Annual Report 2009

Photocure ASA

www.photocure.com

DIRECTORS' REPORT 2009

Photocure ASA

Photocure ASA is a pharmaceutical company listed on the Oslo Stock Exchange. The company's technology platform within the field of photodynamic diagnosis and treatment provides the opportunity to meet medical needs in the areas of dermatology and cancer.

Strategy

2009 – a giant step towards a niche-oriented pharmaceutical company

Photocure's strategy is to convert the company from a research-based operation into a niche-oriented pharmaceutical company (Specialty Pharma). This is to be achieved by reinforcing the commercial activities of the company, with special emphasis on dermatology in the United States. The sale of Metvix/Aktilite was a key milestone in this strategy. Firstly, it gave Photocure itself full freedom to develop and commercialise future products based on the company's technology platform in the field of dermatology. Secondly, the sale has given Photocure a strong financial platform from which to implement this strategy. Photocure will now implement the next phases of the company's strategy, which include the development of skin products and preparation for the establishment of the company's own commercial business in the field of dermatology in the United States. In the area of cancer, Photocure will continue its strategy of commercialising Hexvix and developing two new products – Cevira and Lumacan – up to licensing after phase II.

Sales

Hexvix – a new standard for diagnosis and treatment of bladder cancer

Bladder cancer is conventionally detected via cystoscopy (visual examination) using white light. Hexvix is a pharmaceutical that is used during the visual examination to improve identification of cancer. Hexvix cystoscopy uses blue light and Hexvix is the first registered pharmaceutical on the market that provides a better diagnosis of bladder cancer than traditional cystoscopy. With Hexvix cystoscopy, bladder cancer is detected in around 30% more patients than with traditional cystoscopy.

In 2009, Photocure applied for approval for Hexvix in the United States. The Food and Drug Administration (FDA) granted the application prioritised status with fast-track processing. On 30 December 2009, the FDA announced that Hexvix could be approved under certain conditions. These included approval of the medical equipment used for Hexvix cystoscopy, an improved description of the procedure, and presentation by Photocure of a plan for how to follow and document, after approval, that Hexvix can be recommended for use in repeated cystoscopies. Photocure is working to fulfil these conditions such that Hexvix can be introduced onto the American market in 2010.

The introduction of Hexvix in Europe continued in 2009. Hexvix is now sold by GE Healthcare in 17 countries in Europe outside the Nordic region, with Germany as the leading country in the introduction of Hexvix cystoscopy as the standard method for diagnosing bladder cancer. At the end of the year, more than 600 urological clinics in Europe were offering Hexvix to their potential bladder cancer patients. With around 300,000 cystoscopies (TURB) in operating theatres per year in Europe, we believe that there is appreciable potential for Hexvix. In all, 27,748 Hexvix units were sold in Europe in 2009, corresponding to around a 1 % share of the TURB market. A milestone was reached in 2009 in that Hexvix was used in more than half of all TURB procedures performed in Denmark. In collaboration with GE Healthcare, appreciable resources are being used to expand the use of Hexvix at each clinic that has received the necessary equipment and training. This involves, for example, establishing own sales teams with the associated internal training in more countries, and communicating the good clinical documentation that has been built up. Hexvix cystoscopy is now described and recommended in many local and regional urological guidelines. A European consensus recommending use has also been prepared and is accepted for publication. In addition, a number of countries have introduced good financing schemes.

Research and development

Photocure performs development of new products in the fields of dermatology and oncology. All products are based on the company's patented technology in photodynamic diagnosis and treatment.

Dermatology

Photocure's technology platform is extremely well suited to developing products that meet the requirements of the future for the treatment of dermatological deseases. In addition, the technology provides opportunities to develop cosmetic products.

Visonac™ – Treatment of moderate to severe acne

Photocure is developing Visonac for the treatment of moderate to severe acne. Due to serious side-effects from existing treatments, a major medical requirement exists for a new, milder treatment of acne. Sales of medicines for treating acne generate around USD 3 billion per year worldwide, and it is estimated that around 70 % of this figure is for the treatment of patients with moderate to severe conditions. Photocure held meetings with the regulatory authorities in Europe and the United States during the first six months of 2009 to discuss the phase II results and the design of the phase III programme. As a result of these meetings, a multicentre phase II study using a new acne lamp was carried out in the United States and Canada in the second half of 2009. The study involved 107 patients down to the age of 11. It is expected that the results from this study will be published in March/April 2010 and that they will form the basis for the design of the final phase III programme for Europe and the United States.

Allumera™ – A cosmetic product to improve the appearance of facial skin

Photocure commenced development of a cosmetic product for the dermatological market in 2009. The product, Allumera, is based on the experience and results gained from Metvix/Aktilite and the cosmetic improvement reported. Allumera was tested in the autumn 2009 and showed a major improvement in the appearance of the skin. As a part of Photocure's strategy, the company is working towards launching Allumera on the American market in 2011.

Oncology

A major advantage of Photocure's technology is its capacity to diagnose and treat early stages of cancer with minimal side-effects. The products that the company is developing meet the demands of the future for diagnosing and treating the deseases before they can develop into more serious conditions.

Lumacan™ – Diagnosis of colon cancer

Colon cancer is conventionally detected via colonoscopy (visual examination) using white light. The market for colonoscopies is growing as a result of a significant increase in patient screening programmes in the United States and Europe. In the United States, it is estimated that around 14 million colonoscopies are performed annually for the diagnosis of colon cancer. At the same time, there is increasing recognition of the fact that standard white-light colonoscopy has significant limitations regarding the optimal detection of colon cancer. Lumacan is being developed so that fluorescence diagnostic techniques can be used to improve the detection rate of polyps and colon cancer. Photocure started a phase I/II study for fluorescence diagnosis of colon cancer in spring 2009. The study was carried out at two hospitals in Germany and was planned to include around 70 patients with suspected colon cancer. Based on the good results from previous studies involving enemas, the study was temporarily halted in 2009 to await the development of an improved tablet formulation/procedure. Following the completion of new studies intended to provide additional information about the distribution of the pharmaceutical locally in the colon, the plan is to recommence the phase I/II study with the new tablet formulation/procedure in 2010.

Cevira™ – Treatment of early stages of cervical cancer
Cervical cancer is caused by infection from the HPV virus. It is estimated that every year around 30 million women contract an HPV infection where the virus does not spontaneously disappear within a short period. A long-term infection of this kind increases the risk of developing cervical cancer. In Europe and the United States, early stages of cervical cancer or cellular changes in the cervix are detected in approximately 7 million women a year. There is therefore a great medical need for a mild, non-surgical treatment of the early stages of cervical cancer – particularly in young women. Cevira is being developed to cover the medical needs of women with earlye stages cervical cancer. A phase II dosage study for the treatment of early stages cervical cancer (CIN 1–3) was completed in 2009. The study involved 92 patients at University Hospital Oslo (Ullevål), Norway, and in Hannover, Germany. The results from the 12-month follow-up on the patients will be presented in the first quarter of 2010. Preliminary results from the study have confirmed a good treatment effect on the earliest stages of cervical cancer. In addition, work was started on the development of a simplified treatment procedure that features a combination of application of pharmaceuticals to the cervix, and light. The inclusion of 70 patients in a new phase II study to confirm and compare the treatment effect against placebo in early stages (CIN 1) of cervical cancer was completed in February 2010. The patients involved are to be followed for six months. The plan is also to follow this up with a study of the same group of patients, to document the effect of the new treatment procedure. After completing this study, the company will be better placed to find a commercial partner for Cevira.

Technology platform additionally reinforced in 2009
Photocure has a solid patent portfolio containing 14 patent families. Three patent applications were submitted in 2009. In addition, the company has applied for an extension for a patent family in the United States. This application was tried in court, and Photocure won the case at the first level. In 2009, the decision was appealed to a higher court by the American patent authorities, and a ruling is expected in 2010.

Finance and organisation

Sale of Metvix/Aktilite to Galderma for EUR 51 million
The products Metvix and Aktilite were sold to Photocure's licence partner Galderma for EUR 51 million (NOK 433 million) in September 2009. Of this, NOK 369.3 million was booked as profit in 2009. The sale included Photocure's sales and marketing organisation for Metvix/Aktilite in the Nordic region, as well as the rights to produce new pharmaceuticals in the field of dermatology based on methyl aminolevulinate (MAL), the active ingredient of Metvix. In accordance with the accounting regulations in IFRS, the activities linked to Metvix/Aktilite have been reported as discontinued business in the annual financial statements. The new agreements replace the previous licence agreement, and expand the licensing rights to apply to all dermatological uses of MAL – with the exception of Visonac™. Photocure received EUR 44 million on signature of the contract, and will receive an additional EUR 7 million before December 2016 for the rights linked to new MAL-based products. The timing of the payment of the remaining EUR 7 million will depend on future regulatory approvals in Europe and the United States, but EUR 3 million will be paid no later than December 2012, and the residual EUR 4 million by December 2016.

Financial position
The annual financial statements for Photocure contain continuing business in accordance with the definitions in IFRS. This means that the accounts do not include figures for PCI Biotech Holding ASA, which was demerged in June 2008, nor the business associated with Metvix/Aktilite, which was sold on 30 September 2009. Photocure ASA is not a Group in 2009. Sales revenue from ongoing business amounted to NOK 48.4 million in 2009, an increase of 31% on NOK 36.9 million in 2008. Sales revenues comprise own sales of Hexvix in the Nordic region, as well as income from product sales and royalties from sales by GE Healthcare, Photocure's licence partner, of Hexvix to hospitals and pharmacies. Income from sales of Hexvix rose to NOK 46.0 million in 2009, up from NOK 36.9 million in 2008. Income from own sales of Hexvix in the Nordic region increased by 66% to NOK 16.9 million in 2009, up from NOK 10.2 million in 2008. Income from partner sales of Hexvix rose by 9% to NOK 29.1 million in 2009, up from NOK 26.7 million in 2008. The agreements with Galderma contain a clause concerning delivery of the active ingredient MAL. Sales of MAL were booked as income in the amount of NOK 2.4 million in the last quarter of 2009. Operating costs for continuing business, after deductions for other operating income, increased from NOK 120.2 million in 2008 to NOK 121.8 million in 2009. Photocure's operating result totalled NOK -79.0 million in 2009, compared to an operating result of NOK -87.7 million in 2008. The change in the operating result is primarily attributable to a NOK 9.1 million increase in sales income from Hexvix.

Net financial items totalled NOK 2.5 million in 2009, compared with NOK 3.0 million in 2008. Net financial items in 2009 contain a NOK 4.2 million write-down of the value of the shares in PCI Biotech Holding ASA, pursuant to the regulations in IAS39. The shares in PCI Biotech Holding ASA were regulated upwards again later in 2009, by a corresponding amount under "Other comprehensive income".

Photocure is the largest single shareholder in PCI Biotech Holding ASA, with 19.35% of

DIRECTORS' REPORT 2009

the shares. The value of these shares rose appreciably in 2010 as a result of good clinical results in PCI Biotech Holding ASA. The shares were booked at NOK 11 per share at 31 December 2009, and in February 2010 they were being traded for more than NOK 30 per share. In 2009, Photocure ASA returned an annual profit after tax of NOK 312.4 million, compared with an annual loss after tax of NOK -59.6 million in 2008. Photocure held an Extraordinary General Meeting in November 2009. It was decided to pay a dividend in the amount of NOK 4.00 per share, corresponding to a total sum of NOK 88 million. The dividend was paid in December 2009. At 31 December 2009, 22,093,301 shares were registered in Photocure. At the Extraordinary General Meeting in November 2009, the company was granted authorisation to purchase up to 10% of the shares in the company. At 31 December 2009, Photocure held 301,558 own shares, which is equivalent to 1.4% of the outstanding shares in the company. Between the commencement of the buy-back programme in October 2009 and 15 February 2010, the company purchased 540,100 shares at an average price of NOK 48.04 per share. The board of directors of Photocure suggests that the profit for the year be allocated to other equity. Following this, the equity in Photocure ASA totals NOK 415.8 million at 31 December 2009, of which free equity amounts to NOK 404.7 million. This results in an equity ratio of 91%. Equity in the company totalled NOK 199.7 million at 31 December 2008, which translated into an equity ratio of 84.0%. The company follows a prudent investment strategy for its liquid funds. The return on the company's liquid funds depends on the rate of interest in the money markets and will therefore vary over time. Liquid funds in the company amounted to NOK 403.5 million at 31 December 2009, an increase from NOK 179.9 million at 31 December 2008. Net cash flow from operating activities was NOK 317.4 million in 2009 compared with NOK -56.0 million in 2008. The company's revenues and costs are accrued in a number of different currencies. The company is therefore exposed to fluctuations in the currency markets. The risks are assessed on a regular basis. Photocure does not recognise deferred tax assets in the balance sheet on account of uncertainty concerning when the company will become tax liable. Photocure has expensed all research and development costs in 2009. Pursuant to § 3.3 (a) of the Norwegian Accounting Act, it is confirmed that the conditions for assuming that the company is a going concern are present, and that the financial statements have been prepared on the basis of this assumption. No events have occurred since the end of 2009, except those which are stated in this report, that are of major significance for the assessment of the company's financial position and results.

Organisation

The company's senior management team consists of Kjetil Hestdal, President and CEO, Christian Fekete, CFO, Grete Hogstad, Vice President Marketing and Sales, and Inger Ferner Heglund, Vice President Research and Development. Photocure has offices in Oslo. At the end of 2009, the company employed 46 people. The company makes considerable use of external suppliers for production, research and development, as well as for regulatory work. The work environment within the company is considered to be good. No accidents or injuries entailing absence due to illness were registered in 2009. Absence due to illness in the company totalled 60 working days in 2009, which corresponds to 0.5% of total hours.

Photocure aims to be a workplace with equal opportunities for women and men in all areas. The company has traditionally recruited from environments where the number of women and men is relatively equally represented. In terms of gender equality within the company, 40% of board members are women, as are 50% of the senior management team. Working-time arrangements at the company are independent of gender.
The company does not pollute the external environment.

Future prospects

Photocure's strategy is to develop the company from a research-based operation into a niche-oriented pharmaceutical company. This is to be achieved by reinforcing the commercial activity of the company, with special emphasis on dermatology in the United States. Photocure will work with GE Healthcare to increase sales of Hexvix in Europe and to obtain approval for – and launch – Hexvix in the United States.

The main task in the field of research and development is to conduct clinical studies and to ensure progress in the development of new pharmaceuticals and treatment procedures within the company's core areas.

In order to optimise the value of our products in the field of cancer treatment, the company is working on licensing Cevira™ and Lumacan™.

Oslo, 18. february 2010
The Board of Directors of Photocure ASA

Erik Engebretsen, Chairman of the Board

Jon Hindar, Board Member

Kari Krogstad, Board Member

Mats Pettersson, Board Member

Eva Steiness, Board Member

Kjetil Hestdal, President & CEO

INCOME STATEMENT

Photocure ASA
(Amounts in NOK 000s except per share data)

	Notes	2009	2008
Sales revenues	1,2	48 428	36 854
Cost of goods sold	5	-5 541	-4 375
Gross profit		**42 887**	**32 480**
Other income	3	11 652	3 580
Indirect manufacturing expenses	6	-9 452	-6 913
Research and development expenses	6	-78 980	-76 525
Marketing and sales expenses	6	-24 984	-24 274
Other operating expenses	6	-20 075	-16 040
Total other income and expenses		**-121 839**	**-120 173**
Operating profit/loss(-)		**-78 952**	**-87 693**
Financial income	10	13 551	16 066
Financial expenses	10	-11 100	-13 088
Net financial profit/loss(-)		**2 451**	**2 978**
Profit/loss(-) before tax		**-76 501**	**-84 715**
Tax expense	11	-	-
Net profit/loss(-) for continued operations		**-76 501**	**-84 715**
Profit/loss(-) from discontinued operations	1, 4	388 883	25 153
Net profit/loss(-) for the year		**312 382**	**-59 562**
Other comprehensive income		4 192	-
Comprehensive income		**316 574**	**-59 562**
Earnings per share	12		
Basic		14.16	-2.70
Diluted		14.14	-2.70
Earnings per share continued operations	12		
Basic		-3.46	-3.83
Diluted		-3.46	-3.83

BALANCE SHEET AS OF 31 DECEMBER

Photocure ASA
(Amounts in NOK 000s)

ASSETS	Notes	2009	2008
NON-CURRENT ASSETS			
Intangible assets	13	365	534
Machinery and equipment	13	1 772	3 939
Other investments	14	14 585	11 528
Total non-current assets		**16 722**	**16 001**
CURRENT ASSETS			
Inventories	15	13 826	12 792
Accounts receivable	16, 18	5 826	8 407
Other receivables	16, 18	16 986	20 750
Total receivables		**22 812**	**29 157**
Cash and short term deposits	17, 19	403 502	179 897
Total current assets		**440 140**	**221 846**
Total assets		**456 862**	**237 846**

BALANCE SHEET AS OF 31 DECEMBER

Photocure ASA
(Amounts in NOK 000s)

EQUITY AND LIABILITIES	Note	2009	2008
EQUITY			
Share capital	**20**	11 047	11 047
Other paid-in capital		88 162	188 647
Retained earnings		316 574	-
Total equity		**415 783**	**199 694**
LIABILITIES			
Pension liabilities	**8**	340	-
Total non-current liabilities		**340**	**0**
Accounts payable	**22**	13 936	12 140
Employee withholding taxes and social security tax		3 325	3 992
Other current liabilities	**22**	23 478	22 020
Total current liabilities	**21**	**40 739**	**38 152**
Total liabilities		**41 079**	**38 152**
Total equity and liabilities		**456 862**	**237 846**

Oslo, 18. february 2010
The Board of Directors of Photocure ASA

Erik Engebretsen, Chairman of the Board

Jon Hindar, Board Member

Kari Krogstad, Board Member

Mats Pettersson, Board Member

Eva Steiness, Board Member

Kjetil Hestdal, President & CEO

STATEMENT OF CHANGES IN EQUITY

Photocure ASA
(Amounts in NOK 000s)

	Notes	Issued capital	Own shares	Share premium	Not reg. write down	Other paid-in equity	Retained earnings	Total equity
Equity as of 31 December 2007	**20**	**11 047**		**250 738**	**-250 738**	**10 984**	**275 894**	**297 924**
Comprehensive income:								
Net profit for the year		-	-	-	-	-31 842	-27 720	**-59 562**
Other comprehensive income		-	-	-	-	-	-	**0**
Total		**0**	**0**	**0**	**0**	**-31 842**	**-27 720**	**-59 562**
Transaction with owners:								
Registration share premium transferred		-	-	-250 738	250 738	250 738	-250 738	**0**
Capital decrease at de-merger		-586	-	-	-	-45 129	-	**-45 715**
Gain de-merger at market value		-	-	-	-	-	2 564	**2 564**
Share increase		586	-	-	-	-586	-	**0**
Employees' options	7	-	-	-	-	4 483	-	**4 483**
Total		**-**	**-**	**-250 738**	**250 738**	**209 506**	**-248 174**	**-38 668**
Equity as of 31 December 2008	**20**	**11 047**	**0**	**0**	**0**	**188 647**	**0**	**199 694**
Comprehensive income:								
Net profit for the year		-	-	-	-	-	312 382	**312 382**
Market value adjustment		-	-	-	-	-	4 192	**4 192**
Total		**0**	**0**	**0**	**0**	**0**	**316 574**	**316 574**
Transaction with owners:								
Buy back own shares	**20**	-	-19 915	-	-	-	-	**-19 915**
Sale own shares	**20**	-	3 926	-	-	-	-	**3 926**
Dividend to owners		-	-	-	-	-87 950	-	**-87 950**
Employees' options	7	-	-	-	-	3 454	-	**3 454**
Total		**-**	**-15 989**	**-**	**-**	**-84 496**	**-**	**-100 485**
Equity as of 31 December 2009	**20**	**11 047**	**-15 989**	**0**	**0**	**104 152**	**316 574**	**415 783**

CASH FLOW STATEMENT

Photocure ASA
(Amounts in NOK 000s)

	2009	2008
Profit/loss(-) before tax	**312 382**	**-59 562**
Ordinary depreciation & amortisation	1 451	1 526
Write down of non current investment	4 192	9 432
(Gain)/Loss on sale of non-current assets	114	362
Deferred income sale of Metvix & Aktilite	-3 057	-
Share-based payments expense	3 454	4 483
Pension costs/Change in pension commitments	308	-54
Interest income	-9 281	-10 348
Interest expense	4	13
Other items	-22	36
Change in inventory	-1 035	-287
Change in receivables	4 628	-736
Change in accounts payable	1 796	743
Change in deferred signing fee	-	-1 303
Change in other accruals	2 510	-283
Net cash flows from operating activities	**317 444**	**-55 978**
Investments in machinery and equipment	-643	-1 983
Sale of fixed assets (sales price)	1 466	75
Investments in other non-current assets	-	-21 560
Sale of other non-current asset investments	-	1 255
Interest received	9 281	10 348
Net cash flows from investing activities	**10 104**	**-11 865**
Buy back own shares	-19 915	-
Sale own shares	3 926	-
Dividend paid	-87 950	-
Interest paid	-4	-13
Net cash flows from financing activities	**-103 943**	**-13**
Net change in cash during the year	**223 605**	**-67 856**
Cash and cash equivalents as of 01.01	**179 897**	**247 753**
Cash and cash equivalents as of 31.12	**403 502**	**179 897**

ACCOUNTING PRINCIPLES

1. Information about the company

The annual financial statements for 2009 for Photocure ASA (the company) were approved for publication by the board of directors on 18 February 2010. Photocure ASA is a public limited company domiciled in Norway. The business of the company is associated with research, development, production, distribution, marketing and sale of pharmaceutical products and related technical medical equipment. The company's shares are listed on the Oslo Stock Exchange. The company's registered office is at Hoffsveien 48, N-0377 Oslo.

2. Basis for preparation of the annual financial statements

The annual financial statements of the company have been prepared on the basis of historical cost, with the exception of investments in other shares and in money market funds, which are valued at fair trade value over the income statement.

The company's annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as specified by the International Accounting Standards Board and implemented by the EU as of 31 December 2009.

Photocure ASA has the Norwegian krone (NOK) as its functional currency and presentation currency. In the absence of any statement to the contrary, all financial information is reported in whole thousands.

Up until 16 June 2008, Photocure ASA was the parent company in a group, and owned the subsidiaries PCI Biotech Holding ASA (PCI H) and PCI Biotech AS (PCI) with ownership stakes of 100% and 91.4% respectively. PCI H and PCI were spun off from Photocure. PCI H was taken up for listing on Oslo Axess on 18 June 2008 and a public share issue was completed. Photocure participated in the guarantee consortium and owned 19.35% of the shares in PCI H at 31 December 2008 and 31 December 2009.

In its annual financial statements for 2009, Photocure has not included consolidated financial statements with the subsidiaries for the period 1 January – 16 June 2008.

3. Changes in accounting principles

In 2009, Photocure has implemented IAS 1 (revised)
– *Presentation of financial accounts.*
The revised standard entails changes in the presentation format, particularly in the presentation of equity, and introduces a specification of non-owner transactions called "Other profit/loss elements". IAS 1 (R) came into effect on 1 January 2009. There have not been any other changes in the company's accounting principles in 2009 compared with the previous year. The company opted for early introduction from 2007 of the new standard for Operating Segments, which was compulsory from 2009. IFRS 8 has replaced IAS 14 Segment reporting.

Other adopted new/revised/additional standards and interpretations with a future date of implementation that have not been previously implemented in the annual financial statements for 2009 are listed under Note 25.

Photocure ASA does not expect that implementation of the new/revised/additional standards and interpretations listed under Note 25 will have any significant effect on the annual financial statements at the time of implementation.

4. Important accounting valuations, estimates and assumptions

Preparation of the annual financial statements 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.

The use of estimates and assumptions is based on the best discretionary judgement of the management. In the process to apply the accounting principles, the company management has made the following valuations and estimates that are of significance for recognised values in the annual financial statements for 2009:

- Received, non-refundable advance payments for licensing of the Hexvix product have been treated as payment for accrued expenses associated with the transfer of rights for the product. Sums received are not subject to netting, and in the view of the company no conditions or future obligations are associated with these payments. Received sums are therefore recognised as income.
- In the opinion of the company, shares in PCI Biotech Holding ASA are to be booked as shares available for sale in accordance with IAS 39. Our view is that with 19.35% of the shares, Photocure does not have significant influence in PCI H. There are no shareholder agreements or similar between Photocure and the other owners of PCI H. Photocure does not have any representation on the boards of directors of the PCI companies, nor in the management of PCI H.
- The company cannot render probable future earnings large enough to justify recognising development costs in the balance sheet before marketing approval has been obtained. Own development costs are therefore recognised as an expense on an ongoing basis until national market approval for the product and indication has been obtained. Any further development of the product after marketing approval has been obtained and market launch completed will be recognised in the balance sheet to the extent that this involves significant changes to the product, which it is considered likely will generate future financial benefits.
- The market value of employee subscription options is calculated according to the Black-Scholes method. This method involves the use of estimates and discretionary judgement, as described in more detail in Note 6.
- Accounts receivable have been valued in relation to the likelihood that customers will meet their payment obligations. Accounts receivable are primarily from our licence partners and pharmaceutical wholesalers in the Nordic region, and no provisions for bad debts have been made.
- In recent years, the company has paid advances on royalties for the licensing of technology. Such advance payments have been valued in relation to the likelihood of utilisation of the pre-paid royalties. Changes in the expected value of advance payment are taken against income.

5. Summary of important guidelines for accounting for the company

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 converted at closing rate of exchange. In the absence of any statement to the contrary, realised and unrealised exchange rate gains and losses are included in financial items. 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 it the costs can be reliably measured. Ordinary maintenance is charged against income on an ongoing basis.

Tangible fixed assets are amortised straight-line over the estimated useful life of the asset 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

Tangible fixed assets that are recognised in the balance sheet and depreciated are tested in respect to loss in value if there are indications of a permanent loss in value. If the book value of a fixed asset is higher than the recoverable value of the asset, the fall in value is taken 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 depreciation is identified, the fixed assets will be valued at the lowest of book value and recoverable value.

Previous write-downs are reversed to 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 under "Other operating income" while losses are recorded under "Other operating expenses".

d. Research and development costs

Research costs are charged against income on an ongoing basis. Development costs are recognised in the balance sheet as intangible assets only if there is an identifiable element that is expected to generate future financial benefits, and when the costs of such an element can be precisely measured. Development costs are recognised in the balance sheet as intangible assets if all the following criteria are fulfilled:

- It is technically possible to complete the asset so that it can be available for use or for sale;
- The purpose is to complete the asset for use or for sale;
- The company is able to use or sell the asset;
- The asset will provide future financial benefits and indicate the existence of a market or that the asset is useful if it is to be used internally;
- The existence of sufficient technical, financial or other resources for carrying out the development and for using or selling it; and
- The opportunity exists to reliably measure costs associated with the intangible asset.

When all the criteria listed above have been met, costs related to development are to be recognised in the balance sheet. Costs that have been taken as an expense in previous accounting periods cannot be recognised in the balance sheet at a later date.
As the company cannot render probable future earnings from products under development, the costs for company-developed research and development are taken as an expense on an ongoing basis until national marketing permission has been obtained for the product and indication. Cost-sharing of research and development expenses with licence partners is booked as a reduction in costs.

e. Investment in subsidiaries

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 declines in value are made on the basis of individual evaluations. 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.

ACCOUNTING PRINCIPLES

g. Financial assets and liabilities

Financial assets and liabilities are recognised in 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 unit trusts with securities that have an average life of three months or less.

g. 3 Investments in other shares and securities valued as financial assets are booked at fair value. According to IAS 39, changes in the value of shares is to be recorded directly against equity, but a permanent and significant fall in the value of shares is to be recorded against profits. Any subsequent increase in the value of shares is to be recorded against equity.

g. 4 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. 5 Trade accounts payable are recorded at amortised cost.

g. 6 Financial income consists of interest income on bank balances and money market funds 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

Income is recorded when it is probable that resources will generate future economic benefits that will accrue to the company, and the size of the income can be reliably estimated.

Payments for 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 in connection with entering into licence agreements will be recorded as income according to the content of the agreement in question. Receipt of payments that are non-refundable and where there are no obligations on Photocure associated with the payments, will be considered to be a sale and taken 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 that it shall increase or the cost that it shall reduce. Grants are first recorded as income when the conditions for the grant in question have been met and the grant has been paid out. Grants are classified as other operating income in the income statement.

j. Licence costs

The company has entered into agreements with external parties concerning access to technology in the form of licence agreements and agreements that allow the use of patented technology. Royalty-based payments on products are taken up as an expense on the sale of the licensed products, and recorded in the income statement under "Goods consumed". 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

Photocure has an agreement with a life assurance company concerning contribution-based pensions for Photocure's employees. Contributions, which constitute from 5% to 8% of the employee's ordinary salary up to 12 times the basic amount (G) of the Norwegian National Insurance scheme, are paid into the employee's contribution account with the life assurance company. The company's payment of contributions is charged against income in the period it is accrued. Any payments made to the contribution fund are recognised in the balance sheet.

As from 2009, salary to employees over and above 12 x G is subject to agreements concerning operational coverage of pensions for salary above this level in the form of contribution-based pensions. The calculated contribution constitutes 16% of the employee's salary above 12 x G. The calculated pension obligation pursuant to this scheme is interest-bearing.

l. Share-based remuneration

Employees are offered subscription rights to the company's shares as an element of the company's employee incentive policy. 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 regarding the equity transactions with the employees are reported over the period 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 immediately cease to be valid on termination of the employee's employment relationship with the company.

Employer's social security contributions 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 the income tax payable for the period and changes in deferred tax. Deferred tax is calculated at 28% on the basis of the temporary differences that exist between the tax value of the assets and liabilities, and their value for accounting purposes.

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, carry forward of tax deductions and tax losses in the extent that there is objective proof that there will sufficient taxable profits against which to offset tax-reducing temporary differences, carry forward of unused tax deductions and tax losses.

The book value of assets in connection with deferred tax is valued on every balance sheet date and is reduced to the degree that it is no longer any objective proof that there will be sufficient taxable profits to utilise all or parts of assets in connection with deferred tax. Non-included assets in connection with deferred tax are re-valued every 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 a liability associated with an event, when it is probable that the liability will have to be settled and when the liability can be measured or estimated. When the company expects that all or parts of the liability 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 financial statements. Notes on significant contingent liabilities are provided, with the exception of contingent liabilities with little probability of occurring.

Contingent liabilities are not included in the annual financial statements, but are reported in cases in which there is a certain likelihood of their resulting in a benefit 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 financial statements. 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 is prepared according to the indirect method.

r. Equity

Amounts that are distributed to or contributed by shareholders are included directly in equity. The company's equity is increased in direct relation to the cost of share-based remuneration for employees.

r. 1 The nominal value of own shares is presented in the balance sheet as a negative equity element. The purchase price over and above the nominal value is recorded as a reduction of other equity. Profits or losses on transactions in 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 lease sum is separated from payment for other elements in the agreement, and the amounts are recorded separately.

NOTES

NOTE 1 – SALE OF METVIX/AKTILITE TO GALDERMA AND SALES REVENUE

With effect from 30 September 2009, Photocure entered into an agreement with Galderma S.A. concerning the sale of global rights, assets and liabilities associated with Metvix/Aktilite, as well as exclusive rights to develop new dermatological products based on Photocure's patented substance MAL. These agreements replaced the previous licence agreement and expanded the geographical area to include the Nordic countries, transferred assets associated with Metvix/Aktilite (Asset Purchase Agreement), expanded the licensing rights to apply to all dermatological uses (Paid-up Licence Agreement) and included a licence to produce the active ingredient MAL. Galderma has subsequently taken over all rights to Metvix/Aktilite worldwide. The transfer of rights, obligations and assets to Galderma included Photocure's sales and marketing organisation for Metvix/Aktilite in the Nordic region.

Photocure received EUR 44 million on signature, and will receive an additional EUR 7 million before December 2016 for the rights associated with new MAL-based dermatology products. The exact timing of the payment of the EUR 7 million will depend on future regulatory approvals in Europe and the United States. However, payment of EUR 3 million will be made before December 2012, and payment of the remaining EUR 4 million will be made before December 2016. The sum of EUR 7 million will be recognised as revenue over the period up to the time of the last payment. Other payments from Galderma are recognised as revenue on an ongoing basis.

Photocure has a licence 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. The licence agreement with GE Healthcare entails payments of a maximum of EUR 28 million provided that pre-defined milestones are achieved. Non-refundable milestone payments received totalled EUR 17.5 million at 31 December 2009. Payments received are regarded as payments for accrued expenses associated with the development of the product, and payments received are therefore recognised as revenue in the accounts. In addition, Photocure is to produce and sell Hexvix to GE Healthcare, and to receive royalties from GE Healthcare for its sale of the product.

NOTE 2 – OPERATING SEGMENTS

The company's operating segments follow the business model for Photocure. 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 through partners (Partner Sales) comprise sales of Hexvix to GE Healthcare outside the Nordic region, and royalties from sales by GE Healthcare to end users. Sale of the active ingredient MAL to Galderma after 30 September 2009 belongs to the company's continued business and is included in Partner Sales. Research and Development (R&D) is a separate segment that comprises all costs associated with R&D. Government research funding is recognised as other operating income and is offset against operating costs.

The main products of the company in 2009 are Hexvix and Metvix/Aktilite until 30 September 2009. Hexvix includes the sale of Hexvix pharmaceutical products as well as royalties on sales by GE Healthcare to its customers. "Discontinued business" includes the sale of Metvix tubes and Aktilite lamps and ancillary equipment, as well as royalties on sales by Galderma to its customers.

Income statement – breakdown by operating segments

	2009					2008				
(Amount in NOK 000s)	Own sales	Partner sales	R & D*	Discontinued business	Total	Own sales	Partner sales	R & D*	Discontinued business	Total
Sales MAL/ Metvix/Aktilite	-	2 430		50 370	52 800	-	-		64 063	64 063
Sales Hexvix	16 908	29 090		-	45 998	10 190	26 664		-	36 855
Sales revenue	**16 908**	**31 520**	**-**	**50 370**	**98 798**	**10 190**	**26 664**	**-**	**64 063**	**100 918**
Milestone revenue	-	-			-	-	-		1 303	1 303
Total revenue	**16 908**	**31 520**	**-**	**50 370**	**98 798**	**10 190**	**26 664**	**-**	**65 366**	**102 220**
Cost of goods sold	-718	-4 823		-9 927	-15 468	-558	-3 817		-14 699	-19 074
Gross profit	**16 190**	**26 696**	**-**	**40 443**	**83 330**	**9 632**	**22 847**	**-**	**50 667**	**83 147**
Gross profit %	96 %	85 %		80 %	84 %	95 %	86 %		78 %	81 %
Operating costs	-21 193	-17 908	-82 737	-20 885	-142 724	-15 683	-13 786	-90 703	-25 514	-145 686
Operating profit/loss	**-5 003**	**8 788**	**-82 737**	**19 558**	**-59 394**	**-6 051**	**9 062**	**-90 703**	**25 153**	**-62 539**
Net financial items					2 451					2 977
Profit on sales, product group				369 325	369 325					-
Net profit/loss before tax	**-5 003**	**8 788**	**-82 737**	**388 882**	**312 382**	**-6 051**	**9 062**	**-90 703**	**25 153**	**-59 562**

** Incl. share of general and administrative costs*

The income statement is distributed according to the operating segments: Own Sales, Partner Sales, Discontinued Business (Metvix/Aktilite) and R&D. Other operating income and costs include a share of allocated administration costs for each operating segment. Government R&D subsidy has been deducted from the business area R&D. Financial items are not naturally attributable to operating segments.

Balance sheet – breakdown by operating segments

(Amount in NOK 000s)	2009 Own sales	Partner sales	R & D	Total	2008 Own sales	Partner sales	R & D	Discon-tinued busines	Non-allocated	Total
Assets										
Fixed assets	-	-	-	16 722	-	-	-	1 548	14 453	16 001
Inventories	4 937	8 889	-	13 826	2 816	4 515	-	5 461	-	12 792
Receivables	2 414	12 894	7 504	22 811	1 287	14 773	4 845	8 253	-	29 158
Cash and cash equivalents	-	-	-	403 502	-	-	-	-	179 896	179 896
Total assets	**7 351**	**21 783**	**7 504**	**456 862**	**4 103**	**19 288**	**4 845**	**15 262**	**194 349**	**237 847**
Equity and liabilities										
Equity	-	-	-	415 783	-	-	-	12 617	187 077	199 694
Long-term liabilities	-	-	-	340	-	-	-	-	-	-
Current liabilities	-	-	-	40 739	-	-	-	2 645	35 508	38 153
Total equity and liabilities	**0**	**0**	**0**	**456 862**	**0**	**0**	**0**	**15 262**	**222 585**	**237 847**

Inventories and receivables are broken down in relation to operating segments. Discontinued business (Metvix/Aktilite) is specified in 2008. Other assets cannot naturally be allocated to operating segments. Fixed assets, cash and cash equivalents, equity and current liabilities are monitored by the management in total for the company, and not by segmentt.

NOTE 3 –OTHER INCOME

(Amount in NOK 000s)	2009	2008
Grants from the Norwegian Research Council for development projects	8 917	1 269
Skattefunn	2 200	1 600
Miscllaneous income	535	711
Total	**11 652**	**3 580**

Miscllaneous income includes sales of services by Photocure to PCI Biotech Holding ASA and PCI Biotech AS.

NOTE 4 – DISCONTINUED BUSINESS

As of 30 September 2009, Photocure has sold its business associated with Metvix/Aktilite. The product area was not discontinued business or classified as kept for sale at the end of 2008. Comparison figures have been adjusted so that discontinued business is presented separately from continued business.

(Amount in NOK 000s)

The profit/loss from discontinued business	**2009**	**2008**
Operating income	50 370	65 366
Operating costs	-30 812	-40 213
Operating profit/loss	**19 558**	**25 153**
Tax	-	-
Operating profit/loss after tax	**19 558**	**25 153**
Gain on sale of discontinued business	369 325	-
Tax on profit from the sale of discontinued business	-	-
Profit/loss for the period	**388 883**	**25 153**
Earnings per share	17,62	1,14
Earnings per share, diluted	17,60	1,14

Cash flow from discontinued business	**2009**	**2008**
Net cash flow from operating activities	19 558	25 153
Net cash flow from investment activities	1 116	-700
Net cash flow from financing activities	-	-
Total cash flow from discontinued business	**20 674**	**24 453**

Changes to the balance sheet as a result of the sale	Note	2009	2008
Equipment	13	-1 273	-1 547
Inventories	15	-7 241	-5 461
Receivables	18	-13 256	-8 254
Other current liabilities	22	1 300	2 645
Net assets and liabilities discontinued		**-20 470**	**-12 617**

Gain on sale of discontinued business consists of:	
Consideration received and accrued	376 617
Direct transaction costs	-2 934
Fees for legal and commercial assistance	-4 358
Net gain	**369 325**

NOTE 5 – COST OF GOODS SOLD

Cost of goods sold includes royalties from product sold with in-licensing of technology and rights. Royalties for in-licensed technology amounted to NOK 0.5 million in 2009 and NOK 0.2 million in 2008 associated with Hexvix.

NOTE 6 – INCOME STATEMENT CLASSIFICATION

Photocure presents its indirect costs in the income statement classified by function. In the opinion of the company, this provides a better presentation than breakdown by nature of the different parts of the overall business activities that the company represents, including sales and marketing and R&D activities. The financial statement below presents the indirect costs set up in relation to breakdown by nature for the company.

(Amount in NOK 000s)	Note	2009	2008
Sales revenue		48 428	36 854
Cost of goods sold		-5 541	-4 374
Gross profit, continuing business		**42 887**	**32 480**
Other income	3	11 652	3 580
Payroll expenses	7	-59 958	-55 986
R & D costs excluding payroll expenses / other operating costs		-45 618	-49 949
Ordinary depreciation and amortisation	13	-1 451	-1 526
Other operating costs		-47 348	-41 806
Operating costs, discontinued business, reclassified		20 884	25 514
Total operating income and operating costs		**-121 839**	**-120 173**
Operating profit/loss, continuing business		**-78 952**	**-87 693**
Net financial items		2 451	2 978
Profit discontinued business	4	388 883	25 153
Operating profit/loss		**312 383**	**-59 562**

Specification of Other operating costs:	2009	2008
Marketing costs	6 545	9 729
Travel costs	5 845	6 127
Patent costs, legal and other fees	17 810	11 613
Other costs	17 148	14 337
Total other operating costs	**47 348**	**41 806**

NOTE 7 – PAYROLL EXPENSES AND REMUNERATION

(Amount in NOK 000s)	Note	2009	2008
Salaries		43 832	40 650
Employer's social security contributions on salaries, etc.		6 096	5 620
Option costs		3 454	4 483
Employer's social security contributions on options		567	-
Pension costs	8	3 388	3 068
Other benefits		2 622	2 165
Total payroll expenses		**59 958**	**55 986**
Full-time equivalent positions		49.8	51.8

Share-based payments

As part of the company's incentive policy, employees are offered subscription rights to the company's shares (the term "share options" is also used). Allocated subscription rights are earned over three years, one third each year. Subscription rights are no longer valid after five (5) years or immediately on cessation of the employment relationship between the employee and the company. No subscription rights are allocated to members of the board of directors. For 2009, NOK 3.5 million of share-based payments has been expensed. The corresponding figure for 2008 was NOK 4.5 million.

At 31 December 2009, employees of Photocure had the following option schemes:

Year of allocation	2009	2008
Option programme	2008	2007
Year of allocation	2009	2008
Number	389 998	239 225
Exercise price (NOK)	32.00	46.50
Exercise deadline (31.12.xxxx)	2013	2010

In addition, a conditional award of 530,000 options at a price of NOK 20.30 has been made subject to the achievement of personal and company goals. Allocation of these options will take place in February/March 2010 following an assessment of goal achievement for 2009.

Number of employee options and average exercise price for Photocure, as well as developments during the year.

	2009		2008	
	Number	Average exercise price (NOK)	Number	Average exercise price (NOK)
Outstanding at start of year	496 192	48.44	467 503	44.55
Allocated during the year	494 678	36.00	292 575	48.77
Become invalid during the year	56 488	42.22	95 700	49.54
Exercised during the year	109 042	36.00	-	0.00
Expired during the year	196 117	48.00	168 186	32.00
Outstanding at end of year	629 223	37.51	496 192	48.44
Exercisable options, 31.12	300 330	43.55	220 000	48.97

The average weighted life of outstanding share options was 1.8 years as of 31 December 2008, and 2.1 years at 31 December 2009. The average weighted market value of options issued in 2008 was NOK 7.60, and in 2009 it was NOK 6.57 per option. The market price for Photocure shares on the exercising of the options in 2009 was NOK 50.00 per share.

The exercise prices and the average remaining life of outstanding share options at 31 December 2009 are as follows:

No. of options	Exercise price	Average remaining life
239 225	kr 46.50	1 year
389 998	kr 32.00	4 years

NOTES

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 the historical share price over the last 12-month period. This assumes that historical volatility indicates future volatility, which is not necessarily 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 duration 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 upon the achievement of certain business goals, a factor is included for the likelihood 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.

	2009	**2008**
Dividend	0.00	0.00
Expected volatility (%)	44.35	33.19
Historical volatility (%)	44.35	33.19
Risk-free interest (%)	3.11	4.50
Expected life of options (years)	3.32	3.03

NOTE 8 – PENSION COSTS

The company has a contribution-based pension scheme. This pension scheme meets the requirements in regard to compulsory occupational pensions in Norway. At 31 December 2009, the company had a premium/contribution fund of NOK 0.2 million, and NOK 0.16 million in the account as of 31 December 2008. As from 2009, the company has entered into pension agreements with employees whose salaries exceed 12 G in the form of a contribution-based pension not covered by insurance. This new contribution pension liability is interestbearing by 4.5 % per annum.

The pension cost for the year is calculated as follows:

(Figures in NOK 1,000)	**2009**	**2008**
Total pension costs, contribution scheme, life insurance company	3 048	3 068
Total pension costs, company contribution scheme	340	-
Total	**3 388**	**3 068**

NOTE 9 – AUDITING FEES

(Figures in NOK 1,000, excl. VAT)	**2009**	**2008**
Statutory auditing	380	358
Other attestation services	62	311
Other services excluding auditing	-	356
Tax advice	100	132
Total	**542**	**1 157**

NOTE 10 – FINANCIAL INCOME AND EXPENSE

(Figures in NOK 1,000)	**2009**	**2008**
Interest income	9 281	10 352
Foreign exchange gains	4 271	5 243
Other financial income	-	471
Total financial income	**13 551**	**16 066**

	2009	**2008**
Loss on the realisation of securities	-	345
Write-downs on securities	4 192	9 432
Interest expense	4	13
Foreign exchange losses	6 850	3 194
Other financial expense	54	104
Total financial expense	**11 100**	**13 088**

NOTE 11 – TAX

Reconciliation of tax against expected nominal rate of tax:

(Figures in NOK 1,000)	2009	2008
Profit/loss before tax	**312 382**	**-59 562**
Expected nominal rate of tax (28%)	87 467	-16 677
Change in temporary differences	-82 037	-937
Change in temporary differences not incorporated	-24	-
Permanent differences	695	4 004
Deferred tax benefit not recognised in the balance sheet	-	13 610
Incorporation of tax loss carried forward not previously incorporated	-6 101	-
Total tax for the year	**0**	**0**

Specification of basis for deferred tax / tax advantage
Tax effect of temporary differences

	2009	2008
Gain, discontinued business	82 044	-
Fixed assets	-543	-501
Inventories	576	307
Receivables/liabilities	-158	-35
Net pension funds / premium fund	-41	46
Total net deferred tax / (tax benefit)	**81 878**	**-183**
Loss to be carried forward	-126 953	-133 053
Total net deferred tax benefit	**-45 074**	**-133 236**
Write-down of deferred tax assets	45 074	133 236
Deferred tax benefit recognised in balance sheet	**0**	**0**

The company has no history of taxable profits and the deferred tax assets is therefore valued at NOK 0.
There is no time limit on losses to be carried forward.

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 (profit/loss for the year after tax adjusted for dilution effects) divided by a weighted average number of outstanding shares over the year (weighted average number of outstanding shares over the year adjusted for dilution effects). The average number of outstanding shares is reduced by buy-back of own shares. Antidilution effects are not taken into consideration.

No. of shares	2009	2008
Ordinary shares at 1 January	22 093 301	22 093 301
Effect of own shares held	-28 344	-
Weighted average number of shares at 31 December	**22 064 957**	**22 093 301**
Effect of outstanding share options	25 361	-
Weighted average number of diluted shares at 31 December	**22 090 318**	**22 093 301**

Earnings per share	2009 Continued business	2009 Discontinued business	2009 Total	2008 Continued business	2008 Discontinued business	2008 Total
Weighted average number of shares	22 064 957	22 064 957	22 064 957	22 093 301	22 093 301	22 093 301
Dilution effect	25 361	25 361	25 361	-	-	-
Weighted average number of shares diluted	22 090 318	22 090 318	22 090 318	22 093 301	22 093 301	22 093 301
Earnings per share in NOK	-3.46	17.62	14.16	-3.83	1.14	-2.70
Earnings per share in NOK, diluted	-3.46	17.60	14.14	-3.83	1.14	-2.70

NOTE 13 – FIXED ASSETS

(Figures in NOK 1,000)	Software	Prod./testing Equipment	Equipment	Held for sale	Total
Accumulated cost at 1 January 2008	941	5 495	4 238	-	10 674
Additions in 2008	87	1 066	832	-	1 985
Disposals and scrapping in 2008	-	-3 422	-2 169	-	-5 591
Transferred to held for sale	-	-2 140	-278	2 418	0
Accumulated cost at 31 December 2008	**1 028**	**999**	**2 623**	**2 418**	**7 068**
Additions in 2009	44	30	217	350	641
Discontinued business	-	-	-	-2 768	-2 768
Other disposals and scrapping in 2009	-	-	-	-	0
Accumulated cost at 31 December 2009	**1 072**	**1 029**	**2 840**	**0**	**4 940**
Accumulated depreciations at 1 January 2008	293	3 990	2 323	-	6 606
Ordinary depreciation for 2008	201	512	776	-	1 489
Disposals in 2008	-	-3 422	-2 078	-	-5 500
Transferred to held for sale	-	-857	-14	871	0
Accumulated depreciations at 31 December 2008	**494**	**223**	**1 007**	**871**	**2 595**
Ordinary depreciation for 2009	213	196	674	369	1 451
Discontinued business	-	-	-	-1 240	-1 240
Disposals in 2009	-	-	-	-	0
Accumulated depreciations at 31 December 2009	**707**	**419**	**1 681**	**0**	**2 806**
Book value, 31 December 2009	**365**	**611**	**1 160**	**0**	**2 136**
Book value, 31 December 2008	**534**	**776**	**1 616**	**1 547**	**4 473**

Rental costs	**2009**	**2008**
Rental of office premises	2 652	2 168
Rental of equipment	321	1 000
Total rental costs	**2 973**	**3 168**

The company rents premises at Hoffsveien 48 in Oslo. The current agreements expire 14 September 2011, without any right to terminate. On the expiry of the renegotiated rental period, Photocure has preferential rights to an additional 5-year lease period on renegotiated terms. The rent amounts to NOK 2.5 million, including a share of joint costs for 2010, and NOK 1.9 million for the period from 1 January 2011 until the expiry of the agreement on 14 September 2011. Annual adjustment of the lease corresponds to the change in the consumer price index. Lease of equipment includes medical treatment equipment located at hospitals, and company car. All lease agreements for equipment are short-term, and lease costs for 2010 are estimated to total NOK 0.1 million.

NOTE 14 – NON-CURRENT FINANCIAL ASSETS AND SHARES

Shares	Location	Year of acquisition	Share capital of company	Equity participation and share of voting rights	Book value	Equity at 30 September 2009	Profit/ loss at 30 September 2009
PCI Biotech Holding ASA	Oslo, Norway	2007	16 249	19.35 %	11 528	38 400	-11 400

Shares in PCI Biotech Holding ASA are valued at the market price at Oslo Axess at 31 December 2009, i.e. NOK 11.00 per share.

Other non-current financial assets	**31.12.09**	**31.12.08**
Booked part of the final settlement (EUR 7 million) from the sale av Metvix/Aktilite, cf. the description in Note 1.	3 057	0

NOTE 15 – INVENTORIES

(Figures in NOK 1,000)	**31.12.09**	**31.12.08**
Raw materials	3 054	4 191
Obsolescence in regard to raw materials	-	-963
Finished products and semi-finished goods	10 772	9 564
Total inventories	**13 826**	**12 792**
Of which, held for sale	-	-5 461
Total inventories, ongoing business	**13 826**	**7 331**

The raw materials inventory consists of active substances for the pharmaceutical products. Raw materials are valued at cost price. Finished and semi-finished goods are valued at full manufacturing cost. Consumption is carried out in accordance with the FIFO principle. Obsolete goods are written down to fair value. Provisions and write-downs of inventories are included in cost of goods sold in the income statement. Goods reclassified as held for sale comprise Metvix/Aktilite products.

NOTE 16 – FINANCIAL RISK

The note describes the company's various financial risks and the management of same. In addition, numerical presentations of risk associated with financial risks are included.

(I) Organisation of financial risk management
Photocure has an international business operation and is exposed to currency risk, interest rate risk, commodity price risk, liquidity risk and credit risk. During the accounting period, the company has not utilised any derivatives or other financial instruments to reduce these risks. Responsibility for managing financial risk is placed with the management of the company. The risk associated with centralised activities such as financing, interest rate and currency management is also managed from here. In addition, the company manages the risk within the business areas and the risk associated with the company's business processes. Financial risk is also monitored by the board of directors' audit committee.

Centralised risk management
Photocure has a centralised finance department. The most important tasks of this department are to ensure the company's financial freedom to act in both long and short terms, and to monitor and manage financial risk in collaboration with the individual business units within the company. The finance department maintains communication with the company's bank connections, and carries out any necessary hedging transactions regarding interests and currency. Any required authorisations for taking out loans and entering into derivative framework agreements are granted on an annual basis by the board of directors. A hedging-oriented view forms the basis for management of the finance department's positions, such that transactions involving financial instruments have a counter item in an underlying commercial hedging requirement.

Financial risk within the company
This section describes the risk factors within each business area, and the management of same. In this context, "financial risk" is taken to mean risk associated with financial instruments. These may either be hedging instruments for underlying risk, or considered themselves as a source of risk. Financial instruments are not used to hedge market risk.

Commercial operations – production, marketing and sales
Photocure produces, markets and sells the company's products via two different business models. One of these models involves marketing and sale through the company's own organisation in the Nordic region. The other involves marketing and sale through licence partners. Revenues from licence partners are divided into three streams: sales of products to licence partners, royalties from licence partners' sales to end users, and milestones. Photocure produces the company's products by means of contract production at recognised manufacturers in the United States, Spain, Great Britain, Sweden and Norway. Price risk with regard to raw materials is a risk factor. Attempts are made to reduce price risks by using a "cost plus margin" model in licensing agreements. This model makes Photocure's exposure less dependent on changes in prices for raw materials and other input factors. Currency risk is primarily associated with royalties, where Photocure's revenues vary on the basis of exchange rates – principally the EUR exchange rate. This currency risk is reduced by purchasing input factors in the same currency. Currency risk associated with confirmed milestones is hedged in full. There have been no such milestones in 2009.

Research and development activities
Photocure conducts research and development of new innovative medical products based on the company's patented technology. Currency risk in research and development is limited to the purchase of services, principally the conducting of clinical studies, in Europe and the United States. There is currency risk associated with the purchase of goods and services, primarily in the currencies EUR and USD. Currency exposure associated with research and development is not normally hedged.

(II) Classes of financial risk

Interest rate risk
Photocure does not have any interest-bearing debt, and the company's interest rate risk is principally associated with the company's holdings of cash and cash equivalents. The main strategy is to diversify the risk and invest in money market funds and bond funds with low risk, high liquidity and short duration. More than 90% of the investments are denominated in NOK and are not hedged.

Liquidity risk
One of the most important objectives of Photocure's financial policy is to ensure that the company has the financial freedom to act in both short and long terms to attain strategic and operational goals. Photocure is to have sufficient funds to cover known capital requirements during the forthcoming 12 months, in addition to a strategic reserve. The new issue market is used as a source of liquidity when such is appropriate, and when the conditions in these markets are competitive. Cash flow from operational activities is increasing and is essentially stable in the commercial section of Photocure. Cash flow in research and development depends to a great extent on the level of the clinical programmes. The finance department monitors the cash flows from both long and short-term perspectives through reporting. Photocure's most important sources of finance are share issues and milestones associated with licence agreements. In addition, the finance department constantly assesses other sources of finance. Photocure does not have any loan agreements that involve requirements regarding financial key figures.

In addition, Photocure has consolidated accounts systems and accounts in different currencies.

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

(Figures in NOK 1,000)			**Remaining period**		
31 December 2009	**Less than 1 month**	**1–3 months**	**3–12 months**	**1–5 years**	**Total**
Trade accounts payable	12 516	1 420	-	-	**13 936**
Other current liabilities	978	12 000	8 500	2 000	**23 478**
31 December 2008					
Trade accounts payable	10 440	1 500	200	-	**12 140**
Other current liabilities	520	13 500	6 000	2 000	**22 020**

Credit risk
Management of credit risk associated with accounts receivable and other operational receivables is dealt with as a part of the commercial risk and is followed up continuously as a part of normal operations. The current credit risk in the customer group as a whole is deemed acceptable. Therefore, Photocure does not use credit insurance. No significant concentration of credit risk in relation to individual parties has been identified.

Photocure is primarily exposed to credit risk associated with accounts receivable and other short-term receivables. Photocure's sales are made to licence partners and to major pharmaceutical wholesalers in the Nordic region. The concentration of the credit risk is limited because the counterparties are large, sound companies that are not related to each other. Our largest licence partner – GE Healthcare – has a high credit rating.

Currency risk
As NOK is the company's presentation currency, Photocure is exposed to translation risk associated with the company's foreign net exposure. Photocure seeks as far as possible to maintain the lowest possible net currency exposure. This is normally done by incorporating mechanisms into licensing agreements that suit the company – including the sale of products in NOK, for example.

The company's expenses and incomes are in various currencies, but largely euro and the Nordic currencies. The exposure to the 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.

Photocure does not have any outstanding hedges of future transactions at 31 December 2009.

The following table presents the company's sensitivity to potential changes in the NOK exchange rate, with all other factors remaining constant. The calculation assumes an equal change against all relevant currencies. The effect in the income statement comes from changes in the value of monetary items.

(Figures in NOK 1,000)	**Change in NOK exchange rate**	**Effect on operating result**
2009	+ 10 %	-34 565
	- 10 %	34 565
2008	+ 10 %	2 345
	- 10 %	-2 345

NOTE 17 – NET REALISABLE VALUE

The table below analyses financial assets recognised in the balance sheet at fair value according to the valuation method.

The different levels have been defined as follows:

Level 1 Noted prices/rates in active markets for corresponding assets or obligations..

Level 2 Available value measurements other than the noted prices/rates classified as Level 1 either directly observable in the form of agreed prices, or indirectly as derivative from the price of equivalent.

Level 3 Value measurements of assets or obligations that are not based on observed market values.

Market value hierarchy	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets available for sale:				
- Shares in PCI Biotech Holding ASA	11 528	-	-	**11 528**
- Money market funds	377 189	-	-	**377 189**
Total	**388 717**	**0**	**0**	**388 717**

NOTE 18 - RECEIVABLES

Maximum credit risk
The company's maximum credit risk associated with financial instruments corresponds to gross receivables. In a hypothetical situation, where no receivables are actually paid, this would correspond to:

(Figures in NOK 1,000)	**31.12.09**	**31.12.08**
Trade accounts receivable	5 826	8 408
Royalty	6 380	11 613
Other receivables	10 606	9 137
Total receivables	**22 812**	**29 158**
Of which, held for sale	-	-8 254
Total receivables, ongoing business	**22 812**	**20 904**

Aging analysis of trade accounts receivable (Figures in NOK 1,000)	**Not yet due**	**0–30 days**	**30–60 days**	**60–90 days**	**More than 90 days**	**Total**
31.12.2009	5 475	243	-	6	102	5 826
31.12.2008	7 218	800	48	-	341	8 407

Loss on receivables has been very low, and no provision has been made for bad debts neither at 31 December 2009 nor at 31 December 2008.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)	**31.12.09**	**31.12.08**
Cash and cash equivalents, restricted (1)	3 146	2 943
Cash and cash equivalents, non-restricted	23 167	23 764
Money market funds, non-restricted	377 189	153 190
Total	**403 502**	**179 897**

(1) Restricted cash and cash equivalents at 31 December 2009 include security for employees' withholding taxes totalling NOK 1.8 million and a deposit for rent.

NOTE 20 – SHARE CAPITAL

The registered share capital of Photocure ASA as per 31 December 2009 was:

	No. of shares	**Nominal value per share**	**Share capital in NOK**
Share capital at 31 December 2007	**22 093 302**	**0.50**	**11 046 651**
Reduction in the nominal value	22 093 302	-0.02652795	(586 090)
Increase in the nominal value in connection with converting of other equity	22 093 302	0.02652795	586 090
Share capital at 31 December 2008	**22 093 302**	**kr 0.50**	**11 046 651**
Share capital at 31 December 2009	**22 093 302**	**kr 0.50**	**11 046 651**
Buy-back of own shares	410 600	kr 0.50	205 300
Sale of own shares	(109 042)	kr 0.50	(54 521)
Own shares held at 31 December 2009	**301 558**		**150 779**

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 fund).

At the General Meeting held on 29 April 2009, the board of directors of Photocure ASA was granted authorisation to issue 3 million shares. Of this authorisation, (a) 2.2 million shares are linked to financing of the company's development, while (b) 0.8 million shares are associated with the issue of shares to the company's employees and selected partners. The authorisation for both (a) and (b) above applies until the Ordinary General Meeting for 2009. Previously issued authorisations have expired.

At the Ordinary General Meeting held on 29 April 2009, the board of directors was granted authorisation to purchase own shares in the company to a total nominal value of up to 3% of the applicable share capital. At an Extraordinary General Meeting on 25 November 2009, this authorisation was expanded to 10% of the total nominal value. The basis for this authorisation to purchase own shares is the desire by the board of directors to increase the liquidity of the company's shares.

The table below presents the status of authorisations as of 31 December 2009:

(Figures indicate the number of shares)	**Purchase of own shares**	**Ordinary share issue**	**Employee share issues**
Authorisations granted at the General Meeting on 29.04.09	662 800	2 200 000	800 000
Share issues after 29.04.09	-	-	-
Increased authorisation granted at the Extraordinary General Meeting on 27.11.09	1 546 530	-	-
Net purchase of own shares	-301 558	-	-
Remaining under the authorisations at 31 December 2009	**1 907 772**	**2 200 000**	**800 000**

A total of 629,223 subscription rights for shares have been allocated to employees as of 31 December 2009 (see Note 7).
An average price of NOK 48.50 was paid for the company's buy-back of 410,600 of its own shares in 2009.
The company has continued buying back its own shares in 2010, and held 428,058 of its own shares as of 12 February 2010. The average price paid for shares in 2010 is NOK 46.90.

Ownership structure
The largest shareholders in Photocure at 31 December 2009 were:

	Shares	**Shareholding in %**
The Norwegian Radium Hospital Research Foundation	3 129 000	14.2 %
Odin Norge	1 906 042	8.6 %
Gezina AS	1 326 306	6.0 %
Cogent-Hunter Hall Growth Trust	1 137 325	5.2 %
Ferd Invest	1 133 100	5.1 %
Skagen vekst	900 000	4.1 %
KLP LP shares	882 800	4.0 %
Cogent-Hunter Hall G Trust	618 500	2.8 %
Holberg Norge Verdipapirfond	610 176	2.8 %
Verdipapirfondet Fondsfinans	505 000	2.3 %
KLP Aksjenorge	455 000	2.1 %
MP Pensjon	355 000	1.6 %
Vicama AS	345 384	1.6 %
Braganza AS	270 000	1.2 %
Cogent-Hunter Hall	243 000	1.1 %
DnBNOR SMB verdipapirfond	240 000	1.1 %
Total for shareholders with a shareholding of more than 1 %	**14 056 633**	**63.6 %**
Own shares	301 558	1.4 %
Total other shareholders	7 735 110	3.0 %
Total number of shares	**22 093 301**	**100.0 %**

Shares owned, directly or indirectly, by members of the board of directors, the President and CEO, and senior management and their immediate family at 31 December 2009:

Name	**Position**	**No. of shares**	
Erik Engebretsen*	Chairman	33 750	
Jon Hindar	Board member	8 000	
Kari Krogstad	Board member	-	
Mats Pettersson	Board member	-	
Eva Steiness	Board member	-	
			No. of subscription rights**
Kjetil Hestdal	President and CEO	158 873	35 500
Christian Fekete	Chief Financial Director	-	39 600
Grete Hogstad	Vice President Marketing and Sales	7 500	33 100
Inger Ferner Heglund	Vice President Research and Development	8 200	30 775

* Managing Director of Gezina AS which owns 1,326,306 shares.
** See Note 7 for additional information about subscription rights.

NOTES

For 2009, the board of directors of Photocure has continued an incentive programme for the company's employees, including the company management. A total of 530,000 conditional share options / subscription rights have been awarded for 2009, with each share option entitling the holder to subscribe for one new share in the company at a price of NOK 20.30. These share options will only be earned if significant goals in the work programme and the budget for 2009 are achieved. The cost calculation of these options includes an assumption of 86% goal achievement. The conditional subscription rights / share options for the company management are explained in Note 23.

NOTE 21 – CAPITAL STRUCTURE

The company is financed by equity and had no interest-bearing debt at 31 December 2009 and 31 December 2008.

NOTE 22 – TRADE ACCOUNTS PAYABLE AND OTHER SHORT-TERM DEBT

(Figures in NOK 1,000)	**31.12.09**	**31.12.08**
Trade accounts payable	13 936	12 140
Of which, held for sale	-	-2 195
Trade accounts payable, ongoing business	**13 936**	**9 945**
Provision for accrued external R & D costs	7 945	14 391
Accrued bonus, holiday pay, salaries	8 565	5 847
Accrued royalty liability	1 190	1 501
Misc. other accrued costs	5 778	282
Total other current liabilites	**23 478**	**22 021**
Of which, held for sale	-	-450
Total other short-term debt, ongoing business	**23 478**	**21 571**
Liabilities held for sale	**0**	**2 645**

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 milestone payments received.

NOTE 23 – TRANSACTIONS WITH RELATED PARTIES

(Figures in NOK 1,000)	**Directors' fees paid**	**Salaries paid**	**Bonuses paid**	**Benefits in kind**	**Pension cost**	**Total**
Senior managers 2009						
President and CEO		1 870	294	70	236	**2 470**
VP Business Development, up to 31 January 2009		272	211			**483**
VP Research and Development		1 182	84	70	117	**1 452**
CFO		1 136	177	37	117	**1 467**
VP Marketing and Sales		1 277	150	67	136	**1 630**
Total senior managers		**5 737**	**916**	**245**	**605**	**7 503**
Board of directors 2009						
Chairman of the Board	390	-	-	-	-	**390**
Members of the Board	800	-	-	-	-	**800**
Total remuneration	**1 190**	**5 737**	**916**	**245**	**605**	**8 693**

	Directors' fees paid	Salaries paid	Bonuses paid	Benefits in kind	Pension cost	Total
Senior managers 2008						
President and CEO		1 881	259	80	67	**2 288**
VP Business Development		1 146	278	10	59	**1 494**
VP Research and Development		1 019	74	37	78	**1 209**
CFO		1 074	160	10	59	**1 303**
VP Marketing and Sales		1 155	160	37	80	**1 432**
Total senior managers		**6 275**	**931**	**176**	**343**	**7 725**
Board of directors 2008						
Chairman of the Board	370	-	-	-	-	**370**
Members of the Board	760	9	-	-	-	**769**
Total remuneration	**1 130**	**6 284**	**931**	**176**	**343**	**8 864**

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 commensurate with such senior management positions. It is important to attract the required competence and experience so as to promote value generation in the company and to contribute to the mutual interests between owners and senior management. The profit-based remuneration is to be linked to value generation for shareholders or revenue developed for the company over time. Photocure has a remuneration committee that administrates this policy on behalf of the board of directors.

The main principles for the company's remuneration to senior management are as follows:

- Salaries are reviewed annually.
- Bonuses are calculated on the basis of goals for the company laid down by the board of directors and achievement of personal goals. The Chief Executive Officer (CEO) of the company has a bonus agreement of up to 40% of ordinary salary, while other members of the senior management have bonus agreements of up to 30% of their normal salary.
- Senior managers participate in the company's incentive programme with allocation of subscription rights for the company's shares.

In 2009, the CEO was entitled to a bonus of up to 40% of ordinary salary, dependent on the fulfilment of certain conditions. Bonuses for members of the senior management are calculated on the basis of the company's financial results, the company's development work, and achievement of own goals.

Senior managers participate in the company's pension scheme, which is a contribution scheme that involves payment of between 5% and 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). From 2009, Photocure has established pension coverage for employees with salaries higher than 12 G. The scheme is a contribution-based pension with provisions corresponding to 16% of salary above 12 G. In the event of resignation, full pension rights are conditional upon at least five years' employment, while less than three years' employment carries no rights. Contributions paid generated interest at 4.5% p.a. in 2009. The pension schemes also cover in the event of disability.

In accordance with detailed regulations, the current CEO is entitled to continue to receive his salary for up to 24 months after the end of his period of notice. Should the CEO receive other income from employment in this period, any such income will be offset in full against his continued salary during the last 12 months of the period in which he continues to receive salary. The Vice President Marketing and Sales has an agreement for a 12-month period of notice. There are no agreements for other senior managers over and above the statutory requirements.

No senior managers have received any remuneration or financial 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 functions of a member of management.

No loans have been granted, nor any security provided for members of the senior management team, the board of directors, employees or other persons in elected corporate bodies.

Senior managers' holdings of shares in Photocure ASA are stated in the note concerning share capital. Allocation and exercise of subscription rights to shares and holdings of subscription rights for senior managers are presented in the following overview:

Subscription rights for senior managers 2009	Subscription rights awarded *	Expired subscription rights	Subscription rights exercised	Holding of subscription rights as per 31.12.09	Average exercise price	Conditionally awarded subscription rights
President and CEO	21 500	17 500	-	35 500	37.72	50 000
CFO	24 600	14 400	-	39 600	37.49	30 000
VP Marketing and Sales	21 600	14 850	3 500	33 100	38.57	30 000
VP Research and Development	24 600	30 500	8 200	30 775	38.77	30 000
Total	**92 300**	**77 250**	**11 700**	**138 975**		**140 000**

* Exercise price NOK 32.00, expiry date 31 December 2013.

Subscription rights for senior managers 2008	Subscription rights awarded *	Expired subscription rights	Subscription rights exercised	Holding of subscription rights as per 31.12.08	Average exercise price	Conditionally awarded subscription rights
President and CEO	14 000	60 581	-	31 500	49.11	50 000
CFO	15 000	32 790	-	29 400	49.28	40 000
VP Marketing and Sales	15 000	30 140	-	29 850	49.26	40 000
VP Research and Development	14 375	-	-	44 875	48.80	40 000
VP Business Development	-	50 000	-	-	0.00	-
Total	**58 375**	**173 511**	**-**	**135 625**		**170 000**

* Exercise price NOK 46.50, expiry date 31 December 2010.

Other closely related parties

The Norwegian Radium Hospital Research Foundation

The Norwegian Radium Hospital Research Foundation (RF) is the largest single shareholder in Photocure ASA with 14.2% of the shares at 31 December 2009. RF originally founded Photocure ASA on the basis of photodynamic therapy developed at the Norwegian Radium Hospital HF (DNR). In February 2006, Photocure ASA renewed its agreement with RF, which provides the company with access to new technology in the field of photodynamic therapy, as well as an option to acquire new technology in the field of photodynamic therapy developed by DNR, in return for the company's participation in financing research and development. The agreement has been extended and now runs until 31 December 2010.

Under the contract and for R&D services and other goods and services, Photocure ASA paid NOK 500,000 on market terms and conditions to DNR/RF in 2009, while the company paid NOK 655,200 for corresponding services in 2008. At 31 December 2009, Photocure ASA had no receivables or trade accounts payable to DNR/RF, while at 31 December 2008, the company had NOK 100,000 in trade accounts payable to DNR/RF.

NOTE 24 – ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT APPLIED

There are a number of new standards, changes and interpretations that have not come into effect during the year ending 31 December 2009, and which were not used in the preparation of these annual accounts. None of these will result in changes in the company's application of accounting principles or note information, nor will they have any effect on the annual accounts at 31 December 2009.

AUDITOR'S REPORT FOR 2009

KPMG AS
P.O. Box 7000 Majorstuen
Sørkedalsveien 6
N-0306 Oslo

Telephone +47 04063
Fax +47 22 60 96 01
Internet www.kpmg.no
Enterprise 935 174 627 MVA

To the Annual Shareholders' Meeting of Photocure ASA

AUDITOR'S REPORT FOR 2009

Respective Responsibilities of Directors and Auditors

We have audited the annual financial statements of the Photocure ASA as of 31 December 2009, showing a total comprehensive income of NOK 316 574 000. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit. The annual financial statements comprise the statement of financial position, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity and the accompanying notes. The rules of the Norwegian accounting act and International Financial Reporting Standards as adopted by the EU have been applied to produce the financial statements. These financial statements and the Board of Directors' report are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

Basis of Opinion

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway, including standards on auditing adopted by Den norske Revisorforening. 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 good auditing practice 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.

Opinion

In our opinion,

- the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company as of 31 December 2009, the total comprehensive income, its cash flows and the changes in equity for the year then ended, in accordance with the rules of the Norwegian accounting act and International Financial Reporting Standards as adopted by the EU
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit are consistent with the financial statements and comply with the law and regulations

Oslo, 18 February 2010
KPMG AS

Lars Inge Pettersen
State Authorised Public Accountant
Note: This translation from Norwegian has been prepared for information purposes only

Photocure is committed to good corporate governance

The Norwegian Code of Practice for Corporate Governance is intended to support listed companies by facilitating regulation of the division of roles between shareholders, the board of directors and the management more comprehensively than is required by the relevant legislation.

Photocure complies with the Norwegian Code of Practice for Corporate Governance of 21 October 2009. The code is a "comply or explain" guideline and Photocure's governance structure is in accordance with the guidelines.

The following sections detail the key aspects of Photocure's corporate governance policy.

1. Reporting on corporate governance

Photocure complies with the Norwegian Code of Practice for Corporate Governance. A statement of compliance with the code is presented in the company's annual report and on the company website. Photocure's value base is also described on the company website, and constitutes a key premise for the company's corporate governance.

2. Business

Photocure's business is clearly defined in the company's articles of association. The company's goals and strategies are presented in the annual report.

3. Equity and dividends

Photocure's equity is at a level appropriate to the company's goals, strategy and risk profile. The company has established a clear and predictable dividend policy, and mandates to increase the capital are tied to defined purposes and limited in time to the next General Meeting.

4. Equal treatment of share holders and transactions with related parties

Photocure has only one class of shares. All material transactions between the company and shareholders, members of the board, key employees or parties closely associated with same are to be assessed by an independent third party. Members of the board of directors and the management are obliged to notify the board if they have any material interest – directly or indirectly – in any agreement entered into by the company.

5. Freely negotiable shares

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

6. The General Meeting

It is the responsibility of the board of directors to ensure that as many shareholders as possible have the opportunity to exercise their rights by participating in the General Meetings of the company, and that the General Meeting is an effective forum for both shareholders and the board.

7. Nomination committee

As stipulated in its articles of association, the company has a nomination committee that consists of three members. The nomination committee is elected annually by the General Meeting and is to be composed in such a way as to ensure broad representation of shareholder interests.

8. Composition and independ ence of the board of directors

The composition of the board of directors of Photocure is designed to ensure that it can attend to the common interests of all shareholders, and that it meets the company's requirements for expertise, capacity and diversity. The members of the board of directors are elected for one year at a time and 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 prepares an annual plan for its work, which comprises goals, strategy and implementation. The board has established an audit committee and a remuneration committee for the thorough and independent handling of cases involving financial reporting and remuneration to key employees.

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. The board of directors performs an annual review of the company's internal control systems and risk areas.

11. Remuneration of the board of directors

The remuneration of the board of directors is to reflect the board's responsibility, expertise and time commitment, as well as the complexity of the company's activities. The remuneration of the board of directors is not linked to the company's profits, and share options are not granted to members of the board.

12. Remuneration of key employees

The board of directors has laid down guidelines for remuneration of the key employees of the company, and said guidelines are presented to the General Meeting. Performance-related remuneration is linked to value creation for the shareholders over time, and is based on quantifiable factors which the employees in question can influence.

13. Information and communica tions

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

14. Company take-overs

Transactions that, in effect, involve the discontinuation of any business must be decided by the General Meeting.

15. Auditor

On an annual basis, the auditor submits to the board of directors the main features of the plan for the performance of the audit work. The auditor also participates in meetings of the board of directors that deal with the financial statements and, at least once a year, carries out a review of the company's procedures for internal control in collaboration with the board of directors.

Photocure ASA, Hoffsveien 48, NO-0377 Oslo, Norway.
Tlf.: +47 22 06 22 10. Faks: +47 22 06 22 18.
info@photocure.no

www.photocure.com

Print: Elanders Novum. Design: Line Johannsen, Elanders Novum