5 years**	**Total**
31 December 2007					
Trade accounts payable	11 000	1 000	71		12 071
Other current liabilities	1 000	13 000	8 000	2 930	24 930
31 December 2006					
Trade accounts payable	9 500	600	28		10 128
Other current liabilities	1 000	10 000	6 000	2 847	19 847

(iv) Foreign exchange risk

The company's strategy for reducing foreign exchange risk is to assess the foreign exchange exposure when entering into commercial agreements and to seek terms and conditions in regard to currency that reduce the company's financial risk.
The company's expenses and incomes are in various currencies, but largely euro and the Nordic currencies. The exposure to US dollar is connected with R & D costs. Photocure ASA is therefore exposed to exchange rate fluctuations. The company assesses whether efforts shall be implemented to reduce the foreign exchange risk for significant transactions associated with licence agreements.
For 2007 the group has opted not to employ any hedging instruments while in 2006 a forward exchange contract was entered into and settled before the end of the financial year with the effect on results of a loss of NOK 1.6 million.
Foreign exchange risk is calculated for each currency and takes into account assets and liabilities and any non-balance sheet liabilities. The following table shows the group's sensitivity for protential changes in the NOK exchange rate with all other factors constant. The calculation is based on similar changes in relation to all relevant currencies. The effect in the income statement comes from changes in the value of monetary items.

	Change in the NOK exchange rate	**Effect on operating result**
2007	+5 %	1 887
	-5 %	-1 887
2006	+5 %	-5 132
	-5 %	5 132

Determination of net realisable value

The book value of cash and cash equivalents is practically identical to net realisable value as these instruments have a short therm maturity. Similarly, the book value of trade accounts receivable and payable is also practically the same as net realisable value as they are entered into on normal terms and conditions. Securities funds are valued at the market price of the fund at 31 December.

Below is a comparison of book values and net realisable values for the goups's financial instruments.

	2007		2006	
Financial assets and liabilities	**Book value**	**Net realisable value**	**Book value**	**Net realisable value**
Cash and cash equivalents	252 452	252 452	335 085	335 085
Trade accounts receivable	12 095	12 095	12 591	12 591
Trade accounts payable	-12 071	-12 071	-10 128	-10 128

NOTE 17 – CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Group

31 December 2007	**Amortized cost**	**Lending and receivables**	**Cash**	**Other financial liabilities**	**Total**
Assets					
Trade accounts receivable		12 095			12 095
Other current receivables		20 128			20 128
Cash and cash equivalents	230 604		21 848		252 452
TOTAL FINANCIAL ASSETS	**230 604**	**32 223**	**21 848**	**0**	**284 675**
Liabilities					
Trade accounts payable				-12 071	-12 071
Interest-bearing debt					0
Other current liabilities				-24 930	-24 930
TOTAL FINANCIAL LIABILITIES	**0**	**0**	**0**	**-37 001**	**-37 001**

31 December 2006	**Amortized cost**	**Lending and receivables**	**Cash**	**Other financial liabilities**	**Total**
Assets					
Trade accounts receivable		12 591			12 591
Other current receivables		15 004			15 004
Short-term interest-bearing debt group					
Cash and cash equivalents	236 640		98 445		335 085
TOTAL FINANCIAL ASSETS	**236 640**	**27 595**	**98 445**	**0**	**362 680**
Liabilities					
Trade accounts payable				-10 128	-10 128
Interest-bearing debt				-300	-300
Other current liabilities				-19 547	-19 547
TOTAL FINANCIAL LIABILITIES	**0**	**0**	**0**	**-29 975**	**-29 975**

Parent Company

31 December 2007	Amortized cost	Lending and receivables	Cash	Other financial liabilities	Total
Assets					
Trade accounts receivable		12 068			12 068
Other current receivables		16 354			16 354
Cash and cash equivalents	230 604		17 149		247 753
TOTAL FINANCIAL ASSETS	**230 604**	**28 422**	**17 149**	**0**	**276 175**
Liabilities					
Trade accounts payable				-11 397	-11 397
Interest-bearing debt					0
Other current liabilities				-23 302	-23 302
TOTAL FINANCIAL LIABILITIES	**0**	**0**	**0**	**-34 699**	**-34 699**

31 December 2006	Amortized cost	Lending and receivables	Cash	Other financial liabilities	Total
Assets					
Trade accounts receivable		12 621			12 621
Other current receivables		12 636			12 636
Short-term interest-bearing debt group		6 275			6 275
Cash and cash equivalents	236 640		97 547		334 187
TOTAL FINANCIAL ASSETS	**236 640**	**31 532**	**97 547**	**0**	**365 719**
Liabilities					
Trade accounts payable				-9 363	-9 363
Interest-bearing debt				-300	-300
Other current liabilities				-18 376	-18 376
TOTAL FINANCIAL LIABILITIES	**0**	**0**	**0**	**-28 039**	**-28 039**

NOTE 18 – RECEIVABLES

(Figures in NOK 1,000)

	Group		Parent Company	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Trade accounts receivable	12 095	12 591	12 068	12 621
Short-term interest-bearing loan group	-	-	-	6 275
Royalty	6 573	3 683	6 573	3 683
Other receivables	13 554	11 321	9 781	8 953
Total	**32 222**	**27 595**	**28 422**	**31 532**

Trade accounts receivable in the parent company includes trade accounts receivable from group companies of NOK 220,000 as per 31 December 2007 and NOK 29,000 as per 31 December 2006.

Age breakdown of trade accounts receivable	Not yet due	0–30 days	30–60 days	60–90 days	Over 90 days	Total
2007	6 218	3 567	1485	0	825	12 095
2006	8 500	3 870	67	37	117	12 591

There are insignificant bad debts in the group and no provisions for bade debts have been made, neither as per 31 December 2007 nor as per 31 December 2006.
Credit risk and foreign exchange risk in regard to trade accounts receivable are dealt with in more detail in note 16.

NOTE 19 – CASH AND CASH EQUIVALENTS

(Figures in NOK 1,000)

	Group		Parent Company	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Cash and cash equivalents, restricted (1)	2 822	2 854	2 714	2 814
Cash and cash equivalents, non-restricted	19 018	95 590	14 427	94 732
Money market founds, non-restricted	230 612	236 641	230 612	236 641
Total	**252 452**	**335 085**	**247 753**	**334 187**

(1) Restricted cash and cash equivalents as per 31 December 2007 are security for the employees' withholding tax totalling NOK 1.6 million, and a deposit for rent totalling NOK 1.2 million.

NOTE 20 – EQUITY

The registered share capital of Photocure ASA as per 31 December 2007 was:

	No. of shares	Nominal value per share	Share capital in NOK
Share capital as per 1 January 2006	**17 584 204**	**NOK 0.50**	**8 792 102**
Share issue public 2006	4 396 051	NOK 0.50	2 198 026
Shares issued to employees in 2006	54 717	NOK 0.50	27 359
Share capital as per 31 December 2006	22 034 972	NOK 0.50	11 017 486
Shares issued to employees in 2007	58 330	NOK 0.50	29 165
Share capital as per 31 December 2007	**22 093 302**	**NOK 0.50**	**11 046 651**

All shares have the same voting rights and otherwise the same rights in the company.
Ordinary shares are classified as equity. Expenses that are directly attributable to the issue of ordinary shares are included as a reduction of equity (share premium). It was decided at the extraordinary general meeting on 3 December 2007 to write down the company's total share premium from NOK 250,737,938 to NOK 0 by transferring this amount to retained earnings. The decision has been registered at the end of the creditors notification period with the Norwegian Register of Business Enterprises on 14 February 2008.

The Board of Directors of Photocure ASA were authorised by the general meeting on 25 April 2007 to issue 2.81 million shares. Of this authorisation, (a) 2.20 million shares is associated with financing of the company's development, while (b) 0.61 million shares are associated with the issue of shares to the company's employees and selected partners. The authorisation for both points a) and b) applies until the date of the annual general meeting in 2008. Previously issued authorisations have expired.

NOTES

The table below indicates the status of both authorisations as per 31 December 2007:

(Figures indicate the number of shares)	Ordinary share issue	Employee share issues
Authorisation issued at the general meeting on 25 April 2007	2 200 000	610 000
Share issues after the general meeting on 25 April 2007		-20 631
Shares remaining under the authorisations	**2 200 000**	**589 369**

In addition, 467,503 subscription rights were outstanding to employees as per 31 December 2007 (see note 6).

As described under note 6, employees of Photocure ASA were given the opportunity in 2001 to subscribe for shares where parts of the payment were deferred. The company will receive a maximum of NOK 1.1 million from those employees who have subscribed for shares under this scheme.

Ownership structure

The major shareholders of Photocure ASA as per 31 December 2007 were:	Shares	Shareholding in %
The Norwegian Radium Hospital Research Foundation	3 129 000	14.2 %
Odin Norge	1 669 942	7.6 %
Gezina AS	1 326 306	6.0 %
Orkla	1 250 000	5.7 %
Cogent-Hunter Hall V Trust	873 625	4.0 %
Verdipapirfondet KLP	843 962	3.8 %
Ferd Invest	772 700	3.5 %
Skagen vekst	750 000	3.4 %
Saga equity fund	680 000	3.1 %
Cogent-Hunter Hall G Trust	618 500	2.8 %
Cogent-Hunter Hall G limited	496 000	2.2 %
Vicama AS	439 784	2.0 %
Mirasol verdi	395 000	1.8 %
Vital forsikring ASA	392 684	1.8 %
Holberg Norge Verdipapirfond	337 176	1.5 %
MP Pensjon	335 000	1.5 %
Carnegie Investment	250 000	1.1 %
DnB NOR Norge (IV) VPF	242 336	1.1 %
KLP LP shares	240 000	1.1 %
Total for shareholders with a shareholding of more than 1 %	**15 042 015**	**68.1 %**
Total other shareholders	7 051 286	31.9 %
Total number of shares	**22 093 301**	**100 %**

Shares owned, directly or indirectly, by members of the board, the managing director and senior managers and their close associates per 31 December 2007:

Name	Position	No. of shares	No. of subscription rights*
Erik Engebretsen**	Chairman of the Board	33 750	0
Jon Hindar	Board member	5 000	0
Kari Krogstad	Board member	0	0
Lars Lindegren	Board member	30 471	0
Birgit Stattin Norinder	Board member	0	0

Kjetil Hestdal	President and CEO	156 873	78 081
Christian Fekete	CFO	3 000	47 190
Grete Hogstad	VP Marketing and Sales	4 000	44 990
Inger Ferner Heglund	VP Research and Development	0	30 500
Kjell-Erik Nordby	VP Business Development	0	50 000

* See note 6 for futher information about subscription rights.
** Managing director of Gezina AS which owns 1,326,306 shares.

The Board of Directors of Photocure ASA has for 2007 continued an incentive programme for the company's employees, including the company's senior managers. A total of 610,000 conditional share options / subscription rights have been awarded for 2007, where each share option gives the right to subscribe for one new share in the company at a price of NOK 52.50. These share options will only be earned if important goals in the work programme and the budget for 2007 are achieved. The cost calculation for these options includes an assumption of 55% goal achievement. The share options can be exercised with a third each year from and including 2008 and 2 years forward. All the share options expire on 31 December 2010. The conditional subscription rights / share options to the company's senior managers are covered in note 25.

NOTE 21 – CAPITAL STRUCTURE

The group does not have any interest-bearing debt as per 31 December 2007. A risk loan taken out with Innovation Norway was repaid in full early in 2007. This loan had a remaining balance of NOK 300,000 as per 31 December 2006. No new loan agreements have been entered by the group in 2007.

NOTE 22 – DEFERRED SIGNING FEE

Payments received in 2002 from Galderma SA for Metvix totalling € 12 million / NOK 93.8 million were reported as deferred income in the balance sheet in 2002 and recognised as revenue in the income statement on a straight-line basis over 6 years. The estimate for the income period is updated at the end of each reporting period.

	Date due	31 Dec 2007	31 Dec 2006
Deferred income recognition of signing fees from Galderma		1 301	16 937
	2008	(1 301)	(15 636)
Total		**-**	**1 301**

NOTE 23 – OTHER CURRENT LIABILITIES

(Figures in NOK 1,000)

	Group		Parent Company	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Provision for accrued external R & D costs	13 705	5 763	12 242	5 763
Accrued bonus, holiday pay, salaries	7 794	7 718	7 649	7 630
First year's repayment for long-term debt		300		300
Accrued royalty liability	1 568	3 065	1 568	3 065
Other accrued costs	1 863	3 001	1 843	1 918
Total other current liabilites	**24 930**	**19 847**	**23 302**	**18 676**

Accrued royalty liability concerns agreements with external parties for the right to use patented technology. The liability is calculated as royalty on sales of products accrued in the last period and as a share of signing fees and option payments received.

NOTES

NOTE 24 – CONTINGENT LIABILITIES

Guarantees:

Photocure ASA has provided a financial guarantee in favour of its subsidiary company PCI Biotech AS for a maximum amount of NOK 20 million in order to guarantee continued operation. This guarantee expire 30 June 2009 and will be reduced correspondingly if PCI Biotech AS or PCI Biotech Holding ASA obtain capital through a share issue.

NOTE 25 – TRANSACTIONS WITH RELATED PARTIES

(Figures in NOK 1,000)

	Directors' fees paid	Salary	Bonus	Benefits in kind	Pension cost	Total
Senior managers 2007						
Kjetil Hestdal, President and CEO		1 803	273	80	62	2 218
Kjell Erik Nordby, VP Business Development from April 2007		733	-	9	54	795
Inger F. Heglund, VP Research and Development from January 2007		904	-	35	72	1 011
Christian Fekete, CFO		1 004	-	10	62	1 076
Grete Hogstad, VP Marketing and Sales		1 037	192	37	74	1 340
Total senior managers		**5 480**	**465**	**171**	**324**	**6 439**
Board of directors 2007						
Erik Engebretsen, chairman of the Board	350					350
Per O. Mårtensson, deputy chairman up to April 2007	260					260
Jon Hindar	180					180
Trine Bjøro, board member up to April 2007	180					180
Kari Krogstad						-
Lars Lindegren	180	24				204
Birgit S. Norinder	180					180
Total remuneration	**1 330**	**5 504**	**465**	**171**	**324**	**7 793**

	Directors' fees paid	Salary	Bonus	Benefits in kind	Pension cost	Total
Senior managers 2006						
Kjetil Hestdal, President and CEO		1 301	273	102	256	1 933
John Afseth, VP Business development to October 2006		626	-	151	58	835
Hilde Morris, VP Research and Development to December 2006		898	8	153	65	1 123
Christian Fekete, CFO		951	164	45	56	1 216
Grete Hogstad, VP Marketing and Sales		982	187	36	66	1 271
Total senior managers		**4 758**	**632**	**487**	**501**	**6 378**
Board of directors 2006						
Erik Engebretsen, chairman of the Board	290					290
Per O. Mårtensson, deputy chairman	230					230
Halvor Bjerke up to February 2006	150					150
Trine Bjøro	150					150
Lars Lindegren	150	12				162
Birgit S. Norinder	150					150
Total remuneration	**1 120**	**4 770**	**632**	**487**	**501**	**7 510**

	Directors' fees paid	Salary	Bonus	Benefits in kind	Pension cost	Total
Senior managers 2005						
Kjetil Hestdal, President and CEO from January 2005		1 209	234	78	283	1 804
John Afseth, VP Business development		956	285	37	95	1 373
Hilde Morris, VP Research and Development		850	-	9	107	966
Christian Fekete, CFO		896	-	32	77	1 005
Grete Hogstad, VP Marketing and Sales from January 2005		827	142	32	94	1 095
Total senior managers		**4 739**	**661**	**188**	**657**	**6 244**
Board of directors 2005						
Erik Engebretsen, chairman of the Board	290					290
Per O. Mårtensson, deputy chairman x)	380					380
Halvor Bjerke x)	170	23				193
Lars Lindegren	150	24				174
Birgit S. Norinder	150					150
Total remuneration	**1 140**	**4 785**	**661**	**188**	**657**	**7 431**

x): Includes directors' fees for PCI Biotech AS

Photocure's policy in regard to determination of salaries and other remuneration for senior managers is to pay market rates and provide other benefits that are competetive with such senior management positions. It is important to attract the required competence and experience in order to promote value generation in the company and develop mutual interests between the shareholders and senior management. The results-based remuneration shall be linked with value generation for the shareholders or earnings development for the company over time. Photocure has a remuneration committee which manages this policy on behalf of the board of directors.

The main principles for the company's remunaration to senior management are as follows:
- Salaries are reviewed annually.
- Bonuses are calculated on the basis of goals for the company laid down by theBoard of Directors and achievement of personal goals. The company's managing director (MD) has a bonus agreement for up to 40% of ordinary salary, other senior managers have bonus agreements for up to 30% of their ordinary salary.
- Senior managers participate in the company's incentive programme with allocation of subscription rights for the company's shares.
- Senior managers participate in the general pension scheme in the company.

The company's CEO has a bonus agreement for up to 40% of ordinary salary, other senior managers have bonus agreements for up to 30% of their ordinary salary. The CEO's right to a bonus for 2006 was up to 30% of ordinary salary. Bonuses to senior managers are calculated on the basis of the profitability of the company, progress in development work and the attainment of personal goals.

The senior managers participate in the company's pension scheme which from 2006 is a contribution scheme that entails payment of between 5% to 8% of the employee's salary up to a maximum of 12 times the basic amount (G) of the Norwegian National Social Security Scheme (Folketrygden). The pension scheme also includes cover in the event of disability. The company had a benefit-based pension scheme for 2005.

The current CEO has the right, in accordance with detailed regulations, to continue to receive his salary for up to 24 months after the end of the period of notice. If the CEO receives other income from employment in this period, such other income shall be offset in full against his continued salary in the last 12 months of the period during which he continues to receive his salary. The VP Marketing and Sales has an agreement for a 12-month period of notice. There are no other agreements for other senior managers beyond the statutory requirements.

No senior managers have received any remuneration or economic benefits from other companies in the same group, other than what is shown above. No additional remuneration has been paid for special services outside the normal remit of a manager.

NOTES

No loans have been given nor security provided for members of the senior management team, the Board of Directors, employees or other persons in elected corporate bodies.

Senior managers' shareholdings of shares in Photocure ASA are stated in the note concerning equity. Allocation and exercise of subscription rights to shares and holdings of subscription rights for senior managers is presented in the table below:

Subscription rights for senior managers in 2007	Rights issued *	Rights expired	Utilised rights **	Holding of subscription rights as per 31.12.2007	Average exercise price	Conditionally awarded subscription rights
Kjetil Hestdal, President and CEO	17 500	1 000	-	78 081	37,59	35 000
Christian Fekete, CFO	14 400	-	-	47 190	38,88	25 000
Grete Hogstad, VP Marketing and Sales	14 850	-	4 000	44 990	39,28	25 000
Inger Ferner Heglund, VP Resarch and Develpoment	30 500	-	-	30 500	50,00	25 000
Kjell-Erik Nordby, VP Business Development	50 000	-	-	50 000	52,50	-
Total	**127 250**	**1 000**	**4 000**	**250 761**		**110 000**

* Exercise price NOK 50, expiry date 31 December 2009.

** Exercise price NOK 34.

Subscription rights for senior managers 2006	Rights issued	Rights expired	Utilised rights	Holding of subscription rights as per 31.12.2006
Total	**56 241**	**34 025**	**28 509**	**139 607**

Subscription rights for senior managers 2005	Rights issued	Rights expired	Utilised rights	Holding of subscription rights as per 31.12.2005
Total	**142 300**	**10 333**	**-**	**145 900**

Related parties:

In February 2006, Photocure ASA renewed its agreement with the Norwegian Radium Hospital Research Foundation which gives the company access to new technology within photodynamic therapy and an option to acquire new technology within photodynamic therapy developed at the Norwegian Radium Hospital HF (DNR), in return for the company's participation in financing research and development. The agreement has been extended and runs now until 31 December 2010.

In 2007, Photocure ASA has paid NOK 687,000 on market terms and conditions to DNR / Norwegian Radium Hospital Research Foundation under the contract for R & D services. The company had no accounts payable to DNR / Norwegian Radium Hospital Research Foundation as per 31 December 2007 .

In 2007, PCI Biotech AS has renewed its agreement with the Norwegian Radium Hospital Research Foundation which gives the company access to new technology within the area of drug delivery in cells which is being developed at the Norwegian Radium Hospital HF (DNR), in return for the company's participation in financing research and development. The agreement has been extended and runs now until 31 December 2010. PCI Biotech has an ongoing agreement with the Norwegian Radium Hospital Research Foundation in regard to development services in the SiRNA project. In March 2007, PCI Biotech entered into an agreement for the transfer of technology with the Norwegian Radium Hospital Research Foundation that covered 2 patent applications related to PNA-PCI and siRNA-PCI.

In 2007, PCI Biotech AS has paid NOK 1,912,000 on market terms and conditions to DNR / Norwegian Radium Hospital Research Foundation for the supply of R & D services. The company had a provision of NOK 925,000 for accrued costs at DNR / Norwegian Radium Hospital Research Foundation as per 31 December 2007 .

AUDITOR'S REPORT FOR 2007

To the General Meeting of Photocure ASA

We have audited the annual financial statements of Photocure ASA as of 31 December 2007, showing a loss of NOK 64 990 000 for the Parent Company and a loss of NOK 74 970 000 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 financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. The financial statements of the Group comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. IFRSs as adopted by the EU have been applied in the preparation of the financial statements of the Parent Company and the Group. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and President and CEO. 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 laws, regulations and auditing standards and practices generally accepted in Norway, including the auditing standards adopted by the Norwegian Institute of Public Accountants. These auditing standards 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 of the Parent Company and the Group are prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2007, and the results of its operations and cash flows and the changes in equity for the year then ended, in accordance with IFRSs as adopted by the EU
- the Company's management has fulfilled its duty to properly record and document the Company's accounting information as required by law and bookkeeping practice 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 complies with law and regulations.

Oslo, 27 February 2008
ERNST & YOUNG AS

Tommy Romskaug
State Authorised Public Accountant
(Norway)

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

EXECUTIVE OFFICERS

Kjetil Hestdal

President and CEO

Kjetil Hestdal, M.D., Ph.D., born 1960, has served as President and CEO since January 2005. He was promoted from Vice President of Research and Development, a position he held from January 1997. 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 156,873 shares in Photocure. In addition he holds 92,081 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 board member of Medi-Stim ASA, a publicly listed medical technology company.

Christian Fekete holds directly or indirectly 3,000 shares in Photocure. In addition he holds 62,190 share options in the company.

Grete Hogstad

Vice President Marketing and Sales

Grete Hogstad, born 1956, joined Photocure in February 2005. She has a Master of Sience 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 R&D and Marketing and Sales in Alpharma and Novo Nordisk Pharma, and is a founding member of the Generics Association in Norway. Mrs. Hogstad comes from the position as Director Sales and Marketing for Norway, Sweden and Finland in Alpharma.

Grete Hogstad holds no shares in Photocure. She holds 59,990 share options in the company.

Inger Ferner Heglund

Vice President Research and Development

Inger Ferner Heglund, born 1955, joined Photocure in 2006 as Director Business Relations, and was appointed Vice President Research and Development from January 2007. She has a degree in physiology from the University of Oslo and extensive experience within R&D. She has held various leadership positions in preclinical development and project management in GE Healthcare. Mrs Heglund comes from a position as Global Project Director in GE Healthcare.

Inger Ferner Heglund holds no shares in Photocure. She holds 44,875 share options in the company.

Kjell Erik Nordby

Vice President Business Development

Kjell Erik Nordby, born 1957, joined the company in April 2007. He holds an MBA of Honor from the Norwegian School of Management, a degree in International Marketing from the Norwegian School of Management and a Master of Science in Pharmacy from the University of Oslo. Mr Nordby has held several leading positions in R&D, S&M and Business Development in the pharmaceutical industry, more recently as Vice President Sales & Marketing North Europe Region in Alpharma AS, Senior Director Business Development and Project Portfolio Management Alpharma API Division.

Kjell Erik Nordby holds no shares in Photocure. He holds 50,000 share options in the company

BOARD OF DIRECTORS

Erik Engebretsen

Chairman of the Board

Erik Engebretsen, born 1948, was elected as a Director of Photocure in March 2001 and Chairman of the Board in March 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 also a member of the Board of Directors with a number of public and private companies.
Erik Engebretsen is a meber of the Audit Comittie and chairman of the Compansation Comittie.

Erik Engebretsen holds directly 33,750 shares and no options in Photocure. In addition, as CEO of Gezina AS, he controls indirectly 1,326,306 shares in the Company.

Birgit Stattin Norinder

Director

Birgit Stattin Norinder, born 1948, was elected as a Director of Photocure in April 2003. Mrs. Norinder holds a Master in Pharmaceutical Science and she has held senior R&D positions in international pharmaceutical companies, including Pharmacia & Upjohn Corp, Glaxo Group Research Ltd, Astra Research Centre AB, Pfizer Inc and Parke-Davis AB. She has served as CEO and chairman of Prolifix Ltd, an oncology company. In addition she is a meber of the board of directors of several public and private biotechnology companies.
Birgit Stattin Norinder is a member of the Compansation Comittie.

Birgit Stattin holds no shares or share options in Photocure.

Kari E. Krogstad

Director

Kari Eian Krogstad, born 1964, was elected as a Director of Photocure in April 2007. Mrs Krogstad holds a MSc in molecular biology from the University of Oslo, as well as a business degree from IHM business school. She has 16 years of experience from the life sciences industry, and has held senior management positions within marketing, sales and business operations in globally operating companies such as Nycomed Imaging (now part of GE) and Dynal Biotech ASA. Kari is currently serving as Vice President and General Manager of Invitrogen Dynal AS, a subsidiary of the publicly traded American biotech company Invitrogen Corporation.

Kari E. Krogstad holds no shares or share options in Photocure.

Jon Hindar

Director

Jon Hindar, MSc., born 1956, was elected as a Director in Photocure in 2006. He is CEO of NorSun AS. Prior to joining NorSun, Mr. Hindar was Senior Vice President of the Life Sciences Division in Invitrogen. He was President and CEO of Dynal Biotech from 2002 until Invitrogen's acquisition of Dynal in April 2005. Mr. Hindar has 10 years experience in R&D from various positions with Alcatel and BP Chemicals and another 10 years experience in various General Manager roles in the chemical industry. Before joining Dynal, Mr. Hindar was Managing Partner for five years at the Norwegian investment bank; Fondsfinans. Mr. Hindar is an alumni of IMD (Lausanne, Switzerland) where he joined the Executive Development program in 1993/94.

Jon Hindar is Chairman of the Audit Comittie.

Jon Hindar holds 5,000 shares in Photocure. He holds no shares options in the Company.

Lars Lindegren

Director

Lars Lindegren, born 1937, was elected as a Director of Photocure in March 2000. He currently serves on the Board of Angiogenetics Sweden AB, Gallileo Genomics Inc. and Lauras AS. He has held various senior management positions in the pharmaceutical industry including Executive Vice President of Pharmacia AB and President of Astra Pharmaceuticals International.

Lars Lindegren holds directly and indirectly 30,471 shares in Photocure. He holds no shares options in the Company.

Photocure is a leading provider of pharmaceutical solutions for cancer therapy and diagnosis based on photodynamic technology. This is a technology that involves the administration of a "photoactive" agent to the patient followed by exposure of the affected area to light. Through its uniquely selective properties, this breakthrough technology allows for early diagnosis and precise treatment. Market approval is secured for two Photocure products – Metvix® and Hexvix® – and new products are in the pipeline. Photocure is headquartered in Oslo, Norway, and is listed on the Oslo Stock Exchange.

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