Annual Report 2008

Photocure ASA

www.photocure.com

DIRECTORS' REPORT 2008

Photocure ASA

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

The company has three products on the market; Metvix®/Aktilite® for treating skin cancer and the early stages of skin cancer, and Hexvix® for the detection of bladder cancer. In addition, the company has three new products in clinical development, all three of which are targeted at different indications with significant market potential.

Sales and milestone revenues totalled NOK 102.2 million in 2008; an increase from NOK 99.0 million in 2007. Sales revenue from Hexvix and Metvix/Aktilite increased by 34% to NOK 100.9 million in 2008, while milestone revenue decreased from NOK 23.8 million in 2007 to NOK 1.3 million in 2008.

Operating costs, after deduction of other operating income, were reduced from NOK 169.1 million in 2007 to NOK 150.5 million in 2008. The operating result improved by NOK 20.1 million from NOK -87.5 million in 2007 to NOK -67.4 million in 2008.

Sales and Marketing

Better results with Hexvix in the diagnosis of bladder cancer

Bladder cancer is traditionally detected with cystoscopy (visual examination of the bladder) with white light. Hexvix cystoscopy uses blue light and Hexvix is the first registered pharmaceutical product on the market that provides a better diagnosis of bladder cancer than traditional cystoscopy as the product is able to detect more tumours. Hexvix is approved for use in Europe for the diagnosis of bladder cancer in patients with known or suspected bladder cancer.

In 2005, Photocure applied for approval for Hexvix in the USA. The US Food and Drug Administration (FDA) has requested more documentation. Photocure, GE Healthcare and contracted experts are compiling documentation that will meet the FDA requirements. The company concluded a clinical phase III study in the autumn 2008. The study demonstrated that Hexvix improved both the detection of new tumours and that patients who were administered Hexvix had an extended illness-free period. This study will form an important part of the documentation that Photocure is planning to submit to the FDA in 2009.

Hexvix sales increased by 75% to NOK 36.9 million in 2008

The launch of Hexvix in Europe is continuing at full speed. Hexvix is now being sold in 21 countries in Europe, with Germany and Denmark being the leading countries in the introduction of Hexvix as the standard method for diagnosing bladder cancer. At the end of the year, more than 550 urological clinics in Europe were offering Hexvix to their bladder cancer patients.

In the UK, the National Health Service (NHS) chose Hexvix as one of 50 innovative technologies that hospitals are encouraged to implement as standard as it demonstrates both medical and health economic benefits.

Revenue from the sale of Hexvix was NOK 36.9 million in 2008, up from NOK 21.0 million in 2007. Revenue from own sales of Hexvix in the Nordic region increased to NOK 10.2 million, up from NOK 6.0 million in 2007. Sales revenue from partner sales of Hexvix increased to NOK 26.7 million in 2008, up from NOK 15.0 million in 2007.

Approval of Metvix/Aktilite CL128 in the USA

In June 2008, the FDA gave its approval for the sale and marketing of the Aktilite CL128 lamp in the USA. This approval opened up the opportunity for Galderma to commence the sale and marketing of Metvixia (Metvixia is the brand name of Metvix in the USA) and Aktilite CL128 for use against actinic keratosis. Galderma carried out a limited market test of Metvixia/Aktilite in the USA in autumn 2008. Aktilite lamps were given to app. 20 dermatologists who received training and Metvix tubes in order to become acquainted with and gain experience of the product. Results from this market test, along with Galderma's substantial experience of the dermatology market in the USA, will form the platform for planning and implementing the launch of Metvixia/Aktilite in the USA.

Metvix sales increased by 18% to NOK 64.1 million in 2008

Revenue from sales of Metvix/Aktilite increased by 18% from NOK 54.2 million in 2007 to NOK 64.1 million in 2008. Revenue from Photocure's own sales of Metvix/Aktilite in the Nordic region increased by 8.0%, from NOK 23.1 million in 2007 to NOK 24.9 million in 2008. Revenue from partner sales of Metvix/Aktilite increased by 25.7%, from NOK 31.2 million in 2007 to NOK 39.2 million in 2008.

Research and development

In addition to the company's commercialised products, Photocure has three new products in clinical development. All three new products are based on the company's patented technology within photodynamic treatment and diagnosis.

Visonac™ - Treatment of moderate to severe acne

Photocure is developing a drug, Visonac, for the treatment of moderate to severe acne. Due to serious side-effects with existing treatment, there is a major medical requirement for a new and milder treatment for acne. The sales of drugs for treating acne amount to around USD 3 billion per year worldwide, and it is estimated that approximately 70% of this figure is for the treatment of patients with moderate to severe acne conditions.

A multicentre phase IIb study with 190 patients was completed in the USA in 2008 with very good results. In addition, two phase II studies were also carried out in order to determine an optimal administration and dosage. Meetings are planned with the regulatory authorities in Europe and the USA in Q1 2009 in order to discuss the phase II results and the design of the phase III programme.

Lumacan™ - Diagnosis of colon cancer

The market for colonoscopies is growing as a result of the significant increase in screening programs for colon cancer in the EU and the USA. In the USA, it is estimated that around 10 million colonoscopies are carried out for the diagnosis of colon cancer. At the same time, there is also increasing realisation that standard white light colonoscopy has major limitations for optimal detection of colon cancer. Lumacan is being developed so that the detection rate for polyps and colonic cancer can be increased with the aid of fluorescence diagnostic techniques.

Photocure completed a phase I/II study for fluorescence diagnosis of colon cancer in 2008. The study was conducted at two hospitals in Germany, and included 32 patients with suspicion of colon cancer. The results of the study, which demonstrated a significant increase in detection of colon cancer, were published at DDW in San Diego, USA in May 2008. Based on the good results, oral capsules were developed to facilitate administration of the drug. This new method of administration is being tested in 2009 in a clinical study in Germany.

Cevira™ - Treatment of the preliminary stages of cancer of the cervix

Cancer of the cervix occurs due to infection from the HPV virus. It is estimated that around 30 million women contract an HPV infection where the virus does not spontaneously disappear within a short period. Long infection periods of this nature increase the risk of developing cervical cancer. In the EU and the USA, the possible early stages of cervical cancer or cellular changes of the cervix are detected in around 7 million women each year. There is a great medical need for a mild, non-surgical treatment for the early stages of cancer of the cervix, particularly among younger women. Cevira is being developed in order to be able to meet women's medical needs in this respect in the early stages of cervical cancer.

A phase I/II dosage study for the treatment of the early stages of cervical cancer involving 92 patients at the university hospitals in Oslo (Ullevål) and in Hannover, Germany was concluded in 2008. Preliminary results from the study were presented at a major European congress and indicated a high treatment effect in patients who have superficial preliminary stages of cervical cancer.

In addition, measures to develop new methods for the application of drugs in the cervix and to find a new light source were initiated. A new phase II study in order to confirm and compare the treatment effect in relation to a placebo for the superficial early stages of cervical cancer was approved by the authorities and ethical committees at the end of 2008. Inclusion of patients in the study started in the first quarter of 2009.

Demerger and stock exchange listing of PCI Biotech

In 2008, PCI Biotech AS was demerged from Photocure ASA. The demerger was carried out by transferring the shares in PCI Biotech AS to PCI Biotech Holding ASA. The shareholders of Photocure received one share in PCI Biotech Holding ASA for each share they owned in Photocure. After all the preconditions for the demerger were met, the demerger was implemented from an accounting perspective on 16 June 2008. The share of profits from PCI Biotech AS is consolidated up to and including this date in the consolidated accounts.

PCI Biotech Holding ASA became listed on the Oslo Axess market on 18 June 2008. A share issue of NOK 60 million was carried out prior to the listing. As at year-end 2008, Photocure ASA owned19.35% of the shares in PCI Biotech Holding ASA.

Financial situation

Total revenue from sales, signingfees and milestones in Photocure amounted to NOK 102.2 million in 2008, compared with NOK 99.0 million in 2007.

Total sales revenue from own sales rose by 20.7% to NOK 35.1 million in 2008 compared to NOK 29.1 million in 2007. Total sales revenue from partner sales rose by 42.5% to NOK 65.8 million in 2008, compared with NOK 46.2 million in 2007.

Signing and milestone revenues totalled NOK 1.3 million in 2008 in comparison with NOK 23.8 million in 2007. The reduction of NOK 22.5 million compared with 2007 is due primarily to a reduction in milestone payments from Galderma.

The Group's operating result was NOK -67.4 million in 2008, compared with an operating result of NOK -87.5 million in 2007. The change in operating result is due to the increase in sales revenue of NOK 25.7 million, a reduction in milestone revenues of NOK 22.5 million, a NOK 27.8 million reduction in research and development costs and NOK 6.1 million in increased costs for sales and marketing. All costs related to research and development have been expensed in 2008.

DIRECTORS' REPORT 2008

Net financial items were NOK 3.0 million in 2008 compared with NOK 12.5 million in 2007. Net financial items in 2008 include a write-down of NOK 9.4 million in the value of the shares in PCI Biotech Holding ASA.

The Group's result after tax was NOK -64.4 million in 2008 compared with NOK -75.0 million in 2007. Photocure ASA (the parent company) posted a result after tax in 2008 of NOK -59.6 million, compared with NOK -65.0 million in 2007.

The Board of Directors of Photocure proposes that the loss for the year is covered by other equity. The equity capital in Photocure ASA after this will be NOK 199.7 million, of which non-restricted equity is NOK 173.2 million. The equity capital in the group as a whole amounted to NOK 199.7 million as per 31.12.2008, which gives an equity ratio of 84.0%.

The Group follows a prudent investment strategy for its liquid assets. The return on the company's liquid assets depends on the interest rates in the money market and will therefore vary over time. Liquid assets in the Group totalled NOK 179.9 million as per 31.12.2008. Net cash flow from operating activities amounted to NOK -59.7 million in 2008, compared with NOK -95.7 million in 2007.

The Group's costs and revenues are accrued in a number of different currencies. The Group is thus exposed to fluctuations in exchange rates. The risk is assessed on an ongoing basis.

Photocure does not recognise deferred tax assets in the balance sheet due to uncertainty concerning when the company will reach the situation when it will have a liability to pay tax. All research and development costs are expensed in the tax accounts as per 31.12.2008.

In accordance with § 3.3 of the Norwegian Accounting Act, it is confirmed that the conditions for assuming that the company will continue as a going concern are present and that the financial statements have been prepared on the basis of this assumption. No significant events have occurred since the end of 2008 except for that which is stated in this directors' report that may be of significance for the assessment of the company's financial position and results.

Organisation

The company's senior management team consists of President and CEO Kjetil Hestdal, CFO Christian Fekete, Vice President Sales and Marketing Grete Hogstad, and Vice President Research and Development Inger Ferner Heglund.

Photocure has offices in Oslo. At the end of 2008 the company had 53 employees. The Group makes considerable use of external suppliers and contractors for production, research and development and regulatory work. The working environment in the company is considered to be good. No accidents or injuries entailing absence due to illness were registered in 2008. Absence due to illness in the Group was 178 working days in 2008, which constitutes 1.4% of total hours worked. Absence due to illness in the company was 176 working days in 2008 which constitutes 1.4% of total hours worked.

Photocure aims to be a workplace with equal opportunity between men and women in all areas. The company has traditionally recruited from environments where the number of men and women are relatively evenly represented. In terms of gender equality within the company, 40% of board members are women and 50% of the senior management team are also women. The working hours in the company are independent of gender.

The company does not pollute the external environment.

Future prospects

Photocure's goal is to strengthen the commercial operations of the company. Photocure will work with GE Healthcare to boost sales of Hexvix, and work to obtain approval for Hexvix in the USA. Meanwhile, Photocure and Galderma are working to increase the sales of Metvix/Aktilite in existing markets, and the company is supporting Galderma in its launch of Metvixia/Aktilite in the USA.

The main task within research and development is to conduct clinical studies and to ensure progress in the development of new pharmaceutical products.

In order to increase the value and the global distribution of our products, the company is working on licensing its Visonac™, Cevira™ and Lumacan™ products on a global or regional basis.

Oslo, 26 February 2009
The Board of Directors of Photocure ASA

Erik Engebretsen, Chairman of the Board

Jon Hindar, Board Member

Kari Krogstad, Board Member

Mats Pettersson, Board Member

Eva Steiness, Board Member

Kjetil Hestdal, President and CEO

INCOME STATEMENT

Photocure ASA

(Amounts in NOK 000s except per share data)

Parent				Group	
2007	**2008**		**Notes**	**2008**	**2007**
75 252	100 917	Sales revenues		100 917	75 252
23 754	1 303	Signing fees and milestone revenues		1 303	23 754
99 006	**102 220**	**Total revenues**	**1,2**	**102 220**	**99 006**
-17 326	-19 074	Cost of goods sold	**4**	-19 074	-17 326
81 679	**83 147**	**Gross profit**		**83 147**	**81 679**
2 258	3 580	Other income	**3**	6 257	7 625
-8 512	-8 607	Indirect manufacturing expenses	**5**	-8 607	-8 512
-97 365	-78 341	Research and development expenses	**5**	-84 303	-112 098
-39 766	-45 916	Marketing and sales expenses	**5**	-45 916	-39 766
-15 738	-16 402	Other operating expenses	**5**	-17 951	-16 378
-159 123	**-145 687**	**Total other income and expenses**		**-150 520**	**-169 129**
-77 444	**-62 540**	**Operating profit/loss(-)**		**-67 374**	**-87 450**
14 174	16 066	Financial income	**9**	16 103	14 224
-1 720	-13 088	Financial expenses	**9**	-13 111	-1 744
12 454	**2 978**	**Net financial profit/loss(-)**		**2 991**	**12 480**
-64 990	**-59 562**	**Profit/loss(-) before tax**		**-64 382**	**-74 970**
-	-	Tax expense	**10**	-	-
-64 990	**-59 562**	**Net profit/loss(-) for the year**		**-64 382**	**-74 970**
		Attributabel to:			
		Equity holders of parent		-64 382	-74 187
		Minority interests			-783
		Net profit/loss(-)		**-64 382**	**-74 970**
		Earnings per share	**12**		
		Basic		-2,91	-3,40
		Diluted		-2,91	-3,40

BALANCE SHEET AS OF 31 DECEMBER

Photocure ASA
(Amounts in NOK 000s)

Parent				Group	
2007	**2008**	**ASSETS**	**Notes**	**2008**	**2007**
		Non-current assets			
649	534	Intangible assets	13	534	779
3 422	3 939	Machinery and equipment	13	3 939	3 436
44 171		Investment in subsidiaries	14		
	11 528	Other investments	14	11 528	
48 241	**16 001**	**Total non-current assets**		**16 001**	**4 215**
		Current assets			
12 504	12 792	Inventories	15	12 792	12 504
12 068	8 408	Accounts receivable		8 408	12 095
16 355	20 750	Other receivables		20 750	20 128
28 422	29 158	Total receivables	17, 18	29 158	32 222
247 753	179 897	Cash and short term deposits	17, 19	179 897	252 452
288 679	**221 845**	**Total current assets**		**221 845**	**297 179**
336 920	**237 846**	**Total assets**		**237 846**	**301 394**

BALANCE SHEET AS OF 31 DECEMBER

Photocure ASA
(Amounts in NOK 000s)

Parent				Group	
2007	**2008**	**EQUITY AND LIABILITIES**	**Notes**	**2008**	**2007**
		Equity			
11 047	11 047	Issued capital	20	11 047	11 047
250 738	-	Share premium		-	250 738
-250 738	-	Not registered write down of share premium		-	-250 738
10 984	188 647	Other paid-in capital		188 647	10 984
275 894	-	Retained earnings		-	237 472
		Minority interests		-	491
297 924	**199 694**	**Total equity**		**199 694**	**259 994**
		Liabilities			
		Current liabilities			
11 397	12 140	Accounts payable		12 140	12 071
2 995	3 992	Employee withholding taxes and social security tax		3 992	3 097
1 303	-	Deferred signing fee	22	-	1 303
23 302	22 021	Other current liabilities	23	22 021	24 930
38 996	**38 153**	**Total current liabilities**	21	**38 153**	**41 400**
38 996	**38 153**	**Total liabilities**		**38 153**	**41 400**
336 920	**237 846**	**Total equity and liabilities**		**237 846**	**301 394**

Oslo, 26 February 2009
The Board of Directors of Photocure ASA

Erik Engebretsen, Chairman of the Board

Jon Hindar, Board Member

Kari Krogstad, Board Member

Mats Pettersson, Board Member

Eva Steiness, Board Member

Kjetil Hestdal, President & CEO

STATEMENT OF CHANGES IN EQUITY

Photocure - group

(Amounts in NOK 000s)

	Notes	Issued capital	Share premium	Not reg. write down	Other paid-in equity	Retained earnings	Minority interests	Total equity
Equity as of 31 December 2006	**20**	**11 017**	**248 602**	**0**	**6 821**	**60 495**	**0**	**326 935**
Share issue								-
Share issue employees		29	2 136		-			2 165
Employees' options	6				4 163			4 163
Investment in PCI Biotech						-20	1 720	1 700
Share premium transferred to retained earnings				-250 738		250 738		-
Net profit for the year						-74 187	-783	-74 970
Transfer of negative minority interest prev year						446	-446	-
Equity as of 31 December 2007	**20**	**11 047**	**250 738**	**-250 738**	**10 984**	**237 472**	**491**	**259 994**
Registration share premium transferred			-250 738	250 738	250 738	-250 738		-
Capital decrease at de-merger	11	-586			-44 638		-491	-45 715
Gain de-merger at market value						45 315		45 315
Share increase		586			-586			-
Employees' options	6				4 483			4 483
Net profit for the year					-32 333	-32 049		-64 382
Equity as of 31 December 2008	**20**	**11 047**	**0**	**0**	**188 647**	**0**	**0**	**199 694**

Photocure ASA - parent

(Amounts in NOK 000s)

	Notes	Issued capital	Share premium	Not reg. write down	Other paid-in equity	Retained earnings	Total equity
Equity as of 31 December 2006	**20**	**11 017**	**248 602**	**0**	**6 821**	**90 146**	**356 586**
Share issue							-
Share issue employees		29	2 136				2 165
Employees' options	6				4 163		4 163
Share premium transferred to retained earnings				-250 738		250 738	-
Net profit for the year						-64 990	-64 990
Equity as of 31 December 2007	**20**	**11 047**	**250 738**	**-250 738**	**10 984**	**275 894**	**297 924**
Registration share premium transferred			-250 738	250 738	250 738	-250 738	-
Capital decrease at de-merger	11	-586			-45 129	-	-45 715
Gain shares PCI Biotech AS						2 564	2 564
Share increase		586			-586		-
Employees' options	6				4 483		4 483
Net profit for the year					-31 842	-27 720	-59 562
Equity as of 31 December 2008	20	**11 047**	**0**	**0**	**188 648**	**0**	**199 694**

CASH FLOW STATEMENT

Photocure ASA

(Amounts in NOK 000s)

Parent 2007	Parent 2008		Group 2008	Group 2007
-64 990	-59 562	Profit/loss(-) before tax	-64 382	-74 970
1 355	1 526	Ordinary depreciation & amortisation	1 554	1 389
	9 432	Write down of non current investment	9 432	-
57	362	(Gain)/Loss on sale of non-current assets	362	57
4 163	4 483	Share-based payments expense	4 483	4 163
-258	-54	Pension costs/Change in pension commitments	-54	-293
-12 485	-10 348	Interest income	-10 348	-12 180
13	13	Interest expense	13	13
586	36	Other items	-266	602
-2 754	-287	Change in inventory	-287	-2 720
-5 442	-736	Change in receivables	3 064	-4 627
2 034	743	Change in accounts payable	68	1 943
-15 634	-1 303	Change in deferred signing fee	-1 303	-15 634
6 103	-283	Change in other accruals	-2 013	6 603
-87 253	**-55 978**	**Net cash flows from operating activities**	**-59 677**	**-95 655**
8 552		Repayment of loan from group company		
-2 962	-1 983	Investments in machinery and equipment	-1 983	-3 141
411	75	Sale of fixed assets (sales price)	75	411
-19 520	-21 560	Investments in other non-current assets	-21 560	-
	1 255	Sale of other non-current asset investments	255	-
12 485	10 348	Interest received	10 348	12 180
-1 034	**-11 865**	**Net cash flows from investing activities**	**-12 865**	**9 450**
-		Share issue	-	1 720
2 165		Share issue employees	-	2 165
-13	**-13**	Interest paid	-13	-13
-300		Repayment of loans		-300
1 852	**-13**	**Net cash flows from financing activities**	**-13**	**3 572**
-86 434	**-67 856**	**Net change in cash during the year**	**-72 555**	**-82 633**
334 187	**247 753**	**Cash and cash equivalents as of 01.01**	**252 452**	**335 085**
247 753	**179 897**	**Cash and cash equivalents as of 31.12**	**179 897**	**252 452**

ACCOUNTING PRINCIPLES

1. Information about the company and the group

The annual accounts for 2008 for Photocure ASA (the company) and the consolidated annual accounts for the group were approved for publication by the board of directors on 26 February 2009. Changes in the Group's financial position in 2009 are described in more detail under item 3.

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

2. Basis for preparation of the annual accounts

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

The annual accounts of the company and the group are presented in accordance with International Financial Reporting Standards (IFRS), as laid down by the International Accounting Standards Board and implemented by the EU as per 31 December 2008.

Photocure ASA has NOK as its functional currency and presentation currency.

3. Basis and policies for preparing the consolidated accounts

The Group consisted until 16 June 2008 of the parent company Photocure ASA and the subsidiary companies PCI Biotech Holding ASA (PCI H) and PCI Biotech AS (PCI), owned 100 % and 91.4 % respectively. At the annual general meeting of Photocure ASA (PC) on 9 April 2008, the demerger plan for spinning off the shares in PCI was adopted. The demerger was carried out by transferring the shares in PCI to PCI H. The shareholders of PC received 1 share in PCI H for each share they owned in PC as payment. The demerger process was based on a value of NOK 50 million for 100 % of the shares in PCI in accordance with the recommendation of external advisers. Firstly, the share capital of PCI H was written down to NOK 0 and repaid to PC. Then an increase in the share capital of PCI H was adopted where minority shareholders of PCI transferred their shares to PCI H in return for payment in shares in the company corresponding to their shareholding in PCI and valued to equal that which the shareholders of PC had received as payment.

The time of the implementation of the demerger in an accounting perspective was set as the registration date for the expiry of the creditor' deadline, i.e. 16 June 2008 and the share of financial results from PCI and the financial result from PCI H have been consolidated to this date in the Group's income statement. From 16 June 2008, the Group with Photocure ASA as the parent company ceased to exist.

In the company accounts for PC, the distribution of the shares in PCI to the shareholders of PC was recorded as a transaction at fair value and the profit of NOK 2.6 million has been recorded directly against other equity. In the consolidated accounts, the distribution of the assets in PCI is also recorded as a transaction at fair value and the profit of NOK 45.3 million is recorded directly against other equity. The transaction does not entail any change in the comparative figures for PC.

PCI H was listed on the Oslo Axess market on 18 June 2008 and a public flotation was carried out with subscription for 3 000 000 shares at a price of NOK 20. PC participated in the guarantee consortium and owns 19.35 % of the shares in PCI H as per 31 December 2008.

The consolidated accounts include the total financial result and financial position when the parent company Photocure ASA and its former subsidiary companies are presented as one economic unit. The subsidiary companies were fully consolidated in the consolidated accounts until 16 June 2008. Minority share of profit after tax is presented on a separate line. Minority share of profit is included in the Group's equity with the specified sum on a separate line in the balance sheet. The share in profits has been calculated on the basis of the subsidiary company's result after tax so that this is included in the consolidated accounts after eliminations. Negative minority shares are recorded as a reduction of other equity.

The consolidated accounts have been prepared with uniform accounting principles for equal transactions and events under otherwise equal conditions. Intra-group transactions and inter-company balances, including intra-group profits and unrealised profits and losses, have been eliminated.

Changes in accounting policies

There have not been any changes in the company's accounting policies in 2008 compared with the previous year.

The company has opted for early introduction from 2007 of the new standard for Operating Segments which is compulsory from 2009. IFRS 8 replaces IAS 14 Segment reporting.

Other adopted new/revised/additional standards and interpretations with a future date of implementation and which have not been previously implemented in the annual accounts for 2008, are listed in chapter 5.

Photocure ASA does not expect that implementation of these new/revised/additional standards and interpretations listed in chapter 5 will have any significant effect on the annual accounts at the time of implementation.

Important accounting valuations, estimates and assumptions

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

Use of estimates and assumptions is based on the management's best discretionary judgement.

In the process to apply the accounting policies, the management has made the following valuations and estimates that are of major significance for recorded assets in the annual accounts for 2008:

- Received non-refundable advance payments for licensing of the Hexvix product and for exercising the option for the USA for the same product, have been treated as payment for accrued expenses associated with the transfer of rights for the product. Sums received are not subject to netting, and in the view of the company, no conditions or future obligations are associated with these payments. Photocure's subsequent obligation to produce Hexvix is considered by the company management to be independent of the signing and option payments. An obligation in connection with production arises first when the company has a claim for a valuable consideration in the form of an account receivable in relation to a customer and not in connection with the signing of the licence agreement. This is justified on the basis of the actual negotiations with licence partners where payments were negotiated on an independent basis and based on market conditions. Received sums are therefore recognised as income.

- The shares in PCI Biotech Holding ASA are in the company's view to be considered as shares available for sale in accordance with IAS 39. Our view is that Photocure, with 19.35 % of the shares, does not have significant influence in PCI H. There are no shareholder agreements or similar between Photocure and the other owners of PCI H. Photocure does not have any representation on the boards of directors of the PCI companies and does not have any representatives in the senior management team of PCI H.

- The company cannot render probable future earnings large enough to justify recognising development costs in the balance sheet before marketing approval is obtained. Development costs are therefore recognised as an expense on an ongoing basis until national marketing approval for the product and indication is obtained. Any further development of the product after marketing approval is obtained and the product is launched will be recognised in the balance sheet in the extent that this involves significant changes to the product which it is probable will generate future economic benefits.

- The market value of subscription rights is calculated according to the Black-Scholes method. This method entails use of estimates and discretionary judgement which is described in more detail in note 6.

- Accounts receivable have been valued in relation to the probability that customers will meet their payment obligations. Accounts receivable are primarily from our licence partners and pharmaceutical wholesalers in the Nordic region and no provision for bad debts has been made.

- Inventories are written down for obsolescence if it is probable that the values in the inventory cannot be realised through sales.

4. Summary of important accounting guidelines for the company

a. Classification

Assets / liabilities are classified as current assets / current liabilities when they meet one of the following criteria:

- they are expected to be realised in the company's ordinary operating cycle or are kept for salwe or consumption
- they are expected to be realised within 12 months of the balance sheet date, or
- they are in the form of cash or a cash equivalent

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

b. Currency

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

c. Tangible fixed assets

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

Tangible fixed assets are depreciated straight-line over the estimated useful life of the asset as follows:

- production and test equipment
  5 years
- fixtures and fittings and equipment
  3 – 5 years

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

- software programs
  5 years

The book value of fixed assets which are depreciated are tested for possible decline in value if there are indications of a permanent fall in value. If the book value of a fixed asset is higher than the recoverable value of the asset, the fall in value is taken against income. The recoverable value is the highest of the net sales value and utility value of the asset. Tangible fixed assets are grouped and valued at the lowest level for measuring cash flows.

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

Previous write-downs are reversed in the extent that the basis for the write-downs no longer exists. Reversals are limited to

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book value after deduction for accumulated depreciation, calculated as if the write-down had not taken place.

Profits from the sale of tangible fixed assets and intangible assets are recorded under ”Other operating income” while losses are recorded under ”Other operating expenses”.

d. Research and development

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

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

When all the above criteria are met, costs related to development shall be recognised in the balance sheet. Costs which have been taken as an expense in previous accounting periods cannot be recognised in the balance sheet at a later date.

As the company cannot render probable future earnings from products under development, the costs for company-developed research and development are taken as an expense on an ongoing basis until national marketing permission for the product and indication are obtained. Cost sharing of research and development expenses with licence partners is recorded as a reduction in costs.

e. Investment in subsidiary companies

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

f. Inventories

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

g. Financial assets and liabilities

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

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

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

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

g.4 Interest-bearing liabilities are recognised at fair value at the time of recognition. In subsequent periods, interest-bearing liabilities are recorded at amortised cost according to the effective interest method.

g.5 Trade accounts payable will be recorded at amortised cost.

g.6 Financial income consists of interest income on bank balances and exchange rate gains from currency items. Financial expense consists of interest expense on borrowing and exchange rate losses from currency items.

h. Recognition of revenue

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

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

Signing payments received in connection with entering into licence agreements will be recorded as income according to the content of the agreement. Receipt of payments which are non-refundable and where there are no obligations for Photocure associated with the payments, will be considered to be a sale and taken as income immediately.

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

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

i. Government grants and assistance

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

j. Licence costs

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

k. Pensions

The company has an agreement concerning contribution-based pensions for the company's employees. Contributions that constitute from 5 % to 8 % of the employee's ordinary salary up to 12 x the basic amount (G) of the Norwegian national insurance scheme are paid to the employee's contribution account. The company's payment of contributions is charged against income in the period it is accrued. Any payments made to the contribution fund are recognised in the balance sheet.

Salary to employees over and above 12 x G is not included in the company's agreement concerning contribution-based pension and no other agreements have been entered into regarding general payment for pensions for salary above this level.

l. Share-based remuneration

Employees are offered subscription rights- to the company's shares as an element of the company's employee incentive policy. The subscription rights are offered at exercise prices that reflect the market price of the shares at the time of allocation of the rights.

The costs regarding the equity transactions with the employees are recorded over the period until the employees can exercise their subscription rights. The company's equity is increased correspondingly. The fair value of the subscription rights is calculated according to the Black-Scholes model. Each option programme is calculated separately with the actual exercise price and duration of the programme. The subscription rights immediately cease to be valid if the employee's employment with the company is terminated. Employer's social security contributions on outstanding subscription rights are accrued as personnel costs over the exercise period of the rights based on the intrinsic value of the rights.

m. Tax

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

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

Assets in connection with deferred tax are included for all tax-reducing temporary differences, the carry-forward of tax deductions and tax losses, to the extent that there is objective proof that there will be sufficient taxable profits against which to offset tax-reducing temporary differences, and the carry-forward of tax deductions and tax losses. The book values of assets in connection with deferred tax are assessed on every balance sheet date and are reduced to the degree that there is no longer any objective proof that there will be sufficient taxable profits to utilise all or part of any assets in connection with deferred tax. Non-included assets in connection with deferred tax are re-valued on each balance sheet date and are included to the degree that it is probable that future taxable profits will allow the recovery of assets in connection with deferred tax.

n. Provisions

Provisions are recorded when the company has a liability associated with an event, when it is probable that the liability will have to be settled and when the liability can be measured or estimated. When the company expects all or part of any liability can be charged on to another party, this recharge will be recorded as an account receivable, if there is reasonable certainty that the other party will pay. The cost associated with a provision will be recorded net in the income statement after deduction for the recharge.

o. Contingent liabilities and assets

Contingent liabilities are defined as

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

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

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

p. Events after the balance sheet date

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

q. Cash flow statement

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

r. Equity

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

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

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

s. Lease agreements

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

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

5. Approved IFRSs and IFRICs that have future dates of implementation

Amendments to IFRS 2 Share-based payment: Earnings conditions and cancellations

This amendment of IFRS 2 provides clearer guidance as to what are deemed to be recognition conditions and what are not. Furthermore, the recording of lapsed rights in option schemes which is due to conditions other than recognition conditions are not met, is also regulated. The date of implementation for the amendment of IFRS 2 is 1 January 2009.

IFRS 3 (revised) – Business Combinations

In relation to the existing IFRS 3, the revised standard involves a number of changes and clarifications which apply to the application of the purchase method. Actual issues dealt with include goodwill in connection with phased purchase, minority interests, contingent payments and purchase costs. The date of implementation of IFRS 3 (R) is set as 1 July 2009, but IFRS 3 (R) has yet to be approved by the EU.

IAS 1 (revised) – Presentation of Financial Statements

The revised standard entails changes in the standard layouts, particularly in the presentation of equity, and introduces a layout for non-owner transactions - "Statement of Total Recognised Income and Expense" (Comprehensive income).

The date of implementation for IAS 1 (R) is 1 January 2009.

IAS 23 (revised) – Borrowing Costs

The most significant change in IAS 23 (R) is that it will no longer be permitted to write off borrowing costs that relate to a qualifying asset. Recognition in the balance sheet of borrowing costs will thereby be the only permitted solution. The date of implementation for IAS 23 (R) is 1 January 2009.

IAS 27 (revised) – Consolidated and Separate Financial Statements

In relation to the current IAS 27, the revised standard provides more guidance in regard to the reporting of changes in ownership interests in subsidiary companies and for the demerger of subsidiary companies. Furthermore, current rules associated with the allocation of losses between the majority and the minority interests are changed such that a deficit shall be charged to the minority interest even if this is negative. The date of implementation for IAS 27 (R) is set as 1 July 2009, but IAS 27 (R) is yet to be approved by the EU.

Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments

The change in IAS 32 entails that certain written put options shall be classified as equity. The change in IAS 1 concerns the requirement to provide associated information in the notes to the financial statements. The date of implementation for the changes in IAS 32 and IAS 1 is set as 1 January 2009, but the changes are yet to be approved by the EU.

Amendment to IAS 39 Financial Instruments – Recognition and Measurement – Eligible Hedged Items

The changes in IAS 39 entail a clarification of the rules where a financial instrument (hedging object) is hedged in regard to selected risks or components of cash flows. The adopted changes primarily provide a number of additional guidelines for hedging unilateral risk (hedging with options) and hedging of inflation risk, but also clarify the guidelines that the designated risks and cash flows must be identifiable and authentically measurable. The date of implementation for the change in IAS 39 is set as 1 July 2009, but the change is yet to be approved by the EU.

IFRIC 13 – Customer loyalty programmes

The interpretation deals with how loyalty programmes that a company has for its customers in order to reward them for previous purchases and provide incentives for additional purchases, shall be recognised and measured. The interpretation had a date of implementation of 1 July 2008, but had not been approved by the EU at that time. The interpretation has now been approved by the EU for the financial year that begins after 31 December 2008.

IFRIC 14 – IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction

The interpretation deals with limitations in recognising in the balance sheet pension funds where mandatory or contractual minimum amounts that have been paid in exceed the liability. The interpretation had a date of implementation of 1 January 2008, but had not been approved by the EU at that time. The interpretation has now been approved by the EU for the financial year that begins after 31 December 2008.

IFRIC 16 – Hedges of a net investment in a foreign operation

The interpretation concerns the accounting treatment of hedging of currency exposure associated with net investments in foreign business units. The interpretation clarifies which types of hedges will be able to qualify for hedge accounting and which risks will not be able to be hedged. The interpretation had a date of implementation of 1 October 2008, but is yet to be approved by the EU.

IFRIC 17 – Distributions of non-cash assets to owners

The interpretation concerns the accounting treatment of dividend payments to shareholders which are paid in assets other than cash. The interpretation had a date of implementation of 1 July 2009, but is yet to be approved by the EU.

IASB's annual improvement project

Amendments have been adopted in a number of standards with a date of implementation in 2009. Below is a list of the most important changes that may have an impact on recognition, measurement and information in notes to the financial statements:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: In connection with the planned sale of controlling ownership in subsidiary companies, all assets and liabilities in subsidiary companies shall be classified as being held for sale even if the company intends to retain a non-controlling shareholding after the sale.
- IAS 1 Presentation of Financial Statements: Assets and liabilities classified as being held for sale in accordance with IAS 39 are not automatically classified as current in the balance sheet.
- IAS 16 Property, Plant and Equipment: Operating equipment which is owned for leasing out and which is sold at the end of the lease period as part of ordinary operations, shall be transferred to inventory.
- IAS 19 Employee Benefits:
  - o Changes in the definition of the terms: costs in connection with earlier period's pensionable earnings, return on pension funds, current and other long-term benefits.
  - o Changes in pension plans that reduce the benefits associated with future pensionable earnings are treated as a reduction.
  - o Reference to IAS 37 regarding contingent liabilities is removed.
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance:

  Future loans from government sources at a rate of interest lower than the market rate of interest are not exempted from the requirement to determine an estimated rate of interest. The difference between loan sums received and present value shall be recorded as a government grant.
- IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures:

  Changes in certain information in notes to the financial statements shall be in accordance with IAS 39 in the event such investments are recognised at fair value.
- IAS 36 Impairment of Assets: Certain information shall be given in notes to the financial statements in connection with write-down tests when discounted future cash flows are used to estimate fair value less deduction for sales costs.
- IAS 38 Intangible Assets: Expenses for advertising and sales promotion measures shall be recognised as an expense at the time when the product becomes available to companies or when the service is received.
- IAS 39 Financial Instruments: Recognition and Measurement:
  - o A change in the use of a derivative in connection with designation of the derivative as a hedging instrument or when hedging ends, shall not be considered to be a reclassification. Derivatives can therefore be included or removed from the category "fair value with changes in value over the income statement" after first-time recognition.
  - o In recalculating amortised cost in accordance with IAS 39.AG8 for an instrument which is or has been subject to fair value hedging, the original effective rate of interest shall not be used, but instead an effective rate of interest which takes into consideration the effect of hedging.
  - o The reference to "segment" has been removed in regard to designation and documentation of hedging conditions.
- IAS 40 Investment Property: Property under construction or development for future use as investment property comes within the scope of IAS 40.

None of the changes will entail a change in the Group's application of accounting policies or information in notes to the financial statements.

NOTES

NOTE 1 – SALES REVENUE AND OTHER OPERATING INCOME

Photocure ASA has a license agreement with GE Healthcare for the Hexvix product. According to this agreement, GE Healthcare will be responsible for marketing and distribution outside the Nordic region.

The agreement with GE Healthcare entails payments for a maximum of € 28 million provided that defined milestones are achieved. The company have received non-refundable milestone payments of € 17,5 million. Payments received are regarded as payments for accrued expenses associated with development of the product and the entire amounts are recognised as revenue. In addition, Photocure ASA shall manufacture and sell Hexvix to GE Healthcare and receive royalty from GE Healthcare for its sales of the product.

The non-refundable payments received in 2002 for Metvix were reported as deferred income and reported as revenue in the income statement on a straight-line basis over 6 years as a result of obligations in the licence agreement.

Signing and milestone revenues totalling NOK 1.3 million have been reported as revenue in 2008 compared with NOK 23.7 million for 2007. This includes signing payments associated with Metvix reported as income for a total of NOK 1.3 million in 2008 and NOK 15.6 million in 2007

NOTE 2 – OPERATING SEGMENTS

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

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

Income statement – breakdown by operating segments

	2008				**2007**			
(Amount in NOK 000s)	**Own sales**	**Partner sales**	**R & D**	**Total**	**Own sales**	**Partner sales**	**R & D**	**Total**
Sales revenue	35 085	65 832	-	100 917	29 069	46 183	-	75 252
Signing and milestone revenue	-	1 303	-	1 303	-	23 754	-	23 754
Total sales, signing and milestone revenue	**35 085**	**67 135**	**-**	**102 220**	**29 069**	**69 937**	**0**	**99 006**
Cost of goods sold	2 431	16 643	-	19 074	2 514	14 812	-	17 326
Gross profit	**32 654**	**50 493**	**0**	**83 147**	**26 555**	**55 124**	**0**	**81 679**
Gross profit %	93,1 %	75,2 %		81,3 %	91,4 %	78,8 %		82,5 %
Other operating income and expenses	39 110	17 414	93 996	150 520	35 863	14 605	118 661	169 129
Operating profit/loss (-)	**-6 456**	**33 079**	**-93 996**	**-67 373**	**-9 308**	**40 519**	**-118 661**	**-87 450**
Net financial profit/loss (-)	-	-	-	2 991	-	-	-	12 480
Net profit/loss (-) before tax	**-6 456**	**33 079**	**-93 996**	**-64 382**	**-9 308**	**40 519**	**-118 661**	**-74 970**

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

Balance sheet – breakdown by operating segments

(Figures in NOK 1 000)	2008 Own sales	2008 Partner sales	2008 R & D	2008 Total	2007 Own sales	2007 Partner sales	2007 R & D	2007 Total
Assets								
Non-current assets	-	-	-	16 001	-	-	-	4 215
Inventories	4 714	8 078	-	12 792	5 080	7 424	-	12 504
Receivables	2 201	22 113	4 845	29 158	6 629	16 345	9 248	32 222
Cash and cash equivalents	-	-	-	179 896	-	-	-	252 452
Total assets	**6 915**	**30 191**	**4 845**	**237 847**	**11 709**	**23 769**	**9 248**	**301 394**
Equity and liabilities								
Equity	-	-	-	199 694	-	-	-	259 994
Current liabilities	-	-	-	38 153	-	-	-	41 400
Total equity and liabilities	**-**	**-**	**-**	**237 847**	**-**	**-**	**-**	**301 394**

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

Sales revenue – breakdown by product group

(Figures in NOK 1,000)	2008 Own sales	2008 Partner sales	2008 Total	2007 Own sales	2007 Partner sales	2007 Total
Metvix/Aktilite	24 895	39 168	64 063	23 053	31 168	54 221
Hexvix	10 190	26 664	36 854	6 016	15 016	21 031
Total	**35 085**	**65 832**	**100 917**	**29 069**	**46 183**	**75 252**

NOTE 3 – OTHER INCOME

(Figures in NOK 1,000)	Group 2008	Group 2007	Parent company 2008	Parent company 2007
Grants from the Norwegian Research Council and Skattefunn	5 547	7 463	2 869	1 600
Misc. income	710	162	712	658
Total	**6 257**	**7 625**	**3 580**	**2 258**

Misc. income includes sales of services from Photocure to PCI Biotech Holding ASA and PCI Biotech AS.

NOTE 4 – COST OF GOODS SOLD

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

NOTES

NOTE 5 – INCOME STATEMENT CLASSIFICATION

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

		Group		Parent company	
(Figures in NOK 1,000)	Note	2008	2007	2008	2007
Sales revenue		100 917	75 252	100 917	75 252
Signing and milestone revenue		1 303	23 754	1 303	23 754
Total sales, signing and milestone revenue		**102 220**	**99 006**	**102 220**	**99 006**
Cost of goods sold		-19 074	-17 326	-19 074	-17 326
Gross profit		**83 146**	**81 679**	**83 146**	**81 679**
Other income	3	6 257	7 625	3 580	2 258
Payroll expenses	6	-57 172	-49 241	-55 986	-47 371
R & D costs excluding payroll expenses / other operating costs		-54 603	-84 060	-49 949	-73 692
Ordinary depreciation and amortisation	13	-1 554	-1 389	-1 526	-1 355
Other operating costs		-43 448	-42 063	-41 805	-38 962
Total operating income and operating costs		**-150 520**	**-169 129**	**-145 686**	**-159 123**
Operating profit/loss		**-67 374**	**-87 450**	**-62 540**	**-77 444**

Specification of Other operating costs:	Group		Parent company	
	2008	2007	2008	2007
Marketing costs	9 729	6 925	9 729	6 925
Travel costs	6 196	5 778	6 127	5 691
Patent costs, legal and other fees	12 900	13 766	11 613	11 004
Other costs	14 623	15 595	14 336	15 342
Total other operating costs	**43 448**	**42 063**	**41 805**	**38 962**

NOTE 6 – PAYROLL EXPENSES

		Group		Parent company	
(Figures in NOK 1,000)	Note	2008	2007	2008	2007
Salaries		41 574	34 362	40 650	33 045
Social security tax		5 756	4 852	5 620	4 671
Share-based payments		4 483	4 163	4 483	4 163
Social security tax on share-based payments		-	118	-	118
Pension costs	7	3 168	2 263	3 068	2 213
Other benefits		2 191	3 483	2 165	3 160
Total payroll expenses		**57 172**	**49 241**	**55 986**	**47 371**
Full-time equivalent positions (FTE)		51,8	45,8	51,8	42,3

Share-based payments

As part of the company's incentive policy employees have been granted warrants to the 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 alloted any warrants. Share-based payments of NOK 4.5 million have been reported as expenses in 2008, while the equivalent figure for 2007 was NOK 4.2 million.

Employees of Photocure ASA had the following option schemes as per 31.12.2008:

Year of allocation	**2006**	**2007**	**2007**	**2008**	**2008**
Option programme	2006	2006	2007	2007	2008
Granted	2006	2007	2007	2008	2008
Number	36 500	168 967	30 100	225 625	35 000
Exercise price (NOK)	48,00	48,00	50,50	50,50	36,00
Exercise deadline (31.12.xxxx)	2009	2009	2010	2010	2013

In addition, a conditional award of 765 000 options at a price of NOK 36.00 has been made subject to the achievement of defined goals. Allocation of these options will take place in February/March 2009 following an evaluation of the achievement of goals for 2008.

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

	2008		**2007**	
	Number	**Average exercise price(NOK)**	**Number**	**Average exercise price(NOK)**
Outstanding at start of year	467 503	44,55	301 265	49,40
Granted during the year	292 575	48,77	265 350	50,71
Forfeited during the year	95 700	49,54	22 301	40,82
Exercised during the year	-	-	58 329	37,13
Expired during the year	168 186	32,00	18 482	53,50
Outstanding at end of year	496 192	48,44	467 503	44,55
Exercisable options 31.12	220 000	48,97	341 453	42,17

Average weighted life of outstanding share options is 1.8 years as per 31 December 2007 and 2.7 years as per 31 December 2008.
Average weighted market value of issued options in 2007 was NOK 7.34 and NOK 7.60 in 2008.

The exercise prices and average life of outstanding share options as per 31.12.08 are as follow:

No. of options	**Exercise price**	**Average remaining life**
205 467	kr 48,00	1 år
255 725	kr 50,50	2 år
35 000	kr 36,00	5 år

Calculation method for market value of warrants / employee options.

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

	2008	**2007**	**2006**
Dividend	-	-	-
Expected volatility (%)	33,19	37,38	36,21
Historical volatility (%)	33,19	37,38	36,21
Risk-free interest (%)	4,50	4,75	3,00
Expected life of options (years)	3,03	2,75	2,70

NOTES

NOTE 7 – PENSION COSTS

The company has a defined-contribution pension scheme. This pension scheme meets the requirements in regard to compulsory occupational pension in Norway.
As per 31.12.2008 the company had a contribution fund of NOK 0.2 million and NOK 0.1 million in the account as per 31.12.2007.

The pension cost for the year :

	Group		Parent company	
(Figures in NOK 1,000)	**2008**	**2007**	**2008**	**2007**
Total pension costs for contribution schemes	**3 168**	**2 263**	**3 068**	**2 213**

NOTE 8 – AUDITING FEES

	Group	Parent company
(Figures in NOK 1,000 ex. VAT)	**2008**	**2008**
Statutory auditing	358	358
Other attestation services	311	311
Other services excluding auditing	356	356
Tax advice	132	132
Total	**1 157**	**1 157**

NOTE 9 – FINANCIAL INCOME AND EXPENSE

	Group		Parent company	
(Figures in NOK 1,000)	**2008**	**2007**	**2008**	**2007**
Interest income	10 348	12 511	10 348	12 181
Interest income group	4	-	4	305
Foreign exchange gains	5 281	1 713	5 243	1 689
Other financial income	471	-	471	-
Total financial income	**16 103**	**14 224**	**16 066**	**14 174**

	2008	**2007**	**2008**	**2007**
Loss on securities sold	345	-	345	-
Write-downs on securities	9432	-	9432	-
Interest expense	13	13	13	13
Foreign exchange losses	3 213	1 651	3 194	1 627
Other financial expense	108	80	104	80
Total financial expense	**13 111**	**1 744**	**13 088**	**1 720**

NOTE 10 – TAX

Reconciliation of tax against expected nominal rate of tax:

	Group		Parent company	
(Figures in NOK 1,000)	**2008**	**2007**	**2008**	**2007**
Net profit/loss (-) before tax	-64 382	-74 970	-59 562	-64 990
Expected nominal rate of tax (28%)	-18 027	-20 992	-16 677	-18 197
Permanent differences	4 004	485	4 004	944
Write-down of deferred tax assets	14 023	20 507	12 673	17 253
Total tax for the year	**0**	**0**	**0**	**0**

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

	Group		Parent company	
(Beløp i 1000 kr)	**2008**	**2007**	**2008**	**2007**
Fixed assets	-493	-592	-493	-584
Inventories	323	-89	323	-89
Receivables/liabilities	-35	-470	-35	-470
Net pension funds / premium fund	46	37	46	31
Loss to be carried forward	**-132 996**	**-133 390**	**-132 996**	**-119 360**
Total	**-133 155**	**-134 504**	**-133 155**	**-120 472**
Write-down of deferred tax assets	133 155	134 504	133 155	120 472
Deferred tax assets recognised in balance sheet	**0**	**0**	**0**	**0**

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

NOTE 11 – DEMERGER OF PCI BIOTECH AS

The board's proposal to demerger the shares in the PCI Biotech AS (PCI) was adopted at the company's annual general meeting on 9 April 2008. Photocure ASA (PC) owned 91.43% of the shares in PCI as per 9 April 2008. The demerger was based on a valuation of NOK 50 million for PCI.

The demerger was carried out by transferring the shares in PCI to PCI Biotech Holding ASA. As payment shareholders of PC received 1 share in PCI Biotech Holding ASA for each share they owned in PC. Before the demerger the share capital of PCI Biotech Holding ASA was written down to NOK 0 and repaid to PC. Subsequent to the demerger an increase in the share capital of PCI Biotech Holding ASA was adopted where the minority shareholders of PCI transferred their shares to PCI Biotech Holding ASA. As compensation the minority shareholders they received shares in PCI Biotech Holding ASA valued to equal that which the shareholders of PC had received as compensation.

The time of the implementation of the demerger from an accounting perspective was set to 16 June 2008. At this time all the preconditions for the demerger were fulfilled. The share of results from PCI has been consolidated up until and including this date in the group's income statement.

NOTES

In the legal accounts of PC, the distribution of the shares in PCI to the shareholders of PC is recorded at fair value and the profit of NOK 2.6 million has been reported directly to other equity. In the consolidated accounts, the distribution of the assets in PCI is recorded at fair value and the profit of NOK 45.3 million is reported directly to other equity.
It is the company's view that the transaction does not entail any change in the comparative figures for PC.

The subscription for shares in PCI Biotech Holding ASA is dealt with in more detail under Accounting Policies and in Note 14

Financial result for PCI Biotech AS consolidated in the last 2 years:

	up to 16.6.2008	2007
Other operating income	**3 060**	**6 025**
R & D costs	-5 962	-14 732
Other operating costs	-1 537	-641
Total operating costs	**-7 499**	**-15 373**
Operating profit/loss	**-4 438**	**-9 348**
Financial income	40	354
Financial expense	-23	-24
Net financial items	**17**	**330**
Net profit/loss (-) before tax	**-4 421**	**-9 018**
Tax	-	-
Profit/loss (-) for the year	**-4 421**	**-9 018**

NOTE 12 – EARNINGS PER SHARE

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

Earnings per share	**2008**	**2007**
Weighted average number of shares	22 093 301	22 071 141
Dilution effect	-	76 026
Weighted average number of shares diluted	22 093 301	22 147 167
Earnings per share in NOK	**-2,91**	**-3,40**
Earnings per share in NOK diluted	**-2,91**	**-3,40**

NOTE 13 – INTANGIBLE ASSETS, MACHINERY AND EQUIPMENT

	Group			
(Figures in NOK 1,000)	Software	Prod./testing equipment	Equipment	Total
Accumulated cost as per 1.1.07	889	4 385	5 087	10 361
Additions in 2007	214	1 138	1 790	3 142
Disposals and scrapping in 2007	-	-28	-2 575	-2 603
Accumulated cost as per 31.12.07	1 103	5 495	4 302	10 900
Additions in 08	86	1 066	832	1 983
Disposals and scrapping in 08	-162	-3 422	-2 233	-5 817
Accumulated cost as per 31.12.08	**1 027**	**3 139**	**2 901**	**7 066**
Accumulated depreciation as per 1.1.07	109	3 626	3 668	7 403
Ordinary depreciation for 2007	216	365	809	1 390
Disposals in 2007	-	-1	-2 105	-2 106
Accumulated depreciation as per 31.12.07	325	3 990	2 372	6 687
Ordinary depreciation for 08	201	512	776	1 489
Disposals in 08	-32	-3 422	-2 127	-5 581
Accumulated depreciation as per 31.12.08	**494**	**1 080**	**1 021**	**2 595**
Book value 31.12.08	**533**	**2 059**	**1 881**	**4 473**
Book value 31.12.07	**778**	**1 504**	**1 930**	**4 212**

	Parent			
(Figures in NOK 1,000)	Software	Prod./testing equipment	Equipment	Total
Accumulated cost as per 1.1.07	889	4 385	5 040	10 314
Additions in 2007	52	1 138	1 773	2 963
Disposals and scrapping in 2007	-	-28	-2 575	-2 603
Accumulated cost as per 31.12.07	941	5 495	4 238	10 674
Additions in 08	86	1 066	832	1 983
Disposals and scrapping in 08	-	-3 422	-2 169	-5 591
Accumulated cost as per 31.12.08	**1 027**	**3 139**	**2 900**	**7 066**
Accumulated depreciation as per 1.1.07	**109**	**3 626**	**3 621**	**7 356**
Ordinary depreciation for 2007	184	365	807	1 356
Disposals in 2007	-	-1	-2 105	-2 106
Accumulated depreciation as per 31.12.07	293	3 990	2 323	6 606
Ordinary depreciation for 08	201	512	776	1 489
Disposals in 08	-	-3 422	-2 078	-5 500
Accumulated depreciation as per 31.12.08	**494**	**1 080**	**1 021**	**2 595**
Book value 31.12.08	**533**	**2 059**	**1 880**	**4 473**
Book value 31.12.07	**648**	**1 504**	**1 915**	**4 067**

Rental costs	**2008**	**2007**
Rent of office premises	2 168	1 958
Rent of equipment	1 000	1 364
Total rental costs	**3 168**	**3 322**

The company rents premises in Hoffsveien 48 in Oslo. The current agreements run until 14 September 2011 without any right to terminate. On the expiry of the rental period, Photocure has a right of preference to a further 5-year rent on renegotiated terms. The rent is NOK 2.5 million including share of joint costs for 2009, and NOK 4.4 million for the period from 1 January 2010 to the expiry of the lease on 14 September 2011. Annual adjustment of the rent corresponds to the change in the consumer price index. Rent of equipment includes medical treatment equipment located at hospitals, and company vehicle. All rental contracts for equipment are short-term, and rental costs in 2009 are estimated to be NOK 0.1 million.

NOTE 14 – OTHER INVESTMENTS

Company	**Location**	**Year of acquisition**	**Share capital of company**	**Equity participation and share of voting rights**	**Book value**	**Equity**	**Financial Result 2008**
PCI Biotech Holding ASA	Oslo, Norway	2007	16 249	19.35 %	11 528	60 013	-45 448

Shares in PCI Biotech Holding ASA have been valued at market price on Oslo Axess as per 31.12.08

NOTE 15 – INVENTORIES

	Group		**Parent company**	
(Figures in NOK 1,000)	**31.12.08**	**31.12.07**	**31.12.08**	**31.12.07**
Raw materials	4 191	5 714	4 191	5 714
Obsolescence in regard to raw materials	-963	-2 629	-963	-2 629
Finished products	9 564	9 419	9 564	9 419
Total inventories	**12 792**	**12 504**	**12 792**	**12 504**

The raw materials inventory consists of active substances for the pharmaceutical products, and components for the lamps. Raw materials and finished products are valued at cost price while obsolete inventories are written down to fair value. Provisions and write-downs of inventories are included in goods consumed in the income statement.

NOTE 16 – FINANCIAL RISK

The note describes the group's various financial risks and the management of these. In addition, numerical tables for risk associated with financial risks are also presented.

(I) Organisation of financial risk management

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

Centralised risk management

Photocure has a centralised risk management. The most important tasks of this are to ensure the group's financial freedom to act, both in a short-term and long-term perspective, and to monitor and manage financial risk in cooperation with the individual units in the company. The guidelines for the finance function are laid down in the group's finance policy. Group management monitors the financial risk. The finance department maintains dialogue with the company's bankers and carries out any necessary hedging transactions in regard to interest rates and currencies. Any required authorities for borrowing and entering into derivative framework agreements are given on an annual basis by the board of directors. A hedging-oriented view forms the basis for management of the finance department's positions so that all transactions with financial instruments have a counter item in an underlying commercial hedging requirement.

Financial risk within the company

This section describes the risk factors within each business area and the management of these. In this context, financial risk is understood as risk associated with financial instruments. These can either be hedging instruments for underlying risk or be considered themselves as a source of risk. Market risk is not hedged with financial instruments.

Commercial operations - production, sales and marketing

Photocure manufactures, markets and sells the company's products Metvix, Aktilite and Hexvix by means of two different business models. The first business model is marketing and sales through its own organisation in the Nordic region. The second model is marketing and sales through licence partners. Revenue from licence partners is divided into three streams; sales of products to licence partners, royalty from licence partners' sales to end consumers, and milestones. Photocure manufactures the company's products by means of contract production at recognised manufacturers in the USA, Spain, England, Sweden and Norway. Price risk in regard to raw materials is a risk factor. Effort is made to reduce the price risk in that a "cost plus margin" model is used in the licensing agreements, which makes Photocure's exposure less dependent on price changes for raw materials and other input factors.
Currency risk is primarily associated with royalty, where Photocure's revenues vary with exchange rates, first and foremost the EUR exchange rate. This currency risk is reduced by purchasing input factors in the same currency. Currency risk associated with confirmed milestones is hedged in full. There have been no such milestones in 2008

Research development activities

Photocure carries on research and development of new innovative medical products based on the company's patented technology. The currency risk in research and development is limited to the purchase of services, primarily the implementation of clinical studies, in Europe and the USA. There is also a degree of currency risk associated with the purchase of goods and services, first and foremost in EUR and USD. Currency exposure associated with research and development is not normally hedged.

(II) CLASSES OF FINANCIAL RISK

Interest rate risk

Photocure does not have any interest-bearing debt, and the group's interest rate risk is primarily associated with the group's cash positions and cash equivalents. This risk is managed at group level. The main strategy is to diversify the risk and invest in money market funds with low risk, high liquidity and short duration. Over 95 % of the investments are denominated in NOK and are not hedged.

Liquidity risk

One of the most important objectives of Photocure's finance policy is to ensure that the group has financial freedom to act in the short and long-term in order to attain strategic and operational goals. Photocure shall have sufficient funds to cover known capital requirements during the forthcoming 12 month period in addition to a strategic reserve. The new issue market is used as a source of liquidity when this is appropriate and the conditions in these markets are competitive. Cash flow from operational activities is increasing and is essentially stable in the commercial part of Photocure. Cash flow in research and development greatly depends on the level of the clinical programmes. The finance department monitors the cash flows in a short and long-term perspective through reporting. Photocure's most important source of finance is share issues and milestones associated with licence agreements. The finance department is also continually evaluating other sources of finance. Photocure does not have any loan agreements involving requirements in regard to key business ratios.

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

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

	Remaining period				
	Less than 1 month	**1–3 months**	**3–12 months**	**1–5 years**	**Total**
31-12-08					
Trade accounts payable	10 440	1 500	200	-	12 140
Other current liabilities	521	13 500	6 000	2 000	22 021
31-12-07					
Trade accounts payable	10 500	827	70	-	11 397
Other current liabilities	800	12 500	7 500	2 502	23 302

Credit risk
Management of credit risk associated with trade accounts receivable and other operational receivables is carried out as part of the commercial risk and is continually monitored as part of normal operations. The current risk in the customer group as a whole is deemed to be acceptable. Photocure does not therefore use credit insurance. No significant concentration of credit risk in relation to individual parties has been identified.

The group is primarily exposed to credit risk associated with trade accounts receivable and other current receivables. Photocure's sales go to its licence partners Galderma and GE Healthcare (approx. 65%) and to the major pharmaceutical wholesalers in the Nodic region (approx. 35%). The concentration of credit risk is limited as the counterparties are large, sound companies and are not related to each other. Our largest licence partner GE Healthcare has a high credit rating.

Currency risk
As NOK is the group's presentation currency, Photocure is exposed to translation risk associated with the group's foreign net exposure. Photocure strives as far as possible to achieve a lowest possible net currency exposure. This is normally done by incorporating mechanisms into licensing agreements that suit the company, these include the sale of products in NOK.

The company's expenses and revenues are accrued in various currencies, primarily EUR and the Nordic currencies. USD exposure is associated with R & D costs. Photocure ASA is therefore exposed to fluctuations in foreign exchange rates. The company evaluates whether measures shall be taken to reduce the currency risk in significant transactions associated with licensing agreements.

Photocure does not have any oustanding hedges of future transactions as per 31.12.2008.

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

	Change in NOK exchange rate	Effect on operating result
2008	+ 10 %	2 345
	- 10 %	-2 345
2007	+5 %	1 887
	-5 %	-1 887

NOTE 17 – CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

	Parent					
31.12.2008	**Shares available for sale**	**Amortized cost**	**Lending and receivables**	**Cash**	**Other financial liabilities**	**Total**
Assets						
Other shares	11 528	-	-	-	-	11 528
Trade accounts receivable	-	-	8 408	-	-	8 408
Other current receivables	-	-	20 751	-	-	20 751
Cash and cash equivalents	-	153 190		26 707	-	179 897
Total financial assets	**11 528**	**153 190**	**29 159**	**26 707**	**0**	**220 584**
Liabilities						
Trade accounts payable	-	-	-	-	-12 140	-12 140
Other current liabilities	-	-	-	-	-22 021	-22 021
Total financial liabilities	**0**	**0**	**0**	**0**	**-34 161**	**-34 161**

	Parent					
31.12.2007	**Shares available for sale**	**Amortized cost**	**Lending and receivables**	**Cash**	**Other financial liabilities**	**Total**
Assets						
Trade accounts receivable	-	-	12 068	-	-	12 068
Other current receivables	-	-	16 355	-	-	16 355
Cash and cash equivalents	-	230 604		17 149	-	247 753
Total financial assets	**0**	**230 604**	**28 423**	**17 149**	**0**	**276 176**
Liabilities						
Trade accounts payable	-	-	-	-	-11 397	-11 397
Other current liabilities	-	-	-	-	-23 302	-23 302
Total financial liabilities	**0**	**0**	**0**	**0**	**-34 699**	**-34 699**

NOTE 18 – RECEIVABLES

Maximum credit risk

The Group's maximum credit risk associated with financial instruments is equivalent to gross receivables. In a hypothetical situation where no receivables are actually paid, this would be:

	Group		Parent company	
(Figures in NOK 1,000)	**31.12.08**	**31.12.07**	**31.12.08**	**31.12.07**
Trade accounts receivable	8 408	12 095	8 408	12 068
Royalty	11 613	6 573	11 613	6 573
Other receivables	9 137	13 555	9 137	9 781
Total receivables	**29 158**	**32 223**	**29 158**	**28 422**

Aging analysis of trade accounts receivable

	Ikke forfalt	0 - 30 dager	30 - 60 dager	60 - 90 dager	over 90 dager	Sum
31.12.2008	7 218	800	48	-	342	8 408
31.12.2007	6 218	3 567	1485	-	825	12 095

Loss on receivables have been very low and no provision has been made for bad debts, neither as per 31.12.08 or per 31.12.07. Credit risk and foreign exchange risk in regard to trade accounts receivable are dealt with in more detail in note 16.

NOTE 19 – CASH AND CASH EQUIVALENTS

	Group		Parent company	
(Figures in NOK 1,000)	**31.12.08**	**31.12.07**	**31.12.08**	**31.12.07**
Cash and cash equivalents, restricted (1)	2 943	2 822	2 943	2 714
Cash and cash equivalents, non-restricted	23 764	19 018	23 764	14 427
Money market funds, non-restricted	153 190	230 612	153 190	230 612
Total	**179 897**	**252 452**	**179 897**	**247 753**

(1) Restricted cash and cash equivalents as per 31 December 2007 are security for employees withholding taxes totalling NOK 1.6 million, and a deposit for rent totalling NOK 1.3 million.

NOTE 20 – SHARE CAPITAL

The registered share capital of Photocure ASA as per 31 December 2008 was:

	No. of shares	Nominal value as per share	Share capital in NOK
Share capital per 1.1.2007	**22 034 972**	**0,50**	**11 017 486**
Shares issued to employees in 2007	58 330	0,50	29 165
Share capital per 31.12.2007	**22 093 302**	**0,50**	**11 046 651**
Reduction in nominal value	22 093 302	-0,02652795	-586 090
Increase in nominal value in connection with converting of other equity	22 093 302	0,02652795	586 090
Share capital per 31.12.2008	**22 093 302**	**kr 0,50**	**11 046 651**

All shares have the same voting rights and otherwise the same rights in the company. Ordinary shares are classified as equity. Expenses that are directly attributable to the issue of ordinary shares are included as a reduction of equity (share premium). The Board of Directors of Photocure ASA were authorised by the general meeting on 9 April 2008 to issue 3 million shares. Of this authorisation, (a) 2.20 million shares are associated with financing of the company's development, while (b) 0.8 million shares are associated with the issue of shares to the company's employees and selected partners. The authorisation for both points a) and b) applies until the date of the annual general meeting in 2009. Previously issued authorisations have expired.

The table below shows the status of both authorities as per 31.12.2008:

(Figures indicate the number of shares)	**Ordinary share issue**	**Employee share issues**
Authorities given at the annual general meeting on 9.4.08	2 200 000	800 000
Share issues after the annual general meeting on 9.4.08	-	-
Shares remaining under the authorisations	**2 200 000**	**800 000**

292 575 subscription rights for shares have also been allocated to employees as per 31.12.2008 (see note 6).

Ownership structure

The major shareholders of Photocure ASA as per 31 December 2008 were:

	Shares	**Shareholding in %**
Radiumhospitalets Forskningsstiftelse	3 129 000	14,2 %
Odin Norge	1 863 642	8,4 %
Gezina AS	1 326 306	6,0 %
Orkla	1 250 000	5,7 %
KLP LP aksjer	1 039 000	4,7 %
Ferd Invest	933 100	4,2 %
Cogent-Hunter Hall V Trust	873 625	4,0 %
Skagen vekst	750 000	3,4 %
Cogent-Hunter Hall G Trust	618 500	2,8 %
Verdipapirfondet KLP	510 000	2,3 %
Cogent-Hunter Hall G limited	496 000	2,2 %
Vicama AS	458 584	2,1 %
Mirasol verdi	395 000	1,8 %
Braganza AS	346 000	1,6 %
MP Pensjon	335 000	1,5 %
Holberg Norge Verdipapirfond	310 176	1,4 %
Total for shareholders with a shareholding of more than 1 %	14 633 933	66,2 %
Total other shareholders	7 459 368	33,8 %
Total number of shares	**22 093 301**	**100,0 %**

Shares owned, directly or indirectly, by members of the board of directors, managing director or senior management and their immediate family as per 31.12.2008:

Name	**Position**	**No. of shares**	**No. of subscription rights***
Erik Engebretsen**	Chairman of the Board	33 750	-
Jon Hindar	Board member	8 000	-
Kari Krogstad	Board member	-	-
Mats Pettersson	Board member	-	-
Eva Steiness	Board member	-	-
Kjetil Hestdal	President and CEO	158 873	31 500
Christian Fekete	CFO	4 200	29 400
Grete Hogstad	VP Marketing and Sales	4 000	29 850
Inger Ferner Heglund	VP Research and Development	-	44 875
Kjell-Erik Nordby	VP Business Development	-	-

* *See note 6 for further information about subscription rights.*

** *Managing director of Gezina AS who owns 1 326 306 shares.*

The Board of Directors of Photocure ASA has for 2008 continued an incentive programme for the company's employees, including the company's senior managers. A total of 765,000 conditional and 35 000 unconditional warrants / subscription rights have been awarded for 2008, where each share option gives the right to subscribe for one new share in the company at a price of NOK 36. These warrants will only be earned if important goals in the work programme and the budget for 2008 are achieved. The cost calculation for these options includes an assumption of 68% goal achievement. The share options can be exercised with a third each year from and including 2009 and 3 years forward. All the share options expire on 31 December 2013. The conditional warrants / share options of the company's senior managers are covered in note 24.

NOTE 21 – CAPITAL STRUCTURE

The company does not have an interest-bearing debt as per 31.12.08.

NOTE 22 – DEFERRED INCOME RECOGNITION

Payments received in 2002 from Galderma SA for Metvix totalling € 12 million / NOK 93.8 million were reported as deferred income in the balance sheet in 2002 and recognised as revenue in the income statement on a straight-line basis over 6 years. The last part of the accrual was taken as income in 2008 for the sum of NOK 1.3 million.

NOTE 23 – OTHER CURRENT LIABILITIES

	Group		**Parent company**	
(Figures in NOK 1,000)	**31.12.08**	**31.12.07**	**31.12.08**	**31.12.07**
Provision for accrued external R & D costs	14 391	13 705	14 391	12 242
Accrued bonus, holiday pay, salaries	5 847	7 794	5 847	7 649
Accrued royalty liability	1 501	1 568	1 501	1 568
Misc. other accrued costs	282	1 863	282	1 843
Total other current liabilities	**22 021**	**24 930**	**22 021**	**23 302**

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

NOTE 24 – TRANSACTIONS WITH RELATED PARTIES

(Figures in NOK 1,000)	Directors' fees paid	Salaries paid	Bonus paid	Benefits in kind	Pension cost	Total
Senior managers 2008						
Kjetil Hestdal, President and CEO		1 881	259	80	67	2 288
Kjell Erik Nordby, VP Business Development		1 146	278	10	59	1 494
Inger F. Heglund, VP Research and Development		1 019	74	37	78	1 209
Christian Fekete, CFO		1 074	160	10	59	1 303
Grete Hogstad, VP Marketing and Sales		1 155	160	37	80	1 432
Total senior managers		**6 275**	**931**	**176**	**343**	**7 725**
Board of directors 2008						
Erik Engebretsen, chairman	370	-				370
Jon Hindar	190	-				190
Kari Krogstad	190	-				190
Lars Lindegren, board member up to April 08	190	9				199
Birgit S. Norinder, board member up to April 08	190	-				190
Mats Pettersson, board member from April 08	-	-				-
Eva Steiness, board member from April 08	-	-				-
Total remuneration	**1 130**	**6 283**	**931**	**176**	**343**	**8 864**

(Figures in NOK 1,000)	Directors' fees paid	Salaries paid	Bonus paid	Benefits in kind	Pension cost	Total
Senior managers 2007						
Kjetil Hestdal, President and CEO		1 803	273	80	62	2 218
Kjell Erik Nordby, VP Business Development from April 2007		733	-	9	54	795
Inger F. Heglund, VP Research and Development from Jan 2007		904	-	35	72	1 011
Christian Fekete, CFO		1 004	-	10	62	1 076
Grete Hogstad, VP Marketing and Sales		1 037	192	37	74	1 340
Total senior managers		**5 480**	**465**	**171**	**324**	**6 439**
Board of directors 2007						
Erik Engebretsen, chairman	350	-				350
Per O. Mårtensson, vice-chairman up to April 07	260	-				260
Jon Hindar	180	-				180
Trine Bjøro, board member up to April 2007	180	-				180
Kari Krogstad	-	-				-
Lars Lindegren	180	24				204
Birgit S. Norinder	180	-				180
Total remuneration	**1 330**	**5 504**	**465**	**171**	**324**	**7 793**

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

The main principles for the company's remunaration to senior management are as follows:
- Salaries are reviewed annually.
- Bonuses are calculated on the basis of goals for the company laid down by the Board of Directors and achievement of personal goals.
- Senior managers participate in the company's incentive programme with allocation of subscription rights for the company's shares.
- Senior managers participate in the general pension scheme in the company.

CEO had the right to a bonus for 2008 of up to 40 % of ordinary salary depending on the fulfilment of specific conditions. Bonus to senior managers is calculated on the basis of the company's financial results, the company's development work and the attainment of own goals.

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

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

No senior managers have received any remuneration or economic benefits from other companies in the same group, other than what is shown above. No additional remuneration has been paid for special services provided by the members of management.

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

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

Subscription rights for senior managers 2008

	Allocated subscription rights*	**Lapsed subscription rights**	**Exercised subscription rights**	**Holding of subscription rights as per 31.12.08**	**Average exercise price**	**Conditional allocated subscription**
Kjetil Hestdal, President & CEO	14 000	60 581	-	31 500	49,11	50 000
Christian Fekete, CFO	15 000	32 790	-	29 400	49,28	40 000
Grete Hogstad, VP sales and marketing	15 000	30 140	-	29 850	49,26	40 000
Inger Ferner Heglund, VP R&D	14 375	-	-	44 875	48,80	40 000
Kjell-Erik Nordby, VP business development	-	50 000	-	-	0,00	-
Total	**58 375**	**173 511**	**-**	**135 625**		**170 000**

* Exercise price NOK 50.50, expiry date 31.12.2010.

Subscription rights for senior managers 2007

	Allocated subscription rights*	Lapsed subscription rights	Exercised subscription rights**	Holding of subscription rights as per 31.12.07	Average exercise price	Conditional allocated subscription
Kjetil Hestdal, President & CEO	17 500	1 000	-	78 081	37,59	35 000
Christian Fekete, CFO	14 400	-	-	47 190	38,88	25 000
Grete Hogstad, VP sales and marketing	14 850	-	4 000	44 990	39,28	25 000
Inger Ferner Heglund, VP R&D	30 500	-	-	30 500	50,00	25 000
Kjell-Erik Nordby, VP business development	50 000	-	-	50 000	52,50	-
Total	**127 250**	**1 000**	**4 000**	**250 761**		**110 000**

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

** Exercise price NOK 34.

Related parties:

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

Under the agreement, in 2008 Photocure ASA has paid NOK 655.20 on market terms and conditions for R & D services and other goods and services to the Norwegian Radium Hospital Research Foundation. As per 31.12.2008 the company had NOK 100 000 in trade accounts payable to the Norwegian Radium Hospital Research Foundation.

In 2008 Photocure has sold services to PCI and PCI H and charged on expenses incurred for a total of NOK 1 575 000.

AUDITOR'S REPORT FOR 2008

Statsautoriserte revisorer
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Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of
Photocure ASA

Auditor's report for 2008

We have audited the annual financial statements of Photocure ASA as of 31 December 2008, showing a loss of NOK 59 562 000 for the Parent Company and a loss of NOK 64 382 000 for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. The financial statements of the Group comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. IFRSs as adopted by the EU have been applied in the preparation of the financial statements of the Parent Company and the Group. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and President/Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with 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 2008, and the results of its operations and cash flows and the changes in equity for the year then ended, in accordance with IFRSs as adopted by the EU
- the Company's management has fulfilled its duty to properly record and document the Company's accounting information as required by law and bookkeeping practice generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and complies with law and regulations.

Oslo, 26 February 2009
ERNST & YOUNG AS
Tommy Romskaug
State Authorised Public Accountant (Norway)
(sign.)
Note: The translation to English has been prepared for information purposes only.

Photocure is committed to good corporate governance

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

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

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

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

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

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

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

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

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

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

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

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

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

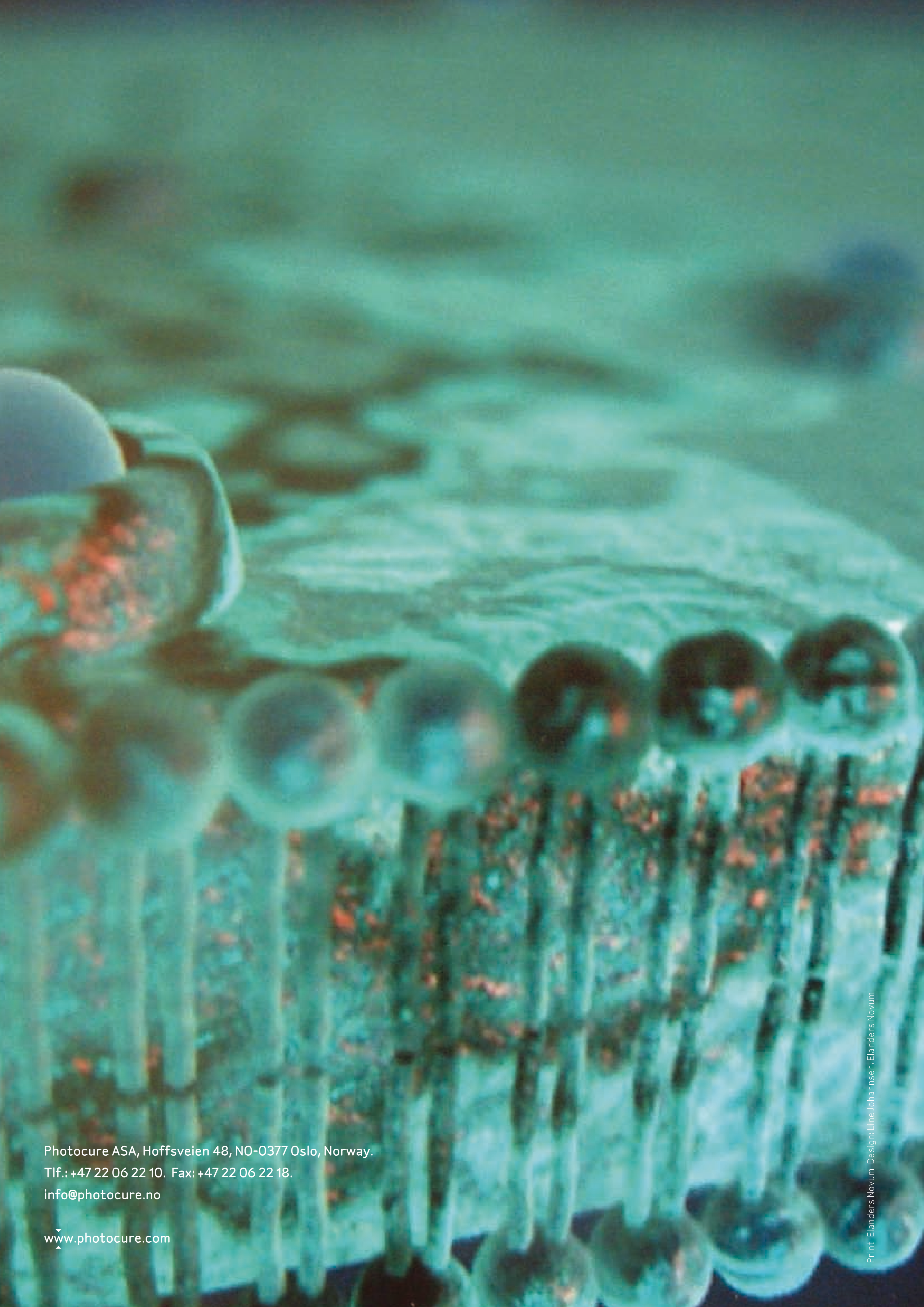
11. Remuneration of the board of directors
The remuneration of the board of directors reflects the board's responsibility, expertise, time commitment and the complexity of the company's activities. The remuneration of the board of directors is not linked to the company's performance, and share options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

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

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

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

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



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