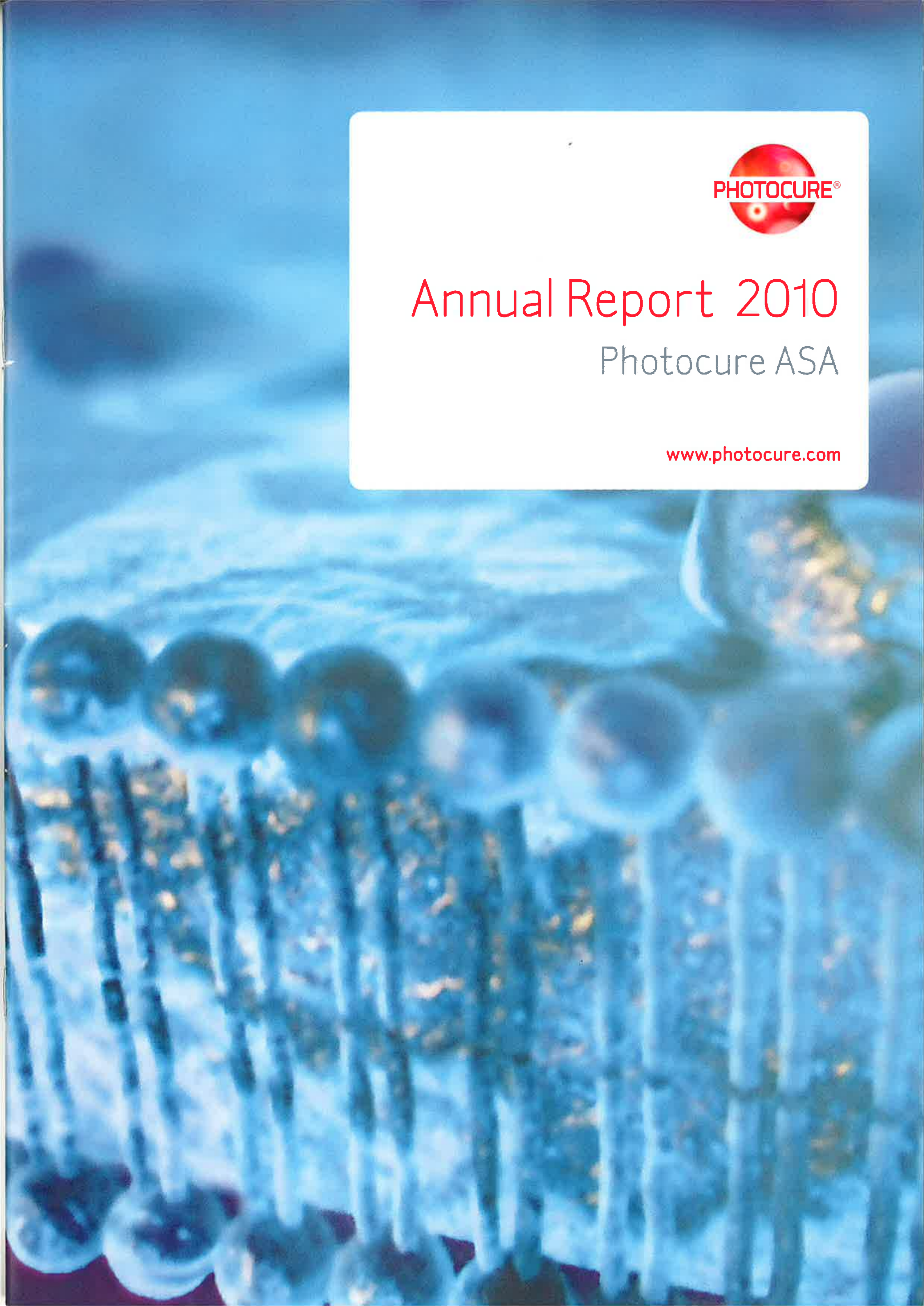

PHOTOCURE®

Annual Report 2010

Photocure ASA

www.photocure.com

DIRECTOR'S REPORT 2010

Background

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 needs in the areas of dermatology and cancer.

Photocure has developed Metvix®/Aktilite® for the treatment of the early stages of skin cancer, and Hexvix® for the detection of bladder cancer. In October 2009, Metvix/Aktilite were sold to Galderma for EUR 51 million, which generated appreciable profits for the company in relation to the investments made.

The subsidiary PCI Biotech Holding ASA was spun off and listed on the stock exchange in summer 2008. Photocure is the largest owner of this company, which has documented excellent clinical results and generated significant value for shareholders in 2010.

The commercialisation of Hexvix is carried out through our own sales organisation in the Nordic region, while GE Healthcare is responsible for same in other parts of the world where the product has been approved for marketing and sale.

In addition to these products, Photocure has three pharmaceutical products in clinical development, all targeted at various indications with appreciable market potential. Photocure has also developed a cosmetic product, Allumera™, which will be launched in the United States in the second quarter of 2011.

Strategic direction – build up a specialist pharmaceutical company

Photocure's strategy is to transform the company from a research-based company into a specialist pharmaceutical company on the basis of the company's technology platform in the field of photodynamic therapy and diagnosis.

Photocure's strategy in the field of dermatology is to develop products and market them through its own sales and marketing organisation, where this is appropriate. Allumera, a cosmetic product that improves the appearance of the skin, will be the first product Photocure launches in line with this strategy, through the company's commercial organisation in the United States. In addition, Photocure is developing Visonac® for the treatment of moderate to severe acne.

Photocure's strategy in the field of cancer is to develop products for the diagnosis and treatment of cancer, and to out-license the products before phase III. At the same time, the company wishes to retain some markets and sell the products there through its own sales and marketing organisation. Own sales of Hexvix in the Nordic region and the licensing of Lumacan to Salix in October 2010 were carried out in accordance with this strategy. The company is also planning to out-license Cevira® before the start of phase III.

Dermatology
Marketing and sales

Photocure established a subsidiary in Princeton, New Jersey, in the summer of 2010 and appointed Terry Conrad to lead Photocure's American dermatology business. Photocure plans to launch Allumera on the American market in the second quarter of 2011.

Allumera – a cosmetic product to improve the appearance of the skin

Photocure commenced development of Allumera, a cosmetic product for the dermatology market, in 2009. Allumera is based on the cosmetic improvements experienced with Metvix/Aktilite. The American cosmetics market is large and demanding. Photocure's market surveys indicate that the benefits provided by Allumera are a good match for the cosmetic procedures that dermatologists perform today.

Photocure completed a study of the effects of Allumera in 2010. The results from this study were very positive and showed a significant improvement in the facial skin, through minimized appearance of the pores, for example. Based on this, the company is currently preparing to launch Allumera in the second quarter of 2011.

Research and development

Photocure's technology platform in the field of PDT is very well suited to the development of products that meet the demands of the future for treating dermatological illnesses and covering cosmetic needs. PDT is an established procedure in the field of dermatology, and Photocure has taken the lead in developing effective PDT products to service this market.

Visonac – treatment of moderate to severe acne

Photocure has long been working to develop a new procedure for treating patients with moderate to severe acne. Photocure reported the results of its fourth phase II study of Visonac in May 2010. The efficacy results from this study were weaker than those achieved in three previous phase II studies. In order to understand the results better, Photocure completed clinical studies in autumn 2010. The studies compared different treatment procedures and demonstrated that occlusion (covering) of the area of skin with applied cream was necessary to achieve a satisfactory effect with Visonac.

In order to ensure that this procedure will be acceptable to users, the company conducted new market surveys in autumn 2010 among a selection of dermatologists in the United States. These surveys confirmed that there is a significant need for new treatment options for patients with moderate to severe acne, and Visonac was viewed positively as a new treatment option.

Today, pharmaceuticals for the treatment of acne generate sales valued at USD 3 billion worldwide. There is a significant need for effective new treatments with fewer side effects.

On this basis, Photocure is to continue the development of Visonac and will conduct a new phase IIb study in the United States in 2011/12.

Cancer

One of the advantages of Photocure's technology platform is the ability to diagnose and treat the early stages of cancer with a minimum of side effects. The products that the company is developing meet the demands of the future for diagnosing and treating the illnesses before they can develop into more serious stages.

Marketing and sales
Hexvix – diagnosis of bladder cancer

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

Photocure itself markets and sells Hexvix in the Nordic region. GE Healthcare has licensed the sales and marketing rights to Hexvix outside the Nordic region. Hexvix is sold in Europe, with Germany and Denmark as the leading countries in the introduction

DIRECTOR'S REPORT 2010

of Hexvix cystoscopy as the standard method for identifying bladder cancer. At the end of the year, more than 700 urological clinics in Europe were offering Hexvix to their bladder cancer patients.

Hexvix was approved by the American pharmaceutical authorities (FDA) under the tradename of Cysview™ on 28 May 2010. This released a milestone payment of EUR 10 million, which Photocure received in the fourth quarter of 2010. At the same time, the blue light equipment from Karl Storz was approved for use together with Cysview. During autumn 2010, GE Healthcare worked on training clinical staff in the United States in the use of Cysview.

Photocure identifies appreciable potential for Hexvix as around 540,000 cystoscopies (TURB) are performed in operating theatres in Europe and the United States every year. The use of Hexvix increased by 32% to 36,637 Hexvix units in 2010.

Research and development

Cevira – treatment of early stages of cervical cancer

Cevira is a unique photodynamic treatment of HPV infection and cellular changes in the cervix prior to the development of cancer.

Photocure completed a multi-centre, placebo-controlled phase II study involving 70 patients with cellular changes in the cervix in 2010. The results documented that Cevira was very well tolerated and resulted in a significant reduction in the preliminary stages of cancer of the cervix through the use of Cevira, compared to the control group. The results support the effect – and the clinical benefits – of using Cevira for patients with early stage cancer of the cervix. Cevira may become the first therapeutic product in its area.

Moreover, Photocure held a meeting with the FDA in October 2010 to discuss the continued development process for Cevira. On the basis of these discussions, the FDA granted Photocure permission to initiate a phase IIb study in the United States. Photocure plans to carry out this study in 2011/12 with the new treatment procedure.

Lumacan – diagnosis of colon cancer

Lumacan is being developed to improve identification of cancer of the colon through fluorescence diagnosis. Colon cancer is conventionally detected via colonoscopy (visual examination) using white light. The market for colonoscopy is increasing as a result of comprehensive programmes for screening patients in Europe and the United States.

Global licensing agreement with Salix Pharmaceuticals for Lumacan

One of Photocure's major milestones in 2010 was the signing of a global agreement concerning the development and commercialisation of Lumacan with the American company Salix Pharmaceuticals, Inc. ("Salix") on 20 October 2010. Lumacan is a diagnostic pharmaceutical that is being developed to improve the detection of cancer and early stage cancer in the colon through the use of fluorescence diagnosis.

The agreement involves granting Salix an exclusive global licence for Lumacan. Photocure received a signing payment of USD 4 million and is entitled to additional milestone payments to the total value of USD 126.5 million. These milestones are linked to the development of Lumacan and regulatory events, as well as to specific sales targets. In addition to the milestone payments, Salix is also to pay a two-figure royalty percentage on sales in the United States, as well as a significant share of all income from licensing agreements that Salix concludes outside the United States. Salix has the global responsibility for the continued development, registration and commercialisation of Lumacan.

Photocure has retained the rights to market and sell Lumacan in the Nordic region. In addition to the development of Lumacan for colon cancer, Salix has the exclusive rights to develop other indications such as the diagnosis of early stage cancer in the stomach/intestines. Compensation for new indications is to be negotiated between the parties.

Photocure and Salix believe that the early diagnosis of early stages of cancer and of colon cancer will lead to a more targeted treatment and improved survival rates for patients with colon cancer. Lumacan is being developed for use in conjunction with standard white light colonoscopy. In the United States, it is estimated that around 3 million colonoscopies are performed per year on high-risk screening patients and patients who are receiving follow-up examinations for colon cancer. Together, these subgroups account for around 20% of the total market for colonoscopy.

Patents reinforced

Photocure has a solid patent portfolio containing 14 patent families. Three new patent applications were submitted in 2010, covering Allumera, Cevira and Lumacan. In addition, Photocure received approval of a number of applications that reinforce the patent portfolio. Following the approval of Cysview, Photocure has applied for a patent extension for a family of patents in the United States that will extend the patent on Cysview by 1.5 years. This patent extension has become possible after Photocure won a legal case concerning patent extension against the American patent authorities in the US Court of Appeals for the Federal Circuit (CFAC) in 2010.

Photocure's unique patented technology – Photocure Technology™ – forms a solid basis for the company's development projects.

Financial position

The Photocure annual accounts have been prepared in accordance with IFRS requirements. Photocure ASA is a group at the end of 2010.

The Metvix/Aktilite products were sold to Galderma for EUR 51 million in September 2009. Of this, NOK 366.3 million was booked as profit in 2009. Photocure received EUR 44 million on signing of the contract, and will receive an additional EUR 7 million before December 2016 for the rights linked to new MAL-based products. The timing of the payment of the remaining EUR 7 million will depend on future regulatory approvals in Europe and the United States, but EUR 3 million will be paid no later than December 2012, and the residual EUR 4 million by December 2016. In accordance with IFRS, the activities linked to Metvix/ Aktilite have been reported as discontinued business in 2009.

Sales revenues amounted to NOK 70.5 million in 2010, an increase of 37% from NOK 51.5 million in 2009. Sales revenues comprise own sales of Hexvix in the Nordic region, income from product sales and royalties from GE Healthcare on sales of Hexvix to hospitals and pharmacies, deferred revenue recognition of the sale of Metvix/Aktilite, and sale of active substances to Galderma. Signing and milestone revenue totalled NOK 106.8 million in 2010 after Photocure received EUR 10.5 million from GE Healthcare and USD 4 million from Salix.

Operating expenses, after deductions for other operating revenues, increased from NOK 121.8 million in 2009 to NOK 156.8 million in 2010. This increase is attributable to a rise in R&D expenses and increased expenses for operations and marketing as a result of the establishment of a subsidiary in the United States and preparations for the launch of Allumera. R&D expenses in 2010 include a non-recurring provision of USD 3 million relating to the development of a new formulation of Lumacan.

Photocure's operating profit totalled NOK 7.5 million in 2010, compared to an operating profit of NOK -75.9 million in 2009. The change in the operating profit is primarily attributable to a NOK 106.8 million increase in milestone revenues.

Net financial profit totalled NOK 10.6 million in 2010, compared to NOK 2.5 million in 2009.

Photocure owns 19.35% of the shares in PCI Biotech Holding ASA and is thus the largest shareholder in the company. The market value of the shares in PCI Biotech Holding ASA rose significantly in 2010 on the basis of good clinical results. The shares were booked at NOK 11.00/share at 31 December 2009 and at NOK 47.10/share at 31 December 2010. The value of Photocure's shares increased by NOK 40.9 million in 2010.

In 2010, Photocure ASA returned an annual profit after tax of NOK 22.0 million, compared with an annual profit after tax of NOK 312.4 million in 2009.

The board of directors of Photocure ASA proposes that the profit for the year be carried over to other equity. Following this, the equity in Photocure ASA totals NOK 462.7 million at 31 December 2010, of which free equity amounts to NOK 451.7 million. This results in an equity ratio of 89%.

The company follows a prudent investment strategy for its liquid funds. The return on the company's liquid funds depends on the rate of interest in the money markets and will therefore vary over time. Liquid funds in the company amounted to NOK 389.2 million at 31 December 2010, down from NOK 403.5 million at 31 December 2009. Net cash flow from operating activities was NOK 15.6 million in 2010, compared to NOK 317.4 million in 2009.

At 31 December 2010, 22,093,301 shares were registered in Photocure. At the Ordinary General Meeting in April 2010, the company was granted authorisation to purchase up to 10% of its own shares. At 31 December 2010, Photocure held 695,652 own shares, which is equivalent to 3.1% of the outstanding shares in the company.

The company's revenues and costs are accrued in a number of different currencies. The company is therefore exposed to fluctuations in the currency markets. The risks are assessed on a regular basis.

Despite generating profits in 2009 and 2010, the company has chosen to assess the deferred tax benefit at NOK 0. Photocure has expensed all research and development costs in 2010.

Pursuant to § 3.3 (a) of the Norwegian Accounting Act, it is confirmed that the conditions for assuming that the company is a going concern are present, and that the financial statements have been prepared on the basis of this assumption. No events have occurred since the end of 2010, except those which are stated in this report, that are of major significance for the assessment of the company's financial position and results.

Organisation

The company's senior management team consists of Kjetil Hestdal, President and CEO, Christian Fekete, CFO, Grete Hogstad, Vice President Sales and Marketing, Inger Ferner Heglund, Vice President Research and Development, and Gry Stensrud, Vice President Production as of 4 October 2010.

Photocure ASA has offices in Oslo, Norway. The company has entered into a 5-year leasing contract in Hoffsveien 4 from March 2011.

At the end of 2010, the company employed 46 people. The company makes considerable use of external suppliers for production, research and development, as well as for regulatory work vis-à-vis the authorities. The work environment within the company is considered to be good. No accidents or injuries entailing absence were registered in 2010. Absence due to illness in the company totalled 324 working days in 2010, which corresponds to 1.23% of total hours.

Photocure aims to be a workplace with equal opportunities for women and men in all areas. The company has traditionally recruited from environments where the number of women and men is relatively equally represented. In terms of gender equality within the company, 50% of board members are women, as are 60% of the senior management team. Working-time arrangements at the company are independent of gender.

The company does not pollute the external environment to a greater extent than is normal for this industry.

Future prospects

Photocure's strategy is to develop the company from a purely research-based operation into a specialist pharmaceutical company. This is to be achieved by reinforcing the commercial activity of the company, with special emphasis on dermatology in the United States.

Photocure will continue its working relationship with GE Healthcare to increase sales of Hexvix in Europe and the United States. In addition, Photocure is planning to launch Allumera in the United States in the second quarter of 2011.

The main task in the field of research and development is to conduct clinical studies and to ensure progress in the development of new pharmaceuticals and treatment procedures within the company's core areas. The company is planning to start two important phase IIb studies in 2011 – one for Visonac and one for Cevira.

To optimise the values of Photocure's products in the field of cancer, the company is working to out-license Cevira and to establish a close working relationship with Salix for the continued development and commercialisation of Lumacan.

Oslo, 16 February 2011
The Board of Directors of Photocure ASA

Erik Engebretsen, Chairman of the Board

Jon Hindar, Board Member

Kari Krogstad, Board Member

Åse Aulie Michelet, Board Member

Mats Pettersson, Board Member

Eva Steiness, Board Member

Kjetil Hestdal, President and CEO

INCOME STATEMENT

Photocure ASA
(Amounts in NOK 000s)

Group 2010		Notes	Parent 2010	Parent 2009
70 517	Sales revenues	*1,2,3*	70 517	51 484
106 840	Signing fees and milestone revenues	*1,3*	106 840	
177 357	**Total revenues**		**177 357**	**51 484**
-9 124	Cost of goods sold	*6*	-9 124	-5 541
168 233	**Gross profit**		**168 233**	**45 943**
7 392	Other income	*2,4*	7 392	11 652
-8 675	Indirect manufacturing expenses	*7*	-8 675	-9 452
-90 167	Research and development expenses	*7*	-90 167	-73 800
-35 401	Marketing and sales expenses	*7*	-32 919	-24 984
-33 861	Other operating expenses	*7*	-32 387	-25 255
-160 712	**Total other income and expenses**		**-156 756**	**-121 839**
7 521	**Operating profit/loss(-)**		**11 477**	**-75 896**
15 149	Financial income	*12*	15 149	13 551
-4 578	Financial expenses	*12*	-4 578	-11 100
10 571	**Net financial profit/loss(-)**		**10 571**	**2 451**
18 092	**Profit/loss(-) before tax**		**22 048**	**-73 445**
0	Tax expense	*13*	0	0
18 092	**Net profit/loss(-) for continued operations**		**22 048**	**-73 445**
0	Profit/loss(-) from discontinued operations	*1, 5*	0	385 827
18 092	**Net profit/loss(-) for the year**		**22 048**	**312 382**
40 923	Value adjustment PCI Biotech Holding ASA		40 923	4 192
40 923	**Total value assessment**		40 923	4192
59 015	**Comprehensive income**		**62 971**	**316 574**
	Earnings per share	*14*		
0.84	Basic		1.02	14.16
0.83	Diluted		1.01	14.14
	Earnings per share continued operations	*14*		
-	Basic		-	-3.46
-	Diluted		-	-3.46

BALANCE SHEET
AS OF 31 DECEMBER

Photocure ASA
(Amounts in NOK 000s)

Group 2010		Notes	Parent 2010	Parent 2009
	ASSETS			
1 929	Machinery and equipment	*15*	1 929	2 137
84 263	Other investments	*16*	84 715	14 585
86 192	**Total non-current assets**		**86 644**	**16 722**
18 191	Inventories	*18*	18 191	13 826
5 214	Accounts receivable	*19, 21*	5 214	5 826
15 004	Other receivables	*19, 21*	22 341	16 986
389 241	Cash and short term deposits	*20, 22*	383 543	403 502
427 650	**Total current assets**		**429 289**	**440 140**
513 842	**Total assets**		**515 933**	**456 862**
	EQUITY AND LIABILITIES			
11 047	Share capital	*23*	11 047	11 047
72 145	Other paid-in capital		72 145	88 162
375 662	Retained earnings		379 545	316 574
458 854	**Total equity**		**462 737**	**415 783**
690	Pension liabilities	*10*	690	340
690	**Total non-current liabilities**		**690**	**340**
9 066	Accounts payable		8 174	13 936
2 745	Employee withholding taxes and social security tax		2 745	3 325
42 487	Other current liabilities	*25*	41 587	23 478
54 298	**Total current liabilities**		**52 506**	**40 739**
54 988	**Total liabilities**		**53 196**	**41 079**
513 842	**Total equity and liabilities**		**515 933**	**456 862**

Oslo, 16 February 2011
The Board of Directors of Photocure ASA

Erik Engebretsen, Chairman of the Board

Jon Hindar, Board Member

Kari Krogstad, Board Member

Åse Aulie Michelet, Board Member

Mats Pettersson, Board Member

Eva Steiness, Board Member

Kjetil Hestdal, President and CEO

STATEMENT OF CHANGES IN EQUITY

Photocure ASA
(Amounts in NOK 000s)

Parent company

	Notes	Issued capital	Treasury shares	Other paid-in equity	Retained earnings	Total equity
Equity as of 31 December 2008		**11 047**	**0**	**188 647**	**0**	**199 694**
Comprehensive income:						
Net profit for the year					312 382	312 382
Market value adjustment					4 192	4 192
Total comprehensive income		0	0	0	316 574	316 574
Transaction with owners:						
Buy back own shares			-19 915			-19 915
Sale own shares			3 926			3 926
Dividend to owners				-87 950		-87 950
Employees' options	9			3 454		3 454
Total transaction with owners		0	-15 989	-84 496	0	-100 485
Equity as of 31 December 2009	***23***	**11 047**	**-15 989**	**104 152**	**316 574**	**415 783**
Comprehensive income:						
Net profit for the year					22 048	22 048
Market value adjustment					40 923	40 923
Total comprehensive income		0	0	0	62 971	62 971
Transaction with owners:						
Buy back own shares			-26 070			-26 070
Sale own shares			4 573			4 573
Currency translation						0
Employees' options	9			5 480		5 480
Total transaction with owners		0	-21 497	5 480	0	-16 017
Equity as of 31 December 2010	***23***	**11 047**	**-37 486**	**109 632**	**379 545**	**462 737**

Group

	Notes	Issued capital	Treasury shares	Other paid-in equity	Retained earnings	Total equity
Equity as of 31 December 2009	***23***	**11 047**	**-15 989**	**104 152**	**316 574**	**415 783**
Comprehensive income:						
Net profit for the year					18 092	18 092
Market value adjustment					40 923	40 923
Total comprehensive income		0	0	0	59 015	59 015
Transaction with owners:						
Buy back own shares			-26 070			-26 070
Sale own shares			4 573			4 573
Currency translation					73	73
Employees' options	9			5 480		5 480
Total transaction with owners		0	-21 497	5 480	73	-15 944
Equity as of 31 December 2010	***23***	**11 047**	**-37 486**	**109 632**	**375 662**	**458 854**

CASH FLOW STATEMENT

Photocure ASA
(Amounts in NOK 000s)

Group		Parent	
2010		**2010**	**2009**
18 092	Profit/loss(-) before tax	22 048	312 382
1 316	Ordinary depreciation & amortisation	1 316	1 451
-	Write down of non-current investment	-	4 192
-27	(Gain)/Loss on sale of non-current assets	-27	114
-11 341	Deferred income sale of Metvix & Aktilite	-11 341	-3 057
5 480	Share-based payments expense	5 480	3 454
350	Pension costs	350	308
-10 142	Interest income	-10 142	-9 281
15	Interest expense	15	4
67	Other items	145	-22
-4 365	Change in inventory	-4 365	-1 035
2 593	Change in receivables	2 268	4 628
-4 870	Change in accounts payable	-5 762	1 796
18 429	Change in other accruals	17 529	2 510
15 597	**Net cash flow from operating activities**	**17 514**	**317 444**
-	Financing subsidiary	-7 615	-
-1 187	Investments in machinery and equipment	-1 187	-643
113	Sale of fixed assets (sales price)	113	1 466
-17 414	Investments in other non-current assets	-17 414	-
10 142	Interest received	10 142	9 281
-8 346	**Net cash flow from investing activities**	**-15 961**	**10 104**
-26 070	Buy back own shares	-26 070	-19 915
4 573	Sale own shares	4 573	3 926
-	Dividend paid	-	-87 950
-15	Interest paid	-15	-4
-21 512	**Net cash flow from financing activities**	**-21 512**	**-103 943**
-14 261	**Net change in cash during the year**	**-19 959**	**223 605**
403 502	**Cash and cash equivalents as of 01.01**	**403 502**	**179 897**
389 241	**Cash and cash equivalents as of 31.12**	**383 543**	**403 502**

ACCOUNTING PRINCIPLES

1 - Information about the company

The annual accounts for 2010 for Photocure ASA (the company) were approved for publication by the board of directors on 16 February 2011.
Photocure ASA is a public limited company domiciled in Norway. The business of the company is associated with research, development, production, distribution, marketing and sale of pharmaceutical products and related technical medical equipment. The company's product development in the field of dermatology was expanded in 2010 to include the development of a cosmetic product for use by dermatologists. The company's shares are listed on the Oslo Stock Exchange. The company's registered office is Hoffsveien 48, NO-0377 Oslo, Norway.

2 - Basis for preparation of the annual accounts

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

The company's annual accounts are prepared in accordance with International Financial Reporting Standards (IFRS) as specified by the International Accounting Standards Board and implemented by the EU as per 31 December 2010.

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

A public share issue in PCI Biotech Holding ASA was completed in June 2010. Photocure took part in this issue and in the guarantee consortium, maintaining its previous ownership of 19.35% of the shares in PCI Biotech Holding ASA following the share issue and as of 31 December 2010.

In June 2010, Photocure established a wholly owned subsidiary in the United States – Photocure Inc. – to market and sell dermatological products in the United States. This company has been under establishment, and has only conducted very limited business in 2010. In the annual accounts for 2010, Photocure has presented the consolidated accounts including the new subsidiary – Photocure Inc. – for the financial statement period 2010 and the balance sheets as of 31 December 2010.

3 - Changes in accounting policies

Photocure has not implemented any changes in the company's accounting policies in 2010 compared with the previous year. The new and amended standards and interpretations from IFRS that were adopted by the EU with effect from 2010 are not relevant to Photocure's reporting.
Photocure does not expect that implementation of new/revised/supplementary standards and interpretations with future application dates – which have not previously been implemented in the annual accounts for 2010 – will have any significant effect on the annual accounts at the time of implementation.

4 - 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.

The use of estimates and assumptions is based on the best discretionary judgement of the management.

In the process to apply the policies for accounting, the company management has made the following valuations and estimates that are of significance for recognised values in the annual accounts for 2010:

- On signing an agreement concerning licensing of Lumacan, a product under development, to Salix Pharmaceuticals Inc. ("Salix") in November 2010, Photocure received a non-refundable licence payment of USD 4 million. According to the agreement, this payment is not subject to settlement and it is Photocure's assessment that the payment is recognised as income in 2010.
- The agreement with Salix involves Photocure undertaking to refund up to USD 3 million of Salix's development costs for formulation. Salix owns the rights to this development work, and it will not generate direct income for Photocure. This is a contractual, unconditional obligation that does not give rise to increased value or income for Photocure, and the USD 3 million have been expensed in 2010.
- Received, non-refundable advance payments for licensing of the Hexvix product have been treated as payment for accrued expenses associated with the transfer of rights for the product. Sums received are not subject to netting, and in the view of the company no conditions or future obligations are associated with these payments. Received payments are therefore recognised as income.
- In the opinion of the company, shares in PCI Biotech Holding ASA (PCI H) are to be booked as shares available for sale in accordance with IAS 39. Our view is that with 19.35% of the shares, Photocure does not have significant influence in PCI H. There are no shareholder agreements or similar between Photocure and the other owners of PCI H. Photocure has no board members in the PCI companies.
- Development of pharmaceuticals and medical equipment: The company cannot render probable future earnings large enough to justify recognising development costs in the balance sheet before marketing approval has been obtained. Own development costs are therefore recognised as an expense as incurred until national market approval for the product and indication has been obtained. Any further development of the product after marketing approval has been obtained and market launch completed will be recognised in the balance sheet to the extent that this involves significant changes to the product, which it is considered likely will generate future financial benefits.
- Development of other products: The company cannot render probable future earnings on own-developed products that are large enough to justify recognising development costs in the balance sheet before such products have been commercially launched in a market, and it is likely that the products will generate profits in the long term. Any further development of the product after such a market launch is completed will be recognised in the bal-

ance sheet to the extent that this involves significant changes to the product, which it is considered likely will generate future financial benefits.

- The market value of employee subscription options is calculated according to the Black-Scholes method. This method involves the use of estimates and discretionary judgement, as described in more detail in Note 9. The allocation of options to employees of subsidiaries is made directly from the parent company and the financial presentation is correspondingly dealt with in the subsidiary.
- Accounts receivable have been valued in relation to the likelihood that customers will meet their payment obligations. Accounts receivable are primarily from our licence partners and pharmaceutical wholesalers in the Nordic region, and no provisions for bad debts have been made.
- In recent years, the company has paid advances on royalties for the licensing of technology. Such advance payments have been valued in relation to the likelihood of utilisation of the pre-paid royalties. Changes in the expected value of advance payment are taken against income.

5 - Summary of important guidelines for accounting for the company

a. Classification

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

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

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

b. Currency

Monetary items in foreign currencies are converted at closing rate of exchange. In the absence of any statement to the contrary, realised and unrealised exchange rate gains and losses are included in financial items. Transactions in foreign currencies are recorded at the exchange rate on the date of transaction.

Assets and liabilities in foreign business are translated into NOK at the exchange rate applicable on the balance sheet date. Income and expenditure in foreign business are translated into NOK at the exchange rate applicable on the transaction date. Income and expenditure in overseas subsidiaries are translated into NOK at the average exchange rate for the financial statement period.

c. Property, plant and equipment

Tangible fixed assets are recognised at cost price less deductions 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 it the costs can be reliably measured. Ordinary maintenance is charged against income on an ongoing basis.

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

- Production and test equipment	5 years
- Furnishings 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	5 years

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

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

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

Profits from the sale of tangible fixed assets and intangible assets are recognised in "Other operating revenues", while losses are recognised in "Other operating expenses".

d. Research and development costs

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

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

When all the criteria listed above have been met, costs related to development are to be recognised in the balance sheet. Development costs that have been expensed in previous accounting periods cannot be recognised in the balance sheet at a later date. Cost-sharing of research and development expenses with licence partners is booked 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 evaluations. Any realised and unrealised profits/losses and any write-downs related to these investments will be recorded in the income statement as financial items.

f. **Inventories**
Raw materials are valued at the lower of cost and net sales value in accordance with the first-in, first-out principle (FIFO). Semi-finished and finished goods are valued at production cost including a mark-up for the 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 in regard to the item.

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

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

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

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

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

g.6 Financial income consists of interest income on bank balances and money market unit trusts as well as exchange rate gains from currency items. Financial expense consists of interest expense on borrowing and exchange rate losses from currency items.

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

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

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

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

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

i. **Government grants**
Government grants and assistance are recorded at the value of the grant on the date of transaction. Operating grants are taken up at the same time as the income that it shall increase or the cost that it shall reduce. Grants are first recorded as income when the conditions for the grant in question have been met and the grant is to be paid out. Grants are classified as other operating income in the income statement.

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

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

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

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

The costs regarding the equity transactions with the employees are reported over the period until the employees can exercise their subscription rights. The company's equity is increased correspondingly. The market value of subscription rights is calculated according to the Black-Scholes model. Each option programme is calculated separately with the actual exercise price and duration

of the programme. The subscription rights immediately cease to be valid on termination of the employee's employment relationship with the company.
Employer's social security contributions on outstanding subscription rights are accrued as personnel costs over the exercise period of the rights based on the intrinsic value of the rights.

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

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

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

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

n. **Earnings per share**
Earnings per share is calculated on the basis of the profits for the period after tax but before "Other comprehensive income", divided by a weighted average number of outstanding shares in the period and adjusted for the treasury shares.
The diluted earnings per share are calculated by adjusting the profits and the weighted average number of shares – taking into account the treasury shares – for amounts outstanding on option schemes. Antidilution effects are not taken into consideration.

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

p. **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;
- 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.

Contingent assets are not included in the annual accounts, but are reported in cases in which there is a certain likelihood of their resulting in a benefit to the company.

q. **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.

r. **Cash flow statement**
The cash flow statement has been prepared in accordance with the indirect method.

s. **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.

s.1 The nominal value of treasury shares is presented in the balance sheet as a negative equity element. The net purchase price is entered as a reduction of other paid-in equity. Profits or losses on transactions in treasury shares are not included in the income statement.

s.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.

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR 2010

Notes to the financial statements for 2010 refer to the consolidated figures, as the parent company and the group are the same in most areas. Supplementary information is provided about the subsidiary's share in the notes where there are consolidation effects of significance – see Note 17.

1 - LICENSING OF LUMACAN TO SALIX PHARMACEUTICALS AND SALES REVENUES

On 20 October 2010, Photocure signed a partnership agreement with Salix Pharmaceuticals, Inc. that involves Salix carrying out and covering the costs for the development, registration and commercialisation of Lumacan for the diagnosis of colorectal cancer. Photocure received USD 4 million on signature of the agreement and is entitled to up to USD 126.5 million in milestone payments from Salix, along with royalties on sales. These milestone payments are largely related to clinical development and regulatory events, but are also linked to sales. In addition, Photocure will receive a double digit royalty percentage as well as a percentage of all Salix's revenues from licensing outside the United States. The agreement is in line with Photocure's strategy of licensing cancer projects prior to phase III. Salix is an United States pharmaceutical company that is listed on NASDAQ and focused on gastrointestinal diseases (stomach and bowels). Salix will carry out and cover the costs of the development, registration and commercialisation of Lumacan worldwide, while Photocure has retained the rights to market and sell Lumacan in the Nordic countries.

With effect from 30 September 2009, Photocure entered into an agreement with Galderma S.A. concerning the sale of global rights, assets and liabilities associated with Metvix/Aktilite, as well as exclusive rights to develop new dermatological products based on Photocure's patented substance MAL. These agreements replaced the previous license agreement and expanded the geographical area to include the Nordic countries, transferred assets associated with Metvix/Aktilite (Asset Purchase Agreement), expanded the licensing rights to apply to all dermatological uses (Paid-up License Agreement) and included a license to produce the active ingredient MAL. Galderma has subsequently taken over all rights to Metvix/Aktilite worldwide. The transfer of rights, obligations and assets to Galderma included Photocure's sales and marketing organisation for Metvix/Aktilite in the Nordic region. Photocure received EUR 44 million on signature, and will receive an additional EUR 7 million before December 2016 for the rights associated with new MAL-based dermatology products. The exact timing of the payment of the EUR 7 million will depend on future regulatory approvals in Europe and the United States. However, payment of EUR 3 million will be made before December 2012, and payment of the remaining EUR 4 million will be made before December 2016. The sum of EUR 7 million will be recognised as revenue over the period up to the time of the last payment. Other payments from Galderma are recognised as revenue as incurred

Photocure has a licence agreement with GE Healthcare for the Hexvix product. According to this agreement, GE Healthcare is responsible for marketing and distribution outside the Nordic region.
The licence agreement with GE Healthcare entails milestone payments in the total amount of EUR 28 million, which have been achieved as of 31 December 2010. Non-refundable milestone payments received totalled EUR 10.5 million in 2010. Payments received are regarded as payments for accrued expenses associated with the development of the product, and payments received are therefore recognised as revenue in the accounts. In addition, Photocure is to produce and sell Hexvix to GE Healthcare, and to receive royalties from GE Healthcare for its sale of the product.

2 - RECLASSIFICATION OF INCOME STATEMENT

Photocure has reclassified the income statement for 2009 to provide a better comparison of the continued business following the sale of Metvix/Aktilite as of 30 September 2009. This involves a NOK 3.1 million increase in Sales revenues and a corresponding reduction in Profits from discontinued business.
Photocure has also redefined its activities in the field of business developments, removing them from Research and development and classifying them instead as an activity under Administration and business development.

3 - OPERATING SEGMENTS

The company's operating segments follow the business model for Photocure. Sales revenue from own sales (Own sales) consists of sales to pharmaceutical wholesalers and end users of medical equipment, such as hospitals and clinics, in the Nordic region. Sales through partners (Partner sales) comprise sales of Hexvix to GE Healthcare outside the Nordic region, and royalties from sales by GE Healthcare to end users. The sale of the active substance MAL to Galderma after 30 September 2009 and the deferred recognition of Metvix revenue from Galderma are included in Dermatology. The milestone revenues consist of milestone payment received from GE Healthcare for obtaining approval of Cysview in the United States, and the signing payment from Salix for the licensing of Lumacan.

Research and Development (R&D) is a separate segment that comprises all costs associated with R&D. Government research funding is recognised as other income and is offset against operating expenses.

Income statement – reportable segments
(Figures in NOK 1,000)

	2010					
	Cancer segment				Dermatology(2)	Total
	Own sales	Partner sales	R&D(1)	Total cancer		
Sales revenues	19 533	38 085	0	57 618	12 898	70 517
Cost of goods sold	-1 329	-7 795	0	-9 124	0	-9 124
Gross profit	18 203	30 291	0	48 494	12 898	61 392
Gross profit %	93%	80%	-	84%	-	87%
Milestone revenues	0	106 840	0	106 840	0	106 840
Profit on sale of product group / other revenues						771
Operating expenses	-18 272	-15 231	-65 470	-98 973	-62 510	-161 483
Operating profit/loss	**-68**	**121 899**	**-65 470**	**56 361**	**-49 612**	**7 521**
Net financial items						10 571
Profit before tax						**18 092**

Income statement – reportable segments
(Figures in NOK 1,000)

	2009					
	Cancer segment				Dermatology(2)	Total
	Own sales	Partner sales	R&D(1)	Total cancer		
Sales revenues	16 908	29 090	0	45 998	5 486	51 484
Cost of goods sold	-718	-3 700	0	-4 418	-1 123	-5 541
Gross profit	16 191	25 389	0	41 580	4 363	45 943
Gross profit %	96%	87%	-	90%	80%	89%
Milestone revenues	0	0	0	0	0	0
Profit on sale of product group / other revenues						385 827
Operating expenses	-20 726	-13 268	-76 921	-110 915	-10 924	-121 839
Operating profit/loss	**-4 535**	**12 121**	**-70 809**	**-69 335**	**-6 561**	**309 930**
Net financial items						2 451
Profit before tax						**312 382**

(1) Including share of general and administrative expenses.
(2) Deferred recognition of revenue from the Metvix sale and the sale of MAL. Operating expenses include R&D Visonac/Allumera, business development and administrative expenses. For 2009, only R&D and staff expenses.

NOTES TO THE FINANCIAL STATEMENTS FOR 2010

Balance sheet – reportable segments
(Figures in NOK 1,000)

	Own sales	Partner sales	R&D	2010 Total	Own sales	Partner sales	R&D	2009 Total
Assets								
Non-current assets				86 192				16 722
Inventories	5 340	12 851	0	18 191	4 937	8 889	0	13 826
Receivables	2 371	11 236	6 610	20 218	2 414	12 894	7 504	22 811
Cash and short term deposits				389 241	0	0	0	403 502
Total assets	**7 711**	**24 088**	**6 610**	**513 842**	**7 351**	**21 783**	**7 504**	**456 862**
Equity and liabilities								
Equity				458 854				415 783
Non-current liabilities				690				340
Current liabilities				54 298				40 739
Total equity and liabilities				**513 842**				**456 862**

Inventories and receivables are broken down in relation to segments.

Non-current assets, cash and deposits, equity and liabilities are followed up by the management in total for the company and not per segment.

4 - OTHER INCOME

(Figures in NOK 1,000)	2010	2009
Grants from the Research Council of Norway for development projects	4 264	8 917
Skattefunn	2 200	2 200
Miscellaneous income	928	535
Total	**7 392**	**11 652**

Miscellaneous income includes settlement and final invoicing in the Metvix/Aktilite product area.

5 - DISCONTINUED OPERATIONS

(Figures in NOK 1,000)

As of 30 September 2009, Photocure has sold its business associated with Metvix/Aktilite. Comparison figures have been adjusted so that discontinued business is presented separately from continued business.

Profits from discontinued business:	**2009**
Operating revenues	50 370
Operating expenses	-30 812
Operating profit	**19 558**
Tax expense	0
Operating profit after tax	**19 558**
Gain on sale of discontinued business	366 269
Tax on profit from sale of discontinued	0
Profit for the period	**385 827**
Earnings per share	17.62
Earnings per share, diluted	17.60

Cash flow from discontinued operations	2009
Net cash flow from operating activities	19 558
Net cash flow from investing activities	1 116
Net cash flow from financing activities	0
Total cash flow from discontinued operations	**20 674**

Gain on sale of discontinued business consists of	
Consideration received	373 561
Direct transaction expenses	-2 934
Legal fees and fees for commercial assistance	-4 358
Net gain	**366 269**

6 - COST OF GOODS SOLD

Cost of goods sold includes royalties for sold products with licensing of technology and rights from other parties.
Royalties for licensed technology amounted to NOK 0.9 million in 2010 and NOK 0.5 million in 2009, associated with Hexvix.

7 - INCOME STATEMENT CLASSIFICATION

(Figures in NOK 1,000)

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

	Note	2010	2009
Sales revenues	2	70 517	51 484
Signing fees and milestone revenue		106 840	
Cost of goods sold		-9 124	-5 541
Gross profit		168 233	45 943
Other income	4	7 392	11 652
Payroll expenses	9	-59 447	-59 958
R&D costs excluding payroll expenses / other operating expenses	8	-62 201	-45 618
Ordinary depreciation and amortisation	15	-1 316	-1 451
Other operating expenses		-45 140	-47 348
Operating expenses, discontinued operations, reclassified			20 884
Total operating expenses		-160 712	-121 839
Operating profit, continued operations		**7 521**	**-75 896**
Net financial items		10 571	2 451
Profit discontinued operations	2, 5		385 827
Operating profit		**18 092**	**312 383**

Specification of Other operating expenses:

	2010	2009
Marketing expenses	9 404	6 545
Travel expenses	4 830	5 845
Patent costs, legal and other fees	18 595	17 810
Other expenses	12 311	17 148
Total other operating expenses	**45 140**	**47 348**

NOTES TO THE FINANCIAL STATEMENTS FOR 2010

8 - R&D COSTS AND LUMACAN

As mentioned in Note 1, Photocure has entered into an agreement with Salix Pharmaceuticals, Inc. concerning the licensing of Lumacan. The agreement grants Salix all rights to patented and own development involving the use of the active substance hexylaminolevulinate (HAL) for the diagnosis of colorectal cancer. Photocure has committed to refund Salix up to USD 3 million for its development work associated with formulation. Photocure has no rights to this development of Lumacan, and this generates no direct revenues for the company. The obligation has thus been recognised as R&D expense in the amount of USD 3 million (equivalent to NOK 17.5 million) on the signing of the license agreement with Salix.

Salix will carry out and cover the costs of the development, registration and commercialisation of Lumacan. Photocure will follow up on the development through participation in committees in accordance with the Salix greements.

9 - PERSONELL EXPENSES

(Figures in NOK 1,000)	Note	2010	2009
Salaries		41 424	43 832
Employer's social security contributions on salaries, etc.		6 670	6 096
Option costs		5 489	3 454
Employer's social security contributions on options		951	567
Pension costs	10	2 989	3 388
Other benefits		1 924	2 622
Total payroll expenses		**59 447**	**59 958**
Number of full-time equivalent positions		47.3	49.8

Total payroll expenses include the newly established subsidiary Photocure, Inc. which amounts to NOK 1.4 million for the period subsequent to establishment in 2010.
At 31 December 2010, this company employs two people

Share-based remuneration

As part of the company's incentive policy, employees are offered subscription rights to the company's shares (the term 'options' is also used). Allocated warrants are earned over three years, one third each year. Warrants are no longer valid after five (5) years or immediately on resignation of the employment. No warrants are allocated to members of the board of directors.
For 2010, NOK 5.5 million of share-based payments has been expensed, of which NOK 0.5 million applies to Photocure Inc. The corresponding figure for Photocure in 2009 was NOK 3.5 million.

At 31 December 2010, employees in Photocure had the following option schemes:

Year of allocation	**2010**	**2010**	**2010**	**2009**
Option programme	2010	2010	2009	2008
Number	50 000	25 000	325 096	310 269
Exercise price (NOK)	38.00	44.00	20,30	32.00
Date of expiry (31 December)	2015	2015	2014	2013

In addition, a conditional allocation of 498,000 options was made at price NOK 44.00. This allocation is dependent on the achievement of both personal and company goals.
Allocation of these options will take place in February/March 2011 after an evaluation of goal achievement for 2010.

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

	2010		2009	
	Number	Average exercise price (NOK)	Number	Average exercise price (NOK)
Outstanding at start of year	629 223	37.51	496 192	48.44
Allocated during the year	499 689	23.26	494 678	36.00
Become invalid during the year	0		56 488	42.22
Exercised during the year	179 322	25.50	109 042	36.00
Expired during the year	239 225	46.50	196 117	48.00
Outstanding at end of year	710 365	27.49	629 223	37.51
Exercisable options as per 31 December	187 792	29.39	300 330	43.55

The average weighted life of outstanding share options was 3.3 years at 31 December 2009 and 3.6 years at 31 December 2010.
The average weighted market value of options issued in 2009 was NOK 6.57, and in 2010 it was NOK 11.07 per option.
The market prices for the Photocure share on the exercising of the options in March and November 2010 were NOK 44.90 and NOK 44.10 per share, respectively.

The exercise prices and the average life of outstanding share options as per 31 December 2010 were as follows:

No. of options	Exercise price	Average remaining life
310 269	kr 32.00	3 years
325 096	kr 20.30	4 years
50 000	kr 38.00	5 years
25 000	kr 44.00	5 years

Calculation method for market value of subscription rights / employee options

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

	2010 - I	2010 - II	2009
Dividends	0.00	0.00	0.00
Expected volatility (%)	41.06	41.06	44.35
Historical volatility (%)	41.06	41.06	44.35
Risk-free interest (%)	3.08	2.57	3.11
Expected life of options (years)	3.65	3.50	3.66

NOTES TO THE FINANCIAL STATEMENTS FOR 2010

10 - PENSION COSTS

The company has a contribution-based pension scheme. This pension scheme comply to the requirements in regard to compulsory occupational pensions in Norway. As of 31 December 2010, the company had no deposits on the premium/contribution fund, as of 31 December 2009 the deposits were NOK 0.2 million. The company has entered into pension agreements with employees whose salaries exceed 12 G in the form of contribution-based pensions not covered by insurance. This contribution-based pension liability is interestbearing by 4.5% per annum.

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

	2010	2009
Total pension costs, contribution scheme in life assurance	2 639	3 048
Total pension costs, company contribution scheme	350	340
TOTAL	**2 989**	**3 388**

11 - AUDITING FEES

(Figures in NOK 1,000 ex. VAT)

	2010	2009
Statutory auditing	220	380
Other attestation services	19	62
Other services excluding auditing	0	0
Tax advice	71	100
TOTAL	**310**	**542**

12 - FINANCIAL INCOME AND EXPENSE

(Figures in NOK 1,000)

	2010	2009
Interest income	10 142	9 281
Foreign exchange gains	4 737	4 271
Other financial income	270	0
Total financial income	**15 149**	**13 551**

	2010	2009
Write-downs on securities	0	4 192
Interest expense	15	4
Foreign exchange losses	4 401	6 850
Other financial expense	162	54
Total financial expense	**4 578**	**11 100**

13 - TAX

(Figures in NOK 1,000)

Reconciliation of tax against expected nominal rate of tax:

	2010	2009
Profit before tax	18 092	312 382
Expected nominal rate of tax (28%)	5 066	87 467
Change in temporary differences	21 906	-82 037
Change in non-incorporated temporary differences	-44	-24
Permanent differences	1 510	695
Not recognised deferred tax benefit on tax-related loss in subsidiary	867	-
Utilisation of tax loss carried forward, not previously incorporated	-29 304	-6 101
Total tax for the year	**-0**	**-0**

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

	2010	2009
Gain discontinued operations	65 635	82 044
Fixed assets	-556	-543
Inventories	538	576
Receivables/liabilities	-5 451	-158
Net pension obligation	-193	-41
Total net deferred tax liability/(asset)	59 973	81 878
Loss to be carried forward	-98 028	-126 469
Net deferred tax asset	-38 055	-44 590
Write down of deferred tax asset	38 055	44 590
Deferred tax benefit recognised in balance sheet	**0**	**0**

Despite the tax-related profits in 2009 and 2010, the company has chosen to assess the deferred tax benefit at NOK 0. There is no time limit on losses to be carried forward.

14 - EARNINGS PER SHARE

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

	2010	2009
No. of shares		
Ordinary shares 1 January	22 093 301	22 093 301
Effect of treasury shares	-508 287	-28 344
Effect of share options exercised	0	0
Weighted average number of shares, 31 December	**21 585 014**	**22 064 957**
Effect of outstanding share options	276 718	25 361
Weighted average number of diluted shares, 31 December	**21 861 732**	**22 090 318**

Earnings per share	2010		2009		
	Group	Parent Company	Continued operations	Discontinued operations	Total
Weighted average number of shares	21 585 014	21 585 014	22 064 957	22 064 957	22 064 957
Dilution effect	276 718	276 718	25 361	25 361	25 361
Weighted average number of shares diluted	21 861 732	21 861 732	22 090 318	22 090 318	22 090 318
Annual earnings per share in NOK	0.84	1.02	-3.46	17.62	14.16
Annual earnings per share in NOK diluted	0.83	1.01	-3.46	17.60	14.14

15 - MACHINERY AND EQUIPMENT

(Figures in NOK 1,000)

	Software	Production Equipment	Furniture & Equipment	Kept for sale	Total
Accumulated cost at 1 January 2009	1 028	999	2 623	2 418	7 068
Additions in 2009	44	30	217	350	641
Discontinued operations				-2 768	-2 768
Other disposals and scrapping in 2009					0
Accumulated cost at 31 December 2009	1 072	1 029	2 840	0	4 941
Additions in 2010	347	323	523		1 193
Disposals and scrapping in 2010		-25	-645		-670
Accumulated cost at 31 December 2010	1 419	1 327	2 718	0	5 464
Accumulated depreciation at 1 January 2009	494	223	1 007	871	2 595
Ordinary depreciation for 2009	213	196	674	369	1 452
Discontinued operations				-1 240	-1 240
Other disposals and scrapping in 2009					0
Accumulated depreciation at 31 December 2009	707	419	1 681	0	2 807
Ordinary depreciation for 2010	246	248	604		1 098
Write-downs for 2010			218		218
Disposals and scrapping in 2010		-25	-562		-587
Accumulated depreciation at 31 Dec. 2010	953	642	1 941	0	3 536
Book value at 31 December 2010	**466**	**685**	**778**	**0**	**1 929**
Book value at 31 December 2009	**365**	**610**	**1 159**	**0**	**2 136**

Rental costs	**2010**	**2009**
Rental of office premises	2 470	2 652
Rental of equipment	458	321
Total rental costs	**2 928**	**2 973**

The company rent premises in Hoffsveien 48 in Oslo, Norway. The current agreements expire 14 September 2011. Rent including shared expenses amounts to NOK 1.9 million for the period 1 January 2011 through the expiry of the agreement on 14 September 2011. Annual adjustment of the rent corresponds to the change in the consumer price index.

The company has entered into a new rent agreement for premises at Hoffsveien 4 in Oslo. The current agreement is to run from 1 March 2011 through 30 August 2016, without any right to terminate. Photocure has an option to extend the agreement for additional 5 years. Rent including shared expenses amounts to NOK 1.6 million for the period 1 March 2011 through 31 December 2011. The rent for the remaining period until the expiry of the agreement on 30 August 2016 amounts to NOK 16.8 million. Annual regulation of the rent corresponds to the change in the consumer price index.

Leasing of equipment comprises medical treatment equipment located at hospitals and office equipment. All leasing agreements for equipment are short-term, and leasing costs for 2011 are estimated to total NOK 0.3 million.

16 - OTHER INVESTMENTS

Shares	Location	Year of incorporation	Share capital of company	Shareholding and share of voting rights	Book value	Equity at 31 Dec. 2010	Profit/loss at 31 Dec. 2010
Photocure Inc	Princeton, NJ, USA	2010	1	100.00%	452	Note 17	Note 17
PCI Biotech Holding ASA	Oslo, Norway	2007	16 249	19.35%	69 865	105 423	-13 940

Shares in PCI Biotech Holding ASA are valued at market price on Oslo Axess at 31 December 2010 at NOK 47.10 per share.

Other non-current financial assets	**12.31.2010**	**12.31.2009**
Booked part of final settlement (EUR 7 million) from sale of Metvix/Aktilite, cf. description in Note 1	14 398	3 057

17 - PHOTOCURE INC FINANCIAL STATEMENTS

(Figures in NOK 1,000)

Income statement for the period 23 June–31 December 2010

Marketing and sales expenses	-2 482
Other operating expenses	-1 473
Total operating expenses	**-3 955**
Financial income	0
Financial expenses	0
Net financial items	**0**
Loss before tax	**-3 955**
Tax expense	0
Net loss for the period	**-3 955**

Balance sheet as of 31 December 2010

		Included in Note
Machinery and equipment	0	
Total non-current assets	**0**	
Other receivables	320	
Bank deposits	5 698	22
Total current assets	**6 018**	
Total assets	**6 018**	
Share capital and paid-in equity	452	
Uncovered losses	-3 883	
Total Equity	**-3 431**	
Trade payables	934	25
Public charges payable	0	
Loan from parent company	7 615	26
Other short-term liabilities	900	25
Total current liabilities	**9 449**	
Total equity and liabilities	**6 018**	

18 - INVENTORIES

(Figures in NOK 1,000)

	12.31.2010	**12.31.2009**
Raw materials	4 283	3 054
Components	1 382	0
Semi-finished and finished goods	12 526	10 773
Total inventories	**18 191**	**13 827**

The raw materials inventory consists of active substances for the pharmaceutical products. Raw materials are valued at cost price. Finished and semi-finished goods are valued at full manufacturing cost. Consumption is carried out in accordance with the FIFO principle. Obsolete goods are written down to fair value. Provisions and write-downs of inventories are included in goods consumed in the income statement.
Stocks of components comprises products that are to be used in the production of technical medical equipment.

19 - FINANCIAL RISK

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

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

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

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

Commercial operations – production, sales and marketing
Photocure produces, markets and sells the company's products via two different business models. One of these models involves marketing and sale through the company's own organisation in the Nordic region. The other involves marketing and sale through licence partners. Revenues from licence partners are divided into three streams: sales of products to licence partners, royalties from licence partners' sales to end users, and milestones. Photocure produces the company's products by means of contract production at recognised manufacturers in the United States, Spain, Sweden and Norway. Price risk with regard to raw materials is a risk factor. Attempts are made to reduce price risks by using a "cost plus margin" model in licensing agreements. This model makes Photocure's exposure less dependent on changes in prices for raw materials and other input factors.
Currency risk is primarily associated with royalties, where Photocure's revenues vary on the basis of exchange rates – principally the EUR exchange rate. This currency risk is reduced by purchasing input factors in the same currency.

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

(II) Classes of financial risk

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

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

Photocure uses a multi-currency consolidated accounts system that provides flexibility in relation to drawing on multiple currencies.

The following table presents an overview of the maturity structure of the company'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
12.31.2010					
Accounts payable	8 066	1 000			**9 066**
Other current liabilities	1 500	15 937	16 275	8 775	**42 487**
12.31.2009					
Accounts payable	12 516	1 420			**13 936**
Other current liabilities	978	12 000	8 500	2 000	**23 478**

Credit risk

Management of credit risk associated with accounts receivable and other operational receivables is dealt with as a part of the commercial risk and is followed up continuously as a part of normal operations. Photocure is primarily exposed to credit risk associated with accounts receivable and other short-term receivables. Photocure's sales are made to license partners and to major pharmaceutical wholesalers in the Nordic region. The concentration of the credit risk is limited because the counterparties are large, sound companies that are not related to each other. Our largest license partner – GE Healthcare – has a high credit rating. Photocure's credit risk is considered moderate, so Photocure does not use credit insurance.

Currency risk

As NOK is the company's presentation currency, Photocure is exposed to translation risk associated with the company's foreign net exposure. Photocure's expenses and revenues are accrued in different currencies, primarily EUR, USD, GBP, SEK and DKK. Photocure is therefore exposed to exchange rate fluctuations. The company assesses whether efforts shall be implemented to reduce the foreign exchange risk for significant transactions associated with license agreements .This is done by incorporating mechanisms into the licensing agreements – through the sale of products in NOK, for example. In addition, bank accounts in other currencies are used actively to reduce exposure to all the main currencies.

Photocure does not have any outstanding hedges of future transactions at 31 December 2010.

The following table shows the company's sensitivity for potential changes in the NOK exchange rate with all other factors constant. The calculation is based on the same change in relation to all relevant currencies. The effect in the income statement comes from changes in the value of monetary items.

	Change in the NOK exchange rate	Effect on operating profit/loss
2010	+ 10 %	6 274
	- 10 %	-6 274
2009	+ 10 %	34 565
	- 10 %	-34 565

NOTES TO THE FINANCIAL STATEMENTS FOR 2010

20 - NET REALISABLE VALUE

The table below analyses financial assets recognised in the balance sheet at fair value according to the valuation method. The different levels have been defined as follows:

Level 1	Noted prices in active markets for corresponding assets or liabilities
Level 2	Available value measurements other than the noted prices classified as Level 1, either directly observable in the form of agreed prices or indirectly as derived from the price of equivalent.
Level 3	Value measurements of assets or liabilities that are not based on observed market values

Market value hierarchy	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets available for sale:				
- Shares in PCI Biotech Holding ASA	69 865			**69 865**
- Money market funds	341 109			**341 109**
Total	**410 974**	**0**	**0**	**410 974**

21 - RECEIVABLES

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

(Figures in NOK 1,000)

	12.31.2010	**12.31.2009**
Accounts receivable	**5 214**	**5 826**
Royalty	7 717	6 380
Other receivables	7 287	10 606
Total other receivables	**15 004**	**16 986**

At 31 December 2010, the parent company had made loans to the subsidiary in the amount of NOK 7.6 million.

Age breakdown of accounts receivable	**Not yet due**	**0–30 days**	**30–60 days**	**60–90 days**	**Over 90 days**	**Total**
12.31.2010	5 058	32	54	70	0	**5 214**
12.31.2009	5 475	243	0	6	102	**5 826**

There are insignificant bad debts, and no provisions for bad debts have been made, neither at 31 December 2010 nor at 31 December 2009. Credit risk and foreign exchange risk in regard to trade accounts receivable are dealt with in more detail in note 19.

22 - CASH AND SHORT TERM DEPOSITS

(Figures in NOK 1,000)

	12.31.2010	12.31.2009
Cash and cash equivalents, restricted [1]	3 129	3 146
Cash and cash equivalents, non-restricted	45 003	23 167
Money market funds, non-restricted	341 109	377 189
Total	**389 241**	**403 502**

[1] Restricted cash and cash equivalents at 31 December 2010 include security for employees' withholding tax in the amount of NOK 1.7 million, while the remaining amount refers to deposit on rent.

23 - SHARE CAPITAL

Registered share capital in Photocure ASA amounted to:

	No. of shares	Nominal value per share	Share capital in NOK
Share capital at 31 December 2009	**22 093 301**	**NOK 0.50**	**11 046 651**
Share capital at 31 December 2010	**22 093 301**	**NOK 0.50**	**11 046 651**
Treasury shares:			
Buy-back of treasury shares, 2009	410 600	NOK 0.50	205 300
Sale of treasury shares, 2009	(109 042)	NOK 0.50	(54 521)
Holdings of treasury shares at 31 December 2009	**301 558**		**150 779**
Buy-back of treasury shares, 2010	573 416	NOK 0.50	286 708
Sale of treasury shares, 2010	(179 322)	NOK 0.50	(89 661)
Holdings of treasury shares at 31 December 2010	**695 652**		**347 826**

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 reserve).

At the General Meeting held on 28 April 2010, the board of directors of Photocure ASA was granted authorisation to issue 4.4 million shares. Of this authorisation, (a) 1.8 million shares are linked to financing of the company's development, while (b) 0.4 million shares are associated with the issue of shares to the company's employees and selected partners. The remaining authorisation to issue 2.2 million shares is not linked to special terms and conditions.

At the General Meeting held on 28 April 2010, the board of directors was granted authorisation to purchase treasury shares to a total nominal value of up to 10% of the applicable share capital. The basis for this authorisation to purchase treasury shares is the desire by the board of directors to increase the liquidity of the company's shares.
All authorisations are valid up until the Ordinary General Meeting in 2011. Previously issued authorisations have expired.

The table below indicates the status of authorisations at 31 December 2010:

	Purchase, treasury shares	Ordinary share issue	Employee share issues
(Figures indicate the number of shares)			
Authorisation issued at the General Meeting on 28 April 2010	2 209 330	4 000 000	400 000
Share issues after the General Meeting on 28 April 2010		0	0
Net purchase of treasury shares	-695 652		
Remaining under authorisations at 31 December 2010	**1 513 678**	**4 000 000**	**400 000**

At 31 December 2010, 710,365 subscription rights have been allocated to employees (see Note 9).
For the company's buy-back of 573,416 shares in 2010, the average price paid was NOK 45.46.

NOTES TO THE FINANCIAL STATEMENTS FOR 2010

Ownership structure

The major shareholders in Photocure as of 31 December 2010 were:

	Shares	Shareholding
The Norwegian Radium Hospital Research Foundation	3 129 000	14.2 %
BNP Paribas Security Service	1 998 825	9.1 %
Odin Norge	1 739 240	7.9 %
Gezina AS	1 326 306	6.0 %
Skagen vekst	1 114 401	5.0 %
Kommunal Landspensjonskasse	882 600	4.0 %
KLP Aksje Norge VPF	776 688	3.5 %
VPS Fondsfinans Spar	605 000	2.7 %
Holberg Norge	594 081	2.7 %
MP Pensjon PK	500 000	2.3 %
Danske Invest Norske Aksjer	475 323	2.2 %
Bergen Kommunale Pensjonskasse	400 000	1.8 %
Vicama AS	345 384	1.6 %
Total for shareholders with a shareholding of more than 1%	**13 886 848**	**62.8 %**
Treasury shares	695 652	3.2 %
Total other shareholders	7 510 801	34.0 %
Total number of shares	**22 093 301**	**100.0 %**

Shares owned, directly or indirectly, by members of the board, the President and CEO and senior management and their closly related associates as of 31 December 2010:

Name	Position	No. of shares	No. of subscription rights*
Erik Engebretsen**	Chairman	33 750	
Jon Hindar	Board member	8 000	
Kari Krogstad	Board member	-	
Åse Aulie Michelet	Board member	-	
Mats Pettersson	Board member	-	
Eva Steiness	Board member	-	
Kjetil Hestdal	President and CEO	62 873	59 000
Christian Fekete	Chief Financial Officer	-	50 850
Grete Hogstad	Vice President Marketing and Sales	8 000	35 600
Inger Ferner Heglund	Vice President Research and Development	8 200	42 650
Gry Stensrud	Vice Precident Technical Development and Operations	6	19 646

* See Note 9 for additional information about subscription rights.

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

For 2010, the board of directors of Photocure has continued an incentive programme for the company's employees, including the company management. A total of 498,000 conditional share options / subscription rights have been awarded for 2010, with each share option entitling the holder to subscribe for one new share in the company at a price of NOK 44.00. These share options will only be earned if significant goals in the work programme and the budget for 2010 are achieved. The cost calculation of these options includes an assumption of 82.5% goal achievement. The conditional share options for the company management are explained in Note 26.

24 - CAPITAL STRUCTURE

The company is financed by equity and had no interest-bearing debt at 31 December 2010 and 31 December 2009.

25 - OTHER CURRENT LIABILITIES

(Figures in NOK 1,000)

	12.31.2010	12.31.2009
Provision for accrued external R&D costs	8 926	7 945
Provision for obligation under Lumacan license agreement	17 550	-
Accrued bonus, holiday pay, salaries	9 742	8 565
Accrued royalty liability	3 176	1 190
Miscellaneous other accrued costs	3 093	5 778
Total other current liabilities	**42 487**	**23 478**

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

26 - TRANSACTIONS WITH RELATED PARTIES

(Figures in NOK 1,000)

	Directors' fees paid	Salaries paid	Bonuses paid	Benefits in kind	Pension cost	Total
Senior managers 2010						
President and CEO		1 957	744	132	239	**3 072**
Chief Financial Officer		1 153	266	62	108	**1 589**
VP Research and Development		1 085	257	94	106	**1 542**
VP Marketing and Sales		1 201	184	107	124	**1 616**
VP Technical Development and Operations, 4 Oct. 2010		948	169	16	79	**1 212**
Total senior managers		**6 344**	**1 620**	**411**	**656**	**9 031**
Board of directors 2010						
Chairman of the Board	405					**405**
Members of the Board	852					**852**
Total remuneration	**1 257**	**6 344**	**1 620**	**411**	**656**	**10 288**

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

NOTES TO THE FINANCIAL STATEMENTS FOR 2010

Photocure's policy in regard to determination of salaries and other remuneration for senior managers is to pay market rates and provide other benefits that are commensurate with such senior management positions. It is important to attract the required competence and experience so as to promote value generation in the company and to contribute to the mutual interests between owners and senior management. This profit-based remuneration is to be linked to value generation for shareholders or revenue developed for the company over time. Photocure has a remuneration committee that administrates this policy on behalf of the board of directors.

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

In 2010, the CEO was entitled to a bonus dependent on the fulfilment of certain conditions. Bonuses for members of the senior management are calculated on the basis of the company's financial results, the company's development work, and achievement of own goals.

Senior managers participate in the company's pension scheme, which is a contribution scheme that involves payment of between 5% and 8% of the employee's salary, up to a maximum of 12 times the basic amount (G) of the Norwegian National Social Security Scheme (Folketrygden). Photocure has established pension coverage for employees with salaries higher than 12 G. The scheme is a contribution-based operating pension with provisions corresponding to 16% of salary above 12 G. In the event of resignation, full pension rights are conditional upon at least five years' employment, while less than 3-years' employment carries no rights. Contributions paid generated interest at 4.5% p.a. in 2010. The pension schemes also cover in the event of disability.

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

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

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

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

Subscription rights for senior managers 2010	Subscription rights awarded*	Expired subscription rights	Subscription rights exercised	Holding of subscription rights at 31 December 2010	Average exercise price	Conditionally awarded subscription rights
President and CEO	37 500	14 000	-	59 000	24.56	50 000
Chief Financial Officer	26 250	15 000	-	50 850	25.96	30 000
VP Marketing and Sales	26 250	15 000	8 750	35 600	26.25	30 000
VP Research and Development	26 250	14 375	-	42 650	24.80	30 000
VP Technical Development and Operations	18 750	10 500	13 396	19 646	24.56	20 000
Total	**135 000**	**68 875**	**22 146**	**207 746**		**160 000**

* Exercise price NOK 20.30, expiry date 31 December 2014.

Subscription rights for senior managers 2009	Subscription rights awarded*	Expired subscription rights	Subscription rights exercised	Holding of subscription rights at 31 December 2009	Average exercise price	Conditionally awarded subscription rights
President and CEO	21 500	17 500	-	35 500	37.72	50 000
Chief Financial Officer	24 600	14 400	-	39 600	37.49	30 000
VP Marketing and Sales	21 600	14 850	3 500	33 100	38.57	30 000
VP Research and Development	24 600	30 500	8 200	30 775	38.77	30 000
Total	**92 300**	**77 250**	**11 700**	**138 975**		**140 000**

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

Other closely related parties

Photocure Inc
The wholly owned subsidiary Photocure Inc. finances its operations through a loan in USD from the parent company. At 31 December 2010, the loan is considered short-term and interest-free in the expectation of final financing, which will be decided during the first six months of 2011.

The Norwegian Radium Hospital Research Foundation
The Norwegian Radium Hospital Research Foundation (RF) is the largest single shareholder in Photocure ASA with 14.2% of the shares at 31 December 2010. RF originally founded Photocure ASA on the basis of photodynamic therapy developed at the Norwegian Radium Hospital HF (DNR).
In 2010 Photocure ASA renewed its agreement with RF, which provides the company with access to new technology in the field of photodynamic therapy, as well as an option to acquire new technology in the field of photodynamic therapy developed by DNR, in return for the company's participation in financing research and development. The agreement has been extended for three years and now runs until 31 December 2013.

Under the contract and for R&D services and other goods and services, Photocure ASA paid NOK 500,000 on market terms and conditions to DNR/RF in 2010, and the company paid a corresponding amount in 2009. At 31 December 2010 and at 31 December 2009, Photocure ASA had no accounts owing to or from DNR/RF.

27 - ACCOUNTS STANDARDS AND INTERPRETATIONS ISSUED BUT NOT APPLIED

There are a number of new standards, changes and interpretations that have not come into effect during the year ending 31 December 2010, and which were not used in the preparation of these annual accounts. None of these will result in changes in the company's application of accounting principles or note information, nor will they have any effect on the annual accounts at 31 December 2010.

CORPORATE GOVERNANCE

Photocure is committed to good corporate governance

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

Photocure complies with the Norwegian Code of Practice for Corporate Governance of 21 October 2010. The code is a "comply or explain" guideline and Photocure's governance structure is in accordance with the guidelines.

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

1 - Reporting on corporate governance

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

2 - Business

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

3- Equity and dividends

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

4 - Equal treatment of shareholders and transactions with related parties

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

5 - Freely negotiable shares

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

6 - The General Meeting

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

7 - Nomination committee

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

8 - Composition and independence of the board of directors

The composition of the board of directors of Photocure is designed to ensure that it can attend to the common interests of all shareholders, and that it meets the company's requirements for expertise, capacity and diversity. The members of the board of directors are elected for one year at a time and presented in the company's annual report. The Chairman of the Board is elected by the General Meeting.

9 - The work of the board of directors

The board of directors prepares an annual plan for its work, which comprises goals, strategy and implementation. The board has established an audit committee and a remuneration committee for the thorough and independent handling of cases involving financial reporting and remuneration to key employees.

10 - Risk management and internal control

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

11 - Remuneration of the board of directors

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

12 - Remuneration of key employees

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

13 - Information and communications

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

14 - Company take-overs

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

15 - Auditor

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

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To the Annual Shareholders' Meeting of Photocure ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Photocure ASA, which comprise the financial statements of the parent company Photocure ASA and the consolidated financial statements of Photocure ASA and its subsidiary. The parent company's and the consolidated financial statements comprise the balance sheet as at 31 December, 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Photocure ASA and of Photocure ASA and its subsidiary as at 31 December, 2010, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

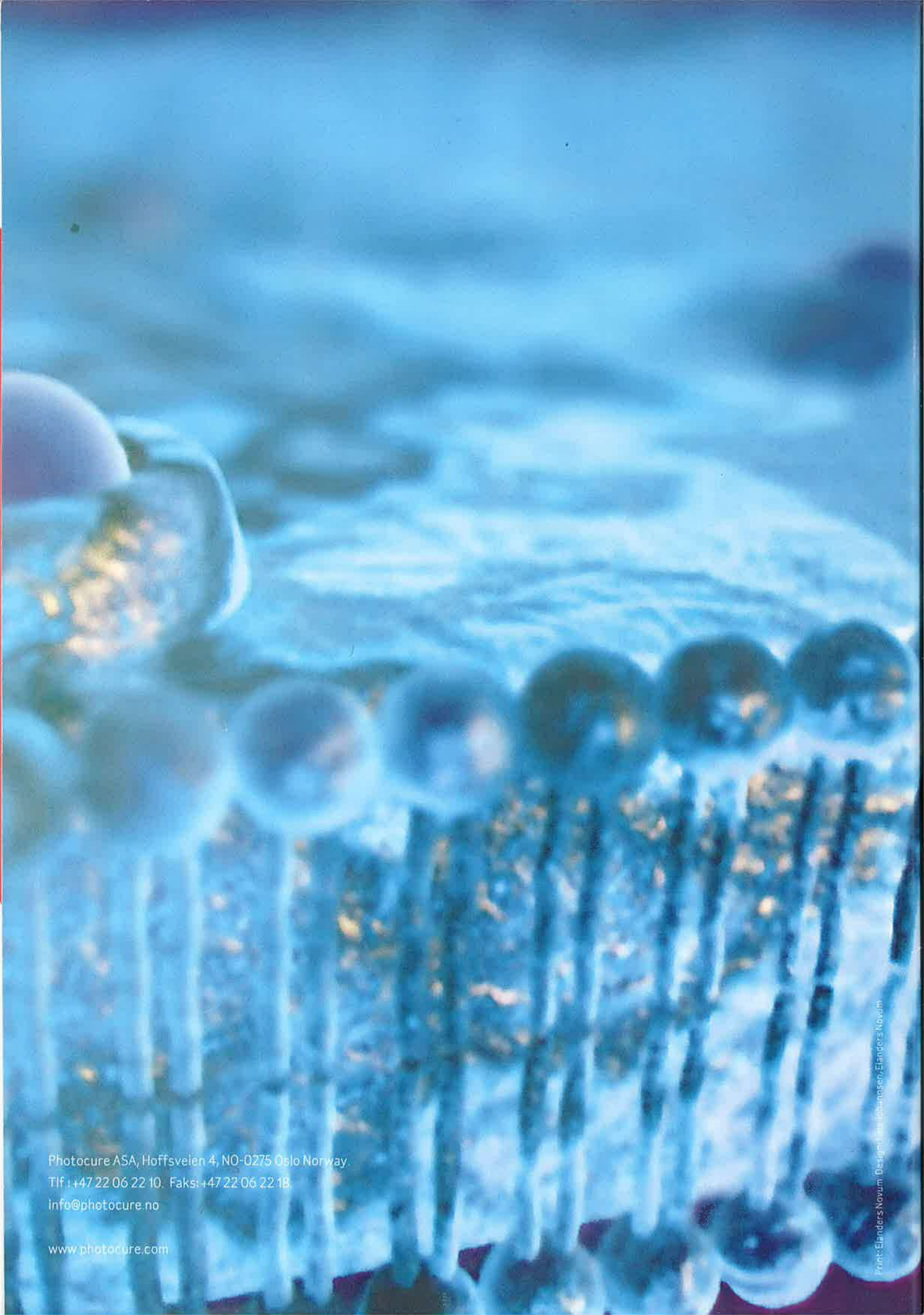
Opinion on Accounting Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 16 February 2011
KPMG AS

Lars Inge Pettersen
State Authorised Public Accountant

[Translation has been made for information purposes only]



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