



Second Quarter Report 2006

Highlights

- **GE Healthcare exercised an option to market and distribute Hexvix® in the US in July. This triggered a milestone payment of EUR 9 million.**
- **PhotoCure settled the patent dispute with DUSA pharmaceuticals.**
- **Sales revenues in second quarter amounted to NOK 11.7 million (8.9), an increase of 31 %.**
- **The loss in second quarter amounted to NOK -1.0 million (-7.2).**
- **Liquid assets amounted to NOK 282.9 million (100.1) at the end of the period.**

GE Healthcare exercised the US option for Hexvix in July

In January GE Healthcare and PhotoCure, signed a licensing agreement that grants GE Healthcare exclusive global rights outside of the US and the Nordic region to market and distribute Hexvix. The agreement includes total milestones of EUR 28 million, of which EUR 7 million were received at signing. GE Healthcare exercised the option to market and distribute Hexvix in the US on July 30, 2006. PhotoCure will receive a milestone payment of EUR 9 million related to the option.

PhotoCure settled the patent dispute with DUSA pharmaceuticals

PhotoCure and DUSA pharmaceuticals (DUSA) have settled the patent dispute and signed a licensing agreement. The licensing agreement with DUSA allows PhotoCure to market its products in the US and other territories covered by DUSA patents, in return for royalties. PhotoCure has booked USD 0.65 million of pre-paid royalties following signing of the agreement.

Hexvix - regulatory and market update

Hexvix is an innovative and effective diagnostic method for all types of bladder cancer. The results are particularly good for *Carcinoma In Situ* (CIS) lesions, which are difficult to detect with white light cystoscopy. Hexvix, which is an adjunct procedure to standard cystoscopy, improves the overall tumour detection by introducing tumour fluorescence.

The work to obtain national approvals for marketing and distribution of Hexvix in Europe are moving fast forward. As of today Hexvix have received 24 national approvals. The national regulatory and price approval in Spain triggered a milestone payment of EUR 0.5 million from GE Healthcare.

PhotoCure and GE Healthcare work on the introduction of Hexvix. In the Nordic region 20 clinical centres out of a target market of 50 clinical centres have started using Hexvix by the end of June.

PhotoCure has received a letter from the United States Food and Drug Administration (FDA) related to the Hexvix New Drug Application (NDA). The FDA has requested additional analyses and information. PhotoCure is preparing a response to the requests from the FDA together with its



regulatory advisors and its licensing partner. PhotoCure plan to meet with the FDA to agree on the additional requirements necessary to complete the NDA for Hexvix.

Metvix gaining momentum

Galderma sold 8,144 units outside the Nordic countries in the second quarter of 2006 compared to 6,233 units in the corresponding quarter of 2005, an increase of 31%. Galderma's CEO H. Antunes presented Metvix on PhotoCure's Capital Markets Day in June. (see www.photocure.com for a copy of the presentation). Galderma sold 17,252 Metvix units in the first half of 2006, an increase of 54% above 2005.

PhotoCure sold 3,509 units to pharmacies in the Nordic countries in the second quarter of 2006 compared to 3,119 units in the corresponding quarter of 2005, an increase of 13%. PhotoCure sold 7,808 Metvix units in the first half of 2006, an increase of 24% above the first half of 2005.

PhotoCure's Metvix study in Bowen's disease showing superiority over cryotherapy and 5FU topical cream was published in Archives of Dermatology in June. The study clearly demonstrates the benefits of using Metvix in topical treatment of this skin disease. Based on these results Metvix was approved for Bowen's disease in Europe.

Progress in clinical development programs

PhotoCure has a portfolio of four prioritized internal projects and two ongoing partnerships for Hexvix and for Metvix. The four internal projects are acne, cervix, colon and PCI Biotech. All pipeline projects have made satisfactory progress in the second quarter:

Acne – treatment of moderate to severe acne

The acne project targets development of a novel treatment for moderate to severe acne based on PhotoCure's patented PDT technology. PhotoCure has met with both EU and US regulatory authorities (MPA and FDA) to agree on the acne development plan. The ongoing phase I/IIa study for dose selection will be completed in third quarter 2006.

Cervix – treatment of cervix cancer

The cervix project targets treatment of precancerous-/cancer lesions in cervix and started in the second quarter 2006. PhotoCure are now preparing the first clinical study. This study will be designed as a phase II study and are planned to start in 2006.

Colon – diagnosis of colon cancer

The colon project targets development of an optical agent for diagnosis of colon cancer. It builds on PhotoCure's extensive knowledge of early detection of bladder cancer. The first patients were enrolled in a clinical study in June. This dose finding study will include up to 30 patients and be conducted in Germany. The objective is to investigate if fluorescence from an optical agent with the use of blue light colonoscopy can detect more cancers than the traditional method used today.

PCI Biotech AS

PCI is a patented technology that can be used to enhance the effect of drugs by targeted illumination of the diseased areas of the body. The main goal is to develop a proprietary photosensitiser for enhancement and site-direction of therapy with anticancer agents. The patent for this photosensitiser was granted in Europe in May 2006, and a reproducible synthesis protocol for the photosensitiser has been established. Preparation for the first clinical study is ongoing, both regarding synthesis of the necessary material and concerning preparation of clinical protocols for these studies. The study is planned to start in the second quarter 2007.



Financial position

Sales, signing fee and milestone revenues totalled NOK 19.5 million for the quarter, compared to NOK 12.8 million in the second quarter of 2005. The milestone revenues include a payment of EUR 0.5 million from GE Healthcare related to the approval of Hexvix in Spain. Sales revenues were NOK 11.7 million in the second quarter, compared to NOK 8.9 million in the second quarter of 2005, an increase of 31 %. The sales increase is mainly due to higher Metvix sales outside the Nordic region.

Operating expenses, including other operating revenues, amounted to NOK 18.4 million, compared to NOK 18.6 million in the second quarter of 2005. The operating expenses includes a repayment from FDA of USD 0.7 million for the Hexvix NDA fee.

Net loss amounted to NOK -1.0 million compared to a net loss of NOK -7.2 million in the second quarter of 2005.

Total equity for the group totalled NOK 283.8 million at the end of June 2006 compared to NOK 48.5 million at the end of 2005. Liquid funds amounted to NOK 282.9 million at the end of June 2006, compared to NOK 72.3 million at the end of December 2005. The number of outstanding shares was 22,029,227 at the end of June 2006.

The accounts for the quarter are prepared in accordance with the International Financial Reporting Standard (IFRS).

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14 August 2006
The Board of Directors of PhotoCure ASA



PROFIT & LOSS STATEMENT

PhotoCure ASA (group)

| Three months ended | | | 2006 | 2005 | 2005 |
|--------------------|---------------|--|---------------|----------------|----------------|
| 30.06.2006 | 30.06.2005 | All figures in NOK 1,000 | 01.01 - 30.06 | 01.01 - 30.06 | 01.01 - 31.12 |
| 11 653 | 8 874 | Sales revenues | 24 938 | 17 673 | 38 007 |
| 7 843 | 3 908 | Signing fee and milestone revenues | 68 382 | 7 817 | 15 634 |
| 19 496 | 12 782 | Sales, signing fee and milestone revenues | 93 320 | 25 490 | 53 641 |
| -3 845 | -3 601 | Cost of products sold | -7 409 | -7 504 | -13 430 |
| 15 651 | 9 181 | Gross profit | 85 910 | 17 986 | 40 211 |
| 1 553 | 11 379 | Other operating revenues | 2 940 | 12 333 | 15 235 |
| -5 448 | -5 657 | Payroll expenses | -14 167 | -13 943 | -29 369 |
| -5 571 | -14 671 | External R&D expenses | -14 645 | -22 555 | -38 238 |
| -8 888 | -9 686 | Ord.depr. & other operating expenses | -20 062 | -16 958 | -35 090 |
| -2 703 | -9 453 | Operating income/loss(-) | 39 976 | -23 137 | -47 252 |
| 1 746 | 2 289 | Net financial income | 2 036 | 2 878 | 8 778 |
| -958 | -7 165 | Income/loss(-) before tax | 42 012 | -20 259 | -38 474 |
| -0.05 | -0.41 | Net income/loss(-) per share (NOK), basic | 2.04 | -1.15 | -2.19 |
| -0.05 | -0.41 | Net income/loss(-) per share (NOK), diluted | 2.04 | -1.15 | -2.19 |

Income statement - geographical distribution

| (Amounts in NOK 1000) | 2Q06 | | | | 2Q05 | | | |
|--------------------------|--------------|---------------|----------------|---------------|--------------|--------------|----------------|---------------|
| | Nordic | ROW | Un-allocated | Total | Nordic | ROW | Un-allocated | Total |
| Sales revenue | 4 149 | 7 504 | | 11 653 | 4 106 | 4 768 | 0 | 8 874 |
| Milestone revenue | 0 | 7 843 | | 7 843 | 0 | 3 908 | 0 | 3 908 |
| Total revenues | 4 149 | 15 347 | 0 | 19 496 | 4 106 | 8 676 | 0 | 12 782 |
| Cost of goods sold | 429 | 3 416 | 0 | 3 845 | 700 | 2 229 | 672 | 3 601 |
| Gross profit | 3 720 | 11 931 | 0 | 15 651 | 3 406 | 6 446 | -672 | 9 181 |
| Gross profit % | 90 % | 78 % | | 80 % | 83 % | 74 % | | 72 % |
| Operating expenses | 3 729 | 197 | 14 428 | 18 354 | 3 946 | 0 | 14 689 | 18 635 |
| Operating profit | -9 | 11 734 | -14 429 | -2 703 | -539 | 6 446 | -15 361 | -9 454 |
| Net finance | 0 | 0 | 1 746 | 1 746 | 0 | 0 | 2 289 | 2 289 |
| Profit before tax | -9 | 11 734 | -12 683 | -958 | -539 | 6 446 | -13 072 | -7 165 |

Sales revenues - product split

| (Amounts in NOK 1000) | 2Q06 | | | 2Q05 | | |
|-----------------------|--------------|--------------|---------------|--------------|--------------|--------------|
| | Nordic | ROW | Total | Nordic | ROW | Total |
| Metvix/Aktelite | 3 608 | 7 272 | 10 880 | 4 102 | 4 632 | 8 734 |
| Hexvix | 541 | 232 | 773 | 5 | 135 | 140 |
| Total | 4 149 | 7 504 | 11 653 | 4 106 | 4 768 | 8 874 |

ROW=Rest Of the World



Balance Sheet (all amounts in NOK 1,000)

| | 2006 | 2005 | 2005 |
|-------------------------------------|----------------|----------------|----------------|
| | 30.06 | 30.06 | 31.12 |
| Machinery & equipment | 2 879 | 1 906 | 2 708 |
| Financial fixed assets | - | 0 | 0 |
| Total fixed assets | 2 879 | 1 906 | 2 708 |
| Current assets | | | |
| Inventory | 11 037 | 13 950 | 12 943 |
| Receivables | 29 110 | 17 223 | 17 725 |
| Cash & cash equivalents | 282 864 | 100 102 | 72 329 |
| Total current assets | 323 011 | 131 274 | 102 996 |
| Total assets | 325 890 | 133 180 | 105 704 |
| Equity and liabilities | | | |
| Equity | | | |
| Paid-in capital | 259 422 | 67 093 | 67 145 |
| Other paid-in capital | 5 793 | 4 093 | 4 764 |
| Retained earnings | 18 568 | -5 357 | -23 444 |
| Shareholders' equity | 283 782 | 65 829 | 48 465 |
| Minority interest | - | 128 | - |
| Total equity | 283 782 | 65 957 | 48 465 |
| Liabilities | | | |
| Long-term liabilities | | | |
| Retirement benefit obligations | - | 105 | - |
| Other non-current liabilities | - | 300 | 300 |
| Total long-term liabilities | - | 405 | 300 |
| Current liabilities | 42 108 | 66 818 | 56 939 |
| Total liabilities | 42 108 | 67 223 | 57 239 |
| Total equity and liabilities | 325 890 | 133 180 | 105 704 |

Changes in equity (all amounts in NOK 1,000)

| Three months ended | | | Six months ended | | 2005 |
|---------------------------|-------------------|--------------------------------------|-------------------------|-------------------|---------------|
| 30.06.2006 | 30.06.2005 | | 30.06.2006 | 30.06.2005 | 31.12 |
| 284 246 | 72 797 | Equity at beginning of period | 48 465 | 85 566 | 85 566 |
| - | - | Share issue, employees | 1 669 | - | 52 |
| -20 | - | Share issue | 190 608 | - | - |
| 514 | 325 | Share-based compensation | 1 028 | 649 | 1 320 |
| -958 | -7 165 | Net income/loss(-) for the period | 42 012 | -20 259 | -38 474 |
| 283 782 | 65 957 | Equity at end of period | 283 782 | 65 957 | 48 465 |

Cash Flow Statement (all amounts in NOK 1,000)

| Three months ended | | | Six months ended | | 2005 |
|---------------------------|-------------------|---|-------------------------|-------------------|----------------------|
| 30.06.2006 | 30.06.2005 | | 30.06.2006 | 30.06.2005 | 01.01 - 31.12 |
| -958 | -7 165 | Income/loss(-) before tax | 42 012 | -20 259 | -38 474 |
| -9 | -12 | Interest paid | -18 | -32 | -63 |
| -14 544 | -10 291 | Other operational items | -25 333 | -17 739 | -32 004 |
| -15 510 | -17 467 | Net cash flow from operations | 16 661 | -38 030 | -70 540 |
| 1 624 | 171 | Cash flow from investments | 1 897 | 779 | 5 464 |
| -20 | -300 | Cash flow from capital transactions | 191 977 | -600 | -548 |
| -13 907 | -17 597 | Net change in cash during the period | 210 535 | -37 851 | -65 624 |
| 296 771 | 117 698 | Cash & cash equivalents at beginning of period | 72 329 | 137 952 | 137 953 |
| 282 864 | 100 102 | Cash & cash equivalents at end of period | 282 864 | 100 102 | 72 329 |