



ANNUAL REPORT 2005

PHOTOCURE ASA





COMPANY PROFILE

PhotoCure ASA - Annual Report 2005

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PhotoCure, Hexvix, Metvix, Aktelite and Curelight are registered trademarks of PhotoCure ASA.

Cover illustration: Acne with MAL fluorescence.



PhotoCure ASA is a Norwegian pharmaceutical company listed on Oslo Stock Exchange. The company develops and sells pharmaceuticals and medical devices for the treatment and diagnosis of different types of cancer. The products are based on proprietary photodynamic technologies, targeting specific dermatology and oncology markets.

PhotoCure has currently two pharmaceutical products on the market: Metvix®, for the treatment of sun-damaged skin and certain types of skin cancer, and Hexvix®, for the diagnosis of bladder cancer. In addition, the company has developed a proprietary light source, the Aktelite lamp, which is used in combination with the Metvix® cream.

Through worldwide studies, PhotoCure is continuously developing its pipeline projects for new indications, such as acne, colon cancer and cervix cancer.

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

OUR CORE VALUES

Respect and Care

Bring out the best in your colleagues.
Give constructive feedback.
Talk to each other instead of about each other.

Integrity

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

Courage

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

PRESIDENT'S STATEMENT

It gives me great pleasure to report another year of significant progress for PhotoCure. Let me summarize the key achievements:

Commercialization of Hexvix

- approval in EU/EEA
- filing in the US
- launch in the Nordic region
- licensing agreement with GE Healthcare

Increased sale of Metvix

- over 100,000 patients treated
- launch in new countries

Significant progress in pipeline projects

- Acne phase I successfully completed
- Approval of Bowen's disease for Metvix

This good performance reflects our clear and consistent strategy, which is based on innovation and achieving a leading position within photodynamic detection and treatment. Ultimately, the key factor in our success is the skills and commitment of our employees, and I would like to thank them all for their contribution.

PhotoCure was initially founded as a pure research and development company. Research and development is still a very important part of our work and we continue to explore the use of our technology in new areas. However, marketing and sales have become more important to the company. To be able to face the challenges that this entails, we have successfully made strategic changes in the organization.

The American pharmaceutical market is the world's largest, and consequently we have large expectations related to the US market. The filing of a new drug application for Hexvix for detection of bladder cancer in the US was an important milestone for PhotoCure. In addition, we have agreed with the FDA the necessary requirements for regulatory approval of Metvix in the US. These requirements include 2 phase III studies to be performed in 2006.

What is ultimately essential, is not only strategic decision-making, but also progress on the operational front. The gain in market share for Metvix in Europe is very positive. In Europe, Metvix is just out of the starting blocks, and we are expecting increased sales revenues for Metvix in the future due to Galderma's and our Nordic marketing and sales efforts.

Soon we'll have Hexvix, our second product on the market. This means an even stronger focus on marketing and sales. We are very proud to have GE Healthcare as global licensing partner for Hexvix, combined with our own Nordic sales force. We are facing the coming year with optimism, and GE Healthcare's solid professional competence combined with our scientific platform make us well prepared to meet the challenges that await us.

The rights issue in February 2006 provides financial resources to speed up the R&D programs. The motivation is to maximize shareholder value through development of new products for unmet medical needs based on our proprietary technology platform.

In PhotoCure we base our work on three core values: Courage, Integrity, and Respect & Care. Courage to choose differently, Integrity to stand up for our actions and Respect and Care towards colleagues, collaboration partners and clients. Our goal is to become a leading company in photodynamic therapy, and the best way to achieve that is through enthusiastic and motivated employees. By uniting the valuable resources that exist within our organisation and by creating a positive and including work environment, we will strengthen our position in photodynamic therapy to the benefit of our company, shareholders, clients, patients, and society as a whole.

I wish to thank you, all PhotoCure's shareholders, for your loyalty and confidence in us.

Sincerely,

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



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

VISION

Leadership in photodynamic therapy

MISSION

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

MILESTONES IN 2005



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Hexvix®

- Hexvix approved in all EU/EEA countries.
- Hexvix filed in the US.
- New European guidelines recommend Hexvix for the diagnosis of CIS in the bladder.
- First commercial sales in the Nordic region.

Metvix®

- More than 100,000 patients treated with Metvix in 2005.
- PhotoCure and Galderma free to market Metvix in Australia after successfully defeating infringement claim.
- Galderma initiated launch of Metvix in the Netherlands, Spain and Portugal.
- Approval obtained in Brazil.

Research and Development

- Proof-of-concept study in treatment of moderate-to-severe acne successfully completed. Development of a new acne-product initiated.
- Clinical pilot studies initiated in patients related to diagnosis of colorectal cancer, treatment of cervical pre-malignancies and treatment of bladder cancer.

PCI Biotech AS

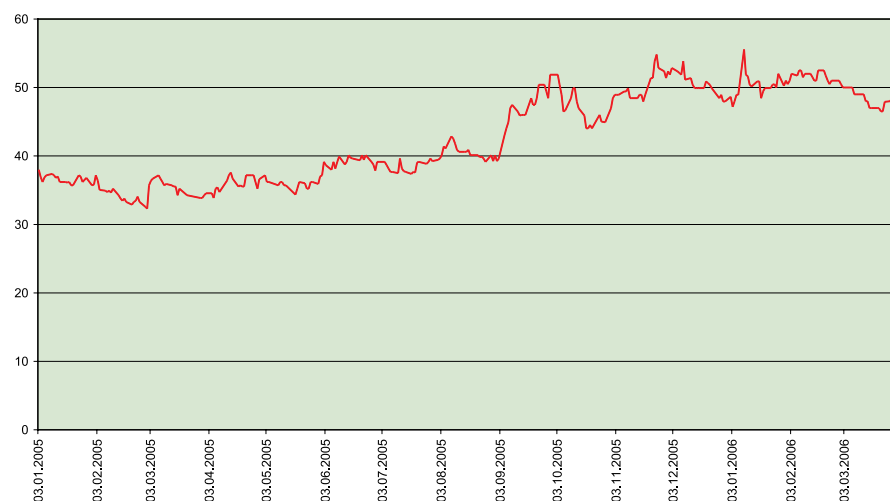
- The company's proprietary photosensitiser proved efficient both in laboratory and animal studies.
- Results from animal studies demonstrate that photochemical internalisation can provide significant improvement in gene therapy tumour treatment.

Products and Pipeline	Pre-clinical	Clinical Explorative	Phase I/II	Phase III	First Filing
Metvix					
AK / Aktlite (US)					
Immuno-compromised patients*					
*Skin dysplasia (BCC, SCC in situ, AK and warts) in immuno-compromised patients.					
Hexvix					
Bladder cancer – photodiagnosis (US)					
Bladder cancer photodiagnosis US follow up					
Bladder cancer – photodynamic therapy					
MAL (methylaminolevulinate)					
Acne					
Explorative Programmes					
Cervical cancer – photodynamic therapy					
Colon cancer – photodiagnosis					
Photochemical Internalisation (PCI Biotech AS)					
Cancer (combination)					
Gene therapy / Protein therapeutics					

 = completed
 = ongoing

THE PHOTOCURE SHARE

PhotoCure Share Price for 2005 - March 2006



PhotoCure's share price increased by 26 % in 2005, from NOK 38 to NOK 48.

Major shareholders as of March 2006

Shareholder	Number of Shares	% of issued share capital
Radiumhospitalets Forskningsstiftelse	3 529 000	16.06%
Odin Norge	1 647 042	7.49%
Gezina AS	1 326 306	6.03%
Orkla ASA	956 428	4.35%
Brown Brothers Harri S/A Permanent -Hunter Hall Trust	839 625	3.82%
Ferd Invest	762 612	3.47%
Skagen Vekst	717 165	3.26%
Brown Brothers Harri S/A Hunter Hall Global Trust	618 500	2.81%
Brown Brothers Harri S/A Hunter Hall Global Ltd	496 000	2.26%
Vital Forsikring ASA /DNB NOR Kapitalforvaltning	451 084	2.05%
Vicama AS	437 384	1.99%
Marlin Verdi AS	406 900	1.85%
DNB NOR Norge VPF	304 492	1.39%
R. ULSTEIN LOEN AS	276 141	1.26%

Shareholders According to Size of Shareholding as of March 2006

Shareholdings	Number of Shareholders	Number of Ordinary Shares	Percentage of Ordinary Shares
1-999	1 160	310 444	2.12%
1 000-9 999	563	1 563 508	10.11%
10 000-99 999	147	4 371 775	25.08%
100 000-499 999	24	5 337 850	23.62%
500 000 and more	8	10 396 678	39.08%
Total	1 902	21 980 255	100.0%

CORPORATE GOVERNANCE

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

PhotoCure complies with the Norwegian Code of Practice for Corporate Governance of 8 December 2005. This code is a "comply or explain" guideline and the Company's deviation from the guidelines are limited to (1) Limited authorizations granted by the general meeting lasting up to two years, and (2) that the Chairman of the board of directors is elected by the board itself. The deviations have been chosen to fit PhotoCure's governance structure.

The company has established a nomination committee consisting of three members elected annually by the general meeting.

Below, the most important parts of PhotoCure's corporate governance policy are described:

1. Implementation and reporting on corporate governance

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

2. Business

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

3. Equity and dividends

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

4. Equal treatment of shareholders and transactions with close associates

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

5. Freely negotiable shares

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

6. General meetings

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

7. Nomination committee

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

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

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

9. The work of the board of directors

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

10. Remuneration of the board of directors

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

11. Remuneration of the executive management

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

12. Information and communications

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

13. Take-overs

Any transaction that is in effect a disposal of the company's activities is to be decided by a general meeting, except in cases where such decisions are required by law to be decided by the corporate assembly.

14. Auditor

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





HEXVIX®



Hexvix is a pharmaceutical product developed for the diagnosis of bladder cancer. The Hexvix procedure, which combines the Hexvix solution with blue light, gives a more accurate diagnosis than current standard cystoscopy with white light. The product is approved for sales and marketing in all EU/EAA countries.

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Hexvix is the first diagnostic product on the market that improves cystoscopy (telescopic examination) of the bladder. Hexvix is approved for patients with known or suspected bladder cancer.

Bladder Cancer Diagnosis and Treatment

The most common initial sign of bladder cancer is hematuria (blood in the urine). The appearance of gross hematuria or persistent microscopic hematuria should lead to an evaluation of the entire urinary tract, including ultrasound, urine testing and standard white light cystoscopy. Hexvix is an adjunct to standard cystoscopy, and improves the overall tumour detection by introducing tumour fluorescence. Hexvix is also used to help the urologist perform better tumour surgery, and may reduce tumour recurrence and avoid removal of the bladder.

Hexvix – Mechanism of Action

The Hexvix procedure consists of the Hexvix solution combined with a cystoscope (telescopic device used for bladder examination) equipped with blue light. By means of a catheter, the bladder is instilled with 50 mL Hexvix solution. The instillation is held for one hour, allowing photoactive porphyrins (photosensitisers) to selectively accumulate in the malignant tissue. After emptying the bladder, the urologist performs the examination first in white light (standard procedure) then in blue light (Hexvix fluorescence), simply by pushing a button on the cystoscope. When illuminated

with blue light, the photoactive porphyrins emit red fluorescence, making the cancer lesions light up in red. Hexvix improves the diagnosis of all types of bladder cancer as the tumour fluorescence gives a far better visualisation of the lesions than standard white light cystoscopy.

Worldwide Clinical Trial Programmes

The effect and safety of Hexvix has been documented in three major clinical phase III studies in Europe and the US/Canada. The studies included 553 patients and showed an overall improvement in the detection of all types of bladder tumours compared to standard cystoscopy. The best results were obtained for the detection of carcinoma in situ (CIS) tumours, where Hexvix detected 58% more lesions than white light. Moreover, in 25% of the patients, more papillary tumours were found with Hexvix than with standard cystoscopy alone. The benefits of improved tumour detection were documented by showing that every fifth patient (21%) was recommended a more adequate treatment after bladder inspection with Hexvix, compared to standard white light. Hexvix has only showed negligible side effects.

Furthermore, a large multicentre phase III study in the US/Canada and Europe as well as two independent European studies have been initiated to further document the clinical benefits of Hexvix. Preliminary results from these studies indicate that improved tumour detecti-

on and a more complete tumour surgery leads to a reduction in bladder cancer recurrence.

Hexvix Marketing and Sales

Activities

The first marketing approval for Hexvix was issued by the Swedish Medical Products Agency in September 2004, and in March 2005, Hexvix received approval in all EU/EEA countries through the Mutual Recognition Procedure. The first Hexvix introduction took place at the Congress of the Scandinavian Association of Urology in Gothenburg in June 2005, and the product is now launched in all

four Nordic countries. Training of Nordic urologist is currently taking place in Munich, and national reference and training centres are under establishment. During the year, Hexvix has been presented at various European congresses, attracting strong interest among urologists.



BLADDER CANCER FACTS

- Third most common malignant cancer worldwide.
- 4th most frequent tumour in men, 10th in women.
- Frequent recurrences of 50-70%.
- High and increasing prevalence, making it one of the most expensive cancers for society. US health care expenditure is highest in patients with bladder cancer with \$US96,000-187,000 (2001 values) per patient from diagnosis to death.
- 70-80% of all bladder cancer is superficial cancer (non muscle-invasive) e.g. carcinoma in situ (CIS).
- Patients with bladder cancer have a good prognosis if diagnosed early and treated adequately. The present diagnostic methods are effective for large papillary (finger-like) tumours. However, for the diagnosis of flat tumours like CIS, which is an aggressive cancer with a high potential for progression, the results are inadequate.
- Early tumour detection and better surgery could avoid life-threatening conditions and reduce the number of surgical procedures, including cystectomy (removal of the bladder).
- Approximately four million white light cystoscopies are performed in the USA and Europe every year.
- Up to 73% of standard white light cystoscopies result in wrong staging or grading of the tumour.



GE HEALTHCARE



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GE Healthcare and PhotoCure announced a licensing partnership for the optical imaging of bladder cancer in January 2006.

From the press release:

Oslo, Norway - January 9, 2006 - GE Healthcare, a unit of General Electric Company (NYSE: GE) and PhotoCure ASA (OSE: PHO), today announced a licensing agreement that grants GE Healthcare exclusive global rights outside of the US and the Nordic region to market and distribute PhotoCure's product Hexvix, an optical molecular imaging agent intended for the diagnosis and monitoring of bladder cancer.

The agreement includes total milestones of MEUR 28, of which MEUR 7 at signing, as well as royalties. PhotoCure will be responsible for manufacturing and Nordic distribution of the product. The agreement includes an exclusive option for GE Healthcare to market and distribute the product in the US.

Hexvix has received approval for the diagnosis of bladder cancer in a large number of European countries through the European mutual recognition procedure with more expected in the near future. This product is not currently approved by the U.S. Food and Drug Administration (FDA). However a New Drug Application (NDA) was submitted in June 2005 in the United States and if approved by the FDA it would be the first optical molecular imaging agent of its kind available to the US market. GE's agreement includes access to other indications for the product currently under evaluation and testing by PhotoCure.

"We believe our partnership with PhotoCure will result in significant patient benefit in the

diagnosis and management of bladder cancer," said Daniel L. Peters, president of Medical Diagnostics at GE Healthcare. "This partnership underscores GE Healthcare's commitment to addressing the unmet clinical needs of physician customers and to enhancing the quality of patient care through new approaches to the diagnosis and monitoring of disease."

Optical imaging is an imaging modality with the potential to provide new applications in the prevention and treatment of bladder cancer as well as other diseases. Optical imaging uses light to illuminate superficial tissue - such as bladder tissue. By combining this technology with an optical molecular imaging agent, tumors might be targeted more accurately. Optical imaging may enhance the diagnostic abilities of urologists and allow for improved patient care.

"GE Healthcare is a leader in the development of innovative diagnostic techniques and the addition of Hexvix to our imaging portfolio will further strengthen our leadership position in molecular imaging," said Peters. "Fluorescent optical imaging is a core GE Healthcare competency and we have several applications of this technology in our Discovery Systems business, including the cellular analysis research tools and pre-clinical imaging systems we provide to our pharmaceutical customers for drug development."

Metvix is a non-invasive photodynamic treatment for actinic/solar keratosis (AK), Bowens disease and basal cell carcinoma (BCC).

Skin Cancer is increasing

Skin cancer is one of the most common cancers in the world. Both non-melanoma skin cancer (mainly BCC) and AK are strongly related to excessive sun exposure. Therefore these lesions appear mainly on sun exposed areas of the body, for instance on the face, where treatment-related scarring is particularly visible. Disfiguring scars can cause serious reduction in quality of life for these patients.

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

A better life without visible scars

Metvix PDT (photodynamic therapy) is a treatment that removes BCC/Bowen's and AK effectively, without scarring. Scientific studies have shown that for BCC, Metvix PDT is as efficacious as other commonly used treatments, and for AK, Metvix is more efficacious than other treatments.



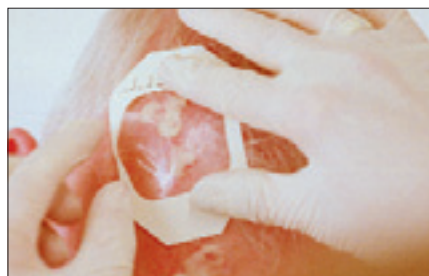
1. Prepare the lesion

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



2. Apply Metvix® cream

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



3. After 3 hrs, illuminate with Aktelite®

(cold, narrow band red light)

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



Metvix is a pharmaceutical product developed for the treatment of skin cancer and pre-cancerous skin lesions. The product is approved for sales and marketing in most European countries, Australia, New Zealand and Brazil.



Metvix - Mechanism of Action

Metvix PDT is a topical treatment that consists of the Metvix cream combined with PhotoCure's proprietary light source, the Aktillite lamp. When the Metvix cream is applied to the lesions, the active ingredient accumulates in tumour tissue. Subsequent exposure to red light generates reactive oxygen, which destroys the malignant cells. This procedure provides a precisely directed treatment that clears the lesions and leaves healthy skin unharmed. Metvix PDT is easy to perform and is offered by dermatologists on an outpatient basis.

Selectivity leads to the targeted destruction of tumour cells - healthy surrounding tissue is spared. Metvix selectivity is thought to result from differences in cellular uptake between cancerous and healthy cells.

Patients prefer Metvix PDT

In addition to high efficacy, Metvix offers advantages that patients value very highly, such as an excellent cosmetic outcome and the avoidance of invasive, "cold steel" procedures. A recently published Australian study

showed that patients would be willing to pay up to 900 Australian dollars (approximately 500 euros) above the price of surgery for the advantages offered by Metvix.

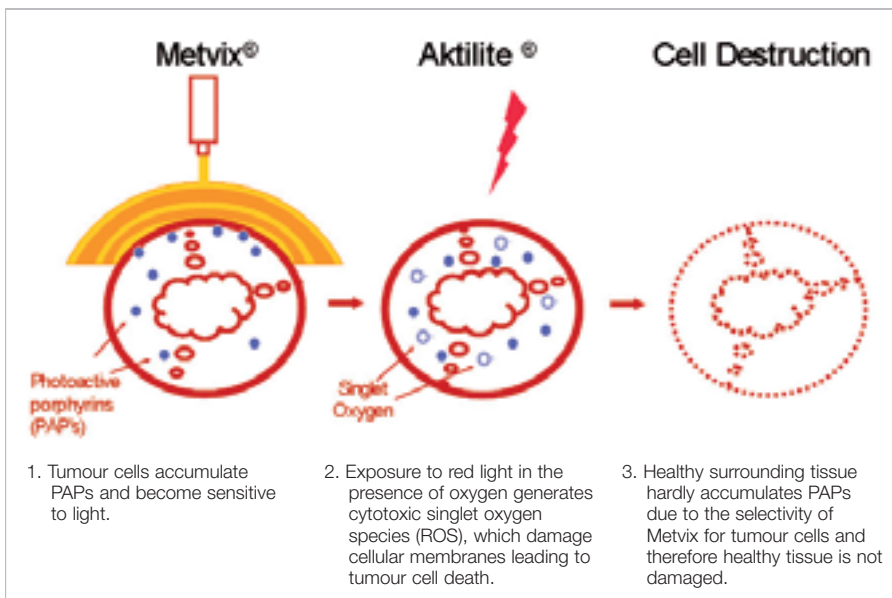
In controlled studies patients treated for BCC or AK prefer Metvix PDT compared to alternative previous treatments,

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

Worldwide Clinical Trial

Programmes

The Metvix treatment is well-documented. PhotoCure has performed clinical trials at more than 100 clinics and hospitals across three continents to document the safety and efficacy of Metvix. The pivotal trials have been published in journals with high rankings in dermatology, such as Journal of the American



Academy of Dermatology, British Journal of Dermatology, Archives of Dermatology, Journal of Dermatologic Treatment, and Journal of the European Academy of Dermatology and Venerology.

In November 2005, Metvix was approved for Bowen's disease in Norway, Sweden, Denmark and Finland, in addition to 19 other European countries.

Marketing and Sales Activities

PhotoCure is handling the sales and marketing of Metvix in the Nordic countries, while Galderma is responsible for sales and marketing in the rest of the world. During 2005, Metvix was launched in several new countries, including important markets such as Holland, Spain and Portugal. The launch activities were mainly directed at dermatologists and included establishment of training centres, distribution and installation of lamps, seminars, and participation at local and national congresses.

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

The European Society for Photodynamic Therapy (Euro-PDT) is an organisation for dermatologists working with PDT. Euro-PDT had their annual meeting in Sirmione, Italy in 2005. This meeting gathered scientists and dermatologists from all over the world to discuss the recent progress within the field of PDT.

Metvix is now approved in more than 22 countries worldwide. In the Nordic countries, Metvix is offered at over 200 dermatology clinics. PhotoCure is focussing on increasing the general knowledge about Metvix among health personnel, as well as providing technical and practical support for already existing Metvix clinics. Galderma is planning several new launches in 2006 and further marketing applications are scheduled to be filed.

New Indications

PhotoCure is currently running clinical trials in patients who have received organ transplants. Organ transplant recipients take immunosuppressive medication in order to avoid rejection of the transplanted organs, and long-term use of such medication leads to the development of skin cancer and other skin lesions such as warts. In the ongoing clinical trials, organ transplant recipients are treated with Metvix several times to determine the efficacy in clearing skin lesions and preventing the occurrence of new lesions. This study will be finalised in 2007.

Metvix is approved for the treatment of BCC, Bowen's disease and AK in most European countries, Australia and New Zealand, and for AK in the US. Several clinical studies are ongoing to explore the possibility of using Metvix in other indications. Galderma is planning several new launches in 2006 and further marketing applications are scheduled to be filed.





GALDERMA S.A.



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Galderma, PhotoCure's global marketing partner for Metvix®, is one of the world's leading pharmaceutical companies, focusing exclusively on the research, development and marketing of dermatological products. The company had global revenues of 586.2 million euros in 2004. Its expertise spans a broad spectrum of skin, hair and nail diseases.

Created in 1981, Galderma is a joint venture between Nestlé and L'Oréal, its parent company is based in Switzerland. Galderma today employs 2,300 persons and is headed by President and CEO Humberto C. Antunes. The company deploys a worldwide network of thirty-three wholly-owned subsidiaries and exclusive sales agents. Galderma Corporate Services offices are in Paris-La Défense.

To drive its sustained growth, Galderma commits a full 13.6 percent of revenues to research and development activities. Three R&D centers are dedicated to discovering new molecules and developing them worldwide. A new state-of-the art R&D center dedicated exclusively to dermatology was recently inaugurated to replace the current facilities in Sofia Antipolis. Galderma deploys equally sophisti-

cated high-tech production facilities in France, Canada and Brazil.

Galderma's ongoing development is anchored in its portfolio of highly successful dermatological products that are today marketed in more than seventy countries. The mainstay of the portfolio is Differin®, the first home-grown dermatology product indicated for topical treatment of acne. Other flagship products for treating rosacea and fungal nail infections help bolster Galderma's position as the world's third leading dermatology company.

Galderma recently made its first foray into a number of fast-growing therapeutic areas following the acquisition or licensing of several strategic products, including Metvix for non-surgical treatment of skin cancer using photodynamic therapy.

Acknowledged the world over for its expertise, Galderma aims to become the world's number one dermatology company.

Licensing milestones

2002	Signing fee	12 million euros
2003	EU approvals	2 million euros
2004	US approval AK	3 million euros



Galderma's R&D center in Sofia Antipolis, France

NOVEL TREATMENT FOR ACNE

Photodynamic therapy (PDT) with MAL is under development for the treatment of moderate to severe acne.

What is Acne?

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

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

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

There are four major aetiological factors believed to be involved in the development of acne: Increased sebum production, abnormal shedding of skin within the hair follicle, colonisation of bacteria within the follicle, and inflammation.

Current Treatments

Oral antibiotics such as tetracycline and minocycline as well as oral contraceptives in women are used to treat moderate acne. These treatments are often used in combination with topical retinoids and benzoyl peroxide.

More severe acne is treated with oral isotretinoin. However, both oral antibiotics and isotretinoin have safety concerns that limit long-term usage.

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

MAL PDT

MAL is a cream formulation containing methyl aminolevulinate, the same active substance used in the Metvix cream. MAL PDT is a photodynamic therapy that combines the MAL cream with controlled illumination by a red light source. The cream is applied to the acne area and after a short incubation time the skin is illuminated with red light.

The mechanism of action appears to involve killing of bacteria as well as specific action on sebaceous glands and inflammatory cells.

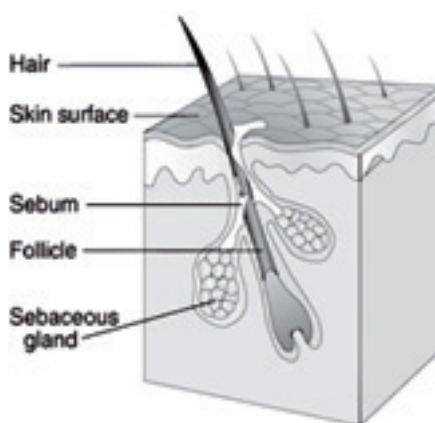
PhotoCure has completed a proof-of-concept study, which was designed to compare the efficacy of MAL PDT to placebo PDT. The study included 30 patients with moderate to severe acne, and the results show that MAL PDT gave a significantly greater reduction in the number of inflammatory acne lesions than placebo PDT 10 weeks after treatment.

Clinical Trial Programmes

The first phase II study has been initiated and will be reported in the third quarter of 2006. This study includes up to 60 patients with moderate to severe acne and is designed to select doses for a confirmatory phase II study.

A clinical programme, including phase III studies, is under development. Regulatory agencies will be contacted during the first half of 2006 for further guidance with respect to the development programme.

Acne – aetiological factors



- Increased sebum production in sebaceous gland
 - Abnormal shedding of skin within the follicle
- ↓ **Plugged follicle**
- Colonisation of bacteria in the follicle
 - Inflammation around the follicle

PIPELINE PROJECTS

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

PhotoCure is developing new topical photosensitisers for the diagnosis and treatment of superficial cancers and pre-cancerous lesions in hollow organs, where local application of both drug and light is feasible. This includes gastrointestinal and gynecological indications (see fig page 2).

Diagnosis of Colorectal Cancer and Pre-cancerous Lesions

The majority of patients with colorectal cancer are diagnosed with invasive tumour that has spread to the outside of the colon, resulting in a 5-year survival of only 60-65%. Since most patients with colorectal cancer can be cured if the tumour is detected at an early stage, routine inspection of the entire colon (colonoscopy) is suggested. In the US, screening is recommended from the age of 50, and in Europe, public screening programs have also been initiated. These recommendations have already increased the demand for colonoscopies and improvement of the sensitivity of the procedure is required. Fluorescence colonoscopy including blue light inspection may increase the detection of non-invasive colorectal cancer and pre-cancerous lesions that will reduce the risk of development of invasive cancer.

Treatment of Cervical Pre-cancerous Lesions

Photodynamic therapy (PDT) may offer great prospects for retaining organ, sexual and reproductive functions, and could advance gynaecological therapy. One area of interest is PDT of pre-cancerous lesions of the cervix to prevent progression to invasive cancer and preserve the cervical function. Pre-cancerous lesions develop from persistent infection of human papilloma virus (HPV), which is quite common; 40-60% of teenagers, 15-25% of people 20-30 years and 5-10% of people above 30 years are affected. Cytology screening identifies more than 2 million women with pre-cancerous lesions in the US and Europe every year. In addition, more than 4 million women with other types of abnormal cervical

cells. Due to low sensitivity of the cytology test, 15-25% of these women will show invasive cancer or pre-cancerous lesions upon further examination.

Although HPV infection and abnormal cells regress spontaneously in the majority of women, improved diagnosis and treatment of pre-cancerous lesions and HPV infection is needed. To identify the women at high-risk of developing cancer, HPV tests are being introduced to improve the sensitivity of cytology. Moderate to severe pre-cancerous lesions are excised (conisation), which may impair the cervical function leading to pre-term deliveries. PDT is tissue-preserving and may be a suitable treatment for both women with pre-cancerous lesions and other abnormal lesions of the cervix with a high-risk HPV infection.

Diagnosis of Oesophageal Cancer and Pre-cancerous Lesions

Adenocarcinoma of the oesophagus is associated with gastroesophageal reflux disease, which may result in the development of abnormal tissue in the oesophagus (Barrett's disease). The condition of Barrett's may further develop into pre-cancerous lesions, which should be detected and treated locally before developing into invasive disease with very poor prognosis.

Finding pre-cancerous lesions in the oesophagus is difficult as they are easily missed during white light endoscopy. Fluorescence endoscopy including blue light will increase the detection of pre-cancerous lesions that when resected, will prevent development of invasive oesophageal cancer.

Ongoing Clinical Studies

PhotoCure has initiated clinical pilot studies in patients with colorectal cancer and cervical pre-malignancies to show the feasibility of these procedures. Positive results will lead to initiation of larger clinical programs to document clinical benefits.

RESEARCH AND DEVELOPMENT PARTNERS

PhotoCure operates its research and development activities through a "virtual" structure, based on collaborations with several outstanding academic institutions globally and a number of third party contract research organisations. This approach gives the company access to world-leading research, whilst allowing it to manage development costs prudently and perform the work rapidly. The company has a number of research projects with several institutions. Major and long-term agreements have been entered into with the following:

Norwegian Radium Hospital Research Foundation, Norway

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

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

PhotoCure has an agreement with the Swiss Federal Institute of Technology and the Municipal University Hospital in Lausanne to collaborate in the development of Hexvix.

PhotoCure has a first right of refusal to intellectual property from the research relating to the use of Hexvix for the diagnosis and treatment of bladder cancer.

University of Geneva, Switzerland

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

Drug Discovery Laboratory (DDL), Norway

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

Contract Research Organisations (CROs)

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



**The Norwegian Radium
Hospital in Oslo.**



PCI BIOTECH AS

PhotoCure ASA - Annual Report 2005



PCI Biotech AS is a subsidiary of PhotoCure, established to commercialise its proprietary photochemical internalisation technology (PCI). The PCI technology was developed to introduce therapeutic molecules in a biologically active form specifically into the diseased cells.

PhotoCure's subsidiary, PCI Biotech AS, was established in 2000 to commercialise its proprietary technology, photochemical internalisation (PCI). PCI addresses the large and rapidly growing drug delivery market. There is a great interest in the pharmaceutical industry for delivery technologies that could improve the efficacy and specificity of existing products, and/or that could extend product life by providing additional patent protection. In addition, the emerging class of therapeutic macromolecules is largely dependent on efficient and specific delivery systems for realisation of their great therapeutic potential.

The PCI Technology

PCI is a technology for light-directed drug delivery and was developed to introduce therapeutic molecules in a biologically active form specifically into diseased cells. Many therapeutic targets of interest are located inside the cell and have, until now, been highly inaccessible for important classes of therapeutic molecules. This is essentially true for new classes of therapeutic macromolecules, such as proteins, oligonucleotides and DNA, but also for some small molecule drugs, e.g. certain cytotoxic agents for cancer treatment. The scope of the PCI technology is to render such molecules active in the desired area of the body only, potentially making the therapies substantially more specific.

PCI Biotech is developing a new proprietary photosensitiser specially designed for use in the PCI technology. This photosensitiser will be a key product for PCI Biotech, developed for sale to end users as well as to companies that will license the PCI technology for delivery of their proprietary therapeutic molecules.

PCI Development Progressing

During 2005, PCI Biotech made substantial progress in the development of its photosensitiser. Synthesis and purification procedures have been developed, and up-scaling and production for the first clinical studies are planned to start in the near future. Furthermore, the efficiency of the substance has been documented both in the laboratory and in animal studies. The substance will now be documented for use in humans. In planned clinical "proof-of-concept" studies PCI will be used to enhance the delivery of an approved drug for treatment of selected cancer indications. The clinical studies will be performed in collaboration with clinicians at The Norwegian Radium Hospital (NRH), and are expected to commence in the beginning of year 2007.

Another important achievement in 2005 is the demonstration that PCI can significantly improve gene therapy treatment in an animal cancer model. It is generally acknowledged that the main obstacle for realising the therapeutic potential of gene therapy is to obtain efficient, specific and safe delivery of genes to the target tissue in the patient. Our results indicate that PCI can accomplish this task.

Future Prospects

PCI Biotech's business focus is to develop its proprietary photosensitiser for cancer treatment. The company will also seek to enter into commercial agreements with companies having therapeutic products that can benefit from the PCI delivery technology, especially within the cancer area. In a longer-term strategy, the PCI technology will be developed for new emerging classes of therapeutic molecules, e.g. macromolecules such as genes for gene



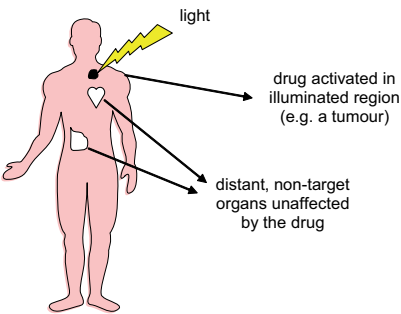
therapy. Typically, such development is expected to be done in collaboration with biotech or pharmaceutical companies developing such molecules.

At present, approximately 20 full time scientists at the NRH perform research in PCI and related areas. PCI Biotech has all rights for commercial exploitation of new results from this research. In addition, PCI Biotech is collaborating with leading academic groups worldwide for further development of the PCI technology.

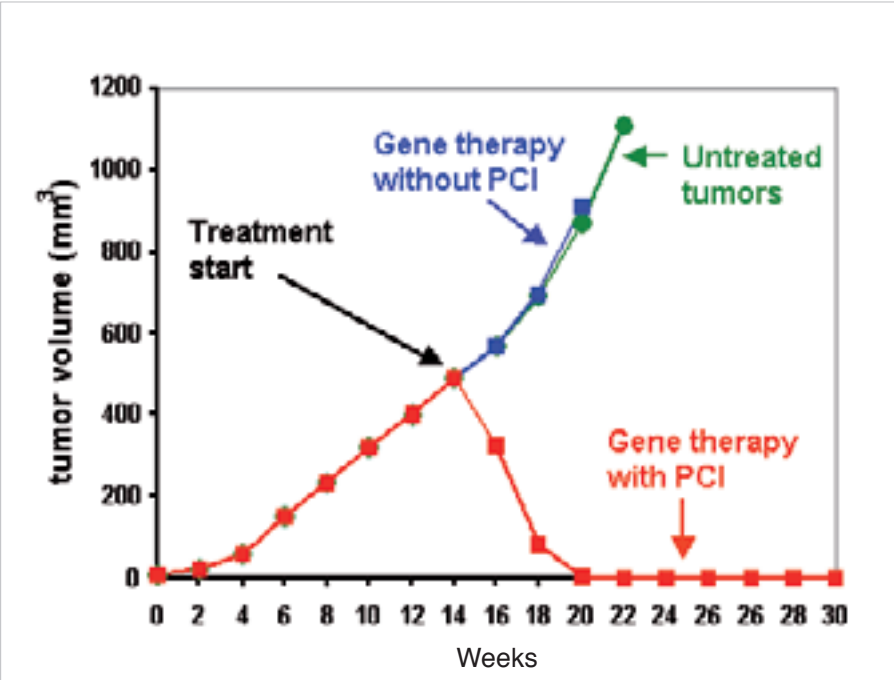
Other Potential Target Diseases

In addition to cancers, other potential target diseases such as cardiovascular, eye, skin and autoimmune diseases (rheumatoid arthritis) will also be pursued in a long-term strategy. Furthermore, the possibilities for using PCI as a delivery system for DNA vaccines will be explored.

The PCI Technology:



The effect of the PCI Technology is documented in animal studies.





DIRECTORS' REPORT

PhotoCure ASA - Annual Report 2005

PhotoCure is a pharmaceutical company registered on the Oslo Stock Exchange. The company's technology platform within photodynamic diagnosis and therapy meet medical needs in a number of areas. The company has three products: the Metvix cream and the Aktelite lamp, used to treat skin cancer and pre-cancerous skin conditions, and Hexvix for the detection of bladder cancer.

PhotoCure's second pharmaceutical product, Hexvix, was approved in Europe in 2005. The introduction of Hexvix on the Nordic markets was initiated in the autumn of 2005.

Metvix is currently available for sale in most European countries as well as in Australia and New Zealand. During 2005, Galderma, PhotoCure's partner for marketing and sales of Metvix outside the Nordic region, launched Metvix in Poland, the Netherlands, Portugal and Spain.

Sales and milestone revenues for 2005 amounted to NOK 53.6 million, a reduction of 31% compared to 2004. The reduction is due to a milestone payment of EUR 3 million in 2004. Sales revenues increased by 3% in 2005. The change in sales revenues from 2004 was caused by increased sales of Metvix, but reduced sales of Aktelite lamps and a lower price of Metvix.

Operating costs, after deduction of other operating revenues, decreased from NOK 105.6 million in 2004 to NOK 87.5 million in 2005. Operating income decreased from NOK -40.9 million in 2004 to NOK -47.3 million in 2005.

Hexvix approved in Europe and application for US approval filed

In March 2005, Hexvix was approved in 26 European countries, in addition to Sweden, where the product was already approved. National marketing authorisations are issued individually in each country upon approval of the product information in the local language. As per 27 February 2006, marketing authorisation have been issued in 20 European countries.

The US marketing application was submitted to the Food and Drug Administration (FDA) in June 2005. The assessment of the application is expected to take 12-15 months.

Better results with Hexvix for diagnosis of bladder cancer

Bladder cancer is one of the most common cancer diseases and also the most expensive to treat. The risk of recurrence is so high that the patients normally have to be re-examined over several years and usually need repeated treatments.

Bladder cancer is traditionally diagnosed by means of white light cystoscopy (visual examination of the bladder). Hexvix cystoscopy makes use of blue light and is the first pharmaceutical on the market to improve the diagnosis of bladder cancer as it reveals more tumours than traditional methods. Hexvix is approved for the diagnosis of bladder cancer in patients with suspected or known bladder cancer.

The fact that Hexvix provides a more accurate diagnosis makes it possible to give the patients an adequate treatment at an earlier stage, and the risk of recurrence is therefore reduced. It is less likely that the patient will need repeated surgery, and this means a higher quality of life for the patient. The Hexvix procedure is simple to use and easy to implement. Hexvix is also an important guiding tool when removing tumours from the bladder, as it is possible to visually verify that all the diseased tissue is removed.

Licensing agreement with GE Healthcare for Hexvix

In January 2006, GE Healthcare, a unit of General Electric Company, and PhotoCure signed a licensing agreement granting GE Healthcare exclusive rights to market and distribute Hexvix in markets outside the US and the Nordic region. The agreement includes milestones totalling EUR 28 million, including EUR 7 million upon signing, as well as royalties from sales. PhotoCure is responsible for the manufacturing of Hexvix and distribution in the Nordic countries. The agreement includes an exclusive option for GE Healthcare to market and distribute the product in the US.

Metvix volume increased by 51% in 2005

In 2005, total sales of Metvix tubes to pharmacies amounted to 40,015 units, compared to 26,506 units in 2004. This indicates that more than 100,000 patients were treated with Metvix in 2005, provided that each tube treats an average of 2.5 persons.

Metvix launches in new markets and indications

During 2005, Galderma launched Metvix in Poland, the Netherlands, Portugal and Spain. As part of the launch processes, Galderma has hosted several launch symposia to provide health personnel who wish to start offering the Metvix treatment, with necessary information and guidance. Galderma also provides distribution of PhotoCure's Aktillite lamps, and offers support to clinics during initial Metvix treatments.

In 2005, Metvix was approved for the treatment of Bowen's disease in 22 European countries. Bowen's disease, also known as squamous cell carcinoma in situ, is a cancer that appears in the outermost layer of the skin. The approval for Bowen's confirms the important position the product holds within the treatment of skin cancer and pre-cancerous skin diseases.

PhotoCure and the FDA have reached an agreement regarding the documentation needed for a US approval of the Aktillite lamp. The FDA requires two phase III studies, each including approximately 60 patients. The studies are scheduled to take place in 2006.

PCI Biotech continues development of new technology

PhotoCure's subsidiary, PCI Biotech AS is developing a new technology to increase the effect of therapeutical molecules specifically in the diseased areas of the body. In 2005, PCI Biotech documented in animal models that the technology increased the effect of chemotherapy in the treatment of cancer. PCI

Biotech is currently developing a new photo-sensitising substance to be used in the PCI technology and aims to start clinical studies with this substance in 2007.

Financial situation

PhotoCure implemented the new accounting standard, IFRS from 1 January 2005. Comparative figures for 2004 have therefore been adjusted accordingly. In May 2005, the company published a document to show the differences between the old and new accounting principles. The main points of the change include NOK 0.6 million in increased costs for incentive programmes in 2004, and reduced equity of NOK 1.6 million as of 01.01.2004 and a further NOK 0.3 million as of 31.12.2004 due to changes in pension costs.

Total sales and milestone revenues in the PhotoCure group amounted to NOK 53.6 million in 2005, compared to NOK 77.8 million in 2004.

In the Nordic region, total sales revenues reached NOK 17.4 million in 2005. In markets outside the Nordic region, where Galderma is responsible for marketing and sales, sales revenues amounted to NOK 20.6 million in 2005.

Milestone revenues totalled NOK 15.6 million in 2005, a reduction of 62% compared to 2004. The decrease is due to a milestone payment of EUR 3 million from Galderma in 2004.

The Group's operating income amounted to NOK -47.3 million in 2005, compared to



DIRECTORS' REPORT

PhotoCure ASA - Annual Report 2005

NOK -40.9 million in 2004. The change in operating income is primarily due to reduced milestone revenues, a reclassification of an R&D contract from Innovation Norway of NOK 10.4 million, as well as NOK 7.5 million in reduced costs. All R&D costs in 2005 have been expensed.

Net financial income totalled NOK 8.8 million in 2005, compared to NOK -4.5 million in 2004. Accumulated interest of NOK 1.9 million related to an R&D contract from Innovation Norway is reclassified as income, as the terms of repayment are not fulfilled. Moreover, net financial income includes a profit of NOK 5 million from sales of shares in Algeta ASA.

The Group's net income amounted to NOK -38.2 million in 2005, compared to a net income of NOK -45.0 million in 2004. In 2005, PhotoCure ASA (parent company) generated a net income of NOK -38.0 million, compared to a net income of NOK -42.1 million in 2004. The board of directors of PhotoCure proposes that the net loss be covered by a transfer from other equity.

After this transfer, the equity of PhotoCure ASA totals NOK 73.2 million, of which NOK 1.6 million are distributable reserves. The equity of the Group amounted to NOK 48.5 million as of 31.12.2005, giving an equity ratio of 46%.

Rights issue of NOK 202 million in 2006

On 24 January 2006, PhotoCure held an extraordinary general meeting where an underwritten rights issue of 4,396,051 new shares was resolved. The subscription price

was set to NOK 46 per share, giving a total of NOK 202 million. The subscription period ended on 20 February 2005 with substantial oversubscription. After the issue, the company's liquid funds will amount to approximately NOK 320 million.

The Group has adopted a conservative investment strategy for its liquid funds. The yield on the company's liquid funds is dependant on money market interest rates and may therefore vary over time. The Group's liquid funds amounted to NOK 72.3 million as of 31.12.2005. Net cash flow from operations totalled NOK -70.5 million in 2005, compared to NOK -50.2 million in 2004.

Costs and revenues of the Group accrue in different currencies. The Group is therefore, to a certain extent, influenced by the effect of exchange rate fluctuations. The associated risks are continuously evaluated. PhotoCure does not currently use any financial derivatives.

PhotoCure does not recognise deferred taxes as an asset in the balance sheet due to uncertainty of when the company will be able to utilise the deferred taxes. All R&D costs are expensed in the tax accounts as of 31.12.2005.

In accordance with the Norwegian Accounting Act, § 3.3 (a), the board of directors of PhotoCure confirms the assumption that the company is a going concern and that the financial report for 2005 is based on this. Since the end of the financial year of 2005, there have been no events, other than those stated in this report, that are of major significance to the evaluation of the company's financial situation or results.

Organisation

In February 2006, Halvor Bjerke, former chairman of the board and long-standing board member, resigned from the board of directors for health reasons. The board of directors would like to thank him for the great contribution he has made to the company. As of 1 January 2005, Kjetil Hestdal assumed the position as President and Chief Executive Officer of PhotoCure. In addition to Kjetil Hestdal, the company's management includes Christian Fekete, Chief Financial Officer, Grete Hogstad, Vice President Marketing and Sales, Hilde Morris, Vice President Research and Development, and John Afseth, Vice President Business Operations.

PhotoCure is based in Oslo. By the end of 2005, the Group had 35 employees, of which 2 were employed by the subsidiary PCI Biotech AS. The Group makes considerable use of external suppliers for production, research and development, as well as for regulatory work. The working environment in the company is considered to be good, and no accidents or injuries were reported in 2005. Absence from work due to illness totalled 173 working days for the Group in 2005, which

equals 2.1% of total working days. For the parent company, the absence due to illness totalled 166 working days in 2005, which equals 2.2% of the total working days.

PhotoCure aims to be a workplace that provides equal opportunities for men and women. The company has traditionally recruited from environments where men and women are relatively evenly represented. The company has 40% women in the board of directors and the management. Working hour arrangements in the company do not depend on gender.

The company does not pollute the external environment.

Other matters

In April 2002, PhotoCure filed legal suit in an Australian court to invalidate patent no. 624985 assigned to Queen's University in Kingston, Canada. The patent is licensed to DUSA Pharmaceuticals, Inc. and relates to a method for using 5-aminolevulinic acid in photodynamic therapy. The trial took place in the spring of 2004 and the sentence was passed in the spring of 2005. In brief, the Federal

Court announced that the patents belonging to PhotoCure and DUSA stand separately, and that Metvix is not affected by the DUSA patent. The same patent may cause potential patent disputes for PhotoCure in the US and certain smaller markets. Negotiations between the two parties are still ongoing.

Future prospects

PhotoCure's focus in 2006 will be on the cooperation with GE Healthcare to launch Hexvix in Europe, as well as the continued work to obtain approval for Hexvix in the US. At the same time, PhotoCure and Galderma are working to increase Metvix sales. The launch of Metvix in Brazil is scheduled to take place in the spring of 2007.

The focus within R&D will be to carry out several important studies, among others phase II studies for the treatment of moderate to severe acne, a phase III study for Hexvix, two phase III studies to document Metvix/Aktelite in the US, as well as explorative studies of colon cancer and pre-cancerous lesions in the cervix.

Oslo, 27 February 2006

Erik Engebretsen, *Chairman of the Board*

Per-Olof Mårtensson, *Deputy Chairman*

Trine Bjørø, *Board Member*

Birgit Stattin Norinder, *Board Member*

Lars Lindegren, *Board Member*

Kjetil Hestdal, *President and CEO*



CONSOLIDATED INCOME STATEMENT

PhotoCure ASA - Annual Report 2005

PhotoCure ASA

(Amounts in NOK 000s)

	Note	IFRS 2005	2004	NGAAP 2003
Operating revenues				
Sales revenues		38 007	36 811	23 380
Milestone revenues	1	15 634	40 954	31 774
Total sales and milestone revenues		53 641	77 809	55 154
Cost of goods sold		-13 430	-13 066	-9 514
Gross profit		40 211	64 743	45 640
Other operating revenues	2	15 235	4 597	5 150
Payroll expenses	3,4	-29 369	-35 282	-27 756
External R&D expenses	5	-38 238	-31 718	-38 377
Ordinary depreciation	10	-1 125	-29 530	-1 677
Other operating expenses	6	-33 966	-41 671	-36 635
Total operating revenues and expenses		-87 463	105 604	-53 655
Operating income		-47 252	-40 861	-53 655
Financial income and expense				
Financial income		10 178	4 687	14 014
Financial expenses		-1 400	-9 149	-3 126
Net financial income	7	8 778	-4 462	10 888
Income before tax		-38 474	-45 323	-42 767
Tax expense	8	0	0	0
Net income before minority interest		-38 474	-45 323	-42 767
Minority interest		-264	-290	-441
Net income for the year		-38 210	-45 032	-42 326
Earnings per share	9	-2.19	-2.58	-2.44
Earnings per share, antidiluted	9	-2.18	-2.58	-2.44

CONSOLIDATED BALANCE SHEET AS OF 31.12

PhotoCure ASA

(Amounts in NOK 000s)

	Note	2005	2004
Fixed assets			
Tangible fixed assets			
Machinery and equipment	10	2 708	2 080
Total tangible fixed assets		2 708	2 080
Current assets			
Inventories			
Inventories	11	12 943	17 533
Receivables			
Accounts receivable		5 970	7 413
Other receivables		11 755	8 733
Total receivables	12	17 725	16 146
Cash and short term deposits			
Cash and short term deposits	13	72 329	137 952
Total current assets		102 996	171 631
Total assets		105 704	173 711



CONSOLIDATED BALANCE SHEET AS OF 31.12

PhotoCure ASA - Annual Report 2005

PhotoCure ASA			
(Amounts in NOK 000s)			
	Note	2005	2004
Equity			
Paid-in capital			
Share capital		8 792	8 791
Share premium fund		58 353	58 302
Other paid-in capital		4 764	3 444
Total paid-in capital	14	71 909	70 537
Retained earnings			
Other equity		-23 444	14 860
Total retained earnings	14	-23 444	14 860
Minority interests	14	0	170
Total equity	14	48 465	85 566
Liabilities			
Long-term liabilities			
Pension commitments	4	0	219
Other-long term liabilities	15	300	13 219
Other-long term liabilities		300	13 438
Current liabilities			
Accounts payable		9 195	7 539
Employee withholding taxes and social security tax		1 803	6 991
Deferred income		32 571	48 205
Other current liabilities	16	13 370	11 972
Total current liabilities		56 939	74 707
Total liabilities		57 239	88 144
Total equity and liabilities		105 704	173 711

Oslo, 27 February 2006
The Board of Directors of PhotoCure ASA

Erik Engebretsen
Chairman of the Board

Per-Olof Mårtensson
Deputy Chairman

Trine Bjørø
Board Member

Lars Lindegren
Board Member

Birgit Stattin Norinder
Board Member

Kjetil Hestdal
President and CEO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

PhotoCure ASA

(Amounts in NOK 000s)

	Note	Share capital	Share premium fund	Other paid-in capital	Other equity	Minority interest in equity	Total equity
Equity as of 31 December 2003, NGAAP		8 789	58 107	2 970	61 578	453	131 897
Effect of IFRS implementation:							
Pension costs					-1 647	7	-1 640
Employees' options				39	-39		0
Equity as of 01 January 2004, IFRS		8 789	58 107	3 009	59 892	460	130 257
Accrued value of employee options				165			165
Share issue employees	2		194				197
Employees' options				270			270
Net income for the year					-45 033	-290	-45 323
Equity as of 31 December 2004, IFRS		8 791	58 301	3 444	14 860	170	85 566
Share issue employees	1		51				52
Employees' options				1 320			1 320
Net income for the year					-38 210	-264	-38 474
Transfer of negative minority interest					-94	94	0
Equity as of 31 December 2005, IFRS	14	8 792	58 352	4 764	-23 444	0	48 465



CONSOLIDATED CASH FLOW STATEMENT

PhotoCure ASA - Annual Report 2005

PhotoCure ASA

(Amounts in NOK 000s)

	IFRS		NGAAP
	2005	2004	2003
Cash flow from operating activities			
Loss before taxes	-38 474	-45 323	-42 767
Ordinary depreciation	1 125	1 530	1 677
Write-down of financial fixed assets	0	6 250	0
(Gain)/loss on sale of fixed assets	-5 057	0	19
Change in pension commitments	-219	160	-153
Interest paid	-63	-103	
Other items	-13 159	-2 307	640
Change in inventory	4 590	5 634	2 965
Change in accounts receivables	1 444	-1 631	-3 701
Change in accounts payables	1 656	-1 032	-9 142
Change in deferred income	-15 634	-15 634	-15 634
Change in other accruals	-6 749	2 208	-4 409
Net cash flow from operating activities	-70 540	-50 248	-70 506
Cash flow from investing activities			
Investments in machinery and equipment	-2 101	-429	-381
Sales of fixed assets (sales price)	405	42	204
Investments in/sale of other fixed asset investments	5 000	0	-1 250
Interest received	2 160	3 145	
Net cash flows from investing activities	5 464	2 758	-1 427
Cash flow from financing activities			
Repayment of loans	-600	-600	-300
Paid-in equity	52	197	8 575
Net cash flow from financing activities	-548	-403	8 275
Net change in cash during the year	-65 624	-47 893	-63 658
Cash and cash equivalents as of 01.01	137 952	185 845	249 503
Cash and cash equivalents as of 31.12	72 328	137 952	185 845

NOTES TO FINANCIAL STATEMENT FOR 2005

The group financial statements for the 2005 accounting year for PhotoCure ASA were approved for publication by the board on 27 February 2006.

PhotoCure ASA is a public limited company with its headquarters in Norway. The Group's business area and market are related to research, development, and the production and sale of pharmaceuticals and relevant medical equipment. The company's address is Hoffsvæien 48, N-0377 Oslo, Norway.

The company's largest shareholder is Radiumhospitalets Forskningsstiftelse, which had a 21.4 per cent shareholding at year-end.

Basis for preparing the financial statements

The group financial accounts have been prepared on the basis of historical cost, with the exception of investments classified as available for sale. These are valued at market value. The group financial statements have been prepared in compliance with the rules set forth in the International Financial Reporting Standards (IFRS) which have been implemented throughout the European Union.

Changes to the accounting principles - Share-based payment – IFRS 2

PhotoCure has an employee incentive programme based on the allocation of share options in PhotoCure. Options are issued to employees at exercise prices, which reflect, at a minimum, market value at the time of issuance. For this reason, the options have no intrinsic value at the time of issuance.

According to IFRS 2 (Share-based Payment), all share-based payments shall be incurred as expenses in the income statement at fair value at the time of issuance and be expensed over the option's vesting period. This applies to all agreements signed after 7 November 2002 that are not vested by 1 January 2005. These agreements are included in the opening balance as at 1 January 2005 and in the comparison figures for 2004. This transaction will have no effect on equity since the contra entry for the expense is equity. As of 1 January 2004, an expense of NOK 39,000 has been transferred from Retained earnings to Paid-in capital. In 2004, an additional NOK 270,000 has been expensed as payroll expenses.

Options issued to suppliers have already been expensed in the income statement based at market value at the time they were issued, and the implementation of IFRS 2 will therefore have no effect.

- Exceptions to IFRS

PhotoCure has availed itself of the following optional exceptions in IFRS 1:

- Accumulated, non-expensed gains/losses in the pension scheme have been charged against equity in the opening balance.

Use of accounting assumptions and estimates

Preparation of the financial statements in accordance with IFRS requires the use of estimates and assumptions that effect the carrying amounts of assets and liabilities and the evaluation of conditional events and recognised revenues and expenses. The use

of estimates and assumptions is based on the best discretion of the management, but the effect of estimates is assessed to be insignificant as at 31 December 2005.

Consolidation principles

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

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

Uniform principles have been utilised in the preparation of the consolidated accounts, the subsidiaries use the same principles as the parent company. All significant group transactions and intercompany balances have been eliminated.

Currency

The annual accounts are presented in Norwegian kroner (NOK), which is the group's functional currency. Subsidiaries use their functional currency for the registration of all items included in the accounts. Monetary items in foreign currency are translated at

prevailing rates as of the balance sheet date. Realised and unrealised currency gains and currency losses are included in the net loss for the year. Transactions in foreign currencies are recorded at prevailing rates as of the transaction date.

Fixed assets and intangible assets

Tangible fixed assets are capitalised at cost price with a deduction for accumulated depreciation and write-downs. Tangible fixed assets are depreciated on a straight-line basis over the estimated useful life of the asset, taking into account any residual value. Expenditures and improvements are added to the cost price of the underlying asset and are depreciated over the expected useful life.

Write-downs of fixed assets are made upon identification of a decrease of value, which is not considered to be temporary. If the need for write down is identified, the asset is written down to the lower of book value and net realisable value. Best estimate is utilised in connection with the determination of net realisable value. Assets are grouped and evaluated on the basis of the lowest level of aggregation of identifiable and independent cash flows.

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

Research and development

All costs related to proprietary research and development are expensed as incurred until

national marketing approval for the product is obtained. Expensed procurements of external services related to proprietary research and development projects are specified on a separate line in the accounts.

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

Purchased research and development is capitalised and depreciated over expected lifetime.

Inventory

Stock of purchased inventory is valued on the basis of the lower of cost and market value, and on the basis of the first-in-first-out principle (FIFO).

Receivables

Accounts receivable and other receivables are presented at face value less a provision for expected losses. The provision is based on an individual evaluation of the realisable value of each receivable.

Cash and cash equivalents

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

Revenue recognition

Revenues relating to products are recognised upon delivery, i.e. at the point of transfer of both risk and control. Returns are recognised as a reduction to revenues.

Payment in connection with signing of licensing agreement is recognised over the mini-

mum contract period, and milestones related to regulatory approvals and product launches relating to license agreements are recognised upon achievement.

Licence agreements that provide a guaranteed minimum royalty are recognised when the condition for this has been achieved.

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

Contributions from the government

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

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

Pensions

With effect from 1 January 2006, an agreement has been signed for a contribution-based pension plan for all employees. Contributions comprising between 5% and 8% of an employee's salary are added to the pension plan for all employees. The company's payments are recorded in the income statement in the year in which the contribution applies. Up until 31 December 2005, the company had a benefits plan. The accounting principles applied to

this agreement are given below. Gains from the phasing out of the benefits plan as of 31 December 2005 are included in the pension costs for the year.

The principles for recording the previous pension plan were as follows:

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

Share options

Share options issued to employees of PhotoCure are calculated at market value in accordance with the Black & Scholes model at

the time of issuance, and are accrued on a straight-line basis over the period during which they are retained up until the options' first call.

Social security taxes relating to retained share options are accrued as salary expense over the options' economic lifetime.

Share options issued to non-employees are recognised at fair market value in accordance with the Black & Scholes model, and are accrued on the basis of the underlying agreement.

Taxes

Tax expense is comprised of taxes payable for the current period and the change in deferred taxes. Deferred taxes are calculated at 28 per cent of the temporary differences that exist between tax and accounting values, and tax operating loss carry forwards. Tax assets and liabilities resulting from temporary timing differences that reverse or may be reversed in the same periods are offset against one another. Recognition of a deferred tax asset is subject to probable future application.

Cash flow statement

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

Consequences of implementing new standards under IFRS

New standards have been adopted as well as additions to existing standards that enter into force on 1.1.2006 and 1.1.2007. These are:

- IFRS 6 "Exploration for and Evaluation of Mineral Resources"
- IFRS 7 "Financial Instruments – Disclosures"
- IAS 39 "Financial Instruments"
- IFRS 4 "Insurance Contracts"
- IAS 1 "Presentations of Financial Statements – Capital Disclosures"
- IAS 21 "The Effects of Changes in Foreign Exchange Rates – Net Investments in a Foreign Operation".

The company does not expect any of these new standards or additions to have any significant effect on the company's reporting.

NOTE 1 - SALES AND MILESTONE REVENUES

Signing fees and milestone revenues in the amount of NOK 15.6 million have been included in sales and milestone revenues in 2005, and NOK 15.6 million in 2004. NOK 32.6 million of the signing fee has been included as deferred income in the balance sheet as of 31 December 2005, and NOK 48.2 million as of 31 December 2004. Milestone payments included in sales and milestone revenues were NOK 0 million in 2005, and NOK 25.3 million in 2004.

Segment information

PhotoCure's revenues largely consist of revenues from sales of Metvix cream and the Aktelite lamp, which represent one business area. Hexvix, the Company's other pharmaceutical product, currently generates such limited sales revenues that no significant information would be contributed by presenting this in 2005. The primary segment is geography and the distribution is based on different models in the Nordic region and the rest of the world. Sales and accounts receivables in the Nordic region consist of sales to end-users such as hospitals and clinics. Sales revenues and accounts receivable outside the Nordic region relate to sales of Metvix and Aktelite lamps to the licensing partner Galderma in addition to royalties on sales from Galderma to the end-user. PhotoCure has stocks of lamps in Norway. Active substances and pharmaceutical products are stored at consignment warehouses in Sweden and Denmark, and at the production facility in Wales, UK. The Company has no other significant assets abroad.

Income statement

(Amounts in NOK 000s)	2005				2004			
	Nordic region	ROW*	Unallocated	Total	Nordic region	Outside	ROW*	Total
Sales revenues	17 120	20 887	0	38 007	16 182	20 673	0	36 855
Milestone revenues	0	15 634	0	15 634	0	40 954	0	40 954
Total sales and milestone revenues	17 120	36 521	0	53 641	16 182	61 627	0	77 809
Operating expenses and								
Cost of goods sold	18 169	0	82 724	100 893	0	0	118 670	118 670
Operating income	-1 049	36 521	-82 724	-47 252	16 182	61 627	-118 670	-40 861
Net financial income	0	0	8 778	8 778	0	0	-4 462	-4 462
Net income for the year	-1 049	36 521	-73 946	-38 474	16 182	61 627	-123 132	-45 323

*ROW= Rest of the world

The income statement is distributed according to the customer's location. PhotoCure only has operating expenses and cost of goods sold for the Nordic region with effect from 2005 since the Company's internal reporting for 2004 does not support this type of segment distribution. Financial items are not naturally attributable to segments.

Balance sheet

Assets

(Amounts in NOK 000s)	2005				2004			
	Nordic region	ROW*	Unallocated	Total	Nordic region	Outside	ROW*	Total
Fixed assets	2 708	0	0	2 708	2 080	0	0	2 080
Inventory	5 291	7 652	0	12 943	8 293	9 240	0	17 533
Accounts receivable	3 118	2 852	0	5 970	1 946	5 467	0	7 413
Other receivables	0	0	11 755	11 755	0	0	8 733	8 733
Cash and short term deposits	0	0	72 329	72 329	0	0	137 952	137 952
Total assets	11 117	10 504	84 084	105 705	12 319	14 707	146 685	173 711

(Amounts in NOK 000s)	2005				2004			
	Nordic region	ROW*	Unallocated	Total	Nordic region	Outside	ROW*	Total
Equity and liabilities								
Equity	0	0	48 465	48 465	0	0	85 566	85 566
Long-term liabilities	0	0	300	300	0	0	13 438	13 438
Deferred income	0	32 571	0	32 571	0	48 205	0	48 205
Other current liabilities	0	0	24 368	24 368	0	0	26 502	26 502
Total equity and liabilities	0	32 571	73 133	105 704	0	48 205	125 506	173 711

Physical assets are distributed according to the location of the asset. Accounts receivable are distributed according to the customer's location. Other receivables and cash are not naturally attributable to segments. Deferred income relates to the payment of a signing fee from the licensing partner. Equity and liabilities are not naturally attributable to segments.

NOTE 2 - OTHER OPERATING REVENUES

Other operating revenues include government contributions in the amount of NOK 15.2 million in 2005. In 2004, government contributions amounted to NOK 4.6 million. Government contributions for 2005 consist of the reclassification of an OFU contract for NOK 10.4 million from Innovasjon Norge since the conditions for repayment were no longer in place. This amount was previously recorded as a long-term liability (see note 15). In addition, NOK 2.9 million in SkatteFUNN tax revenues have been taken to income, along with a grant of NOK 1.8 million from the Research Council of Norway.

NOTE 3 - PAYROLL EXPENSES AND REMUNERATION

(Amounts in NOK 000s)	2005	2004
Wages	24 038	23 862
Social security tax	3 446	4 575
Social security tax on employee share options	1 321	270
Option costs	284	8
Pension costs	-439	2 034
Other forms of remuneration	719	4 533
Total labour costs	29 369	35 282
Average number of employees (weighted)	33	37

Share-based payment

In connection with the Company's incentive policy, all employees have been granted warrants to Company stock (the term share options is also used). These warrants cease to be valid as soon as the employee gives notice of his/her decision to step down. The Board of Directors has not been allotted any share options/warrants.

In 2005 a total of NOK 1.3 million has been expensed as share-based payment. In 2004, the corresponding figure was NOK 0.3 million.

As of 31 December 2005, employees of PhotoCure ASA held the following share options/warrants:

Option programme	2001	2004	2005	2005
Award date	Aug.01	2004	Feb.05	Feb.05
Number	21 000	14 182	24 153	153 000
Exercise price (NOK)	100-117	34.50	53.50	34.00
Expiry date	2006	2006	2007	2009

In addition, a conditional award of 154,000 share options at a price of NOK 34.00 has been made provided that certain goals are achieved.

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

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

	2005 Number	2005 Average exercise price (NOK)	2004 Number	2004 Average exercise price (NOK)
Outstanding at the beginning of the year(1)	121 746	90.10	162 326	94.15
Allocated during the year	178 000	34.00	26 903	53.50
Lapsed during the year	29 583	35.84	61 779	89.93
Exercised during the year	1 500	34.50	5 704	34.50
Expired during the year	56 328	107.50	0	n/a
Outstanding at year-end	212 335	44.38	121 746	90.10
Exercisable options 31.12	102 034	53.90	90 571	100.55

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

The average weighted lifetime of outstanding share options was 2, 4 years as of 31 December 2005 and 1.7 years as of 31 December 2004.

The average weighted actual value of issued options was NOK 7.14 in 2005 and NOK 3.71 in 2004.

As of 31 December 2005, the distribution of exercise prices and the average lifetime of outstanding share options was as follows:

Number of options	Exercise price	Average remaining lifetime
20 000	kr 117.00	0.5 years
1 000	kr 100.00	1 year
14 182	kr 34.50	1 year
24 153	kr 53.50	2 years
153 000	kr 34.00	3 years

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

The actual value of the warrants is calculated using the Black-Scholes method. Volatility is calculated on the basis of developments in the historical share price over the last twelve months. This assumes that historical volatility provides an indication of future volatility, which is not necessarily the case. The subscription price is set at market price at the time of allocation. The risk-free interest rate is based on the 3-year Norwegian government bonds. Each option programme is calculated separately using the actual exercise price and the programme's lifetime. The options are expected to be exercised at the first available opportunity. In the case of option allocations that are conditional on the achievement of certain goals, a factor is added defining the probability that this will occur. Expected achievement of goals contingent on allocated options is 90%. The interest rate benefit is insignificant and has not been taken into account in the accounts. The table below shows the values used in the model.

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

Other incentive programmes

In connection with the Company's employee co-ownership programme, selected employees of PhotoCure ASA have been offered to subscribe shares in the Company, in which portions of payable amounts have been deferred. Upon sale of shares acquired in connection with this programme, the Company shall be entitled to that portion of proceeds corresponding to the difference between the subscription price and the market value of stock as of the date of subscription. In the event that such stock is held for 10 years, a final settlement, based on the same principles, will be effectuated. In the event that such shares are sold within a specified period, the Company has, on the basis of defined terms, pre-emptive rights. As of 31 December 2005, 25,000 shares were subscribed to in connection with the programme (see note 16).

Auditor's fees:

	2005
Statutory audit	299
Other attestation services	21
Other non-audit-related services	48
Total	368

NOTE 4 - PENSION LIABILITIES

Up until the end of 2005, the Group was enrolled in a collective pension plan through Nordea Liv Norge AS. With effect from 1 January 2006, the Company has entered into a new agreement based on a contribution scheme. As of 31 December 2005, the accrued net pension liability has been taken to income. In addition, the Company has a premium/contribution fund totalling NOK 2.4 million including social security tax as of 1 January 2006. This can be used to pay future premiums in the contribution-based scheme. The premium/contribution fund has been listed in the balance sheet under current liabilities.

The pension benefit is based on the following assumptions

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

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

Current year net periodic pension was calculated as follows:

(Amounts in NOK 000s)	2005	2004
Service cost	1 700	1 683
Interest expenses	273	294
Actual return on plan assets	-213	-257
Net amortisation and deferral	20	0
Social security tax	300	313
Winding up of the plan	-131	0
Recognised premium/contribution fund	-2 387	0
Net pension expense	-439	2 034

Gains from winding up the plan	2005
Reduced gross pension liabilities	8 794
Reduced gross pension assets	-7 914
Corrected unrecognised net loss	-872
Estimated social security tax	123
Total gain from winding up	131

Net pension assets/(liability):

(Amounts in NOK 000s)	31.12.2005	31.12.2004
Pension liability	-8 794	-8 518
Value of plan assets	7 914	7 876
Unrecognised net loss	872	514
Net plan assets before social security tax	-8	-128
Social security tax	-123	-90
Net plan assets (liabilities)	-131	-218
Gain from winding up of the plan	131	0
Accrued net plan assets (liabilities)	0	-218

Gross pension liability	2005	2004
Gross pension liability 1.1	8 518	6 027
Interest expense	273	294
Present value of pensions accrued during the period	1 700	1 683
Pension payments for the year	0	0
Actuarial gains/losses	-1 697	514
Winding up of plan	-8 794	0
Gross pension liability 31.12	0	8 518

Gross pension assets	2005	2004
Gross pension assets 1.1	7 876	6 027
Expected return	213	294
Contributions for the year	1 899	
Pension payments for the year	0	0
Actuarial gains/losses	-2 075	514
Winding up of the plan	-7 914	0
Gross pension assets 31.12	0	6 835

NOTE 5 - R&D EXPENSES

(Amounts in NOK 000s)	2005	2004
External R&D expenses	38 238	31 718
Internal R&D expenses	19 382	20 751
Total R&D expenses	57 620	52 469

NOTE 6 - OTHER OPERATING EXPENSES

(Amounts in NOK 000s)	2005	2004
Marketing expenses	7 505	10 414
Travel expenses	5 505	5 511
Patent and legal expenses	4 738	11 214
Other expenses	16 218	14 532
Total other operating expenses	33 966	41 671

NOTE 7 - FINANCIAL ITEMS

(Amounts in 000s)	2005	2004
Interest income (1)	4 098	3 145
Foreign exchange gains	1 081	1 542
Other financial income (2)	5 000	0
Total financial income	10 178	4 687

Interest expenses	66	103
Foreign exchange losses	1 140	2 644
Write-down of financial assets (3)	0	6 250
Other financial expenses	194	152
Total financial expenses	1 400	9 149

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

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

(3) In 2004, the shares in Algeta ASA were written down by NOK 6.25 million, which corresponded to the cost price of the shares

NOTE 8 - TAXES**Tax expense consists of:**

(Amounts in NOK 000s)	2005	2004
Taxes payable on net income	0	0
Change in deferred tax	0	0
Tax expense	0	0

Taxes payable was calculated as follows:

(Amounts in NOK 000s)	2005	2004
Net loss before tax	-38 474	-45 323
Expected nominal rate	-10 773	-12 690
Permanent differences	-2 164	1 338
Write-down of deferred tax asset	12 937	11 352
Taxes payable on net loss	0	0

Specification of the basis for deferred tax assets and liabilities:**Temporary differences:**

(Amounts in NOK 000s)	2005	2004
Fixed assets	-2 436	-2 823
Securities	0	0
Inventory	-850	-52
Liabilities	-90	-13 947
Net pension asset	2 387	1 750
Losses carried forward	-478 689	-418 403
Total	-479 678	-433 475
Deferred tax asset (28%)	-134 310	-121 373
Deferred tax asset not recognised	134 310	121 373
Book value of deferred tax asset	0	0

The Company has no history of taxable profits and the deferred tax asset is therefore valued at NOK 0. Losses carried forward can be carried forward indefinitely. RISK per share was NOK 0 as of 31.12.2003 and as of 31.12.2004, and is estimated by the Company to amount to NOK 0 as of 31.12.2005.

NOTE 9 - EARNINGS PER SHARE

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

Earnings per share	2005	2004
Weighted average shares outstanding	17 583 259	17 581 769
Dilution effect	31 028	5 991
Weighted average shares outstanding (diluted)	17 614 287	17 587 760
Earnings per share (NOK)	-2.188	-2.580
Earnings per share (NOK) (antidiluted)	-2.184	-2.579

NOTE 10 - MACHINERY AND EQUIPMENT

(Amounts in NOK 000s)	2005	2004
Purchase price 1.1.2005	7 643	7 573
Accumulated depreciation 01.01	-5 563	-4351
Book value 01.01	2 080	3 222

Period 1.1 - 31.12.

Book value 01.01	2 080	3 222
Additions	2 101	429
Disposals	-348	-42
Ordinary depreciation	-1 125	-1529
Book value 31.12.	2 708	2 080
Purchase price 31.12	8 776	7 643
Accumulated depreciation 31.12.	-6 067	-5 563
Book value 31.12	2 708	2 080
Expected economic life	3-5 years	3-5 years

NOTE 11 - INVENTORY

(Amounts in NOK 000s)	31.12.2005	31.12.2004
Raw materials (at cost price)	10 116	13 718
Finished goods (at cost price)	2 827	3 815
Total inventory	12 943	17 533

The stock of raw materials consists of active substances for pharmaceuticals, and components for the lamps.

Raw materials and finished goods are valued at cost price. Raw materials with a cost price of NOK 850,000 have been written down to NOK 0 during 2005 since their period of durability has expired and retesting the substance is not a viable proposition. In 2004, finished goods with a cost price of NOK 52,000 were written down to NOK 0. Write-downs of inventory have been included in the cost of goods sold in the income statement.

NOTE 12 - RECEIVABLES

Receivables are valued at cost price.

NOTE 13 - CASH AND SHORT TERM DEPOSITS

(Amounts in NOK 000s)	31.12.2005	31.12.2004
Cash and short term deposits, restricted ⁽¹⁾	2 247	5 521
Cash and short term deposits, unrestricted	10 910	21 212
Money market funds,unrestricted	59 171	111 219
Total	72 328	137 952

⁽¹⁾ Restricted cash and short term deposits as at 31.12.05 is security for employees' withholding tax in the sum of NOK 1.0 million, plus a deposit for rent in the sum of NOK 1.2 million.

NOTE 14 - EQUITY

(Amounts in NOK 000s)	Share capital	Share premium fund	Other paid-in capital	Other equity	Minority share equity	Total equity
Equity as of 01.01.2004	8 789	58 107	3 009	59 892	460	130 257
Accrued value of warrants			165			165
Share issue employees	2	194				197
Employees' options			270			270
Net loss for the year				-45 033	-290	-45 323
Equity as of 31.12.2004	8 791	58 301	3 444	14 860	170	85 566
Share issue employees	1	51				52
Employees' options			1 320			1 320
Net loss for the year				-38 210	-264	-38 474
Transferral of negative minority interest				-94	94	0
Equity as of 31.12.2005	8 792	58 352	4 764	-23 444	0	48 465

Registered share capital in PhotoCure ASA as of 31.12.2005 was:

	Number of shares	Par value	Share capital (NOK)
Share capital as of 01.01.2005	17 582 704	kr 0.50	8 791 352
Share issues 2005	1 500	kr 0.50	750
Share capital as of 31.12.2005	17 584 204	kr 0.50	8 792 102

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

The Board of Directors of PhotoCure ASA was authorised by the General Meeting on 3 May 2005 to issue 2.25 million shares, of which (a) 1.8 million shares relate to the financing of the Company's development, while issuance of (b) 0.45 million shares relates to issuance of stock to employees and to selected strategic partners. The remaining authorisation as of 31 December 2005 was 2.25 million shares. Authorisation relating to a) remains effective through the annual general meeting in 2006, while authorisation relating to b) remains effective for two years. Previously reported authorisations have expired.

The following table provides an overview of the status of authorisations as of 31 December 2005:

(Amounts in # of shares)	Ordinary share issue	Employee issue
Issue authorisation general meeting 03.05.05	1 800 000	450 000
Share issue pursuant to general meeting 03.05.05	0	1 500
Remaining issue authorisation	1 800 000	448 500

In addition, subscription rights for 212 335 shares were issued to employees. As described in note 3, all employees of PhotoCure ASA have been offered share subscriptions, where portions of the payments have been deferred. The Company will receive a maximum payment of NOK 2.1 million from those who as of 31 December 2005 have acquired shares under this scheme.

Ownership structure

The primary shareholders in PhotoCure ASA as of 31 December 2005, were:

	# Shares	Ownership
Radiumhospitalets Forskningsstiftelse	3 759 000	21.4 %
Odin Norge	1 253 500	7.1 %
Gezina AS	1 060 373	6.0 %
Cogent-Hunter Hall V Trust	671 700	3.8 %
Ferd Invest	600 000	3.4 %
Skagen Invest	500 000	2.8 %
Cogent-Hunter Hall G limited	396 800	2.3 %
Cogent-Hunter Hall G Trust	370 400	2.1 %
Vital forsikring ASA	354 900	2.0 %
Vicama AS	344 121	2.0 %
Marlin Verdi AS	325 000	1.9 %
DnB NOR Norge (IV) VPF	250 900	1.4 %
R. Ulstein Loen AS	225 600	1.3 %
Sig. Bergesen D.Y. og almennyttige stiftelse	217 650	1.2 %
MP Pensjon	216 300	1.2 %
Norsk Hydros Pensjonskasse	206 404	1.2 %
Holberg Norge Verdipapirfond	200 400	1.1 %
Total with greater than 1% ownership	10 953 048	62.3 %
Total other	6 631 156	37.7 %
Total shares outstanding	17 584 204	100.0 %

Shares owned directly or indirectly by members of the Board of Directors and management, and related parties to such as of 31 December 2005:

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Name	Position	Number of shares	Subscription rights*
Erik Engebretsen**	Chairman of the Board	27 000	0
Per-Olof Mårtensson	Deputy Chairman	3 001	0
Halvor Bjerke	Board Member	5 500	0
Trine Bjøro	Board Member	0	0
Lars Lindegren	Board Member	24 377	0
Birgit Stattin Norinder	Board Member	0	0
Kjetil Hestdal	President and CEO	122 873	43 000
Christian Fekete	CFO	0	25 000
Hilde Morris	VP Research and Development	0	26 800
Grete Hogstad	VP Marketing and Sales	0	25 000
John Afseth	VP Business Operations	50 400	26 100
Auditor		0	0

* Please refer to Note 3 for more information about subscription rights.

** CEO in Gezina AS which owns 1,060,373 shares.

The Board of Directors of PhotoCure ASA has for 2005 continued the incentive programme for Company employees, including Company management. 154,000 contingent share options/warrants have been issued for 2005, in which each share option/warrant provides a right to subscribe to one share in the Company at a price of NOK 34. Such options/warrants will be earned if certain benchmark goals as specified in the work programme and in the 2005 budget are achieved. In the connection with the cost assessment of these options, the assumption of 90% goal achievement has been applied. 1/3 of the share options/warrants may be exercised each year starting in 2006 and ending in 2008. All the share options/warrants must be exercised by 31 December 2008. Of these share options/warrants, 20,000 were issued to the Chief Executive Officer, 10,000 were issued to the Chief Financial Officer, 10,000 were issued to the Vice President of Research and Development, 10,000 were issued to the Vice President Marketing and Sales, and 10,000 were issued to the Vice President of Business Operations. See also Note 3.

NOTE 15 - INTEREST-BEARING LIABILITIES

	Effective rate of interest	Maturity	2005	2004
Conditional contribution Innovasjon Norge ⁽¹⁾				12 319
Risk loan Innovasjon Norge	5.90 %	2006	900	1 500
First year instalment			(600)	(600)
Total			300	13 219

⁽¹⁾ Conditional contribution from Innovasjon Norge was 2005 taken to income in the sum of NOK 10.4 million as Other operating income and NOK 1.9 million as Financial income. (See Notes 2 and 6.)

NOTE 16 - OTHER CURRENT LIABILITIES

(Amounts in NOK 000s)	2005	2004
Provision for external R&D expenses	4 023	2 300
Provisions for bonuses, holiday allowances, wages	7 702	4 704
First year instalment on long-term debt	600	600
Other accrued costs	1 045	4 368
Total	13 370	11 972

NOTE 17 - OTHER LIABILITIES

In April 2002, PhotoCure filed papers in an Australian court to invalidate Australian patent no. 624985 assigned to Queen's University in Kingston, Canada. The patent is licensed to DUSA Pharmaceuticals Inc. and relates to a method for photodynamic therapy using 5-aminolevulinic acid. DUSA has put forward a counterclaim stating that PhotoCure's products infringe the above-mentioned patent. On 6 April 2005, Australia's Federal Court handed down a ruling in respect of the case in which both suits were rejected. The court concluded that the marketing and sale of Metvix in Australia does not infringe the patent. In August 2004, Dusa, Galderma and PhotoCure signed an agreement concerning mediation in order to reach a solution regarding the parties' potential patent conflict in other areas than Australia in respect of PhotoCure's and Galderma's Metvix. Negotiations between the parties are still in progress.

The Company rents office space in Hoffsvæien 48 in Oslo. The lease on the premises runs for three years from 1 September 2005 and is mutually binding until 15 September 2008 when it will expire without notice. Yearly rental expenses amount to NOK 1.4 million, including shared costs, and NOK 2.4 million for the period 1 January 2007 until expiry of the lease agreement on 15 September 2008. The rent is adjusted yearly to reflect the change in the consumer price index.

NOTE 18 - RELATED PARTY TRANSACTIONS

Remuneration of management and the Board of Directors

(Amounts in NOK 000s)	Salary incl. bonus	Other remuneration	Pension premium	Total
Kjetil Hestdal, President and CEO	1 444	78	283	1 804
John Afseth, VP Business Operations	1 241	37	95	1 373
Hilde Morris, VP Research and Development	850	9	107	966
Christian Fekete, CFO	896	32	77	1 005
Grete Hogstad, VP Marketing and Sales	969	32	94	1 095
Total management				6 244
Board of Directors	970	0	0	970

The CEO is entitled to a bonus of up to 30% of his ordinary salary conditional on fulfilment of certain conditions. The CEO may claim for remuneration after leaving the company for a maximum of 24 months beyond the period of notice. If the CEO receives other forms of remuneration during the 24-month period, the amount of other remuneration shall be deducted in full from the remuneration paid during the last twelve months of the 24-month period. The CEO shall at the age of 67 be entitled to receive a contribution-based retirement pension in addition to the ordinary service pension as described above. The cost of this was NOK 190,000 in 2005.

Related parties:

In February 2003, PhotoCure ASA renewed its collaboration agreement with the Norwegian Radium Hospital Research Foundation (NRH RF). Under this agreement, the Company is allowed access to, and get an option to obtain, new technology and "know how" within the field of photodynamic therapy (PDT) developed at the Norwegian Radium Hospital (NRH). As consideration, the Company takes part in research and development. The agreement covers a period of three years and gives PhotoCure a unilateral right to extend it annually for 1+1 years, to a total of five years.

During 2005, PhotoCure ASA, under the terms of the contract, made payments in the amount of NOK 0.9 million to research and development services, at market terms, to NRH/NRH RF. As of 31 December 2005 the Company had no accounts payable to NRH/NRH RF.

NOTE 19 - SHARES IN SUBSIDIARIES

Company	Location	Year of acquisition	Company share capital	Ownership and voting share 31.12.05	Book value 31.12.05	Equity 31.12.05	Net income 2005
PCI Biotech AS	Oslo, Norway	2000	NOK 222,000	89.14%	NOK 23.9 mill	NOK -0.9 mill	NOK -2.4 mill
PhotoCure Australia Pty Ltd	Melbourne, Australia	2000	AUD 12	100%	NOK 0	NOK 0	NOK 0

NOTE 20 - FINANCIAL RISK

PhotoCure places liquid assets in money market funds which in turn invest in high quality certificates close to maturity, on average no more than three months. The return on the Company's investments in securities will depend on the interest rate obtained in the money market, and may therefore vary significantly over time.

The Company will conduct a share issue in February 2006 which will provide the Company with approximately NOK 190 million in liquid funds. In addition, the Company received a signing-fee of EUR 7 million from GE Healthcare in January 2006. The Company's liquidity position is therefore considered to be sound.

The Company receives income and incurs costs in various currencies, primarily Euro and Nordic currencies. US dollar exposure is related to R&D costs. Consequently, PhotoCure ASA is exposed to currency risk. The Company makes continuous assessments together with its bankers as to whether steps should be taken to reduce this risk, but has currently chosen not to hedge the currency risk since revenues and costs eliminate the currency risk to a certain extent.

The Company currently uses no form of hedging or other risk-reducing securities.

PhotoCure primarily sells its products to the major pharmaceutical wholesalers in the Nordic countries and to its licence partner Galderma, and in both instances the credit risk is considered to be low.

NOTE 21- SIGNIFICANT NON-RECURRING TRANSACTIONS

On 19 December 2001, PhotoCure ASA entered into a licensing agreement with Galderma S.A. The agreement became effective as of February 2002. The agreement provides Galderma with exclusive rights to the global marketing of the Metvix® cream and to PhotoCure's light sources relating to photodynamic treatment, outside the Nordic Area. At the time of signing, PhotoCure received EUR 12 million. Subsequently, PhotoCure has received EUR 5 million, of which EUR 3 million was received in 2004. PhotoCure is entitled to an additional EUR 13 million upon the granting of marketing approval, and product launch of Metvix in certain regions. PhotoCure will, in addition to royalties, receive milestone payments from Galderma on the basis of global sales of Metvix in excess of EUR 25 million per year, as well as payment for production of light sources and Metvix®. Irrespective of actual sales, PhotoCure is guaranteed significant royalties.

NOTE 22 - EVENTS AFTER THE BALANCE SHEET DAY

The Company's financial situation has changed considerably after PhotoCure entered into a licensing agreement for Hexvix with GE Healthcare in January 2006. The agreement includes milestone payments totalling EUR 28 million provided certain milestones are met, with the addition of royalty payments, and the sum of EUR 7 million will be paid out when agreement is signed. Under the terms of the agreement, PhotoCure is to produce and sell Hexvix to GE Healthcare for marketing and distribution outside the Nordic region and with an exclusive option for the USA.

PhotoCure held an extraordinary general meeting on 24 January 2006 where a resolution was passed to perform a guaranteed rights issue by issuing 4,396,051 new shares at a price of NOK 46 per share, with a total value of NOK 202 million. The subscription period expired on 20 February 2006 and was substantially oversubscribed. After the rights issue, cash reserves will amount to approximately NOK 320 million.

NOTE 23 - RECONCILIATION OF THE INCOME STATEMENT AND EQUITY FOR 2004 IN ACCORDANCE WITH NGAAP AND IFRS

The Company implemented IFRS with effect from 1 January 2005 and comparative figures for 2004 have been restated. The transition to IFRS resulted in a NOK 2 million reduction in the Company's equity, which relates entirely to treatment of pension liabilities in the accounts. Revised net income for 2004 was reduced by NOK 0.6 million, NOK 0.3 million of which concerned changes to pension liabilities, while NOK 0.3 million related to the cost of issuing options to employees.

Cash flow statements under NGAAP and IFRS are essentially identical, with the exception that interest received under IFRS is shown as an investment activity, while it appears under operational activities under NGAAP.

Net income for 2004 before minority interest, NGAAP	-44 725
Pension expenses	-328
Option expenses	-270
Total change in net income under IFRS	-598
Net income for 2004 before minority interest, IFRS	-45 323
Equity	01.01.2004
Total equity including minority interest, NGAAP	131 897
Change in opening balance - pensions	-1 640
Change in opening balance - options	-
Total equity including minority interest, IFRS	130 257
Equity	31.12.2004
Total equity including minority interest, NGAAP	87 534
Change in opening balance - pensions	-1 640
Change in opening balance - options	-
Change in net income, IFRS	-598
Change in other paid-in capital - options	270
Total equity including minority interest, IFRS	85 566

INCOME STATEMENT (PARENT)

PhotoCure ASA

(Amounts in NOK 000s)

	Note	2005	2004
Operating revenues			
Sales revenues		38 007	36 811
Signing and milestone revenues	1	15 634	40 954
Other operating revenues	1	12 492	1 750
Total operating revenues		66 133	79 515
Operating expenses			
Cost of goods sold	4	13 430	13 051
Payroll expenses	2,3	30 454	32 920
Ordinary depreciation	5	1 125	1 528
External R&D expenses		34 924	29 435
Other operating expenses	6	33 031	40 205
Total operating expenses		122 964	117 139
Operating income		-46 831	-37 624
Financial income and expense			
Financial income	7	10 199	4 644
Financial expenses	7	-1 391	-9 129
Net financial income		8 808	-4 485
Income before tax		-38 023	-42 108
Tax expense	8	0	0
Net income for the year		-38 023	-42 108

BALANCE SHEET AS OF 31.12 (PARENT)

PhotoCure ASA - Annual Report 2005

PhotoCure ASA			
(Amounts in NOK 000s)			
	Note	2005	2004
Fixed assets			
Tangible fixed assets			
Machinery and equipment	5	2 708	2 080
Financial fixed assets			
Accrued pension plan assets	3	0	1 861
Investment in subsidiaries	9	23 859	23 859
Total financial fixed assets		23 859	25 720
Total fixed assets		26 567	27 800
Current assets			
Inventories			
Inventories	4	12 908	17 498
Receivables			
Accounts receivable		5 970	7 413
Receivables from group companies	15	2 126	0
Other receivables		9 842	6 848
Total receivables		17 938	14 261
Cash and short term deposits			
Cash and short term deposits	10	71 377	136 885
Total current assets		102 224	168 645
Total assets		128 791	196 444

PhotoCure ASA

(Amounts in NOK 000s)

	Note	2005	2004
Equity			
Paid-in capital			
Share capital	12	8 792	8 791
Share premium fund		58 353	58 302
Other paid-in capital		4 455	3 315
Total paid-in capital	11	71 600	70 228
Retained earnings			
Other equity		1 589	39 611
Total equity	11	73 189	109 839
Liabilities			
Other long-term liabilities			
Other long-term liabilities	13	300	13 219
Current liabilities			
Accounts payable		8 842	7 418
Employee withholding taxes and social security tax		1 733	6 886
Deferred income	1	32 571	48 205
Other current liabilities	14	12 157	10 877
Total current liabilities		55 302	73 386
Total liabilities		55 602	86 605
Total equity and liabilities		128 791	196 444

Oslo, 27 February 2006

The Board of Directors of PhotoCure ASA

Erik Engebretsen
Chairman of the Board

Per-Olof Mårtensson
Deputy Chairman

Trine Bjørø
Board Member

Lars Lindegren
Board Member

Birgit Stattin Norinder
Board Member

Kjetil Hestdal
President and CEO

CASH FLOW STATEMENT (PARENT)

PhotoCure ASA - Annual Report 2005

PhotoCure ASA

(Amounts in NOK 000s)

	Note	2005	2004
Cash flow from operating activities			
Loss before taxes		-38 023	-42 108
Ordinary depreciation		1 125	1 528
Write-down of shares		0	6 250
(Gain)/loss on sale of machinery and equipment		-5 057	0
Change in pension liability		1 861	-151
Other items		-10 999	465
Change in inventory		4 590	5 626
Change in accounts receivables		1 444	-1 631
Change in accounts payables		1 423	907
Change deferred income		-15 634	-15 634
Change in other accruals		-8 994	301
Net cash flow from operating activities		-68 264	-44 449
Cash flow from investing activities			
Investments in machinery and equipment		-2 101	-429
Sales of fixed assets (sales price)		405	42
Sales of shares		5 000	0
Net cash flows from investing activities		3 304	-387
Cash flow from financing activities			
Payment on loans		-600	-600
Paid-in equity		52	197
Net cash flow from financing activities		-548	-403
Net change in cash during the year		-65 508	-45 239
Cash and cash equivalents as of 01.01		136 885	182 124
Cash and cash equivalents as of 31.12	10	71 377	136 885

NOTES TO FINANCIAL STATEMENT 2005

(PARENT)

The annual accounts for PhotoCure ASA are presented in accordance with the Accounting Act of 1998 and generally accepted accounting principles in Norway. The group accounts have been prepared in accordance with IFRS and are presented separately.

Revenue recognition

Revenues relating to products are recognised upon delivery, i.e. at the point of transfer of both the majority of risk and control. Returns are recognised as a reduction to revenues. Payment in connection with signing of licensing agreement is recognised over the minimum contract period, and milestones related to regulatory approvals and product launches relating to license agreements, are recognised upon achievement. Royalty revenues are recognised upon the licensee's sale of licensed products.

Research and development

All costs related to research and development are expensed as incurred until national marketing approval for the product is obtained.

Contributions from the government

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

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

Assessment of balance sheet items

Unless otherwise stipulated, the following principles are applied:

Assets relating to the operating cycle, as well as receivables due within one year from the time of acquisition are classified as current assets. Other assets are classified as fixed assets. The same principle is applied to the classification of liabilities. Long-term debt that matures within one year is therefore classified as a current liability.

Current assets are valued at the lower of cost and market value. Current liabilities are recognised at cost.

Fixed assets are valued at purchase price. Fixed assets are written down to market value when the fall in value is due to circumstances that are not considered to be temporary, and must be considered necessary in accordance with generally accepted accounting principles. Such write-downs are reversed when the conditions causing the decline in value are no longer present. Long-term debt is recognised at face value at the time it was taken up, with the addition of transaction costs.

Currency

Monetary items in foreign currency are translated at prevailing rates as of the balance sheet date. Realised and unrealised currency gains and currency losses are included in the net income for the year. Transactions in foreign currencies are recorded at prevailing rates as of the transaction date.

Receivables

Accounts receivable and other receivables are presented at face value minus a provision for doubtful accounts. The provision is based on an individual evaluation of the realisable value of each receivable.

Cash and cash equivalents

Cash and cash equivalents include bank deposits and cash reserves, in addition to

money market funds with securities with an average duration of three months or less.

Inventory

Stocks of purchased inventory are valued at the lower of cost and market value, and on the basis of the first in-first out (FIFO) principle.

Fixed and intangible assets

Fixed and intangible assets are capitalised and depreciated on a straight-line basis over the estimated useful life. Expenditures for direct maintenance costs are expensed as incurred as operating costs. Expenditures for improvements are capitalised and depreciated at the same rate as the underlying asset.

Write-downs of plant and equipment are carried out in the case of a decline in value that is not considered to be temporary. If the need for a write-down is identified, the asset is written down to the lower of book value and net realisable value. Best estimate is utilised in connection with the determination of net realisable value. Assets are grouped and evaluated on the basis of the lowest level of aggregation of identifiable and independent cash flows. Prior write-downs may be reversed to the extent that the basis for the write-down is no longer present.

Pensions

With effect from 1 January 2006, an agreement has been signed for a contribution-based pension plan for all employees. Contributions comprising between 5% and 8% of an employee's salary are added to the pension plan for all employees. The company's payments are recorded in the income statement in the year in which the contribution applies. Up until 31 December 2005, the company had a benefit plan. The accounting principles applied to this agreement are given below. Gains from the closing out of the benefit plan as of 31 December 2005 are included in the pension costs for the year.

The principles for recording the previous pension plan were as follows:

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

Net period pension expense appears as an element of salary expense, and consists of the periods earned pension, interest expense on pension liability, and expected return on pension assets.

Share options

Share options issued to employees of PhotoCure are calculated at market value in accordance with the Black & Scholes model at the time of issuance, and are accrued on a straight-line basis over the period during which they are retained up until the options' first call.

Social security taxes relating to retained share options are accrued as salary expense over the options' economic lifetime.

Share options issued to non-employees are recognised at fair market value in accordance with the Black & Scholes model, and are accrued on the basis of the underlying agreement.

Taxes

Tax expense is comprised of taxes payable for the current period and the change in deferred taxes. Deferred taxes are calculated at 28 per cent of the temporary differences that exist between tax and accounting values, and tax operating loss carry forwards. Tax assets and liabilities resulting from temporary timing differences that reverse or may be reversed in the same periods are offset against one another. Recognition of a deferred tax asset is subject to probable future application.

Cash flow statement

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

Equity transactions

Expenditures relating to stock issuance are recognised as a reduction of stock issuance proceeds.

Implementation of new standards under IFRS

In 2005, PhotoCure ASA implemented IFRS for the reporting of the group financial statements. The group financial statements prepared in accordance with IFRS are presented separately to the company accounts for PhotoCure ASA, which have been prepared in accordance with the Accounting Act of 1998 and generally accepted accounting principles in Norway.

NOTE 1 - OPERATING REVENUES

All revenues originate from the same business area and market, which includes research, development, production and sales of pharmaceutical products and associated medical devices.

Signing fees and milestones revenues in the amount of NOK 15.6 million have been included in sales and milestone revenues in 2005, and NOK 15.6 million in 2004. NOK 32.6 million of the signing fee has been included as deferred income in the balance sheet as of 31 December 2005, and NOK 48.2 million as of 31 December 2004. Milestone payments included in sales and milestone revenues were NOK 0 million in 2005, and NOK 25.3 million in 2004.

Other operating income includes public contributions (SkatteFUNN) in the amount of NOK 1.6 million for 2005 and NOK 1.4 million in 2004.

Segment information

PhotoCure's revenues largely consist of revenues from sales of Metvix cream and the Aklilite lamp, which represent one business area. Hexvix, the Company's other pharmaceutical product, currently generates such limited sales revenues that no significant information would be contributed by presenting this in 2005. The primary segment is geography and the distribution is based on different profiles in the Nordic region and the rest of the world. Sales and accounts receivables in the Nordic region consist of sales to end-users such as hospitals and clinics. Sales revenues and accounts receivable outside the Nordic region relate to sales of Metvix and Aklilite lamps to the licensing partner Galderma in addition to royalties on sales from Galderma to the end-user. PhotoCure has stocks of lamps in Norway. Active substances and pharmaceutical products are stored at consignment warehouses in Sweden and Denmark, and at the production facility in Wales, UK. The Company has no other significant assets abroad.

Income statement

(Amounts in NOK 000s)	2005				2004			
	Nordic region	ROW*	Unallocated	Total	Nordic region	ROW*	Unallocated	Total
Sales revenues	17 438	20 569	0	38 007	16 168	20 643	0	36 811
Milestone revenues	0	15 634	0	15 634	0	40 954	0	40 954
Total sales and milestone revenues	17 438	36 203	0	53 641	16 168	61 597	0	77 765
Operating expenses and cost of goods sold	18 169	0	82 302	100 471	0	0	115 388	115 388
Operating income	-731	36 203	-82 302	-46 831	16 168	61 597	-115 388	-37 623
Net financial income	0	0	8 808	8 808	0	0	-4 485	-4 485
Net income for the year	-731	36 203	-73 494	-38 023	16 168	61 597	-119 873	-42 108

*ROW= Rest of the world

The income statement is distributed according to the customer's location. PhotoCure only has operating expenses and cost of goods sold for the Nordic region with effect from 2005 since the Company's internal reporting for 2004 does not support this type of segment distribution. Financial items are not naturally attributable to segments.

Balance sheet**Assets**

(Amounts in NOK 000s)	2005				2004			
	Nordic region	ROW*	Unallocated	Total	Nordic region	ROW*	Unallocated	Total
Fixed assets	2 708	0	0	2 708	2 080	0	0	2 080
Financial fixed assets	0	0	23 860	23 860	0	0	25 720	25 720
Inventory	5 291	7 652	0	12 943	8 293	9 240	0	17 533
Accounts receivable	3 118	2 852	0	5 970	1 946	5 467	0	7 413
Other receivables	0	0	11 755	11 755	0	0	8 733	8 733
Cash and short term deposits	0	0	72 329	72 329	0	0	137 952	137 952
Total assets	11 117	10 504	84 084	105 705	12 319	14 707	146 685	173 711

Equity and liabilities

Equity	0	0	73 189	73 189	0	0	100 839	100 839
Long-term liabilities	0	0	300	300	0	0	13 219	13 219
Deferred income	0	32 571	0	32 571	0	48 205	0	48 205
Other current liabilities	0	0	22 731	22 731	0	0	25 181	25 181
Total equity and liabilities	0	32 571	96 220	128 791	0	48 205	148 239	173 711

Physical assets are distributed according to the location of the asset. Accounts receivable are distributed according to the customer's location. Other receivables and cash are not naturally attributable to segments. Deferred income relates to the payment of a signing fee from the licensing partner. Equity and liabilities are not naturally attributable to segments.

NOTE 2 - LABOUR COSTS, ADDITIONAL COMPENSATION COSTS, NUMBER OF EMPLOYEES, ETC.

(Amounts in NOK 000s)	2005	2004
Wages	23 142	22 637
Social security tax	3 304	4 375
Social security tax on employee share options	284	8
Option costs	1 320	0
Pension costs	1 687	3 936
Other compensations	716	1 964
Total labour costs	30 454	32 920
Average number of employees (weighted)	31	35

Remuneration to Management and Board of Directors (BoD)

(Amounts in NOK 000s)	Salary incl. bonus	Other remuneration	Pension premium	Total
Kjetil Hestdal, President and CEO	1 444	78	283	1 804
John Afseth, VP Business Operations	1 241	37	95	1 373
Hilde Morris, VP Research and Development	850	9	107	966
Christian Fekete, CFO	896	32	77	1 005
Grete Hogstad, VP Marketing and Sales	969	32	94	1 095
Total management	5 400	188	656	6 244
Board of Directors	970	0	0	970

The CEO is entitled to a bonus of up to 30% of his ordinary salary conditional on fulfilment of certain conditions. The CEO may claim for remuneration after leaving the company for a maximum of 24 months beyond the period of notice. If the CEO receives other forms of remuneration during the 24-month period, the amount of other remuneration shall be deducted in full from the remuneration paid during the last twelve months of the 24-month period. The CEO shall at the age of 67 be entitled to receive a contribution-based retirement pension in addition to the ordinary service pension as described above. The cost of this was NOK 190,000 in 2005.

Share-based payment

In connection with the Company's incentive policy, all employees have been granted warrants to Company stock (the term share options is also used). These warrants cease to be valid as soon as the employee gives notice of his/her decision to step down. The Board of Directors has not been allotted any share options/warrants. In 2005 a total of NOK 1.3 million has been charged as share-based payment.

As of 31 December 2005, employees of PhotoCure ASA held the following share options/warrants:

Option programme	2001	2004	2005	2005
Award date	Aug.01	2004	Feb.05	Feb.05
Number	21 000	14 182	24 153	153 000
Exercise price (NOK)	100-117	34.5	53.5	34
Expiry date	2006	2006	2007	2009

In addition, a conditional award of 154,000 share options at a price of NOK 34.00 has been made provided that certain goals are achieved. Final allocation will take place in 2006.

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

	2005	2005 Average exercise price (NOK)	2004	2004 Average exercise price (NOK)
	Number		Number	
Outstanding at the beginning of the year ¹	121 746	90.10	162 326	94.15
Allocated during the year	178 000	34.00	26 903	53.50
Lapsed during the year	29 583	35.84	61 779	89.93
Exercised during the year	1 500	34.50	5 704	34.50
Expired during the year	56 328	107.50	0	n/a
Outstanding at year-end	212 335	44.38	121 746	90.10
Exercisable options 31.12	102 034	53.9	90 571	100.55

As of 31 December 2005, the distribution of exercise prices and the average lifetime of outstanding share options was as follows:

Number of options	Exercise price (NOK)	Average remaining lifetime
20 000	117.00	0.5 years
1 000	100.00	1 year
14 182	34.50	1 year
24 153	53.50	2 years
153 000	34.00	3 years

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

The actual value of the warrants is calculated using the Black-Scholes method. Volatility is calculated on the basis of developments in the historical share price over the last twelve months. This assumes that historical volatility provides an indication of future volatility, which is not necessarily the case. The subscription price is set at market price at the time of allocation. The risk-free interest rate is based on the 3-year Norwegian government bonds. Each option programme is calculated separately using the actual exercise price and the programme's lifetime. The options are expected to be exercised at the first available opportunity. In the case of option allocations that are conditional on the achievement of certain goals, a factor is added defining the probability that this will occur. Expected achievement of goals contingent on allocated options is 90%. The interest rate benefit is insignificant and has not been taken into account in the accounts. The table below shows the values used in the model.

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

Other incentive programmes

In connection with the Company's employee co-ownership programme, selected employees of PhotoCure ASA have been offered to subscribe shares in the Company, in which portions of payable amounts have been deferred. Upon sale of shares acquired in connection with this programme, the Company shall be entitled to that portion of proceeds corresponding to the difference between the subscription price and the market value of stock as of the date of subscription. In the event that such stock is held for 10 years, a final settlement, based on the same principles, will be effectuated. In the event that such shares are sold within a specified period, the Company has, on the basis of defined terms, pre-emptive rights. As of 31 December 2005, 25,000 shares were subscribed to in connection with the programme (see note 12).

Auditor

The auditor's fee for 2005 was NOK 326,100. See the specification in the table below (amounts in NOK 000s):

Auditor's fees:	2005
Statutory audit	263
Other attestation services	15
Other non-audit-related services	48
Total	326

NOTE 3 - PENSION LIABILITIES

Up until the end of 2005, the Company was enrolled in a collective pension plan through Nordea Liv Norge AS. With effect from 1 January 2006, the Company has entered into a new agreement based on a contribution scheme. As of 31 December 2005, the accrued net pension liability has been taken to income. In addition, the Company has a premium/contribution fund totalling NOK 2.2 million including social security tax as of 1 January 2006. This can be used to pay future premiums in the contribution-based scheme. The premium/contribution fund has been listed in the balance sheet under current liabilities. The pension benefit is based on the following assumptions:

	2005	2004
Expected long-term rate of return on plan assets	5.00 %	6.50 %
Discount factor	4.00 %	5.50 %
Rate of salary progression	2.50 %	2.50 %
Yearly adjustment of G*	2.00 %	2.00 %
Adjustment of current pension	2.00 %	2.00 %

*G is the basic amount in the National Insurance

Underlying actuarial assumptions relating to demographic factors and terminations are in line with standard insurance industry guidelines. The discount factor is based on 10-year Norwegian government bonds plus the difference between 10 and 30-year German government bonds in order to arrive at an estimated Norwegian 30-year rate of interest. The calculation is based on coverage of 26 employees.

Current year net periodic pension was calculated as follows:

(Amounts in NOK 000s)	2005	2004
Service cost	1 622	1 279
Interest expenses	263	285
Actual return on plan assets	-222	-315
Net amortisation and deferral	166	55
Social security tax	375	204
Cancellation of the plan	1 703	0
Recognised premium/contribution fund	-2 229	0
Net pension expense	1 678	1 508

Pension liability:

(Amounts in NOK 000s)	31.12.2005	31.12.2004
Projected benefit obligation	-8 451	-6 751
Plan assets at fair value	7 517	7 380
Unrecognised net loss	2 760	1 232
Net plan assets before social security tax	1 826	1 861
Social security tax	-123	0
Net plan assets (liabilities)	1 703	1 861
- Cancellation of the Plan	-1 703	0
Accrued net plan assets (liabilities)	0	1 861

NOTE 4 - RAW MATERIALS

(Amounts in 000s)	31.12.2005	31.12.2004
Raw materials	10 116	13 718
Finished goods	2 792	3 780
Total inventory	12 908	17 498

The stock of raw materials consists of active substances for pharmaceuticals, and components for the lamps. Raw materials and finished goods are valued at cost price. Raw materials with a cost price of NOK 850,000 have been written down to NOK 0 during 2005 since their period of durability has expired and retesting the substance is not a viable proposition. In 2004, finished goods with a cost price of NOK 52,000 were written down to NOK 0. Write-downs of inventory have been included in the cost of goods sold in the income statement.

NOTE 5 - MACHINERY AND EQUIPMENT

(Amounts in NOK 000s)	Machinery & equipment
Purchase price 1.1.2005	7 596
Additions	2 101
Disposals	-969
Purchase price 31.12.2005	8 728
Accumulated depreciation 01.01	5 516
Depreciation expenses	1 125
Disposals	-621
Accumulated depreciation 31.12.	6 020
Book value 31.12.2005	2 708
Book value 01.01.2005	2 080
Expected economic life	3-5 years
Depreciation method	Linear

NOTE 6 - OTHER OPERATING EXPENSES

(Amounts in 000s)	2005	2004
Marketing expenses	7 494	10 382
Travel expenses	5 456	5 439
Patent and legal expenses	4 072	10 072
Other expenses	16 009	14 312
Total other operating expenses	33 031	40 205

NOTE 7 - FINANCIAL ITEMS

(Amounts in 000s)	2005	2004
Interest income	4 079	3 115
Interest income Group	47	0
Foreign exchange gains	1 074	1 529
Other financial income (1)	5 000	0
Total financial income	10 199	4 644

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

(Amounts in 000s)	2005	2004
Interest expenses	66	103
Foreign exchange losses	1 132	2 624
Write-down of financial assets	0	6 250
Other financial expenses	193	152
Total financial expenses	1 391	9 129

NOTE 8 - TAXES

Tax expense consists of:

(Amounts in NOK 000s)	2005	2004
Taxes payable on net income	0	0
Change in deferred tax	0	0
Tax expense	0	0

Effective payable tax was calculated as follows:

(Amounts in NOK 000s)	2005	2004
Net loss before tax	-38 023	-42 108
Expected nominal rate	-10 646	-11 790
Permanent differences	-1 250	1 498
Write-down of deferred tax asset	11 896	10 292
Taxes payable on net loss	0	0

Specification of the basis for deferred tax assets and liabilities:

Temporary differences:

(Amounts in NOK 000s)	2005	2004
Fixed assets	-2 436	-2 810
Inventory	-850	-52
Liabilities	-388	-13 947
Net pension asset	2 229	1 861
Losses carried forward	-445 488	-389 499
Total	-446 933	-404 446
Deferred tax asset (28%)	-125 141	-113 245
Deferred tax asset not recognised	125 141	113 245
Book value of deferred tax asset	0	0

The Company has no history of taxable profits and the deferred tax asset is therefore valued at NOK 0. Losses carried forward can be carried forward indefinitely. RISK per share was NOK 0 as of 31.12.2003 and as of 31.12.2004, and is estimated by the Company to amount to NOK 0 as of 31.12.2005.

NOTE 9 - INVESTMENTS IN SUBSIDIARIES AND OTHER COMPANIES

Company	Location	Year of acquisition	Company share capital	Ownership and voting share 31.12.05	Book value 31.12.05	Equity 31.12.05	Net income 2005
PCI Biotech AS	Oslo, Norway	2000	NOK 222,000	89.14%	NOK 23.9 mill	NOK -0.9 mill	NOK -2.4 mill
PhotoCure Australia Pty Ltd	Melbourne, Australia	2000	AUD 12	100%	NOK 0	NOK 0	NOK 0

In 2005, the company sold its share in Algeta AS. The accounting gain of NOK 5.0 million has been taken to income under other financial income (see note 7).

NOTE 10 - CASH AND SHORT TERM DEPOSITS

(Amounts in 000s)	31.12.2005	31.12.2004
Cash and short term deposits, restricted ⁽¹⁾	2 211	5 465
Cash and short term deposits, unrestricted	9 995	20 201
Money market funds, unrestricted	59 171	111 219
Total	71 377	136 885

(1) Restricted cash and short term deposits as at 31.12.05 is security for employees' withholding tax in the sum of NOK 1.0 million, plus a deposit for rent in the sum of NOK 1.2 million.

NOTE 11 - EQUITY

(Amounts in NOK 000s)	Share capital	Share premium reserve	Other paid-in capital	Other equity	Total equity
Equity as of 31.12 2004	8 791	58 302	3 135	39 611	109 839
Employees' options			1 320		1 320
Share issue employees	1	51			52
Net loss for the year				-38 023	-38 023
Equity as of 31.12 2005	8 792	58 353	4 455	1 588	73 189

NOTE 12 - SHARE CAPITAL AND SHAREHOLDER INFORMATION

	Number of shares	Par value	Share capital (NOK)
Share capital as of 01.01.2005	17 582 704	NOK 0.50	8 791 352
Share issues 2005	1 500	NOK 0.50	750
Share capital as of 31.12.2005	17 584 204	NOK 0.50	8 792 102

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

The Board of Directors of PhotoCure ASA was authorised by the General Meeting on 3 May 2005 to issue 2.25 million shares, of which (a) 1.8 million shares relate to the financing of the Company's development, while issuance of (b) 0.45 million shares relates to issuance of stock to employees and to selected strategic partners. Authorisation relating to a) remains effective through the annual general meeting in 2006, while authorisation relating to b) remains effective for two years. Previously reported authorisations have expired.

The following table provides an overview of the status of authorisations as of 31 December 2005:

(Amounts in # of shares)	Ordinary share issue	Employee issue
Issue authorisation general meeting 03.05.05	1 800 000	450 000
Share issue pursuant to general meeting 03.05.05	0	1 500
Remaining issue authorisation	1 800 000	448 500

In addition, subscription rights for 212 335 shares were issued to employees (see note 3).

As described in note 3, employees of PhotoCure ASA have been offered share subscriptions, where portions of the payments have been deferred. The Company will receive a maximum payment of NOK 2.1 million from those who as of 31 December 2005 have acquired shares under this scheme.

Ownership structure

The primary shareholders in PhotoCure ASA as of 31 December 2005, were:

	# Shares	Ownership
Radiumhospitalets Forskningsstiftelse	3 759 000	21.4 %
Odin Norge	1 253 500	7.1 %
Gezina AS	1 060 373	6.0 %
Cogent-Hunter Hall V Trust	671 700	3.8 %
Ferd Invest	600 000	3.4 %
Skagen Invest	500 000	2.8 %
Cogent-Hunter Hall G limited	396 800	2.3 %
Cogent-Hunter Hall G Trust	370 400	2.1 %
Vital forsikring ASA	354 900	2.0 %
Vicama AS	344 121	2.0 %
Marlin Verdi AS	325 000	1.9 %
DnB NOR Norge (IV) VPF	250 900	1.4 %
R. Ulstein Loen AS	225 600	1.3 %
Sig. Bergesen D.Y. og almennyttige stiftelse	217 650	1.2 %
MP Pensjon	216 300	1.2 %
Norsk Hydros Pensjonskasse	206 404	1.2 %
Holberg Norge Verdipapirfond	200 400	1.1 %
Total with greater than 1% ownership	10 953 048	62.3 %
Total other	6 631 156	37.7 %
Total shares outstanding	17 584 204	100.0 %

Shares owned directly or indirectly by members of the Board of Directors and management, and related parties to such as of 31 December 2005:

Name	Position	Number of shares	Subscription rights*
Erik Engebretsen**	Chairman of the Board	27 000	0
Per-Olof Mårtensson	Deputy Chairman	3 001	0
Halvor Bjerke	Board Member	5 500	0
Trine Bjørø	Board Member	0	0
Lars Lindegren	Board Member	24 377	0
Birgit Stattin Norinder	Board Member	0	0
Kjetil Hestdal	President and CEO	122 873	43 000
Christian Fekete	CFO	0	25 000
Hilde Morris	VP Research and Development	0	26 800
Grete Hogstad	VP Marketing and Sales	0	25 000
John Afseth	VP Business Operations	50 400	26 100
Auditor		0	0

* Please refer to Note 3 for more information about subscription rights.

** CEO in Gezina AS which owns 1,060,373 shares.

NOTE 13 - LONG-TERM LIABILITIES

	Effective interest rate	Maturity	2005	2004
Conditional contribution Innovasjon Norge (1)			-	12 319
Risk loan Innovasjon Norge	5.90 %	2006	900	1 500
- First year instalment			(600)	(600)
Total			300	13 219

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

NOTE 14 - OTHER CURRENT LIABILITIES

(Amounts in NOK 000s)	2005	2004
Provision for external R&D expenses	4 023	2 300
Provisions for bonuses, holiday allowances, wages	7 498	4 639
First year instalment on long-term debt	600	600
Other accrued costs	36	3 338
Total	12 157	10 877

NOTE 15 - INTERGROUP BALANCES

PhotoCure ASA (Amounts in 000s)	2005	2004
Other receivables	2 126	0
Other current liabilities	0	0
Total (net)	2 126	0

NOTE 16 - RELATED PARTY TRANSACTIONS

In February 2003, PhotoCure ASA renewed its collaboration agreement with the Norwegian Radium Hospital Research Foundation (NHR RF). Under this agreement, the Company is allowed access to, and an get option to obtain, new technology and "know how" within the field of photodynamic therapy (PDT) developed at the Norwegian Radium Hospital (NRH). As consideration, the Company takes part in research and development. The agreement covers a period of three years and gives PhotoCure a unilateral right to extend it annually for 1+1 years, to a total of five years.

During 2005, PhotoCure ASA, under the terms of the contract, made payments in the amount of NOK 0.9 million to research and development services, at market terms, to NRH/NRH RF. As of 31 December 2005 the Company had no accounts payable to NRH/NRH RF.

NOTE 17 - FINANCIAL RISK

PhotoCure places liquid assets in money market funds which in turn invest in high quality certificates close to maturity, on average no more than three months. The return on the Company's investments in securities will depend on the interest rate obtained in the money market, and may therefore vary significantly over time.

The Company will conduct a share issue in February 2006 which will provide the Company with approximately NOK 190 million in liquid funds. In addition, the Company received a signing-fee of EUR 7 million from GE Healthcare in January 2006. The Company's liquidity position is therefore considered to be sound.

The Company receives income and incurs costs in various currencies, primarily Euro and Nordic currencies. US dollar exposure is related to R&D costs. Consequently, PhotoCure ASA is exposed to currency risk. The Company makes continuous assessments together with its bankers as to whether steps should be taken to reduce this risk, but has currently chosen not to hedge the currency risk since revenues and costs eliminate the currency risk to a certain extent. The Company currently uses no form of hedging or other risk-reducing securities.

NOTE 18 - OTHER LIABILITIES

In April 2002, PhotoCure filed papers in an Australian court to invalidate Australian patent no. 624985 assigned to Queen's University in Kingston, Canada. The patent is licensed to DUSA Pharmaceuticals Inc. and relates to a method for photodynamic therapy using 5-aminolevulinic acid. DUSA has put forward a counterclaim stating that PhotoCure's products infringe the above-mentioned patent. On 6 April 2005, Australia's Federal Court handed down a ruling in respect of the case in which both suits were rejected. The court concluded that the marketing and sale of Metvix in Australia does not infringe the patent. In August 2004, Dusa, Galderma and PhotoCure signed an agreement concerning mediation in order to reach a solution regarding the parties' potential patent conflict in other areas than Australia in respect of PhotoCure's and Galderma's Metvix. Negotiations between the parties are still in progress.

In order to satisfy conditions relating to the going concern assumption for its subsidiary, PCI Biotech AS, PhotoCure ASA has issued a guarantee with an upper limit of NOK 6 million, in which the continued operations of its subsidiary PCI Biotech AS are guaranteed through 30 June 2007. The guarantee will expire upon the effectuation of a share increase in which equity of an amount sufficient to ensure the fulfilment of the going concern assumption for PCI Biotech AS.

The Company rents office space in Hoffsvæien 48 in Oslo. The lease on the premises runs for three years from 1 September 2005 and is mutually binding until 15 September 2008 when it

will expire without notice. Yearly rental expenses amount to NOK 1.4 million, including shared costs, and NOK 2.4 million for the period 1 January 2007 until expiry of the lease agreement on 15 September 2008. The rent is adjusted yearly to reflect the change in the consumer price index.

NOTE 19 - SIGNIFICANT NON-RECURRING TRANSACTIONS

On 19 December 2001, PhotoCure ASA entered into a licensing agreement with Galderma S.A. The agreement became effective as of February 2002. The agreement provides Galderma with exclusive rights to the global marketing of the Metvix® cream and to PhotoCure's light sources relating to photodynamic treatment, outside the Nordic area. At the time of signing, PhotoCure received EUR 12 million. Subsequently, PhotoCure has received EUR 5 million, of which EUR 3 million was received in 2004. PhotoCure is entitled to an additional EUR 13 million upon the granting of marketing approval, and product launch of Metvix in certain regions. PhotoCure will, in addition to royalties, receive milestone payments from Galderma on the basis of global sales of Metvix in excess of EUR 25 million per year, as well as payment for production of light sources and Metvix®. Irrespective of actual sales, PhotoCure is guaranteed significant royalties.

NOTE 20 - EVENTS AFTER THE BALANCE SHEET DAY

The Company's financial situation has changed considerably after PhotoCure entered into a licensing agreement for Hexvix with GE Healthcare in January 2006. The agreement includes milestone payments totalling EUR 28 million provided certain milestones are met, with the addition of royalty payments, and the sum of EUR 7 million will be paid out when agreement is signed. Under the terms of the agreement, PhotoCure is to produce and sell Hexvix to GE Healthcare for marketing and distribution outside the Nordic region and with an exclusive option for the USA.

PhotoCure held an extraordinary general meeting on 24 January 2006 where a resolution was passed to perform a guaranteed rights issue by issuing 4,396,051 new shares at a price of NOK 46 per share, with a total value of NOK 202 million. The subscription period expired on 20 February 2006 and was substantially oversubscribed. After the rights issue, cash reserves will amount to approximately NOK 320 million.

AUDITOR'S REPORT FOR 2005

PhotoCure ASA - Annual Report 2005



To the General Meeting of PhotoCure ASA

We have audited the annual financial statements of PhotoCure ASA as of 31 December 2005, showing a loss of NOK 38 023 000 for the parent company and a loss of NOK 38 210 000 for the group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the financial statements for the parent company and the group. The financial statements of the parent company comprise the balance sheet, the statements of income and cash flows, and the accompanying notes. The financial statements of the group comprise the balance sheet, the statements of income and cash flows, the statement of equity and the accompanying notes. The regulations of the Norwegian Accounting Act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements of the parent company. IFRSs as adopted by the EU have been applied in the preparation of the financial statements of the group. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including the auditing standards adopted by the Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall

financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements of the parent company are prepared in accordance with laws and regulations and present fairly, in all material respects the financial position of the company as of 31 December 2005, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the financial statements of the group are prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the group as of 31 December 2005, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with IFRSs as adopted by the EU
- the company's management has fulfilled its duty to properly record and document the accounting information as required by law and bookkeeping practice generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, is consistent with the financial statements and complies with law and regulations.

Oslo, 27 February 2006

Ernst & Young AS

Henning Strøm

State Authorised Public Accountant (Norway)

BOARD OF DIRECTORS

Erik Engebretsen

Chairman of the Board

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

Erik Engebretsen's term expires in 2006. He holds directly 27,000 shares and no options in PhotoCure. In addition, as CEO of Gezina AS, he controls indirectly 1,326,306 shares in the Company.



Per-Olof Mårtensson

Deputy Chairman of the Board

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

Per-Olof Mårtensson's term expires in 2006. He holds directly or indirectly 3,001 shares in PhotoCure. He holds no share options in the Company.



Lars Lindegren

Director

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

Lars Lindegren's term expires in 2007. He holds directly and indirectly 24,377 shares in PhotoCure. He holds no shares options in the Company.



Birgit Stättin Norinder

Director

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

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



Trine Bjørø

Director

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

Trine Bjørø's term expires in 2007. She holds no shares or share options in PhotoCure.



EXECUTIVE OFFICERS

PhotoCure ASA - Annual Report 2005



Kjetil Hestdal - President and CEO

Kjetil Hestdal, M.D., Ph.D., born 1960, has served as President and CEO since January 2005. Dr. Hestdal held the position as Vice President Research and Development from January 1997 and was promoted to Chief Operating Officer in November 2004. Before joining PhotoCure, Dr. Hestdal served as the Project Manager/Medical Expert at Sandoz (now Novartis) and as Senior Scientist at Rikshospitalet. Dr. Hestdal holds a Ph.D. in immunology.

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



Christian Fekete - CFO

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

Christian Fekete holds 3,000 shares in PhotoCure. In addition he holds 32,790 share options in the Company.



Hilde Morris - Vice President Research and Development

Hilde Morris, DVM, born 1957, has served as Vice President Research and Development since October 2004. She has previously served as Vice President Strategic Marketing in PhotoCure. Dr. Morris ran a private veterinary practice before joining Schering Norge as Medical Director in 1986. From 1990 to 1999 she worked as Clinical Project Director in Nycomed Imaging, after which she joined PhotoCure as Clinical Project Director. Dr Morris has a degree in veterinary medicine and she attended the Program for Management Development at Harvard Business School in 2002.

Hilde Morris holds 11,896 shares in PhotoCure. In addition she holds 32,194 share options in the Company.

John Afseth - Vice President Business Operations

John Afseth, DDS, Ph.D., born 1954, has served in various VP functions since April 1998. Before joining PhotoCure, Dr. Afseth has held senior management positions in Dynal (VP Marketing and Sales), Medinnova SF (CEO), and Abbott Labs (General Manager Norway and Denmark). Dr. Afseth had previously an academic career as Associate Professor in Microbiology at the University of Oslo.

John Afseth holds directly or indirectly 75,671 shares in PhotoCure. In addition he holds 22,227 share options in the Company.



Grete Hogstad - Vice President Marketing and Sales

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

Grete Hogstad holds no shares in PhotoCure. She holds 34,140 share options in the Company.





PHOTO CURE ASA
Hoffsveien 48
N-0377 Oslo
Norway

Phone: +47 22 06 22 10
Fax: +47 22 06 22 18

www.photocure.com