Annual Report 2006

Photocure ASA

www.photocure.com

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Financial calendar 2007

28 FEBRUARY
- Presentation of Annual Report for 2006

25 APRIL
- First quarter results 2007
- Annual General Meeting

5 JUNE
- Capital Markets Day, presentation of R&D programmes

16 AUGUST
- Second quarter results 2007

26 OCTOBER
- Third quarter results 2007

PHOTOCURE™ TECHNOLOGY

COMPANY PROFILE

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

Photocure ASA is a Norwegian pharmaceutical company listed on the Oslo Stock Exchange

The company develops and sells pharmaceuticals and medical devices for the treatment and diagnosis of different types of cancer and precancerous conditions. Our products are based on proprietary photodynamic technologies.

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

In close cooperation with first-class universities and research centres worldwide, we are continuously developing our pipeline projects for new indications, including acne, colorectal cancer and precancerous lesions in the cervix.

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

Photocure's mission is to bring innovative medical solutions to patients worldwide through efficient development and commercialisation of our photodynamic technology.

OUR CORE VALUES

Courage
- Dare to fail
- Dare to do things you've never done before
- Dare to choose differently

Integrity
- Be true to your values
- Stand up for your rights and opinions
- Take responsibility for decisions made

Respect and Care
- Bring out the best in your colleagues
- Give constructive feedback
- Talk to each other instead of about each other

PRESIDENT'S STATEMENT

Kjetil Hestdal
(M.D., Ph.D.)

Photocure employed its first full-time employee in 1997, and during these ten years, the company has developed two medicinal products with international marketing approvals and signed licensing agreements with world leading pharmaceutical companies for both of them. This outstanding achievement does not just demonstrate the strength of our technology, but is also a result of hard work by our skilled and committed employees, a clear and consistent strategy, and our ability to adapt to meet new challenges.

Following the approval of Metvix and Hexvix, Photocure has grown into becoming a pharmaceutical company with expertise in both R&D and marketing and sales. To attend to our commercial interests, Photocure has made successful strategic changes to the organisation and built up a strong sales force in the Nordic markets. This, combined with our licensing agreement with Galderma and recently with GE Healthcare, gives us a solid and well-established platform for marketing and sales of Metvix/Aktilite and Hexvix all over the world.

Commercialisation of our products in the US, the world's largest pharmaceutical market, is a very important goal for Photocure. We are determined to succeed, and the positive settlement of the US patent dispute and GE Healthcare's exercise of the option to market Hexvix in the US have further strengthened our confidence in this.

Even though the importance of marketing and sales has increased substantially over the past years, we are still fully committed to our development programmes. Through close collaborations with world-class research centres, we are continuously progressing in the development of our patented photodynamic technology for use in new indications. The rights issue in February 2006 contributed financially to speed up our pipeline projects, and I would like to thank all shareholders for your loyalty and confidence in us.

However, a unique and strong technology platform is not enough to achieve success. We also rely on enthusiastic and motivated employees, good relations with our partners and a well-structured and flexible organisation. In Photocure we base our work on three core values: *Courage*, *Integrity*, and *Respect and Care*. *Courage* to choose differently, *Integrity* to stand up for our actions and *Respect and Care* towards colleagues, partners and clients.

We enter the new year with optimism. Our main objects for 2007 will be to continue the growth in sales revenues by strengthening our market position for Metvix and Hexvix, to keep working for approvals on the US market and to continue our development of new, ground-breaking products to fill important medical needs.

Our goal is to become a pharmaceutical company with global leadership in photodynamic therapy, to the benefit of our company, partners, shareholders, clients, patients, and society as a whole.

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

VISION

Leadership in photodynamic therapy.

MISSION

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

HIGHLIGHTS 2006

Hexvix commercialisation gaining momentum

- Licensing agreement with GE Healthcare
- Hexvix introduced in Europe

Increased sales of Metvix

- Metvix revenues increased by 42% in 2006 to NOK 51.6 million
- Metvix launched in Brazil and Latin America
- Metvix approved in France
- Metvix approved for Bowen's disease in the EU

Important milestones reached in R&D

- First phase II study in acne completed and IND opened
- Started POC/phase I study in detection of colon cancer
- Started phase I/II study in treatment of premalignant lesions in the cervix
- Patent secured for Amphinex, PCI Biotech's photosensitiser
- Two phase III Metvix/Aktilite clinical studies completed in February 2007

KEY FINANCIAL FIGURES 2006

(Amounts in NOK 000s except per share data)

	2006
Total revenues	210 320
Operating income	78 342
Net income	85 082
Ernings per share	3.98

HEXVIX®

HEXVIX®
HEXAMINOLEVULINATE

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

Breakthrough technology

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

Increasing prevalence of bladder cancer

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

Patients with bladder cancer have a good prognosis if diagnosed early and treated adequately. Present diagnostic methods are most effective for large papillary (finger-like) tumours. For the diagnosis of flat tumours like carcinoma in situ (CIS), an aggressive cancer with a high potential for progression, the results are inadequate. CIS lesions represent 70-80% of all bladder cancers.

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

Bladder cancer diagnosis and treatment

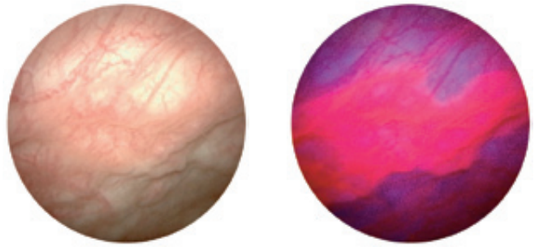
The most common initial sign of bladder cancer is hematuria (blood in the urine). The appearance of gross hematuria or persistent microscopic hematuria should lead to an evaluation of the entire urinary tract, including ultrasound, urine testing and white light cystoscopy.

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

Hexvix - mechanism of action

Hexvix photodiagnosis requires that the cystoscopic equipment for bladder examinations is equipped with blue light. The Hexvix solution, which is instilled by means of a catheter, is held in the bladder for one hour, allowing photoactive porphyrins (photosensitisers) to selectively accumulate in the malignant tissue. The urologist then examines the bladder first in white light and then in blue light (Hexvix fluorescence). When illuminated with blue light, the photoactive porphyrins emit red fluorescence, making the cancer lesions light up in red. Hexvix improves the diagnosis of all types of non-muscle invasive bladder cancer as the tumour fluorescence gives a far better visualisation of the lesions than white light cystoscopy.

WHITE LIGHT VS. HEXVIX FLUORESCENCE



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

Worldwide clinical trial programmes

The effect and safety of Hexvix has been documented in three major clinical phase III studies in Europe and the US/Canada. The studies comprised 553 patients and showed an overall improvement in the detection of all types of bladder tumours compared to white light cystoscopy. The best results were obtained for the detection of carcinoma in situ (CIS) tumours, where Hexvix detected 67% more lesions than white light. Moreover, in 25% of the patients, more papillary tumours were found with Hexvix compared to white light cystoscopy. The benefits of improved tumour detection were documented by showing that every fifth patient (21%) was recommended a more adequate treatment after bladder inspection with Hexvix, compared to white light alone. Hexvix has only showed negligible side effects.

Furthermore, a large multicentre phase III study in the US/Canada and Europe as well as two independent European studies are ongoing to further document the clinical benefits of Hexvix.

Hexvix - marketing and sales activities

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

Hexvix has been launched in all five Nordic countries by Photocure, and in Austria, Estonia, France, Germany, Netherlands, Portugal, Spain, and UK by GE Healthcare. Training of Nordic urologists is taking place in Munich, Germany. In addition, national reference and training centres are now being established.

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

ADVANTAGES OF HEXVIX

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

GE Healthcare

GE Healthcare, Photocure's licensing partner for Hexvix, is one of the world's leading diagnostic imaging companies. GE Healthcare employs more than 45,000 people worldwide committed to serving healthcare professionals and their patients in more than 100 countries.

Headquartered in the Chalfont St. Giles, United Kingdom, GE Healthcare is a $16.6 billion unit of General Electric Company (NYSE: GE).

For more information about GE Healthcare, visit their website at: www.gehealthcare.com.

METVIX

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

What is Metvix PDT?

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

Skin cancer increasing

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

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

Patients prefer Metvix PDT

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

In addition to high efficacy, Metvix PDT offers advantages that patients value very highly, such as an excellent cosmetic outcome and the avoidance of invasive surgery. An Australian study shows that patients would be willing to pay up to 900 Australian dollars (approximately 500 euros) above the price of surgery for the advantages offered by Metvix PDT. In controlled studies, two out of three patients prefer Metvix PDT compared to alternative previous treatments.

GALDERMA PHARMA S.A.

Galderma, Photocure's global marketing partner for Metvix, is one of the world's leading pharmaceutical companies specialising in the research, development and marketing of therapeutic, corrective and aesthetics solutions. Its expertise spans a broad spectrum of skin, hair and nail diseases.

Created in 1981, Galderma is a joint venture between Nestlé and L'Oréal, and had global revenues of 687.3 million euros in 2006. The company deploys a worldwide network of 32 fully-owned subsidiaries, and through its 850 medical sales representatives it reaches almost every physician in the world.

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

ADVANTAGES OF METVIX

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

Metvix - mechanism of action

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

NICE guidance recommends PDT

In February 2006, the National Institute for Health and Clinical Excellence (NICE), an independent UK organisation that evaluates new medical treatments, issued a recommendation to use topical photodynamic therapy for common non-melanoma skin cancer and premalignant lesions.

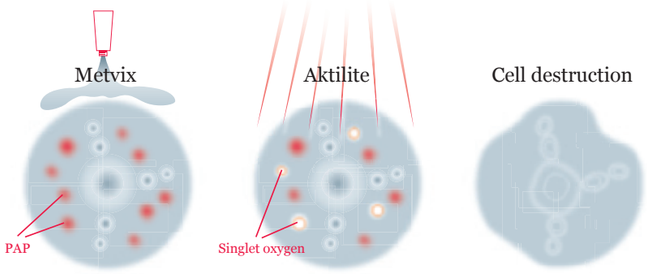
The NICE guidance concludes that for the most common form of non-melanoma skin cancer (BCC) and for premalignant lesions (AK and Bowen's disease), photodynamic therapy is just as safe and effective as cryosurgery and has better cosmetic results. NICE recommends topical PDT routinely for BCC and premalignant lesions, such as actinic (solar) keratoses and Bowen's disease.

In the guidelines, the specialist advisors state that topical PDT may be particularly useful for large, superficial lesions and multiple lesions where repair would otherwise require extensive surgery.

Worldwide clinical trial programmes

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

METVIX – MECHANISM OF ACTION



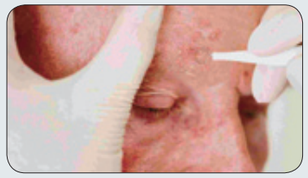
1. Tumour cells accumulate PAPs and become sensitive to light.

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

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

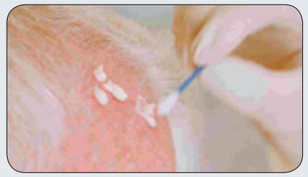
METVIX PDT PROCEDURE

1. Prepare the lesion



Lesion preparation includes the removal of scales and crusts to ensure optimal cream absorption and light penetration. Lesion preparation is essential.

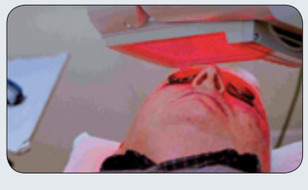
2. Apply Metvix cream



Metvix cream should be applied 1 mm thick to the lesion and cover 5-10 mm of surrounding normal tissue. The area is then covered with an occlusive dressing.

3. Illuminate with Aktilite

After 3 hours, the dressing and cream is removed, and the area is illuminated for 7-9 minutes at a distance of 5-8 cm from the lesion surface.



Marketing and sales activities

Photocure is handling the sales and marketing of Metvix in the Nordic countries, while our global licensing partner Galderma is responsible for sales and marketing in the rest of the world. During 2006, Metvix was launched in several new countries, including important markets such as Brazil. The launch activities were mainly directed at dermatologists and included establishment of training centres, distribution and installation of lamps, seminars, and participation at local and international congresses.

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

A new international website; www.metvix.com was launched in collaboration with Galderma. The website will be an online resource aimed at providing reliable and up-to-date information relating to Metvix PDT for non-melanoma skin cancer for healthcare professionals.

At the European Academy of Dermatology and Venerology (EADV) congress in Rhodes, Galderma and Photocure had a joint stand dedicated to Metvix and Aktilite. In addition to the presentations given during the formal lecture sessions, a separate satellite symposium about PDT was arranged.

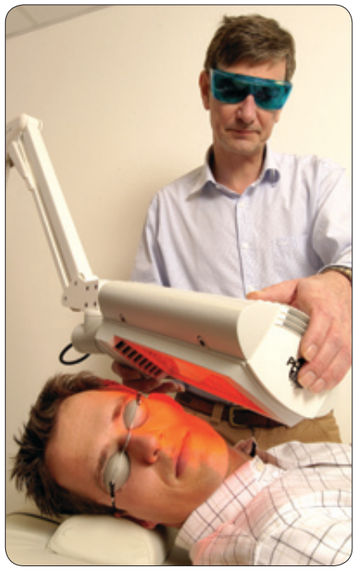
Metvix is now approved in more than 31 countries worldwide. In the Nordic countries, Metvix is offered at over 200 dermatology clinics. Photocure is focusing on increasing the general knowledge about Metvix among health personnel, as well as providing technical and practical support for already existing Metvix clinics. Galderma is planning several new launches in 2007 and further marketing applications are scheduled to be filed.

FACTS ABOUT SKIN CANCER

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

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

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



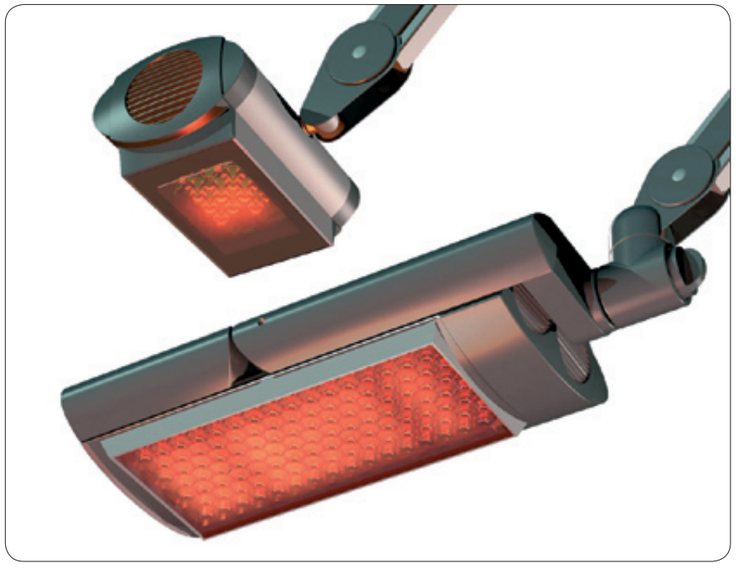
aktilite

Photocure has developed Aktilite for use in photodynamic therapy in combination with Metvix.

Aktilite lamps

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

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



NOVEL TREATMENT FOR ACNE

Clinical studies show promising results for the use of MAL PDT in the treatment of acne.

Promising product development

Photocure is developing photodynamic therapy (PDT) with methyl aminolevulinate (MAL) for the treatment of moderate to severe acne. Clinical studies are ongoing, and the results so far are promising.

What is acne?

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

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

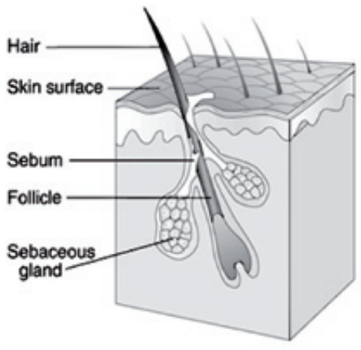
Acne is graded as mild, moderate or severe. Each year, US dermatologists register nearly 3 million visits concerning acne. Of those who seek medical advice from a dermatologist, about 50% have moderate and 20% have severe acne.

Need for new treatments

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

The future pharmaceutical acne market will be influenced both by the public health authorities' initiatives to reduce antibiotic-resistant bacteria, and the governmental programmes to reduce adverse effects of oral isotretinoin. As doctors would like to shift away from prescribing oral isotretinoin and antibiotics, there is a need for new efficacious and safe topical treatments for patients with moderate to severe acne.

ACNE – AETIOLOGICAL FACTORS



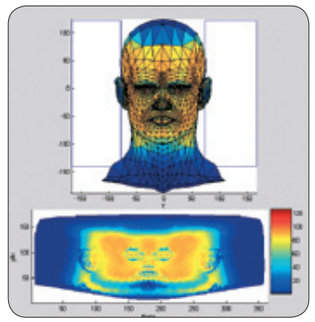
- Increased sebum production in sebaceous glands
- Abnormal shedding of skin within the follicle

... causes plugged follicles, which results in:

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

MAL PDT

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



NEW PDT LAMP IN DEVELOPMENT

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

Clinical trial programmes

In September 2006, Photocure completed its first phase II study in patients with acne. The study was performed at two Canadian centres and included 43 patients with moderate to severe facial acne. The study was a dose-selection study comparing 3 different doses of MAL cream and 4 different incubation times prior to light exposure. The study was designed to select optimal dosing regimes for the phase II confirmatory dose response study.

The results showed that the efficacy with respect to the reduction in number of inflammatory lesions was maintained with lower cream concentrations and shorter incubation times. A similar reduction in lesion counts was seen across the different treatment groups after a single treatment. Side effects, including pain during treatment and subsequent erythema, were substantially reduced with the lower concentrations of MAL cream and shorter incubation times.

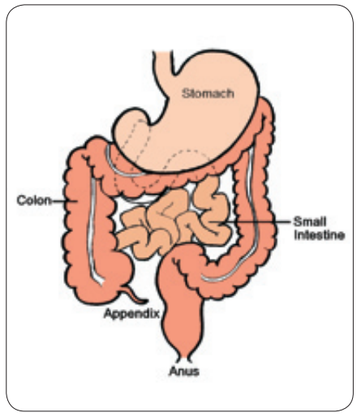
The development programme, including pre-clinical and clinical studies, has been discussed with European and US regulatory agencies. These discussions resulted in an open IND (Investigational New Drug), which means that the American Food and Drug Administration (FDA) has given a go-ahead for clinical studies with MAL PDT for treatment of moderate to severe acne in the US.

The phase II confirmatory dose response study has been initiated and will be reported in the first half of 2008. This study includes over 200 patients with moderate to severe acne and is designed to select the optimal dosing regime for confirmatory phase III studies. The development of the clinical programme for the phase III studies has been initiated.

New PDT lamp

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

COLORECTAL CANCER



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

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

Diagnosis of cancer and pre-cancerous lesions in the colon

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

Colorectal cancer is highly curable if it is detected at an early stage. However, 60% of all cases are currently diagnosed in advanced stages, giving only 60-65% of the patients a 5-year survival. The problem with current screening methods is that they have a relatively poor sensitivity, and precancerous lesions are often missed during inspection of the colon. Consequently there is an urgent medical need for improved screening procedures to increase early diagnosis of the disease. Video-endoscopes with magnifying lenses and staining techniques have been introduced to increase the sensitivity of standard white light colonoscopy (visual inspection of the colon). However these methods are very time-consuming and only suitable for inspecting suspicious areas.

Hexvix, Photocure's product for diagnosis of bladder cancer, makes use of fluorescence to improve tumour detection and is suitable for inspection of larger areas. Photocure technology has shown promise also in patients with CRC (see figure 1). The procedure, which involves local application of a photosensitiser followed by a combined white and blue light colorectal inspection, may improve the sensitivity of standard white light colonoscopy. In addition, it may improve resection of precancerous lesions and tumours, thus further reducing the risk of progression to invasive disease.

Photocure technology has been tested in patients with colorectal cancer with promising results. After local application of a precursor-based photosensitiser, the colon is inspected in blue light, which induces selective fluorescence of the precancerous lesions and tumours. This improves identification of suspicious areas of the colon wall for taking biopsies and performing local resection. Photocure technology is of great advantage for the endoscopist, especially for detection of certain types of flat precancerous lesions (flat adenomas), which are easily overlooked during standard colonoscopy. Due to limited sensitivity of white light colonoscopy, multiple random biopsies have been used to increase the detection rate in patients with high risk of flat adenomas, e.g. patients with long-standing inflammatory bowel disease. Clinical trials with fluorescence diagnosis in these patients have shown a significant improvement in detection of precancerous lesions compared to standard white light inspection including random biopsies.

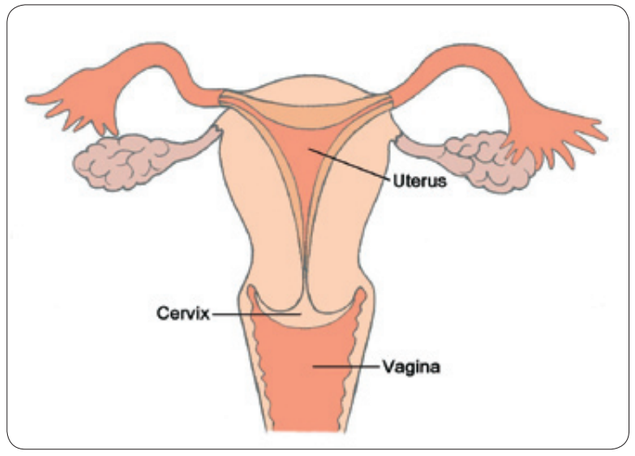
Photocure has started a new phase I/II study, testing different drug doses and new equipment for the diagnosis of precancerous lesions and tumours in patients with suspected CRC. The study will address the feasibility of using Photocure technology in this group of patients.

FACTS ABOUT COLORECTAL CANCER

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

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

CERVICAL PRECANCER



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

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

Non-invasive treatment of pre-cancerous lesions of the cervix

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

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

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

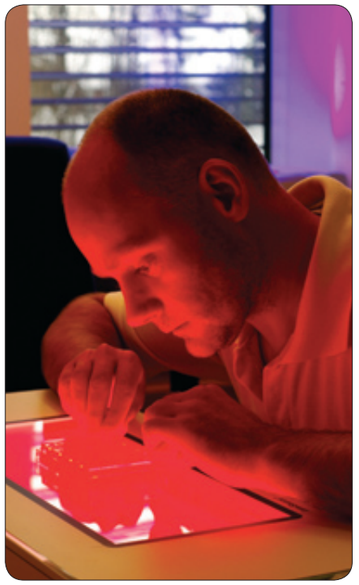
To be able to diagnose and treat CIN lesions before they progress to invasive cervical cancer, cytology screening programmes have been introduced in developed countries. In the US and Europe, screening programmes identify more than two million women with precancerous lesions and more than four million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

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

FACTS ABOUT HPV AND PRECANCEROUS CERVICAL LESIONS

- Human papilloma virus (HPV) is a sexually transmitted disease affecting 70% of women during their life-time. The disease normally regresses spontaneously and there is no treatment available.
- Persistent HPV infection may cause cervical abnormalities and precancerous lesions (CIN).
- Cervical cytology screening programmes detect cellular abnormalities and precancerous lesions in 3.5 mill (~7%) women in the US each year.
- 500.000 US women undergo conisation (cervical surgery) annually due to the presence of severe CIN lesions.
- Conisation is an invasive procedure increasing the risk of bleeding, infection, stenosis, infertility and subsequent preterm deliveries.
- There is a medical need for a non-invasive treatment, particularly in young women.
- Prophylactic HPV vaccines will be available shortly, but will not cover all HPV-types and not be fully effective until 2040.

PCI BIOTECH AS



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

PCI technology

PCI Biotech AS is a subsidiary of Photocure, established in 2000 to commercialise its proprietary technology, photochemical internalisation (PCI). PCI is a technology for light-directed drug delivery and was developed to introduce therapeutic molecules in a biologically active form specifically into diseased cells. The PCI technology has a potential to improve the effect both of existing drugs and of emerging treatments such as gene therapy and other therapies based on nanotechnology or on biotechnological principles.

Drug delivery with PCI

Many therapeutic targets of interest are located inside the cell and have, until now, been highly inaccessible for important classes of therapeutic molecules. The emerging class of therapeutic macromolecules (such as proteins, oligonucleotides and DNA) for instance, is largely dependent on efficient and specific delivery systems for realisation of their great therapeutic potential. This may also be the case for some small molecule drugs, e.g. certain cytotoxic agents for cancer treatment. There is thus a great interest in the pharmaceutical industry for delivery technologies, both for improving the efficacy and specificity of existing products, and for realising the potential of new classes of therapeutic molecules.

The scope of the PCI technology is to make therapies more effective and target-specific by rendering the therapeutic molecules active in the diseased area of the body only (see figure below). PCI activates the drug delivery by targeted illumination of a specific part of the body (e.g. a tumour), thereby avoiding unwanted and potentially harmful effects on distant non-target organs.

New proprietary photosensitiser

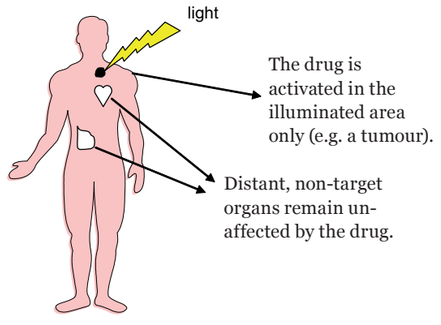
PCI Biotech's main focus is to develop a new proprietary photosensitiser, specially designed for use in the PCI technology. This photosensitiser will be a key product for PCI Biotech, and will be developed for combination therapy with cytotoxic anticancer drugs by PCI Biotech. In addition it will be sold to companies that will license the PCI technology for delivery of their proprietary therapeutic molecules. In 2006, the patent application for this substance was approved in Europe and in several other regions.

During 2006, the development of the synthetic process for the photosensitiser has been finalised and scaled up, and the efficiency of the substance has been further documented in animal studies. Animal toxicity studies indicate that the substance is very well tolerated, and the substance is under production and documentation for use in humans. The first clinical studies where the sensitiser will be used in combination with the anticancer drug bleomycin will commence in 2007. Such studies will be performed on patients with several different cancer types and a clinical protocol for these studies is almost finished.

PCI – FOR MORE EFFECTIVE AND TARGET-SPECIFIC THERAPIES

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

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



Research in progress

In 2006, a study showing that PCI-induced gene therapy can lead to tumour eradication in an animal cancer model was published in a leading gene therapy scientific journal. It is generally recognised that a main obstacle for realising the therapeutic potential of gene therapy is the lack of technologies for efficient, specific and safe delivery of genes to the target tissue in the patient. The results from the animal study indicate that PCI can contribute to solving this problem.

Further studies, showing that PCI can substantially enhance oligonucleotide delivery, have also been published in acknowledged scientific journals. Very promising results have been obtained using PCI with so-called siRNA. siRNA is a recently discovered class of oligonucleotides that can silence the expression of specific (e.g. disease-causing) genes. The discoverers of the siRNA principle were awarded the Nobel Prize in Medicine for 2006. siRNA is generally recognised as having a large therapeutic potential, but needs an efficient delivery system to realise its full potential. Studies submitted for publication show that PCI can significantly enhance both the delivery and the biological effect of siRNA in human cells.

Two published studies have shown that the PCI technology can be used to reverse or circumvent drug resistance in cancer cells. These findings can potentially lead to better treatment of patients that have developed resistance to common cancer treatment modalities such as chemotherapy or radiation.

Several studies have demonstrated that PCI can enhance and site-direct the effect of medicines based on nano-technology. Thus, PCI Biotech has become a partner in a large EU-project on targeted delivery of nanomedicines. This project will, among other things, further explore the use of the PCI technology for siRNA delivery together with leading European drug delivery groups.

Future prospects

PCI Biotech's business focus is to develop its proprietary photosensitiser for cancer treatment for enhancing the effect of cytotoxic anti-cancer drugs. In a longer-term strategy, the PCI technology will be developed for new emerging classes of therapeutic molecules, e.g. macromolecules such as genes for gene therapy, antibody-based drugs and oligonucleotides. This will most likely be done in collaboration with biotech or pharmaceutical companies that develop these types of molecules.

Other potential target diseases

In addition to cancers, other potential target diseases such as eye and skin diseases will be pursued in a long-term strategy. The possibilities of using PCI for treatment of autoimmune diseases and for enhancement of DNA vaccination will also be explored.

World-class R&D expertise

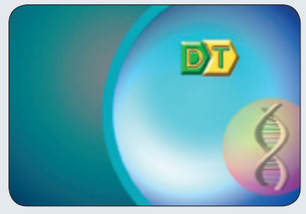
At present, approximately 20 scientists at the Norwegian Radium Hospital are performing research within PCI and related areas. PCI Biotech has all rights for commercial exploitation of new results from this research. In addition, PCI Biotech is collaborating with leading academic groups worldwide for further development of the PCI technology.

PCI Biotech receives substantial financial support from public sources, mainly the Norwegian Research Foundation. In 2006, PCI Biotech became a partner in the newly approved "Centre for Research-based Innovation" in Oslo, and also in the newly generated "Oslo Cancer Cluster".

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

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

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



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

RESEARCH AND DEVELOPMENT PARTNERS

The Norwegian Radium Hospital in Oslo.

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

Worldwide network of outstanding collaboration partners

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

Norwegian Radium Hospital Research Foundation, Norway

Photocure's most important and long-standing research relationship is with the Norwegian Radium Hospital Research Foundation (RF), which is affiliated to the Norwegian Radium Hospital (NRH). The main patents covering Metvix, Hexvix and the PCI technology were all filed by the NRH and later transferred to Photocure. Under the terms of this agreement, Photocure supports the RF with research and development funding, and gains access to and an option to acquire all of the new photodynamic therapy technologies developed by the NRH. The agreement is extended on an annual basis. A separate agreement has been entered into between the RF and PCI Biotech, covering the PCI technology.

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

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

University of Geneva, Switzerland

A collaboration with the University of Geneva has been established for research on topical photosensitisers, with emphasis on development of new pharmaceutical formulations.

Drug Discovery Laboratory (DDL), Norway

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

Contract research organisations (CROs)

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

ARTICLES OF ASSOCIATION

As of 25 August 2006

§ 1 The company's name is Photocure ASA. The company is a public limited company.

§ 2 The company's headquarters are located in Oslo, Norway.

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

§ 4 The share capital of the company amounts to NOK 11,017,486 divided on 22,034,972 shares at NOK 0.50 each, registered by name and fully paid in. All shares in the company shall be registered with the Norwegian Registry of Securities (VPS).

§ 5 The board of directors of the company shall consist of up to seven members.

The board of directors can grant power of attorney. The authorised signatory of the company is exercised by the chairman of the board of directors and one board member together, or three board members together.

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

The general meeting decides on:

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

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

§ 8 All current laws and regulations pertinent to public limited companies apply to Photocure at all times.

SHARES AND SHAREHOLDERS

The Photocure share had an increase of 11.5% in 2006.

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

Performance over the year 2006

Starting at NOK 48.64 in January and ending at NOK 54.25 in December, the Photocure share had an increase of 11.5% in 2006.

Trading volume

During the course of 2006, the average daily trading volume of Photocure's shares reported on or to the Oslo Stock Exchange was approximately 30,000 shares. One round lot consists of 200 shares.

Market capitalisation

Photocure's market capitalisation at the end of 2006 was NOK 1,195 million (NOK 844 million in 2005).

Shares and share options

At the end of 2006, the outstanding number of shares was 22,034,972 shares. In addition, Photocure had a total of 301,265 outstanding share options and warrants at the end of 2006, all of them held by employees.

Share Ownership

Photocure had 1,724 shareholders as of 31 December 2006. Domestic shareholders in Norway hold approximately 95% of the shares.

Shareholder Information

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

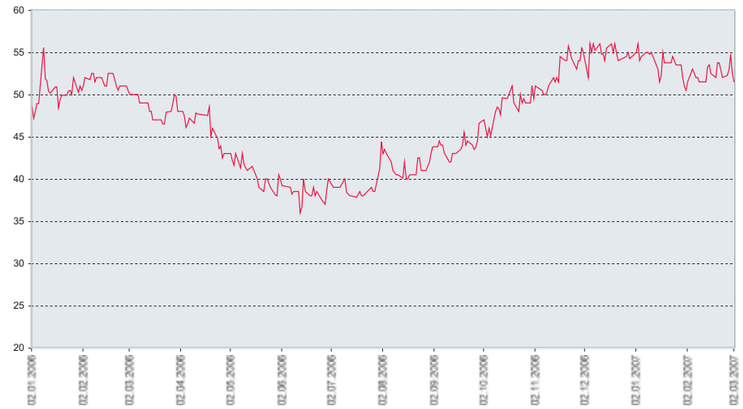
Financial events 2007

Photocure intends to release its quarterly financial statements for 2007 on the following dates:

25 April 2007	Presentation of the first quarter report
5 June 2007	Capital Markets Day, presentation of R&D programmes
16 August 2007	Presentation of the second quarter report
26 October 2007	Presentation of the second quarter report

The company's Annual General Meeting will be held in Oslo on 25 April 2007.

Photocure share price for 2006 - March 2007



Major shareholders as of December 2006

Shareholder	Number of shares	% of issued share capital
RADIUMHOSPITALETS FORSKNINGFOND	3 529 000	16.02
VERDIPAPIRFOND ODIN	1 715 942	7.79
GEZINA AS	1 326 306	6.02
ORKLA ASA	956 428	4.34
COGENT-HUNTER HALL V TRUST	839 625	3.81
FERD AS	770 900	3.50
SKAGEN VEKST	725 000	3.29
COGENT-HUNTER HALL G TRUST	618 500	2.81
SAGA EQUITY FUND	569 200	2.58
COGENT-HUNTER HALL G LIMITED	496 000	2.25
VITAL FORSIKRING ASA OMLØPSMIDLER	451 084	2.05
VICAMA AS	437 384	1.98
VIKERUD VERDI AS	350 797	1.59
MP PENSJON	335 000	1.52
HOLBERG NORGE V/HOLBERG FONDSFORVALTN.	323 776	1.47

Shareholders according to size of shareholding as of December 2006

Shareholdings	Number of shareholders	Number of ordinary shares	Percentage of ordinary shares
1-999	1 064	270 683	1.23
1 000-9 999	495	1 379 602	6.26
10 000-99 999	133	4 127 503	18.73
100 000-499 999	23	5 206 283	23.63
500 000 and more	9	11 050 901	50.15
Total	**1 724**	**22 034 972**	**100.00**

CORPORATE GOVERNANCE

Photocure is committed to good corporate governance

The Norwegian Code of Practice for corporate governance is a guideline for listed companies to help regulate the division of roles between shareholders, the board of directors and executive management more comprehensively than is required by legislation.

Photocure complies with the Norwegian Code of Practice for Corporate Governance of 8 December 2005. Below, the most important parts of Photocure's corporate governance policy are described.

1. Implementation and reporting on corporate governance

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

2. Business

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

3. Equity and dividends

Photocure has an equity capital at a level appropriate to its objectives, strategy and risk profile. The company has established a clear dividend policy, and the mandates to increase the company's share capital are well defined and limited up to one year.

4. Equal treatment of shareholders and transactions with close associates

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

5. Freely negotiable shares

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

6. General meetings

It is the responsibility of the board of directors to ensure that as many shareholders as possible may exercise their rights by participating in general meetings of the company, and that general meetings are an effective forum for the views of shareholders and the board.

7. Nomination committee

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

8. Corporate assembly and board of directors: composition and independence

The composition of the board of directors of Photocure ensures that the board can attend to the common interests of all shareholders and meets the company's need for expertise, capacity and diversity. All members of the board of directors are presented on the company's website. The chairman of the board is elected by the general meeting.

9. The work of the board of directors

It is the responsibility of the board of directors to ensure that the company has good internal control in accordance with the regulations that apply to its activities. The board of directors produces an annual plan for its work and evaluates its performance and expertise annually. The Board of Directors have a Audit committee and Remuneration committee.

10. Remuneration of the board of directors

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

11. Remuneration of the executive management

Guidelines for the remuneration of the members of the executive management have been established by the board of directors and is managed by the remuneration committee. Share option schemes and arrangements to award shares to employees are approved in advance by the general meeting.

12. Information and communications

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

13. Take-overs

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

14. Auditor

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

DIRECTORS' REPORT

Photocure ASA

Photocure is a pharmaceutical company registered on the Oslo Stock Exchange. Through its technological platform within photodynamic diagnosis and treatment, the company aims to fill medical needs within cancer and other areas.

The company has three products on the market; Metvix, which is used to treat skin cancer and precancerous skin lesion in combination with the Aktilite lamp, and Hexvix for the detection of bladder cancer.

Highlights

In 2006, Photocure signed a global licensing agreement for Hexvix, the company's second pharmaceutical product. The introduction of Hexvix in Europe was initiated in the fall of 2006.

Metvix is now available for sale in Europe, Australia, Africa and Latin America. Brazil is one of the markets where Galderma, Photocure's partner for marketing and sales in markets outside the Nordic region, launched Metvix in 2006.

Sales revenues, signing fees and milestone payments amounted to NOK 210.3 million in 2006; an increase of 292% compared to 2005. The increase is primarily due to milestone payments for Hexvix of NOK 133.0 million in 2006. Sales revenues increased by 62% from 2005 to 2006, due to increased sales of Metvix/Aktilite and Hexvix.

Operating costs, less other operating revenues, increased from NOK 87.5 million in 2005 to NOK 109.7 million in 2006. Operating income increased from NOK -47.3 million in 2005 to NOK 78.3 million in 2006.

Licensing agreement with GE Healthcare for Hexvix

In January 2006, GE Healthcare and Photocure signed a licensing agreement granting GE Healthcare exclusive rights to market and distribute Hexvix in markets outside the USA and the Nordic region. The agreement includes milestones totalling Euro 28 million, of which NOK 56.7 million was paid at signing, as well as royalties. Photocure is responsible for the manufacturing of Hexvix, and retains the responsibility for marketing and sales in the Nordic region.

The licensing agreement also included an exclusive option for GE Healthcare to market and distribute Hexvix in the USA. In July 2006, GE Healthcare decided to exercise this option, releasing a milestone payment of NOK 72.5 million.

GE Healthcare introduced Hexvix in Europe in the fall of 2006. The first launch took place in Germany at the DGU congress in September.

Diagnosis of bladder cancer with Hexvix gives better results

Bladder cancer is traditionally detected through cystoscopy (telescopic examination of the bladder) with white light. Hexvix cystoscopy makes use of blue light, and is the first pharmaceutical product on the market that improves the diagnosis of bladder cancer as the product detects more lesions. Hexvix is approved in Europe for the detection of bladder cancer in patients with suspected or confirmed bladder cancer.

In June 2005, Photocure submitted the application for approval of Hexvix in the US. In April 2006, Photocure received a letter from the US medical authorities, FDA, where they requested further documentation and analyses. Photocure and GE Healthcare are working together to fulfil the requirements set fourth by the FDA.

Hexvix sales increased to NOK 10.1 million in 2006

Sales revenues from Hexvix reached NOK 10.1 million in 2006; an increase from NOK 1.4 million in 2005. In the Nordic markets, Hexvix sales increased from NOK 1.0 million in 2005 to NOK 2.1 million in 2006. In markets outside the Nordic region, Hexvix sales increased from NOK 0.5 million in 2005 to NOK 8.0 million in 2006.

Metvix - new markets and new indications

During 2006, Galderma launched Metvix in Brazil and several other markets. In addition, Galderma obtained marketing approvals for Metvix in Chile, Colombia and South Korea, and applied for marketing approval for Metvix in Canada, Argentina, Venezuela and Singapore.

In 2006, Photocure documented the effect of using Metvix in the treatment of organ transplant patients. These patients receive medication that weakens their immune system, and therefore have a larger risk of developing skin cancer. The documentation confirms the strong position this product holds within the medical treatment of skin cancer and precancerous skin lesions.

Photocure and the FDA have reached an agreement regarding the documentation required for an approval of the Aktilite lamp in the US. This includes two phase III studies with approximately 100 patients each that were completed in 2006 and the first quarter of 2007. Both studies show a significantly better response for patients treated with Metvix/Aktilite compared to the placebo group, and the results provide a solid scientific basis for the application.

Metvix sales increased by 42% in 2006

Metvix/Aktilite sales revenues increased by 42% from NOK 36.4 million in 2005 to NOK 51.6 million in 2006. In the Nordic region, sales of Metvix/Aktilite increased by 25% from NOK 16.0 million in 2005 to NOK 19.9 million in 2006. Outside the Nordic region, sales of Metvix/Aktilite increased by 55% from NOK 20.4 million in 2005 to NOK 31.6 million in 2006.

Treatment of moderate to severe acne

Photocure is developing a new pharmaceutical product for the treatment of moderate to severe acne. There is a large medical need for a new and gentle treatment for acne, and the sales of medicinal products for the treatment of moderate to severe acne total approximately 1.4 billion dollars annually.

In September 2006, Photocure reported a phase IIa study in patients with moderate to severe acne. The study showed that the effect of the treatment was maintained when using lower concentrations of MAL and shorter incubation times. At the same time, there was a significant reduction in side effects. This represents an important milestone in the acne project. A confirmatory multi-centre phase II study with approximately 200 patients was initiated in the USA in January 2007.

Treatment of HPV infections and precancer of the cervix

In 2006, Photocure initiated a clinical phase I/II dose study for the photodynamic treatment of HPV infections and precancerous lesions of the cervix. The study includes approximately 80 patients at the university hospitals in Oslo (Ullevål) and in Hannover, Germany, and will be reported in the second half of 2008. In addition, the development of a new formulation for application of the pharmaceutical product to the cervix was initiated, as well as the development of a new light source.

There is a large medical need for an effective, non-invasive treatment for precancerous lesions of the cervix, especially in young women. There is currently no treatment available for HPV infections.

Diagnosis of colon cancer

In 2006, Photocure initiated a proof-of-concept study for fluorescence diagnosis of colon cancer. The study is performed at two hospitals in Germany, and includes approximately 30 patients with suspicion of colon cancer. The results from the study will be reported in 2007.

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

PCI Biotech continues development of new technology

Photocure's subsidiary PCI Biotech AS is developing a new technology (PCI) to increase the effect of therapeutical molecules specifically directed towards areas of the body that needs treatment. In 2006, PCI Biotech obtained a patent for their new photosensitising substance, Amphinex™, for use in the PCI technology. In addition, the company has been working on the synthesis of the substance as well as preparing initiation of clinical studies. PCI Biotech is planning to start clinical studies with Amphinex in 2007.

Financial situation

Sales revenues, signing fees and milestone payments in the Photocure Group amounted to NOK 210.3 million in 2006, compared to NOK 53.6 million in 2005.

In the Nordic markets, total sales revenues increased by 28% to NOK 22.0 million in 2006, compared to NOK 17.2 million in 2005. In markets outside the Nordic region, total sales revenues increased by 90% to NOK 39.6 million in 2006, compared to NOK 20.9 million in 2005.

Signing fees and milestone revenues amounted to NOK 148.7 million in 2006, an increase of NOK 133.0 million compared to 2005 due to milestone payments from GE Healthcare.

The Group's operating income amounted to NOK 78.3 million in 2006, compared to an operating loss of NOK -47.3 million in 2005. The change in operating income is primarily due to increased revenues, offset by NOK 22.3 million in increased costs and a reduction of NOK 9.6 million in other operating revenues. All costs related to R&D have been expensed in 2006.

Net financial income totalled NOK 6.4 million in 2006, compared to NOK 8.8 million in 2005.

The Group's net income amounted to NOK 85.1 million in 2006, compared to NOK -38.2 million in 2005. Photocure ASA (parent company) generated a net income of NOK 88.9 million in 2006, compared to a net income of NOK 36.0 million in 2005. The board of directors of Photocure proposes that the net income be transferred to other equity. After this transfer, the equity of Photocure ASA amounts to NOK 356.6 million, of which NOK 97.0 million are distributable reserves. The equity of the Group amounted to NOK 326.9 million as of 31 December 2006, giving an equity ratio of 87%.

On 24 January 2006, Photocure held an extraordinary general meeting where an underwritten rights issue of 4,396,051 new shares was resolved. The subscription price was set to NOK 46 per share, giving a total of NOK 202 million. The subscription period ended on 20 February 2006 with substantial over-subscription.

The Group has adopted a conservative investment strategy for its liquid funds. The yield on the company's liquid funds is dependant on money market interest rates and may therefore vary over time. The Group's liquid funds totalled NOK 335.1 million as of 31 December 2006. Net cash flow from operations totalled NOK 66.4 million in 2006, compared to NOK -70.5 million in 2005.

Costs and revenues of the Group accrue in different currencies. The Group is therefore influenced by the effect of exchange rate fluctuations. The associated risks are continuously evaluated. Photocure does

not currently use any financial derivates.

Photocure does not recognise deferred taxes as an asset in the balance sheet due uncertainty of when the company will be able to utilise the deferred taxes. All R&D costs are expensed in the tax accounts as of 31 December 2006.

In accordance with the Norwegian Accounting Act, § 3.3 (a), the Board of Directors of Photocure confirms the assumption that the company is a going concern and that the financial report for 2006 is based on this. Since the end of the financial year of 2006, there have been no events, other than those stated in this report, that are of major significance to the evaluation of the company's financial situation or results.

Organisation

The management of Photocure consists of Kjetil Hestdal, President & CEO; Christian Fekete, CFO; Grete Hogstad, Vice President Marketing and Sales; and Inger Ferner Heglund, employed as Vice President Research and Development from 1 January 2007. Furthermore, Kjell-Erik Nordby is employed as Vice President Business Operations from 1 May 2007.

Photocure is based in Oslo. By the end of 2006, the Group had 40 employees, of which 2 were employed by the subsidiary PCI Biotech AS. The Group makes considerable use of external suppliers for production, research and development, as well as for regulatory work. The working environment in the company is considered to be good, and no accidents or injuries were reported in 2006. Absence from work due to illness totalled 103 working days for the Group in 2006, which equals 1.34% of total working days. For the parent company, the absence due to illness totalled 103 working days in 2006, which equals 1.39% of the total working days.

Photocure aims to be a workplace that provides equal opportunities for men and women. The company has traditionally recruited from environments where men and women are relatively evenly represented. The company has 33% women in the board of directors and 50% women in the management. Working hour arrangements in the company do not depend on gender.

The company does not pollute the external environment.

Licensing agreement with DUSA pharmaceuticals

In June 2006, Photocure acquired licensing rights from DUSA Pharmaceuticals, Inc. for patents regarding the use of 5-aminolevulinic acid in photodynamic treatment. Photocure will pay a licensing fee for products covered by the patents in countries where the patents are valid, primarily the USA, and as long as the patents are valid.

Future prospects

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

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

In addition, PCI Biotech is planning initiation of the first clinical study in 2007. The study is designed to test the photosensitiser Amphinex in combination with chemo therapy for the treatment of cancer at the Norwegian Radium Hospital in Oslo.

Oslo, Norway, 27 February 2007

Erik Engebretsen,
Chairman of the Board

Per-Olof Mårtensson,
Deputy Chairman of the Board

Trine Bjøro,
Director

Jon Hindar,
Director

Lars Lindegren,
Director

Birgit Stattin Norinder,
Director

Kjetil Hestdal,
President and CEO

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

Parent				Consolidated		
2005	**2006**		**Notes**	**2006**	**2005**	**2004**
38 007	61 667	Sales revenues		61 667	38 007	36 811
15 634	148 653	Signing fees and milestone revenues		148 653	15 634	40 998
53 641	**210 320**	**Total revenues**	1	**210 320**	**53 641**	**77 809**
-13 430	-22 251	Cost of goods sold	3	-22 251	-13 430	-13 066
40 211	**188 070**	**Gross profit**		**188 070**	**40 211**	**64 743**
12 492	2 053	Other income	2	5 690	15 235	4 597
-28 476	-34 523	Payroll expenses	4, 5	-35 539	-29 369	-35 282
-34 924	-33 381	R&D expenses	6	-38 200	-38 238	-31 718
-1 125	-1 335	Ordinary depreciation & amortisation	11	-1 335	-1 125	-1 529
-33 031	-38 626	Other operating expenses	7	-40 344	-33 966	-41 671
-85 064	**-105 813**	**Total other income and expenses**		**-109 728**	**-87 463**	**-105 603**
-44 853	**82 257**	**Operating profit/loss(-)**		**78 342**	**-47 252**	**-40 860**
10 199	12 072	Financial income		11 867	10 178	4 687
-1 391	-5 463	Financial expenses		-5 478	-1 400	-9 149
8 808	**6 609**	**Net financial profit/loss(-)**	8	**6 389**	**8 778**	**-4 462**
-36 045	**88 866**	**Profit/loss(-) before tax**		**84 730**	**-38 474**	**-45 322**
-	-	Tax expense	9	-	-	-
-36 045	**88 866**	**Net profit/loss(-) before minority interest**		**84 730**	**-38 474**	**-45 322**
		Minority interests		-352	-264	-290
-36 045	**88 866**	**Net profit/loss(-)**		**85 082**	**-38 210**	**-45 032**
-	-	Earnings per share	10	3.98	-2.19	-2.58
-	-	Earnings per share, (anti)diluted	10	3.97	-2.18	-2.58

BALANCE SHEET AS OF 31 DECEMBER

Photocure ASA
(Amounts in NOK 000s)

Parent 2005	Parent 2006	ASSETS	Notes	Consolidated 2006	Consolidated 2005
		Non-current assets			
-	780	Intangible assets	11	780	-
2 708	2 178	Machinery and equipment	11	2 178	2 708
23 859	24 651	Investment in subsidiaries	12	-	-
26 567	**27 609**	**Total non-current assets**		**2 958**	**2 708**
		Current assets			
12 908	9 750	Inventories	13	9 784	12 943
5 970	12 591	Accounts receivable		12 591	5 970
2 126	6 305	Receivables from group company	14	-	-
9 842	12 637	Other receivables		15 004	11 755
17 938	**31 533**	**Total receivables**	14	**27 595**	**17 725**
71 377	334 187	Cash and short term deposits	15	335 085	72 328
102 224	**375 470**	**Total current assets**		**372 464**	**102 996**
128 791	**403 079**	**Total assets**		**375 423**	**105 704**

BALANCE SHEET AS OF 31 DECEMBER

Photocure ASA
(Amounts in NOK 000s)

Parent 2005	Parent 2006	EQUITY AND LIABILITIES	Notes	Consolidated 2006	Consolidated 2005
		Equity			
8 792	11 017	Issued capital	16	11 017	8 792
58 353	248 602	Share premium	16	248 602	58 353
4 764	6 821	Other paid-in capital		6 821	4 764
1 279	90 146	Retained earnings		60 495	-23 444
-	-	Minority interests		-	-
73 188	**356 586**	**Total equity**		**326 935**	**48 465**
		Liabilities			
		Non-current liabilities			
300	-	Non-current liabilities	17	-	300
16 937	1 303	Deferred signing fee	18	1 303	16 937
17 237	**1 303**	**Total non-current liabilities**		**1 303**	**17 237**
		Current liabilities			
8 842	9 363	Accounts payable		10 128	9 195
1 733	1 517	Employee withholding taxes and social security tax		1 576	1 803
15 634	15 634	Deferred signing fee	18	15 634	15 634
12 157	18 676	Other current liabilities	19	19 847	13 370
38 366	**45 190**	**Total current liabilities**		**47 185**	**40 002**
55 603	**46 493**	**Total liabilities**		**48 488**	**57 239**
128 791	**403 079**	**Total equity and liabilities**		**375 423**	**105 704**

Oslo, 27 February 2007
The Board of Directors of Photocure ASA

Erik Engebretsen,
Chairman of the Board

Per-Olof Mårtensson,
Deputy Chairman of the Board

Trine Bjøro,
Director

Jon Hindar,
Director

Lars Lindegren,
Director

Birgit S. Norinder,
Director

Kjetil Hestdal,
President and CEO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Photocure ASA
(Amounts in NOK 000s)

	Notes	Issued capital	Share premium	Other paid-in equity	Retained earnings	Minority interests	Total equity
Equity as of 31 December 2004		**8 791**	**58 302**	**3 444**	**14 860**	**170**	**85 567**
Share issue employees		1	51	-	-	-	52
Employees' options		-	-	1 320	-	-	1 320
Net loss for the year		-	-	-	-38 210	-264	-38 474
Transfer of negative minority interests		-	-	-	-94	94	-
Equity as of 31 December 2005	16	**8 792**	**58 353**	**4 764**	**-23 444**	**0**	**48 465**
Share issue		2 198	188 410	-	-	-	190 608
Share issue employees		27	1 839	-	-	-	1 867
Employees' options		-	-	2 057	-	-	2 057
Investment in PCI Biotech		-	-	-	-792	-	-792
Net profit for the year		-	-	-	85 082	-352	84 730
Transfer of negative minority interests		-	-	-	-352	352	-
Equity as of 31 December 2006	16	**11 017**	**248 602**	**6 821**	**60 495**	**0**	**326 935**

STATEMENT OF CHANGES IN EQUITY

Photocure ASA - parent
(Amounts in NOK 000s)

	Notes	Issued capital	Share premium	Other paid-in equity	Retained earnings	Total equity
Equity as of 31 December 2004, NGAAP		**8 791**	**58 302**	**3 135**	**39 611**	**109 839**
Effect of IFRS implementation						
Pension cost		-	-	309	-2 287	-1 978
Option costs		-	-	-	-	-
Equity as of 1 January 2005, IFRS		**8 791**	**58 302**	**3 444**	**37 324**	**107 861**
Share issue employees		1	51	-	-	52
Employees' options		-	-	1 320	-	1 320
Net loss for the year		-	-	-	-36 045	-36 045
Equity as of 31 December 2005, IFRS	16	**8 792**	**58 353**	**4 764**	**1 279**	**73 188**
Share issue		2 198	188 410	-	-	190 608
Share issue employees		27	1 839	-	-	1 867
Employees' options		-	-	2 057	-	2 05
Net profit for the year		-	-	-	88 866	88 866
Equity as of 31 December 2006, IFRS	16	**11 017**	**248 602**	**6 821**	**90 146**	**356 586**

CASH FLOW STATEMENT

Photocure ASA
(Amounts in NOK 000s)

Parent 2005	Parent 2006		Consolidated 2006	Consolidated 2005	Consolidated 2004
-36 045	88 866	Profit/loss(-) before tax	84 730	-38 474	-45 323
1 125	1 335	Ordinary depreciation & amortisation	1 335	1 125	1 530
-	-	Write-down of financial non-current assets	-	-	6 250
-5 057	-	(Gain)/Loss on sale of non-current assets	-	-5 057	-
1 604	2 325	Share-based payments expenses	2 325	1 604	270
-117	1 870	Pension costs/Change in pension commitments	1 970	-219	160
-2 206	-7 160	Interest income	-6 933	-2 160	-3 145
63	28	Interest expenses	28	63	103
-12 586	-2 121	Other items	-2 222	-12 649	477
4 590	3 159	Change in inventory	3 159	4 590	5 634
1 444	-13 595	Change in accounts receivable	-9 870	1 444	-1 631
1 423	521	Change in accounts payable	933	1 656	-1 032
-15 634	-15 634	Change in deferred signing fee	-15 634	-15 634	-15 634
-8 994	6 603	Change in other accruals	6 549	-6 749	2 208
-70 390	**66 197**	**Net cash flows from operating activities**	**66 370**	**-70 460**	**-50 133**
-2 101	-1 585	Investments in machinery and equipment	-1 585	-2 101	-429
405	-	Sales of fixed assets (sales price)	-	405	42
5 000	-792	Investments in/sales of other fixed asset investments	-792	5 000	-
2 206	7 160	Interest received	6 933	2 160	3 145
5 510	**4 782**	**Net cash flows from investing activities**	**4 556**	**5 464**	**2 758**
-	190 608	Share issue	190 608	-	-
52	1 867	Share issue employees	1 867	52	197
-80	-44	Interest paid	-44	-80	-115
-600	-600	Repayment of loans	-600	-600	-600
-628	**191 830**	**Net cash flows from financing activities**	**191 831**	**-628**	**-518**
-65 508	**262 810**	**Net change in cash during the year**	**262 757**	**-65 624**	**-47 893**
136 885	**71 377**	**Cash and cash equivalents as of 01.01**	**72 329**	**137 952**	**185 845**
71 377	**334 187**	**Cash and cash equivalents as of 31.12**	**335 085**	**72 329**	**137 952**

ACCOUNTING PRINCIPLES

Company information

The financial statements of Photocure ASA (the Company) and the consolidated financial statements (the Group) for the year ended 31 December 2006 were approved for publication by the board on 27 February 2007.

Photocure ASA is a public limited company with its headquarters in Norway. The Group's business area and market are related to research and development, production and distribution and marketing and sales of pharmaceuticals and medical equipment. The shares are listed on the Oslo Stock Exchange. The company's address is Hoffsveien 48, NO-0377 Oslo, Norway.

Basis for preparing the financial statements

The Company and the Group financial accounts have been prepared on a historical cost basis, with the exception of derivative financial instruments and investments classified as available for sale. These are measured at fair value. The Company and the Group financial statements have been prepared in accordance with IFRS as adopted by the European Union and valid as of 31 December 2006.

The financial statements are presented in NOK and values are rounded to the nearest thousand (000) except when otherwise indicated.

Consolidation principles

The group accounts include the parent company Photocure ASA and any companies in which the parent company either directly or indirectly owns more than 50 percent or has a controlling influence.

The group accounts comprise the cumulative financial net profit/-loss and position of the economic entity consisting of the parent company Photocure ASA and its subsidiaries. Subsidiaries are fully consolidated in the group accounts. The minority's share of net result after tax is presented as a separate item. Share of net result is normally calculated based on the subsidiary's net result after tax as this is entered in the group accounts after eliminations. Negative minority share is recognised as a reduction to retained earnings.

Uniform principles have been utilised in the preparation of the consolidated financial statements. All significant group transactions and inter-company balances have been eliminated.

Changes to the accounting principles

As of 1 January 2006, the parent company Photocure ASA changed its accounting principles from generally accepted accounting principles in Norway (NGAAP) to IFRS. The Company has used the following optional exemption in IFRS 1: Accumulated, non-amortised gains/losses in the previous pension scheme that was terminated on 1 January 2006 have been charged against equity in the opening balance.

The group prepared the financial statements in accordance with IFRS from the year ended 31 December 2005. There has been no change to the accounting principles applied by the Group in 2006 compared to the previous year. The following new and amended IFRS and IFRIC interpretations during 2006 have been reviewed for adoption:

- IAS 21 Amendment - The effects of changes in foreign exchange rates: not relevant
- IAS 39 Amendment - Financial instruments, Fair value option: not relevant
- IFRS 7 Financial instruments - Disclosures: no early adoption from 2006
- IAS 1 Amendment - Presentations of financial statements: no early adoption from 2006
- IFRIC 4 - Determining whether an arrangement contains a lease: does not have any impact on the financial position of the Group
- IFRIC 8 - Scope of IFRS 2: not relevant

Significant accounting judgments, estimates and assumptions

Preparation of the financial statements in accordance with IFRS requires the use of judgments, estimates and assumptions that affect the carrying amounts of assets and liabilities and the evaluation of conditional events and recognised revenues and expenses. The use of estimates and assumptions is based on the best discretion of the management.

In the process of applying the accounting policies, the management has made the following judgements and estimates that have major effects on the amounts recognised in the financial statements as of 31 December 2006:

- Deferred signing fee in the balance sheet is related to up-front, non-refundable payments received at granting the license rights for the product Metvix. The Metvix signing fee received in 2002 is regarded as consideration for the cost incurred for the product licensed. Due to risks related to the lack of experience and competence in manufacturing and supply of the product and the related lamps, the judgement was made that Photocure ASA had a contingent liability. The signing fee was reported as deferred income and is recognised as revenue in the income statement on a straight-line basis over 6 years. At every year end closing, the estimated revenue recognition period and the contingent liability are evaluated.
- The signing fee received at granting the license rights for the product Hexvix, is valued to the substance of this license agreement. The risks related to the experience and competence in manufacturing and supply of this product, are considered low, and the judgement was made that Photocure ASA did not have a contingent liability. The entire signing fee received in 2006 is for this reason recognised as revenue.
- Valuation of PCI Biotech AS in the parent company is based on judgements of future commercial benefits of the proprietary photochemical internalisation technology, the patent portfolio and the pre-clinical results developed by this subsidiary.

Summary of significant accounting policies for the Company and the Group

a. Classification

The classification of items in the balance sheet depends on the 12-month rule. Items with a lifetime of more than 12 months are non-current, while other items are current. This applies to both assets and liabilities. A dividend does not become a liability before it has been formally approved by the general meeting.

b. Currency

The financial statements are presented in Norwegian kroner (NOK), which is the Company's functional and presentation currency. Each entity in the group uses their functional currency for the registration of all items included in the accounts. Monetary items in foreign currency are translated at prevailing rates as of the balance sheet date. Realised and unrealised currency gains and currency losses are included in the net financial profit/-loss for the year unless otherwise indicated. Transactions in foreign currencies are recorded at prevailing rates as of the transaction date.

c. Tangible and intangible non-current assets

Tangible non-current assets are stated at cost less accumulated depreciation and accumulated impairment in value. Tangible non-current assets are depreciated on a straight-line basis over the estimated useful life of the asset, taking into account any residual value. Expenditures and improvements are added to the cost price of the underlying asset and are depreciated over the expected useful life.

Any research and development to be acquired will be capitalised and amortised over expected lifetime.

The carrying values of tangible and intangible non-current assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable, and at least at every year-end reporting date. If any such indication exists, the asset is tested for impairment by making an estimate of the asset's recoverable amount. The recoverable amount is the higher of net realisable value and its value in use. Assets are grouped and evaluated on the basis of the lowest level of aggregation of identifiable and independent cash flows. If the need for write-down is identified, the asset is written down to the lower of book value and the recoverable amount.

Prior write-downs may be reversed to the extent that the basis for the write-down is no longer present. Reversals are limited to capitalised value after deductions for accumulated depreciation calculated as though the write-down had not occurred.

Gain on the sale of tangible and intangible non-current assets is presented as "other income", while a loss is presented as "other operating expenses".

d. Research and development costs

Due to uncertainty of expected future financial benefits, all costs related to proprietary research and development are expensed as incurred until national marketing approval for the product and indication is obtained. Expensed procurements of external services related to proprietary research and development projects, are specified on a separate line in the income statement.

Cost-sharing agreements related to research and development costs with a licence partner are recorded as a reduction in costs.

ACCOUNTING PRINCIPLES

e. Investment in subsidiaries
Shares and investments intended for long-term ownership are reported in the balance sheet as long-term investments and valued at the lower of acquisition cost and fair value. Write-downs for permanent decline in value are based on individual valuation. Any realised and unrealised gains/losses and any write-downs relating to these investments will be included in the income statement as financial items.

f. Inventory
Inventories of raw materials are valued at the lower of cost and net realisable value according to the first-in-first-out (FIFO) principle. Semi-finished and finished products are valued at production cost including an allocated portion of indirect costs on the basis of the FIFO principle.

g. Financial assets and liabilities
Financial assets and liabilities are recognised on the balance sheet when the Company becomes party to the contractual provisions of the instrument.

g.1. Trade and other receivables
Accounts receivable and other receivables are presented at amortised cost.

g.2 Cash and cash equivalents
Cash and short term deposits include not only bank deposits and cash reserves, but also money market funds with securities with a duration of three months or less.

g.3 Interest-bearing loans and borrowings
All interest-bearing loans and borrowings are initially recognised at the fair value of the consideration received. Thereafter, the loans and the borrowings are measured at amortised cost.

g.4 Trade payables
Trade payables are presented at face value.

g.5 Currency risk
The Company is exposed to the financial risks of changes in foreign currency exchange rates. The Company's policy is to consider the currency exposure when entering into contracts and seek to agree on currencies and mechanisms that limit the net exposure to the Company. The Company uses to a limited extent foreign exchange forward contracts to hedge the currency exposure. The Company does not use derivative financial instruments for speculative purposes.

h. Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured.

Revenues from the sale of products are recognised upon delivery, i.e. when the significant risks and rewards of ownership of the products have passed to the buyer. Returns are recognised as a reduction to revenues.

The signing payments regarding licensing agreements are recognised in accordance with the substance of the agreement. Non-refundable payments received by Photocure ASA that do not imply any contingent liability or other restrictions, is regarded as earned and revenue is recognised in the period.

License payments in connection with milestones related to regulatory approvals and product launches relating to license agreements, are recognised upon achievement. Licence agreements that provide a guaranteed minimum royalty are recognised when the condition for this has been achieved.

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

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

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

j. License costs
The Group has entered into agreements with external parties providing technology in form of license agreements and agreements giving right to utilise registered patent applications or patents. The product-based royalty costs are recognised upon the Group's sale of licensed products and presented as cost of goods sold in the income statement. License payments in connection with signing fees and milestones related to regulatory approvals and product launches, are recognised upon achievement and presented as other operating expenses in the income statement.

k. Pensions
An agreement, which came into force on 1 January 2006, has been signed for a contribution-based pension plan for all employees. Contributions comprising between 5% and 8% of an employee's salary are added to the pension plan for all employees. The Company's contribution costs are charged to the income statement in the year in which the contribution applies.

Up until 31 December 2005, the Company had a benefits plan. The accounting principles applied to this agreement are given below. Gains from the settlement of the benefits plan as of 31 December 2005 are included in the pension costs for that year.

The benefit plan cost and pension liabilities were calculated on a straight-line basis based on an assumed discount rate, rate of salary progression, pension and social benefit allowances, rate of return on plan assets, and actuarial assumptions on mortality, early retirement, etc. Pension assets and liabilities appeared as a net amount in the financial statements. Changes in pension liability arising from changes in pension plan benefits were recognised over the expected remaining earning period. Changes in pension liabilities and pension funds that were due to changes in the assumptions used were recognised over the expected remaining earning period if the change value as of the beginning of the year exceeded ten per cent of the greater of the gross pension plan assets or liability (Corridor). Only the part of the change value exceeding ten percent was amortised. Social security tax was accrued on the net pension liability. Net period pension expenses appeared as an element of salary expenses, and consisted of the periods earned pension, interest expenses on pension liability, and expected return on pension assets.

l. Share-based payments
Photocure ASA utilises an employee incentive programme based on the allocation of share-based payments in the Company. Share-based payments are issued to employees at exercise prices, which reflect, at a minimum, fair value at the time of issuance. For this reason, the share-based payments have no intrinsic value at the time of issuance.

The cost of these equity-settled transactions with employees are recognised, with a corresponding increase in equity, over the period ending on the date on which the relevant employees become fully entitled to the shares. Share options issued to employees are calculated at fair value in accordance with the Black & Scholes model at the date of which they are granted, and are accrued on a straight-line basis over the period, during which they are retained up until the options' first call (vesting period). Exercise of share options is conditional of employment in the company. The Company has used the transitional provisions in IFRS 2 and applied this principle to only agreements signed after 7 November 2002 that are not vested by 1 January 2005.

Social security taxes relating to outstanding share-based payments are accrued as salary expense over the vesting period.

m. Taxes
Tax expense is comprised of income taxes payable for the current period and the change in deferred taxes. Deferred taxes are calculated at 28 percent of the temporary differences that exist between the tax bases of assets and liabilities and their accounting values.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, unused tax credits and tax losses carried forward. Tax assets and liabilities resulting from temporary differences that reverse or may be reversed in the same periods are offset against one another. Recognition of a deferred tax asset is subject to probable future application.

n. Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of cash or resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

o. Cash flow statement
The cash flow statement is prepared in accordance with the indirect method of accounting.

NOTES

NOTE 1 – SALES REVENUES AND OTHER OPERATING REVENUES

Photocure ASA entered into a licensing agreement with GE Healthcare in January 2006 for the product Hexvix. Under the terms of the agreement GE Healthcare has marketing and distribution rights outside the Nordic region except the US. Photocure ASA will manufacture and supply Hexvix to GE Healthcare. The agreement includes an exclusive option for GE Healthcare to market and distribute Hexvix in the USA. This option was exercised by GE Healthcare in July 2006.

The agreement with GE Healthcare includes milestone payments totalling EUR 28 million provided that certain milestones are reached, with the addition of royalty payments and payments for purchase of Hexvix from Photocure. A non-refundable amount of EUR 7 million was paid by GE Healthcare when the agreement was signed and an additional non-refundable amount of EUR 9 million was paid in November 2006 for the US option exercise. The non-refundable payments received in 2006 for Hexvix are regarded as consideration for the costs incurred for the product development, and the entire amount is recognised as revenue.

The non-refundable signing fee received in 2002 for Metvix is reported as deferred income and is recognised as revenue in the income statement on a straight-line basis over a 6-year period due to risks related to the lack of experience and competence in manufacturing and supply of the product and the related lamps. At every year end closing, the estimated revenue recognition period is evaluated.

Signing fees and milestone revenues amouning to NOK 148.7 million have been included in the sales and milestone revenues in 2006, and NOK 15.6 million in 2005. These amounts include deferred income reported as revenue of NOK 15.6 million in both years. NOK 16.9 million of the signing fee have been included as deferred income in the balance sheet as of 31 December 2006, and NOK 32.6 million as of 31 December 2005.

Segment information

The primary segment of Photocure is geographical, and the distribution is based on different operating profiles in the Nordic region and the rest of the world. Sales in the Nordic region consist of sales to pharmaceutical wholesalers and end-users of lamps such as hospitals and clinics. Sales revenues outside the Nordic region relate to sales of Metvix and Aktilite lamps to the licensing partner Galderma and sales of Hexvix to the licensing partner GE Healthcare. In addition, the sales revenues outside the Nordic region include royalties on sales from licensing partners to end-users. Photocure has stocks of lamps in Norway. Active substances and pharmaceutical products are stored at consignment warehouses in Sweden and Denmark, and at the production facilities in Spain, England and the USA. The Company has no other significant assets abroad.

The secondary segment of Photocure is the pharmaceutical product groups. Revenues consist of sales of Metvix cream and the Aktilite lamp, representing one business area. The Company's second pharmaceutical product, Hexvix, represents the other business area. For both product segments, the sales revenues include royalty.

Income statement - geographical distribution
(Amounts in NOK 000s)

	2006				2005			
	Nordic region	**ROW***	**Un-allocated**	**Total**	**Nordic region**	**ROW***	**Un-allocated**	**Total**
Sales revenues	22 028	39 639	-	61 667	17 155	20 853	-	38 008
Signing fees and milestone	-	-	-	-	-	-	-	-
revenues	-	148 653	-	148 653	-	15 634	-	15 634
Total revenue	**22 028**	**188 292**	**0**	**210 320**	**17 155**	**36 487**	**0**	**53 642**
Cost of goods sold	3 257	16 572	2 421	22 250	2 682	6 897	3 852	13 431
Gross profit	**18 771**	**171 720**	**-2 421**	**188 070**	**14 473**	**29 590**	**-3 852**	**40 211**
Gross profit %	85%	91%	-	89%	84%	81%	-	75%
Other income and expenses	22 062	5 536	82 130	109 728	15 159	-	72 304	87 463
Operating profit/loss (-)	**-3 291**	**166 184**	**-84 551**	**78 342**	**-686**	**29 590**	**-76 156**	**-47 252**
Net financial profit/loss (-)	-	-	6 389	6 389	-	-	8 778	8 778
Net profit/loss (-)	**-3 291**	**166 184**	**-78 163**	**84 730**	**-686**	**29 590**	**-67 378**	**-38 474**

**ROW= Rest of the world*

The income statement is distributed according to the customer's location. Photocure only has operating expenses and cost of goods sold in the Nordic region with effect from 2005, since the Company's internal reporting for 2004 does not support this type of segment distribution. The 2004 sales revenues for the Nordic region totalled NOK 16.2 million and outside the Nordic region NOK 20.7 million Milestone revenues outside the Nordic region in 2004 totalled NOK 41.0 million, giving total sales and milestone revenues in 2004 of NOK 77.8 million. Unallocated expenses include to a large degree research and development costs incurred in the period. In 2006, unallocated costs of goods sold are related to Hexvix batches that are out of specification.

Financial items are not naturally attributable to segments.

Balance sheet - geographical distribution
(Amounts in NOK 000s)

	2006				2005			
	Norway	**ROW**	**Unallocated**	**Total**	**Norway**	**ROW**	**Unallocated**	**Total**
Assets								
Non-current assets	2 226	733	-	2 959	2 143	565	-	2 708
Inventory	3 326	6 458	-	9 784	4 237	8 706	-	12 943
Accounts receivable	4 820	7 772	-	12 591	961	5 009	-	5 970
Other receivables	7 380	7 624	-	15 004	7 827	177	3 751	11 755
Cash and short term deposits	330 051	5 034	-	335 085	69 885	2 444	-	72 329
Total assets	**347 802**	**27 621**	**0**	**375 423**	**85 053**	**16 900**	**3 751**	**105 704**
Equity and liabilities								
Equity	-	-	326 935	326 935	-	-	48 465	48 465
Non-current liabilities	-	-	-	-	300	-	-	300
Deferred signing fee	-	16 937	-	16 937	-	32 571	-	32 571
Other current liabilities	8 192	8 204	15 155	31 550	6 214	6 805	11 348	24 368
Total equity and liabilities	**8 192**	**25 141**	**342 090**	**375 423**	**6 514**	**39 377**	**59 813**	**105 704**

The balance sheet is distributed between Norway and the rest of the world (ROW) due to different risk assessments regarding currencies and distance to physical assets.

Physical assets are distributed according to the location of the asset. Accounts receivable are distributed according to the customer's location. Cash is distributed according to the currency's origin.

Deferred income relates to the payment of a signing fee from the licensing partner. Equity is not naturally attributable to segments. Accounts payable are distributed to the location of the supplier.

Sales revenues - product split
(Amounts in NOK 000s)

	2006			2005		
	Nordic	**ROW**	**Total**	**Nordic**	**ROW**	**Total**
Metvix/Aktilite	19 948	31 606	51 554	16 000	20 396	36 396
Hexvix	2 080	8 033	10 113	954	457	1 411
Other	-	-	-	200	-	200
Total	**22 028**	**39 639**	**61 667**	**17 155**	**20 853**	**38 007**

NOTES

NOTE 2 – OTHER INCOME

(Amounts in NOK 000s)

	Group			Parent	
	2006	**2005**	**2004**	**2006**	**2005**
Government grants	-	10 400	-	-	10 400
Research Council of Norway incl. Skattefunn	5 337	4 649	4 572	1 700	1 600
Various income	353	186	25	353	492
Total	**5 690**	**15 235**	**4 597**	**2 053**	**12 492**

NOTE 3 – COST OF GOODS SOLD

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

NOTE 4 – PAYROLL EXPENSES

(Amounts in NOK 000s)

	Group			Parent	
	2006	**2005**	**2004**	**2006**	**2005**
Wages	25 484	24 038	23 862	24 676	23 142
Social security tax	3 519	3 446	4 575	3 405	3 304
Share-based payments	2 056	1 321	270	2 056	1 321
Social security tax on share-based payments	91	284	8	91	284
Pension costs	2 296	-439	2 034	2 196	-291
Other types of remuneration	2 093	719	4 533	2 099	716
Total labour costs	**35 539**	**29 369**	**35 282**	**34 523**	**28 476**
Full time equivalent (FTE)	33.5	33	37	32.3	31

Share-based payment

In connection with the Company's incentive policy, all employees have been granted warrants to company stock (the term share options is also used). These warrants are no longer valid when the employee has given his/her notice. The Board of Directors has not been allotted any share options/warrants.

In 2006, a total of NOK 2.1 million is expensed as share-based payment. In 2005, the corresponding figure was NOK 1.3 million.

As of 31 December 2006, employees of Photocure ASA held the following share options/warrants:

Option programme	**2005**	**2005**	**2006**	**2006**
Award date	Feb.04	Feb.05	During 2006	Feb.06
Number	23 853	111 667	45 500	120 245
Exercise price (NOK)	53.50	34.00	50.00	34.00
Expiry date (31.12)	2007	2008	2009	2008

In addition, a conditional award of 246,000 share options at a price of NOK 50.00 has been made provided that certain goals are achieved.

Final allocation will take place in 2007 after evaluation of whether the benchmark goals for 2006 were achieved.

Number of employee options and average exercise price in Photocure ASA, as well as movements during the year.

	2006		2005		2004	
	Number	**Average exercise price**	**Number**	**Average exercise price**	**Number**	**Average exercise price**
Outstanding at the beginning of the year (1)	212 335	44.38	121 746	90.10	162 326	94.15
Granted during the year	195 990	37.71	178 000	34.00	26 903	53.50
Forfeited during the year	29 926	34.20	29 583	35.84	61 779	89.93
Exercised during the yea	54 718	34.12	1 500	34.50	5 704	34.50
Expired during the year	22 416	111.03	56 328	107.50	-	-
Outstanding at year-end	301 265	49.40	212 335	44.38	121 746	90.10
Exercisable options 31.12	183 248	46.74	102 034	53.90	90 571	100.55

(1) *Included in the balance sheet at the beginning of the year are 21,000 share options in 2005 and 41,000 in 2004 that were allocated before 7 November 2002 for which, according to IFRS 2, actual value shall not be calculated.*

The average weighted lifetime of outstanding share options was 2.1 years as of 31 December 2006 and 2.4 years as of 31 December 2005. The average weighted actual value of issued options was NOK 7.28 in 2006 and NOK 7.14 in 2005.

As of 31 December 2006, the distribution of exercise prices and the average lifetime of outstanding share options was as follows:

Number of options	**Exercise price**	**Average remaining lifetime**
23 853	NOK 53.50	1 yr
231 912	NOK 34.00	2 yrs
45 500	NOK 50.00	3 yrs

Method for calculating the fair value of warrants/employee share options

The actual value of the warrants is calculated using the Black-Scholes method. Volatility is calculated on the basis of developments in the historical share price over the last twelve months. This assumes that historical volatility provides an indication of future volatility, which is not necessarily the case. The subscription price is set at market price at the time of allocation. The risk-free interest rate is based on the 3-year Norwegian government bonds. Each option programme is calculated separately using the actual exercise price and the programme's lifetime. The options are expected to be exercised at the first available opportunity. In the case of option allocations that are conditional on the achievement of certain goals, a factor is added defining the probability that this will occur. Expected achievement of goals contingent on allocated options is 70%. The interest rate benefit is insignificant and has not been taken into account in the accounts. The table below shows the values used in the model.

	2006	**2005**	**2004**
Dividend	0.00	0.00	0.00
Expected volatility (%)	36.21	41.03	61.96
Historic volatility (%)	36.21	41.03	61.96
Risk-free interest rate (%)	3.00	2.50	3.00
Expected lifetime of options (yrs)	2.00	2.04	2.67

Other incentive programmes

In connection with the Company's employee co-ownership programme, employees of Photocure ASA was offered to subscribe shares in the Company, in which portions of payable amounts have been deferred. Upon sale of shares acquired in connection with this programme, the Company is entitled to that portion of proceeds that correspond to the difference between the subscription price and the market value of stock as of the date of subscription. In cases where such stock is held for 10 years, a final settlement based on the current market price of the stock will be effectuated. In the event that such shares are sold within a specified period, the Company has, on the basis of defined terms, pre-emptive rights. As of 31 December 2006, 25,000 shares were subscribed to in connection with the programme (please also refer to note 16).

NOTES

NOTE 5 – PENSION LIABILITIES

Up until the end of 2005, the Group was enrolled in a collective pension plan through Nordea Liv Norge AS. With effect from 1 January 2006, the Company entered into a new agreement based on a contribution scheme. This scheme comply with requirements in new Norwegian legislation from 2006.

As of 31 December 2005, the accrued net pension liability has been taken to income. The Company had a premium/contribution fund of totally NOK 2.4 million as of 1 January 2006. This fund has been used to pay part of 2006 premiums in the contribution-based scheme.

The pension benefit was based on the following assumptions:

	2005	2004
Expected long-term rate of return on plan assets	5.00 %	5.50 %
Discount factor	4.00 %	4.50 %
Rate of salary progression	2.50 %	2.50 %
Yearly adjustment of G	2.00 %	2.00 %
Adjustment of current pension	2.00 %	2.00 %

Underlying actuarial assumptions relating to demographic factors and terminations were in line with standard insurance industry guidelines. The discount factor was based on 10-year Norwegian government bonds plus the difference between 10 and 30-year German government bonds in order to arrive at an estimated Norwegian 30-year rate of interest. The calculation was based on coverage of 28 employees.

Current year net periodic pension costs were calculated as follows:
(Amounts in NOK 000s)

	Group			Parent	
	2006	2005	2004	2006	2005
Contribution plan costs:					
Contribution costs	1 388	-	-	1 288	-
Risk premium for disability	675	-	-	675	-
Other pension costs	233	-	-	233	-
Net pension costs contribution plan	**2 296**	**0**	**0**	**2 196**	**0**
Benefit plan costs:					
Service costs	-	1 700	1 683	-	1 622
Interest expenses	-	273	294	-	263
Actual return on plan assets	-	-213	-257	-	-222
Net amortisation and deferral	-	20	-	-	166
Social security tax	-	300	313	-	375
Winding up of the plan	-	-131	-	-	-266
Recognised premium/contribution fund	-	-2 387	-	-	-2 229
Net pension costs benefit plan	**0**	**-439**	**2 033**	**0**	**-291**

Net pension assets/(liability):
(Amounts in NOK 000s)

	31.12.06	31.12.05		31.12.06	31.12.05
Pension liability	-	-8 794	-	-	-8 451
Value of plan assets	-	7 914	-	-	7 517
Unrecognised net loss	-	872	-	-	791
Net plan assets before social security tax	**0**	**-8**	**0**	**0**	**-143**
Social security tax	-	-123	-	-	-123
Net plan assets (liabilities)	**0**	**-131**	**0**	**0**	**-266**

NOTE 6 – R&D EXPENSES

(Amounts in NOK 000s)

	Group			Parent	
	2006	2005	2004	2006	2005
External R&D expenses	38 200	38 238	31 718	33 381	34 924
Internal R&D expenses	17 858	19 382	20 751	15 062	19 382
Total R&D expenses	**56 058**	**57 620**	**52 469**	**48 443**	**54 306**

Costs regarding external services related to own research and development projects are presented as R&D expenses on a separate line in the income statement. Costs for internal R&D expenses cover payroll, social costs and travel expenses.

NOTE 7 – OTHER OPERATING EXPENSES

(Amounts in NOK 000s)

	Group			Parent	
	2006	2005	2004	2006	2005
Marketing expenses	9 437	7 505	10 414	9 369	7 494
Travel expenses	5 777	5 505	5 511	5 758	5 456
Patent, legal and other services	9 028	10 283	11 214	7 572	9 568
Auditor's fees	491	368	322	439	326
Various operating expenses	15 611	10 305	14 210	15 488	10 187
Total other operating expenses	**40 344**	**33 966**	**41 671**	**38 626**	**33 031**

	Group			Parent	
Auditor's fees:	2006	2005	2004	2006	2005
Statutory audit	322	299	220	285	263
Other attestation services	50	21	65	35	15
Other non-audit-related services	119	48	37	119	48
Total	**491**	**368**	**322**	**439**	**326**

NOTE 8 – FINANCIAL ITEMS

(Amounts in NOK 000s)

	Group			Parent	
	2006	2005	2004	2006	2005
Interest income [1]	6 974	4 098	3 145	6 955	4 078
Interest income Group	-	-	-	229	47
Foreign exchange gains	4 893	1 081	1 542	4 888	1 074
Other financial income [2]	-	5 000	-	-	5 000
Total financial income	**11 867**	**10 178**	**4 687**	**12 072**	**10 199**

	2006	2005	2004	2006	2005
Interest expenses	36	66	103	36	66
Foreign exchange losses	5 316	1 140	2 644	5 302	1 132
Write-down of financial assets	-	-	6 250	-	-
Other financial expenses	127	194	152	126	193
Total financial expenses	**5 478**	**1 400**	**9 149**	**5 463**	**1 391**

(1) *Interest income 2005 includes the reversal of a calculated interest expense on a conditional contribution from Innovasjon Norge in the amount of NOK 1.9 million.*

(2) *Other financial income in 2005 is an accounting gain in the sale of shares in Algeta ASA.*

NOTES

NOTE 9 – TAXES

(Amounts in NOK 000s)

	Group			Parent	
	2006	**2005**	**2004**	**2006**	**2005**
Tax expenses consist of:					
Taxes payable on net profit/loss (-)	-	-	-	-	-
Change in deferred tax	-	-	-	-	-
Tax expenses	**0**	**0**	**0**	**0**	**0**
Taxes payable were calculated as follows:	**2006**	**2005**	**2004**	**2006**	**2005**
Net profit/loss(-) before tax	**84 730**	**-38 474**	**-45 323**	**88 866**	**-36 045**
Expected nominal rate	23 724	-10 773	-12 690	24 882	-10 093
Permanent differences	-3 398	-1 813	1 338	-2 946	-1 453
Change temporary differences	5 383	-4 414	-	5 355	-4 334
Utilised loss carried forward	-27 292	-	-	-27 292	-
Write-down of deferred tax assets	1 582	17 000	11 352	-	15 880
Taxes payable on net profit/loss(-)	**0**	**0**	**0**	**0**	**0**
Specification of the basis for deferred tax assets and liabilities					
Temporary differences:		**Group**		**Parent**	
	2006	**2005**	**2004**	**2006**	**2005**
Non-current assets	-2 374	-2 436	-2 823	-2 374	-2 436
Inventory	-972	-850	-52	-972	-850
Receivables/liabilities	-17 592	-229	-13 947	-17 592	-388
Net pension assets	427	2 229	1 750	368	2 229
Loss carried forward	-386 648	-478 689	-418 403	-348 095	-445 488
Total	**-407 159**	**-479 975**	**-433 475**	**-368 665**	**-446 933**
Deferred tax assets (28%)	-114 004	-134 393	-121 373	-103 226	-125 141
Deferred tax assets not recognised	114 004	134 393	121 373	103 226	125 141
Book value of deferred tax assets	**0**	**0**	**0**	**0**	**0**

The Company has no history of taxable profits and the deferred tax assets are therefore valued at NOK 0.
Losses carried forward can be carried forward indefinitely. RISK per share was NOK 0 as of 31.12.2004 and as of 31.12.2005. Due to changes in Norwegian tax legislation, RISK should no longer be calculated from 2006.

NOTE 10 – EARNINGS PER SHARE

The result per share is calculated on the basis of the net income for the year divided by a weighted average number of outstanding shares for the year. The diluted result per share is calculated on the basis of the net income for the year divided by the average number of outstanding shares for the year plus a weighted number of shares that would have been issued in connection with a conversion of diluted outstanding options and shares to employees where part of the payment has been delayed. In the event of a net loss, the effect is antidilution.

	Group		
Earnings per share	**2006**	**2005**	**2004**
Weighted average shares outstanding	21 308 951	17 583 259	17 581 769
Dilution effect	59 517	31 028	5 991
Weighted average shares outstanding (diluted)	21 368 468	17 614 287	17 587 760
Earnings per share (NOK)	3.98	-2.19	-2.58
Earnings per share (NOK) (diluted/antidiluted(-))	3.97	-2.18	-2.58

NOTE 11 – MACHINERY AND EQUIPMENT

(Amounts in NOK 000s)

	Group			Parent		
	Intangibles	**Machinery and equipment**		**Intangibles**	**Machinery and equipment**	
	2006	**2006**	**2005**	**2006**	**2006**	**2005**
Purchase price 01.01	-	8 776	7 643	-	8 729	7 596
Accumulated depreciation and impairment 01.01	-	-6 067	-5 563	-	-6 020	-5 516
Book value 01.01	**0**	**2 708**	**2 080**	**0**	**2 708**	**2 080**
Period 01.01 - 31.12						
Book value 01.01	-	2 708	2 080	-	2 708	2 080
Additions	-	1 585	2 101	-	1 585	2 101
Disposals	-	-	-348	-	-	-348
Asset transfer	889	-889	-	889	-889	-
Ordinary depreciation	-109	-1 226	-1 125	-109	-1 226	-1 125
Book value 31.12	**780**	**2 178**	**2 708**	**780**	**2 178**	**2 708**
Purchase price 31.12	889	9 472	8 776	889	9 425	8 729
Accumulated depreciation and impairment 31.12	-109	-7 294	-6 067	-109	-7 247	-6 020
Book value 31.12	**780**	**2 178**	**2 708**	**780**	**2 178**	**2 708**
Expected economic life	5 yrs	3-5 yrs	3-5 yrs	5 yrs	3-5 yrs	3-5 yrs
Rental costs		**2006**	**2005**		**2006**	**2005**
Rent of offices		1 582	2 177		1 582	2 177
Rent of equipment		298	50		298	50
Total rental costs		**1 880**	**2 227**		**1 880**	**2 227**

The Company rents office space in Hoffsveien 48 in Oslo. The lease on the premises runs for three years from 1 September 2005 and is mutually binding until 15 September 2008 when it will expire without notice. Yearly rental costs amount to NOK 1.5 million, including shared costs, and NOK 3.4 million for the period 1 January 2007 until expiry of the lease agreement on 15 September 2008. This includes additional office space rented from March 2007. The rent is adjusted yearly to reflect the change in the consumer price index. Rent of equipment include medical devices at hospitals and office equipment. All equipment is rented on a short term basis and rental costs in 2007 will be aproximately NOK 0.4 million.

NOTE 12 – SHARES IN SUBSIDIARIES

Company	**Location**	**Year of acquisition**	**Company's share capital**	**Ownership and voting share**	**Book value**	**Equity**	**Net income 2006**
PCI Biotech AS	Oslo, Norge	2000	NOK 222 000	91.44 %	mNOK 24.6	mNOK - 5.0	mNOK - 4.1
Photocure Australia Pty Ltd	Melbourne, AU	2000	AUD 12	100.00 %	NOK 0	NOK 0	NOK 0

NOTES

NOTE 13 – INVENTORY

(Amounts in NOK 000s)

	Group		Parent	
	31.12.06	**31.12.05**	**31.12.06**	**31.12.05**
Raw materials	5 421	10 116	5 421	10 116
Finished goods	4 364	2 827	4 329	2 792
Total inventory	**9 784**	**12 943**	**9 750**	**12 908**

The stock of raw materials consists of active substances for pharmaceuticals, and components for the lamps. Raw materials and finished goods are valued at cost price. Finished goods with a cost price of NOK 1,050,000 have been written down to NOK 0 during 2006 since their period of durability has expired. In addition, manufactured batches out of specification have been accrued for by NOK 2,421,000.

In 2005, finished goods with a cost price of NOK 850,000 were written down to NOK 0. Write-downs and accruals of inventory have been included in the costs of goods sold in the income statement.

NOTE 14 – RECEIVABLES

(Amounts in NOK 000s)

	Parent	
Intragroup balances	**31.12.06**	**31.12.05**
Current interest-bearing loan	6 275	2 046
Accounts receivable group company	29	80
Total intragroup balances	**6 305**	**2 126**

NOTE 15 – CASH AND SHORT TERM DEPOSITS

(Amounts in NOK 000s)

	Group		Parent	
	31.12.06	**31.12.05**	**31.12.06**	**31.12.05**
Cash and short term deposits, restricted [1]	2 854	2 247	2 814	2 211
Cash and short term deposits, unrestricted	95 590	10 910	94 732	9 995
Money market funds, unrestricted	236 641	59 171	236 641	59 171
Total	**335 085**	**72 328**	**334 187**	**71 377**

(1) *Restricted cash and short term deposits as at 31.12.06 is security for employees' withholding tax in the sum of NOK 1.6 million, plus a deposit for rent in the sum of NOK 1.2 million.*

NOTE 16 – EQUITY

Registered share capital in Photocure ASA as of 31.12.2006 amounted to:

	Number of shares	**Par value (NOK)**	**Share capital (NOK)**
Share capital as of 01.01.2006	17 584 204	kr 0.50	8 792 102
Share issues public 2006	4 396 051	kr 0.50	2 198 026
Share issues employees 2006	54 717	kr 0.50	27 359
Share capital as of 31.12.2006	**22 034 972**	**kr 0.50**	**11 017 486**

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

The Board of Directors of Photocure ASA was authorised by the General Meeting on 20 April 2006 to issue 2.65 million shares, of which (a) 2.2 million shares relate to the financing of the Company's development, while issuance of (b) 0.45 million shares relates to issuance of stock to employees and to selected strategic partners. The remaining authorisation as of 31 December 2006 was 2.64 million shares. The authorisation relating to both a) and b) remains effective through the annual general meeting for 2007. Previously reported authorisations have expired.

The following table provides an overview of the status of authorisations as of 31 December 2006:

(Amounts in # of shares)	**Ordinary share issue**	**Employee issue**
Issue authorisation general meeting 20.04.06	2 200 000	450 000
Share issue pursuant to general meeting 20.04.06	-	5 745
Remaining issue authorisation	**2 200 000**	**444 255**

In addition, subscription rights for 301,265 shares were outstanding to employees at year-end (see note 4).

As described in note 4, employees of Photocure ASA have been offered share subscriptions, where portions of the payments have been deferred. The Company will receive a maximum payment of NOK 2.1 million from those who as of 31 December 2006 have acquired shares under this scheme.

Ownership structure

The primary shareholders in Photocure ASA as of 31 December 2006, were:	**# Shares**	**Ownership**
Radiumhospitalets Forskningsstiftelse	3 529 000	16.0 %
Odin Norge	1 715 942	7.8 %
Gezina AS	1 326 306	6.0 %
Orkla	956 428	4.3 %
Cogent-Hunter Hall V Trust	839 625	3.8 %
Ferd Invest	770 900	3.5 %
Skagen vekst	725 000	3.3 %
Cogent-Hunter Hall G Trust	618 500	2.8 %
Saga equity fund	569 200	2.6 %
Cogent-Hunter Hall G limited	496 000	2.3 %
Vital forsikring ASA	451 084	2.1 %
Vicama AS	437 384	2.0 %
Vikerud verdi	350 797	1.6 %
MP Pensjon	335 000	1.5 %
Holberg Norge Verdipapirfond	323 776	1.5 %
Mirasol verdi	300 000	1.4 %
DnB NOR Market	285 000	1.3 %
DnB NOR Norge (IV) VPF	233 092	1.1 %
Total with greater than 1% ownership	**14 263 034**	**64.7 %**
Total other	7 771 938	35.3 %
Total shares outstanding	**22 034 972**	**100.0 %**

Shares owned directly or indirectly by members of the Board of Directors and management, and related parties to such as of 31 December 2006:

Name	Position	Number of shares	Subscription rights*
Erik Engebretsen **	Chairman of the Board	33 750	-
Per-Olof Mårtensson	Deputy Chairman	3 001	-
Trine Bjøro	Member of the Board	-	-
Jon Hindar	Member of the Board	5 000	-
Lars Lindegren	Member of the Board	31 094	-
Birgit Stattin Norinder	Member of the Board	-	-
Kjetil Hestdal	President and CEO	156 873	61 581
Christian Fekete	CFO	3 000	32 790
Grete Hogstad	VP Marketing and Sales	-	34 140
Auditor		-	-

* *Please refer to Note 4 for more information about subscription rights.*

** *CEO in Gezina AS which owns 1,326,306 shares.*

The Board of Directors of Photocure ASA has for 2006 continued the incentive programme for Company employees, including Company management. 330,000 contingent share options/warrants have been be issued for 2006, where each share option/warrant provides a right to subscribe to one share in the Company at a price of NOK 50.00. Such options/warrants will be earned if certain benchmark goals as specified in the work programme and in the 2006 budget are achieved. In the connection with the cost assessment of these options, the assumption of 70% goal achievement has been applied. 1/3 of the share options/warrants may be exercised each year starting in 2007 and ending in 2009. All the share options/warrants must be exercised by 31 December 2009. The conditional share options/warrants to the management of the company is covered in note 21.

NOTE 17 – NON-CURRENT LIABILITIES

	Effective interest rate	Maturity	31.12.2006	31.12.2005
Conditional contribution Innovasjon Norge (1)	-	-	-	-
Risk loan Innovasjon Norge	6.10 %	2007	300	900
- First year instalment	-	-	(300)	(600)
Total			**0**	**300**

(1) *Conditional contribution from Innovasjon Norge was in 2005 placed to account of income in the sum of NOK 10.4 million as Other income and NOK 1.9 million as Financial income.*

NOTE 18 – DEFERRED SIGNING FEE

Payments for Metvix received from Galderma SA totalling EUR 12 million / NOK 93.8 million was in 2002 reported as deferred income in the balance sheet and recognised as revenue in the income statement on a straight-line basis over 6 years. At every year end closing, the estimated revenue recognition period is evaluated.

	Effective interest rate	End period	31.12.06	31.12.05
Deferred signing fee Galderma	-	-	16 937	32 571
- First year portion	0.00 %	2008	(15 634)	(15 634)
Total			**1 303**	**16 937**

NOTE 19 – OTHER CURRENT LIABILITIES

(Amounts in NOK 000s)

	Group		Parent	
	31.12.06	31.12.05	31.12.06	31.12.05
Provision for external R&D expenses	5 763	4 023	5 763	4 023
Provisions for bonuses, holiday allowances, wages	7 718	7 702	7 630	7 498
First year instalment on long-term debt	300	600	300	600
Royalty payables	3 065	-	3 065	-
Other accrued costs	3 001	1 045	1 918	36
Total	**19 847**	**13 370**	**18 676**	**12 157**

NOTE 20 – CONTINGENT LIABILITIES

Guarantees:
Photocure ASA has issued an financial guarantee in favour of the subsidiary PCI Biotech AS with a maximum amount of NOK 8 million. This guarantee is in force until 30 June 2008.

NOTE 21 – RELATED PARTY TRANSACTIONS

(Amounts in NOK 000s)

Remuneration of management 2006	BoD fee paid	Salary	Bonus	Other benefits	Pension
Kjetil Hestdal, President and CEO	-	1 301	273	102	256
John Afseth, VP Business Operations to Oct 06	-	626	-	151	58
Hilde Morris, VP Research and Development to Dec 06 (x)	-	898	8	153	65
Christian Fekete, CFO	-	951	164	45	56
Grete Hogstad, VP Marketing and Sales	-	982	187	36	66
Board of Directors 2006					
Erik Engebretsen, Chairman of the Board	290	-	-	-	-
Per O. Mårtensson, Deputy Chairman of the Board	230	-	-	-	-
Halvor Bjerke to Feb 06	150	-	-	-	-
Trine Bjøro	150	-	-	-	-
Lars Lindegren	150	12	-	-	-
Birgit S. Norinder	150	-	-	-	-
Total remuneration	**1 120**	**4 770**	**632**	**487**	**501**

(x) *There is an agreement of payment of NOK 1,200,000 in relation with the resignation.*

NOTES

Remuneration of management 2005	BoD fee paid	Salary	Bonus	Other benefits	Pension
Kjetil Hestdal, President and CEO from Jan 05	-	1 209	234	78	283
John Afseth, VP Business Operations	-	956	285	37	95
Hilde Morris, VP Research and Development	-	850	-	9	107
Christian Fekete, CFO	-	896	-	32	77
Grete Hogstad, VP Marketing and Sales from Jan 05	-	827	142	32	94
Board of Directors 2005					
Erik Engebretsen, Chairman of the Board	290	-	-	-	-
Per O. Mårtensson, Deputy chairman of the Board (x)	380	-	-	-	-
Halvor Bjerke (x)	170	23	-	-	-
Lars Lindegren	150	24	-	-	-
Birgit S. Norinder	150	-	-	-	-
Total remuneration	**1 140**	**4 785**	**661**	**188**	**657**

(x) *Including fee from PCI Biotech AS*

Remuneration of management 2004	BoD fee paid	Salary	Bonus	Other benefits	Pension
Vidar Hansson, President and CEO to Dec 04	-	1 337	5 973	94	98
John Afseth, VP Business Operations	-	930	-	26	92
Kjetil Hestdal, Deputy CEO from Oct 04	-	888	-	46	90
Hilde Morris, VP Research and Development from Oct 04	-	781	-	19	104
Geir Chr. Melen, CFO to Oct 04	-	691	-	18	74
Christian Fekete, CFO from Oct 04	-	122	-	-	-
Board of Directors 2004					
Erik Engebretsen, Chairman of the Board	290	-	-	-	-
Per O. Mårtensson, Deputy chairman of the Board (x)	380	-	-	-	-
Halvor Bjerke (x)	170	20	-	-	-
Lars Lindegren	150	-	-	-	-
Birgit S. Norinder	150	257	-	-	-
Total remuneration	**1 140**	**5 026**	**5 973**	**203**	**458**

(x) *Including fee from PCI Biotech AS*

The policy in Photocure regarding salaries and remuneration of management members is to offer payments and benefits on a level that is competitive in the market for management recruitment and hiring. It is important for the company to be attractive for people with the necessary level of competence and experience. This will ensure the development of the company and accordingly contribute to establish and achieve common goals between the shareholders and the management. The part of the remuration based on company profitability should be related to the increase in market value of the shares or the long term profitability for the company.

Photocure has established a remuneration committee to manage this policy on behalf of the Board of Directors.
The main principles for the remuneration of management in the company are:

- Annual determination of salaries
- Bonus to be calculated on basis of both company goals as decided by the Board of Directors and individuel goals. The CEO is entitled to a bonus of up to 40% of his ordinary salary, the remaining management are entitled to bonuses up to 20% of their ordinary salaries.
- The management takes part in the incentive programme where company employees have been granted warrants to company stock as share-based payments .
- The management takes part in the pension plan for the company.

The CEO was for 2006 entitled to a bonus up to 30% of ordinary salary conditional on fulfilment of certain conditions, and for 2005 up to 25% of ordinary salary.

The former CEO that retired in December 2004 was compensated with a bonus that was acquired in the period 1997 - 2001. The remaining management has received or is entitled to bonuses up to 20% of ordinary salary in each of the reported years. The bonus is calculated on basis of the profitability of the company, progress in development projects and individual goals.

The management takes part in the pension plan for the company that from 2006 is a contribution scheme. In this scheme, the company makes contributions from 5% to 8% of salary up to the level of 12 times “grunnbeløpet i Folketrygden (G)”. The pension plan includes disability compensation to the members. In the years 2005 and 2004, the company had a benefit pension plan for the employees. The CEO is at the age of 67 entitled to receive a contribution-based retirement pension in addition to the ordinary service pension as described above. The cost of this was NOK 200,000 in 2006 and NOK 190,000 in 2005.

If leaving the company, the CEO may claim remuneration for a maximum of 24 months beyond the period of notice. If the CEO receives other forms of remuneration during the 24-month period, the amount of other remunerations shall be deducted in full from the remuneration paid during the last twelve months of the 24-month period.

The VP marketing and sales has a contracted notice period of 12 months. The remaining management has no contracted conditions other than what is required by legislation.

The management has not received any remuneration or financial benefits from other companies in the group that is not included in the tables above. It is not paid additional remuneration for special services provided by the members of the management.

The former CEO, Vidar Hanson, retired from his position on 31.12.2004 and entered into a post service remuneration agreement with the company. This agreement is in force to 2010 with annual regulation, and the amount paid in 2006 was NOK 332,000. As of 31 December 2006, the liability regarding this post service obligation is mNOK 2.16.

The company has not issued loan or personal guarantees in favour of the management or to memebers of the Board of Directors.

Shares owned directly or indirectly by the management in Photocure ASA, are presented in the equity note. Subscription rights issued to management, rights utilised and the balance of issued share subsription rights are presented in the following tables.

Management subscription rights 2006	Rights issued	Rights expired	Utilised rights	Balance 31 Dec 2006	Conditional rights issued
Kjetil Hestdal, President and CEO	20 581	-	2 000	61 581	25 000
John Afseth, VP Business Operations to Oct 06	7 440	21 927	11 613	-	18 000
Hilde Morris, VP Research and Development to Dec 06	8 290	12 098	11 896	11 096	18 000
Christian Fekete, CFO	10 790	-	3 000	32 790	18 000
Grete Hogstad, VP Marketing and Sales	9 140	-	-	34 140	18 000
Total	**56 241**	**34 025**	**28 509**	**139 607**	**97 000**

Management subscription rights 2005	Rights issued	Rights expired	Utilised rights	Balance 31 Dec 2005
Kjetil Hestdal, President and CEO from Jan 05	41 000	5 000	-	43 000
John Afseth, VP Business Operations	25 300	3 333	-	26 100
Hilde Morris, VP Research and Development	26 000	2 000	-	26 800
Christian Fekete, CFO	25 000	-	-	25 000
Grete Hogstad, VP Marketing and Sales from Jan 05	25 000	-	-	25 000
Total	**142 300**	**10 333**	**-**	**145 900**

Management subscription rights 2004	Rights issued	Rights expired	Utilised rights	Balance 31 Dec 2004
Vidar Hansson, President and CEO to Dec 04	4 000	14 000	-	-
John Afseth, VP Business Operations	1 200	-	400	4 133
Kjetil Hestdal, Deputy CEO from Oct 04	2 000	-	-	7 000
Hilde Morris, VP Research and Development from Oct 04	1 200	-	400	2 800
Geir Chr. Melen, CFO to Oct 04	2 000	7 000	-	-
Christian Fekete, CFO from Oct 04	-	-	-	-
Total	**10 400**	**21 000**	**800**	**13 933**

Related parties:
In February 2006, Photocure ASA prolonged its collaboration agreement with the Norwegian Radium Hospital Research Foundation (NHR RF). Under this agreement, the Company is allowed access to and get an option to obtain new technology within the field of photodynamic therapy (PDT) developed at the Norwegian Radium Hospital (NRH). In return, Photocure takes part in research and development. The agreement is prolonged to the end of 2007.

During 2006, Photocure ASA, under the terms of the contract, made payments in the amount of NOK 1.9 million to research and development services, at market terms, to NRH/NRH RF. As of 31 December 2006, the Company had accounts payable to NRH/NRH RF of NOK 6 800.

NOTE 22 – FINANCIAL RISK

The principle financial instruments in Photocure ASA comprise cash, short term deposits, loans given to the subsidiary and risk loans provided by governmental financial institutions. The main purposes of these instruments are to:
- place liquid assets in money market funds that in turn invest in high quality certificates close to maturity, on average no more than three months.
- raise finance for the Company's operations
  In addition, Photocure ASA has other financial instruments like trade receivables and trade payables, which arise directly from the operations.

The main risks arising from the Company's financial instruments are the following:

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

Liquidity risk
The Company conducted a share issue in February 2006, which provided the Company with approximately NOK 191 million in liquid funds. In addition, the Company received signing-fee payments of totally EUR 16 million from GE Healthcare in 2006. The Company's liquidity position is therefore considered to be sound.

Currency risk
The Company receives income and incurs costs in various currencies, primarily in Euros and Nordic currencies. US dollar exposure is related to R&D costs. Consequently, Photocure ASA is exposed to currency risk. The Company makes continuous assessments as to whether steps should be taken to reduce this risk. The company has in 2006 entered and settled a forward currency contract to manage the risk from a license signing fee payment. For other currency transactions in 2006, the company has chosen not to hedge the currency risk since revenues and costs eliminate the currency risk to a certain extent.

The company has no unsettled currency contracts as of 31 December 2006.

Credit risk
Photocure ASA primarily sells its products to major pharmaceutical wholesalers in the Nordic countries and to its license partners Galderma and GE Healthcare. For all these customers the credit risk is considered to be low.

NOTE 23 – SIGNIFICANT NON-RECURRING TRANSACTIONS

Photocure ASA held an extraordinary general meeting on 24 January 2006 where a resolution was passed to perform a guaranteed rights issue by issuing 4,396,051 new shares at a price of NOK 46 per share, with a total value of NOK 202 million. The subscription period expired on 20 February 2006 and there was substantial oversubscription.

NOTE 24 – RECONCILIATION OF THE PARENT INCOME STATEMENT AND EQUITY FOR 2005 IN ACCORDANCE WITH NGAAP AND IFRS

The parent company implemented IFRS with effect from 1 January 2006, and comparative figures for 2005 have been restated. The transition to IFRS resulted in a NOK 2 million reduction in the Company's equity, which relates entirely to treatment of pension liabilities in the accounts. Revised net income for 2005 was increased by NOK 2.0 million, of which all concerned changes to pension liabilities.

Cash flow statements under NGAAP and IFRS are essentially identical, with the exception of interests received and interests paid, which under IFRS are shown as investment and financing activities, while they appear under operational activities under NGAAP.

Net income for 2005, NGAAP	**-38 023**
Pension expenses	1 978
Option expenses	-
Total change in net income under IFRS	1 978
Net income for 2005, IFRS	**-36 045**

Equity	**01.01.2005**
Total equity, NGAAP	**109 839**
Change in opening balance - pensions	-1 978
Change in opening balance - options	-
Total equity, IFRS	**107 861**

Equity	**31.12.2005**
Total equity, NGAAP	**73 188**
Change in opening balance - pensions	-1 978
Change in opening balance - options	-
Change in net income, IFRS	1 978
Change in other paid-in capital - options	-
Total equity, IFRS	**73 188**

AUDITOR'S REPORT FOR 2006

To the General Meeting of Photocure ASA

We have audited the annual financial statements of Photocure ASA as of 31 December 2006, showing a profit of NOK 88 866 000 for the Parent Company and a profit of NOK 85 082 000 for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. The financial statements of the Group comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. IFRSs as adopted by the EU have been applied in the preparation of the financial statements of the Parent Company and the Group. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and President and CEO. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

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

In our opinion,

- the financial statements of the Parent Company and the Group are prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2006, and the results of its operations and cash flows and the changes in equity for the year then ended, in accordance with IFRSs as adopted by the EU
- the Company's management has fulfilled its duty to properly record and document the Company's accounting information as required by law and bookkeeping practice generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with law and regulations.

Oslo, 27 February 2007
ERNST & YOUNG AS

Tommy Romskaug
State Authorised Public Accountant
(Norway)

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

EXECUTIVE OFFICERS

Kjetil Hestdal

President and CEO

Kjetil Hestdal, M.D., Ph.D., born 1960, has served as President and CEO since January 2005. He was promoted from Vice President of Research and Development, a position he held from January 1997. Before joining Photocure, Dr Hestdal served as the Project Manager/Medical Expert at Sandoz (now Novartis) and as Senior Scientist at Rikshospitalet. Dr Hestdal holds a Ph.D. in Immunology.

Kjetil Hestdal holds directly or indirectly 156,873 shares in Photocure. In addition he holds 66,581 share options in the company.

Christian Fekete

CFO

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

Christian Fekete holds directly or indirectly 3,000 shares in Photocure. In addition he holds 32,790 share options in the company.

Grete Hogstad

Vice President Marketing and Sales

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

Grete Hogstad holds no shares in Photocure. She holds 34,140 share options in the company.

Inger Ferner Heglund

Vice President Research and Development

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

Inger Ferner Heglund holds no shares in Photocure. She holds 30,500 share options in the company.

BOARD OF DIRECTORS

Erik Engebretsen
Chairman of the Board

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

Erik Engebretsen's term expires in 2008. He holds directly 27,000 shares and no options in Photocure. In addition, as CEO of Gezina AS, he controls indirectly 1,326,306 shares in the Company.

Per-Olof Mårtensson
Deputy Chairman of the Board

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

Per-Olof Mårtensson's term expires in 2007. He holds directly or indirectly 3,001 shares in Photocure. He holds no share options in the Company.

Trine Bjøro
Director

Trine Bjøro, M.D., Ph.D., born 1955, is chief physician at the central laboratory at the Norwegian Radium Hospital. Trine Bjøro is a specialist in laboratory medicine and has extensive experience from leading positions in public and private health services. She has been a member of several public committees within R&D and health service.

Trine Bjøro's term expires in 2007. She holds no shares or share options in Photocure.

SE EGET OMSLAG

Jon Hindar
Director

Jon Hindar, MSc., born 1957, was elected as a Director in Photocure in 2006. He is CEO of NorSun AS. Prior to joining NorSun, Mr. Hindar was Senior Vice President of the Life Sciences Division in Invitrogen. He was president and CEO of Dynal Biotech from 2002 until Invitrogen's acquisition of Dynal in April 2005. Mr. Hindar has 10 years experience in R&D from various positions with Alcatel and BP Chemicals and another 10 years experience in various General Manager roles in the chemical industry. Before joining Dynal, Mr. Hindar was Managing Partner for five years at the Norwegian investment bank; Fondsfinans. Mr. Hindar is an alumni of IMD (Lausanne, Switzerland) where he joined the Executive Development program in 1993/94.

Mr Jon Hindar's term expires in 2008. He holds 5,000 shares in Photocure. He holds no share options in the company.

Lars Lindegren
Director

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

Lars Lindegren's term expires in 2008. He holds directly and indirectly 24,377 shares in Photocure. He holds no shares options in the Company.

Birgit Stattin Norinder
Director

Birgit Stattin Norinder, born 1948, was elected as a Director of Photocure in April 2003. Mrs. Norinder* is a trained pharmacist and she has held senior management positions in various international pharmaceutical companies, including Pharmacia & Upjohn, Glaxo Group Research, Astra, Pfizer and Parke-Davis. She has also served as CEO of Prolifix Ltd., a biotech company with a focus on oncology.
In addition, she serves on the boards of several publicly listed and private biotechnology companies.

Birgit Stattin Norinder's term expires in 2007. She holds no shares or share options in Photocure.

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

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