PhotoCure ASA

2,570,000 Ordinary Shares

PhotoCure ASA, a company organised under the laws of the Kingdom of Norway, is conducting an initial public offering of 2,570,000 ordinary shares. We are offering 2,300,000 shares and the selling shareholders are offering 270,000 shares. The shares will be offered at an initial public offering price of NOK 155 per share.

The shares are being offered to the public in Norway and to qualified institutional buyers in the United States in reliance on Rule 144A under the United States Securities Act of 1933, as amended, and outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

The Oslo Stock Exchange has given conditional approval for our shares to be admitted to the Main List of the Oslo Stock Exchange pursuant to the provisions of the Norwegian Stock Exchange Regulations, 1994. We expect the admission to become effective and unconditional dealings to commence on May 29, 2000.

Investing in the shares involves significant risks. See "Risk Factors" beginning on page 11 for a discussion of factors you should consider before investing in our shares.

The shares have not been and will not be registered under the United States Securities Act and are being offered and sold in the United States only to qualified institutional buyers in reliance on Rule 144A under the Securities Act. Prospective purchasers are hereby notified that the seller of the shares may be relying on the exemption from registration provided by Rule 144A.

We have granted the underwriters an option, exercisable for 30 calendar days after the date of the listing of the shares on the Oslo Stock Exchange, to purchase up to 230,000 additional ordinary shares to be issued by us solely to cover over-allotments. See "Underwriting".

The underwriters expect to deliver the shares to investors on or about May 26, 2000.

Global Coordinator

Deutsche Bank

International Offering

Deutsche Bank **Carnegie**

Norwegian Offering

Fondsfinans **Christiania Markets**

The date of this prospectus is May 20, 2000.

[Inside cover graphic]

This document does not constitute an offer to sell, or the solicitation of an offer to buy, ordinary shares in any jurisdiction in which such offer or solicitation is unlawful. The ordinary shares have not been and will not be registered under the US Securities Act of 1933, as amended (the ''Securities Act'') or under the applicable securities laws of Canada or Japan. Subject to certain exemptions, the ordinary shares may not be offered or sold within the United States, Canada or Japan. The distribution of this document may be restricted by law in certain jurisdictions and persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdiction.

No dealer, salesperson or other person is authorised to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorised information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

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NOTICE TO U.S. INVESTORS

Because of the following restrictions, you are advised to consult legal counsel before making any offer, resale, pledge or other transfer of the shares offered under this prospectus. Terms used herein and not otherwise defined shall have the meanings ascribed in Rule 144A or Regulation S under the Securities Act.

Each purchaser of the shares will be deemed to have represented and agreed as follows:

(1) You (A) are a qualified institutional buyer, (B) are aware that the sale of the shares to you is being made in reliance on Rule 144A and (C) are acquiring the shares for your own account or for the account of a qualified institutional buyer, as the case may be.

(2) You understand that the shares have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (A) (i) to a person who the purchaser reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S, (iii) under an exemption from registration under the Securities Act provided by Rule 144, if available, (iv) to an institutional accredited investor in a transaction exempt from the registration requirements of the Securities Act, and (B) in accordance with all applicable securities laws of the states of the United States.

AVAILABLE INFORMATION

We intend to request that the U.S. Securities and Exchange Commission include the company, in accordance with Rule 12g3-2(b) under the U.S. Securities Exchange Act of 1934, in the list of foreign private issuers that claim exemption from the registration requirements of Section 12(g) of the Exchange Act. Upon our inclusion on this list, we will furnish to the Commission information consisting primarily of regularly prepared financial statements and reports in the form prescribed by Norwegian law in accordance with Rule 12g3-2(b). If, at any time, we are neither subject to Section 13 or Section 15(d) of the Exchange Act nor exempt from reporting under Rule 12g-3-2(b), we will furnish, upon written request, to any holder of shares, any owner of any beneficial interest in any shares or any prospective purchaser designated by a holder of shares or such an owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act. We will also furnish to each owner with known address all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders.

ENFORCEABILITY OF U.S. CIVIL LIABILITIES

We are a Norwegian corporation and our executive offices and a substantial part of our assets are located outside the United States. In addition, substantially all of the current members of our Board of Directors, selling shareholders and the experts named in this prospectus are entities organised in or are residents of countries other than the United States. As a result, it may not be possible for investors to effect service of process within the United States upon us or those persons or to enforce outside the United States judgments obtained against us or those persons in courts in jurisdictions inside the United States, in each case, in any action, including actions predicated upon the civil liability provisions of the United States federal securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United States, liabilities predicated upon the U.S. securities laws.

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. Our actual results could differ materially from those discussed in, or implied by, these forward-looking statements. Forward-looking statements are identified by words such as ''believe,'' ''anticipate,'' ''expect,'' ''intend,'' ''plan,'' ''will,'' ''may'' and other similar expressions. In addition, any

statements that refer to expectations, projections or other characterisations of future events or circumstances are forward-looking statements. Factors that could cause actual results or conditions to differ from those anticipated by these and other forward-looking statements include those more fully described in the ''Risk Factors'' section and elsewhere in this prospectus. We caution you not to place undue reliance on these forward-looking statements, which reflect our management's view only as of the date of this prospectus. We are not obligated to update or revise these forward-looking statements to reflect new events or circumstances.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

RESPONSIBILITY STATEMENTS

The Company

We have prepared this prospectus to provide you with information about the offering. The members of our Board of Directors acknowledge responsibility for the information contained in the prospectus and confirm that, to the best of our knowledge, the information contained in the prospectus is in accordance with the facts and to the best of our knowledge contains no omissions likely to affect the import of such information.

Oslo, May 20, 2000

The Board of Directors of PhotoCure ASA

Halvor Bjerke Chairman	Per-Olof Mårtensson Deputy Chairman		Tharald Brøvig
Stener Kvinnsland	Lars Lindegren	Åse Aulie Michelet	Hans Petter Bugge Deputy Board Member

Legal Statement

Advokatfirmaet Schjødt AS has acted as legal advisor to PhotoCure ASA in connection with the offering. The resolution of the shareholders meeting of March 23, 2000 to authorise the Board of Directors to increase the share capital of the Company with up to NOK 2,550,000 has been passed in accordance with Norwegian law. On May 2, 2000 the Board of Directors resolved to issue new shares under this Authority and the said resolution has been passed in accordance with Norwegian law.

The final pricing of the offer is to be fixed in a separate board meeting to be held on or around May 20, 2000. We will submit a separate confirmation for the Oslo Stock Exchange of the validity of the resolution of the Board of Directors to fix the final price as soon as such resolution has been passed.

Other than stated above, we have made no investigation of, and express no opinion in relation to this prospectus.

Oslo, May 20, 2000

Advokatfirmaet Schjødt AS

Statement from Selling Shareholders

The undersigned selling shareholders of PhotoCure ASA confirm, each on behalf of himself, that the following number of shares in PhotoCure ASA will be sold by each such selling shareholder in the Offering, pursuant to the conditions stated in the prospectus, and that the said shares have been transferred by each selling shareholder to separate VPS accounts as directed by the underwriters prior to the start of the subscription period, as defined in the prospectus, and that such shares are pledged in favour of Fondsfinans ASA until the Offering has been completed:

The Norwegian Radium Hospital Research Foundation	250,000 shares
Geir Christian Melen	20,000 shares

Oslo, May 20, 2000

The Norwegian Radium Hospital Research Foundation

Geir Christian Melen

SUMMARY

This summary provides an overview of the key aspects of the offering. Because this is a summary, it may not contain all of the information that is important to you. You should read the entire prospectus carefully, including the "Risk Factors" section and the financial statements and related notes. Unless otherwise indicated, all the information in this prospectus assumes that the underwriters will not exercise their over-allotment option. The terms "PhotoCure ASA," "PhotoCure," "we," "us" and "our" as used in this prospectus refer to PhotoCure ASA.

Overview

We are a development stage pharmaceutical company engaged in the research and development of novel therapeutics and diagnostics and related medical devices based on our proprietary photodynamic therapy (PDT) technologies. We are currently developing a range of treatments for cancer and other diseases based on PDT. PDT is a two step process involving the application of a drug known as a photosensitiser followed by controlled exposure to a selective light source which activates the drug. In addition, we are employing photodynamic technology to develop products for the diagnosis of diseases, a process known as photodynamic diagnosis (PDD).

We were founded in 1993 with the aim to commercialise technologies developed by the Norwegian Radium Hospital (NRH), which is the largest comprehensive cancer centre in Northern Europe. Since our incorporation, we have filed seven patent applications of which two are granted in major markets.

Our Products and Technologies

We have three core PDT platform technologies:

ALA-derivatives: This technology is primarily based on the development of esters and other derivatives of ALA. We are currently developing three principal products based on ALA-esters: Metvix®, Hexvix™ and Benzvix™.

Metvix®

Metvix® is our most advanced pharmaceutical product. It is developed as a treatment for a form of skin cancer known as high risk basal cell carcinoma, or high risk BCC, for primary BCC, or BCC, and for pre-cancerous skin lesions known as actinic keratosis, or AK. BCC and AK are increasingly common conditions resulting from excessive exposure of skin to sunlight, with particularly high incidence rates in the United States, Europe and Australia. Other potential indications for Metvix® include the topical treatment of squamous cell carcinoma in situ, or SCC in situ, for PDD of BCC, wound healing and the treatment of skin dysplasia in immuno-compromised patients.

Metvix® is a cream which is applied topically after limited preparation of the lesion. Following application, the cream is left to stand for a certain time period, normally three hours, to allow the active ingredient to be absorbed into the target cells. The active ingredient in Metvix® is an ALA ester, which is converted into a photosensitiser, inside the cancerous cell. The photosensitiser accumulates selectively in these cells. Once the three hour period has elapsed, the area of skin selected for treatment is illuminated by red light for approximately ten minutes. The red light excites the photosensitiser, producing cytotoxic singlet oxygen, which destroys the cell.

We believe that the key advantages of Metvix® include the following:

- Highly effective
- Superior cosmetic outcome
- Limited side effects
- Ability to repeat procedure
- Simple and cost effective procedure
- Low systemic uptake

To date, Metvix® has been used on approximately 2,000 patients during the course of clinical trials, including our compassionate use protocol. Metvix® is currently in pivotal Phase II trials for the treatment of high risk BCC. We announced positive initial results after three month

follow-up for this trial in April 2000, and expect to announce three month follow-up data for primary BCC in Phase III trials during the second half of 2000. Phase III trials for AK were initiated in the second quarter of 1999, and positive results were reported in March 2000. We filed our first MAA in Europe on May 2, 2000. Approximately 55 clinical centres worldwide have been or are participating in Metvix® clinical trials.

Curelight, our proprietary light source, produces an adjustable area of red light. The key characteristic of red light is its ability to effectively penetrate through human tissue, improving the ability of the treatment to address thicker lesions.

Hexvix™

We are initially developing Hexvix™ for the diagnosis and treatment of bladder cancer. The diagnostic procedure involves the filling of the patient's bladder with a Hexvix™ solution, which is left to stand for a period of time before the bladder is emptied, and after a further period the patient is examined. During this period the photosensitiser accumulates in the cancerous cells. The bladder is illuminated with a blue light causing red fluorescence which is clearly visible, thereby identifying cancerous tumours. Following the initial diagnostic procedure, the surgeon then inserts proper light into the bladder to activate the photosensitiser leading to the destruction of the cancerous cells. Alternatively, the surgeon may perform a conventional surgical procedure (TUR), using the fluorescence as a guide to the location of the cancer.

We believe that Hexvix™ has significant advantages over existing diagnostic procedures for bladder cancer. Exploratory research suggests that Hexvix™ will allow early stage bladder cancers to be diagnosed with more accuracy, ensuring that tumours are identified and treated at an earlier stage, which may significantly improve clinical outcomes and result in lower recurrence rates. In addition, we believe that Hexvix™ will prove a more effective and less invasive treatment for bladder cancer than existing procedures. Moreover, we believe that Hexvix™ has considerable advantages over ALA. Hexvix™ is effective at lower concentrations than ALA. We also believe that the diagnostic dose will be sufficient for therapy. Early trials also indicate that Hexvix™ demonstrates better selectivity and tissue distribution than ALA, which results in more accurate diagnosis.

Hexvix™ is currently being evaluated for the diagnosis and treatment of other internal cancers and pre-cancerous diseases which can be reached with a light device. These conditions include cervical cancer, vulvae cancer and other gynecological disorders.

We have entered into a collaborative agreement with a PDT research group at the Swiss Federal Institute of Lausanne and at the Municipal University Hospital in Lausanne, which has conducted exploratory pre-clinical and clinical research for the Hexvix™ active ingredient in the diagnosis of bladder cancer in humans. To date exploratory clinical research on approximately 100 patients has been performed. We have completed pre-clinical toxicology studies and we expect to commence Phase I/II trials during 2000.

Benzvix™

Benzvix™ is developed with an initial focus on early stage cancers in the gastrointestinal tract, particularly esophageal cancer and various pre-cancerous lesions. We envisage that Benzvix™ will be used in a similar manner to Hexvix™.

We are currently conducting pre-clinical studies. We are preparing to commence formal pre-clinical toxicology studies, and we intend to commence Phase I/II trials during the next 12 months.

Other ALA Derivatives

We are evaluating other ALA derivatives that we have developed for the treatment of psoriasis, acne and warts. Trials conducted by third parties have shown that ALA may be effective against psoriasis and warts. However, patients have complained about intolerable levels of pain. We believe that the greater selectivity of our ALA derivatives will ensure acceptable levels of patient comfort. We also believe that the superior penetration of our ALA derivatives and Curelight's red light will enable the treatment to reach deep acne infections.

Photochemical synergism (PCS): We are developing a unique proprietary technology known as PCS. PCS improves the efficacy of photodynamic therapies by combining

subtherapeutic doses of systemically administered sensitisers which exhibit different characteristics. The combination of two sensitisers appears to enhance the therapeutic effect while potentially avoiding the side effects associated with therapeutic dose levels of a single sensitiser. Our pre-clinical trials conducted to date have demonstrated that certain combinations of sensitisers significantly improves tumour treatment in animal models. Based on our pre-clinical and clinical experience, we believe that this technology has considerable potential for treatment of internal cancers.

Photochemical internalisation (PCI): PCI is our unique proprietary technology which allows the transfer of large, water soluble molecules into the cytosol of human cells by the use of a photosensitiser that is subsequently activated by light. This technology has potential to significantly enhance (more than 100 fold) the delivery and efficacy of therapeutic treatments. The therapeutic usefulness of macromolecules, such as in gene therapy, is often limited by an inefficient transfer of large molecules to the cytosol of a cell and a lack of tissue-specific targeting. In pre-clinical trials, our novel PCI technology has efficiently delivered large water-soluble molecules into targeted cells, indicating that PCI may have a variety of useful applications for site specific drug delivery. These include light enhanced chemotherapy, gene therapy and cancer vaccines.

Research and Development Collaborations

We aim to leverage our collaborations with academic institutions and third party contract research organisations. Collaborations with academic institutions remain a core part of our strategy for developing new products and platform technologies. Our closest ties are with the NRH, involving several of its research and clinical departments. Approximately 25 people are working full-time on our PDT research at the NRH. Other key collaboration partners include: the Imperial College of Science, Technology and Medicine and the University of Leeds, both in the UK; a PDT research group at the Swiss Federal Institute of Lausanne and at the Municipal University Hospital in Lausanne, Switzerland; the Drug Discovery Laboratory in Norway; and numerous clinical research organisations. In addition, we currently outsource all of our manufacturing operations: the active ingredient for Metvix® is manufactured by Hydro Research AS, a subsidiary of Norsk Hydro ASA, and our Metvix® cream is formulated by Penn Pharmaceuticals Limited.

PhotoCure Strategy

Our mission is to develop and market novel therapeutic and diagnostic products and related medical devices based on our proprietary PDT technologies. The key elements of our strategy are:

- Continue to develop, and obtain marketing approval for our products in all major markets
- Leverage our broad platform technologies to develop and commercialise new pharmaceutical products
- Maintain focus on the oncology market
- Establish sales and marketing partnerships and infrastructure to promote our products
- Maintain and strengthen development collaborations with leading academic institutions

PhotoCure ASA is a public limited company organised under the laws of Norway. We were incorporated on August 27, 1993 under organisation number 967 598 593. Our office address is Noreveien 7, P.O. Box 55, Montebello, N-0310 Oslo, Norway.

The Metvix® trademark is registered in several countries including Norway, Japan and the EU. The trademark application is pending in the US. We have also applied for trademark protection for the PhotoCure name and logo as well as for our Hexvix and Benzvix products. Trademarks or trade names of other companies appearing in this prospectus are the property of their respective owners.

THE OFFERING

See also "Additional Information Relating to the Offering" elsewhere in this prospectus for more information about the Norwegian offering.

The Offering	Of the 2,570,000 shares being offered in this offering, we are offering 2,300,000 shares, and the selling shareholders are offering 270,000 shares. The shares are being offered to the public in Norway and to qualified institutional buyers in the United States, and outside the United States in reliance on Regulation S under the U.S. Securities Act.
Offering Price	The shares are offered at a price of NOK 155 per share.
Selling Shareholders	The Norwegian Radium Hospital Research Foundation and Geir Christian Melen. See "Principal and Selling Shareholders."
Over-Allotment Option	We have granted to the underwriters an option, exercisable for 30 calendar days after the date of the listing of the shares on the Oslo Stock Exchange, to purchase at the public offering price up to 230,000 additional shares to be issued by us solely to cover over-allotments of shares.
Use of Proceeds	We intend to use the net offering proceeds received by us to fund our research and development activities, including clinical studies, marketing and sales activities and for other general corporate and working capital purposes. We may also use a portion of the net proceeds to acquire or invest in complementary companies or technologies, although we do not currently have any acquisition or investment plans.
Lock-ups	Our directors, executive officers and other shareholders holding beneficially 6.5% or more of our shares have agreed not to issue or sell any of our securities for 180 days after the date of the closing of the offering, without the prior written consent of the Global Coordinator on behalf of the underwriters.
Listing and Trading	The Oslo Stock Exchange has given conditional approval for our shares to be admitted to the Main List of the Oslo Stock Exchange pursuant to the provisions of the Norwegian Stock Exchange Regulations, 1994.
Subscription Period for the Norwegian Offering	The book-building period for the institutional tranche of the Norwegian offering is scheduled to take place from May 5, 2000 to and including 16:00 hours (Oslo time) on May 19, 2000. The subscription period for the retail tranche of the Norwegian offering will last from May 5, 2000 to and including 16:00 hours (Oslo time) on May 18, 2000. All subscriptions for both the institutional and the retail tranche of the Norwegian offering must be made on a special subscription form that is available at the subscription offices.
Proposed Symbol for the Listing on the Oslo Stock Exchange	PHO
Stabilisation	Deutsche Bank or any of its affiliates or agents may over-allot or effect transactions which stabilise or maintain the market price of the ordinary shares at levels which might not otherwise prevail in the open market. These transactions may be effected on the Oslo Stock Exchange, in the over-the-counter market or otherwise for up to thirty days after dealing has commenced. This stabilisation, if commenced, may be discontinued at any time without prior notice.

RISK FACTORS

In addition to the other information contained in this prospectus, you should carefully consider the following factors in evaluating an investment in PhotoCure. The following factors could have a material adverse effect on our business, which could result in the loss of all or part of your investment in the ordinary shares offered in this offering.

Risks Related to Our Company and Our Industry

Our products are under development and will require additional research and testing.

Our products are currently under development. We must successfully research, develop and obtain regulatory approval for our products and treatments in order to market and sell them. The process necessary to achieve regulatory approval in the United States and Europe is long and uncertain. We must demonstrate through clinical trials on humans that each product is safe and effective for human use for each targeted disease. We have conducted and plan to continue further extensive and costly clinical trials to assess the safety and efficacy of our products Metvix®, Hexvix™ and Benzvix™. We cannot be certain that our products will prove to be safe or produce its intended effects.

We cannot be certain that the clinical trials completed or under way, or any additional clinical trials, will be completed in a timely manner or will demonstrate the efficacy or superiority of our products under development over existing therapies. Further development of these products will require significant additional time-consuming and costly research. If we fail to complete planned clinical trials of Metvix® on a timely basis, our business could be adversely affected.

Data already obtained from pre-clinical studies and clinical trials of our products under development do not necessarily predict the results that will be obtained from later clinical studies. A number of companies in the pharmaceutical industry, including companies like ours, have suffered significant setbacks in advanced clinical trials. If we fail to adequately demonstrate the safety and efficacy of our products under development, it could delay or prevent regulatory clearance of the potential product and could materially harm our business. We cannot be certain the results of our clinical trials will result in marketable products.

We cannot market and sell our products unless we obtain regulatory approval.

Before obtaining regulatory approval for the commercial sale of any products under development, we must demonstrate through pre-clinical and clinical studies that the product is safe and effective. The results from pre-clinical and early clinical studies may not be predictive of results obtained in large scale clinical trials, and there can be no assurance that our clinical trials will demonstrate safety and efficacy, achieve regulatory approvals or result in marketable products.

Our Curelight lamp, which is the light source used in conjunction with Metvix® treatments, has been approved as a Type IIA medical device and has obtained the CE mark in Europe. However, we must obtain regulatory approval for Curelight in the United States and other countries before it can be used commercially in those countries.

All of our products under development will require the approval of regulatory authorities before they can be marketed in Europe, the United States and other countries. These processes involve substantial cost and often take many years. We have limited experience in, and limited resources available for, regulatory activities. Failure to comply with the applicable regulatory requirements can, among other things, result in non-approval, suspensions of regulatory approvals, fines, product seizures and recalls, operating restrictions, injunctions and criminal prosecution. Except for the approval of our Curelight lamp in Europe, to date none of our product candidates being developed have been submitted for approval or have been approved in Europe, the United States or any other country for marketing.

Beginning in 1995, a new regulatory system to approve drug market registration applications was implemented in the EU. The system provides for centralised, decentralised and

national registration procedures through which a company may obtain drug marketing approvals. The centralised procedure allows for expedited review and approval of biotechnology and high technology/innovative product marketing applications by a central Committee for Proprietary Medicinal Products. The decentralised procedure allows a company to petition individual EU member states to review and recognise a market application previously approved in one member state by the national procedure. Even if regulatory approval is obtained in Europe we would need to obtain separate approval by the FDA or other relevant regulatory authorities to market our drugs in the United States or other countries.

We cannot predict whether any of our products will obtain required approvals in Europe, the United States or other countries or that regulatory problems will not arise that could delay or prevent the marketing of any of our products.

Discovery of problems with a product, manufacturer or facility can result in delay of approval, product labelling restrictions or withdrawal of the product from the market. These consequences could adversely affect our financial condition and operations. In particular, delays in receiving regulatory approvals may delay the commercial launch of our products as compared to our competitors. Even after approval by regulatory authorities, products may later exhibit adverse side effects that prevent their widespread use or necessitate their withdrawal from the market.

We are relying initially on the commercialisation of Metvix® and our future success will depend on our ability to develop new products.

Metvix® is the most advanced of our pharmaceutical products currently under the development. We are currently in the later stages of clinical studies for the use of Metvix® in the treatment of AK, high risk BCC and primary BCC. If we obtain regulatory approval to market and sell Metvix®, and are successful in its product launch, we expect that initially all of our product revenue will be from the sale of Metvix® and, to a lesser extent, from our Curelight lamp device. Consequently, any factors adversely affecting the sales of Metvix® could have a material adverse effect on our business. Such factors could include lack of market acceptance of Metvix®, approval of competing products, or other factors adversely affecting the ability of our own anticipated sales force or any collaborative partners to successfully sell and market Metvix®. In addition, due to these and other factors, including the uncertainty of third party reimbursement, we cannot assure you that we will market Metvix® for all the indications for which approval may be obtained. We will evaluate whether commercialisation is feasible for a particular indication.

We intend to utilise our core technology and capabilities for the development of new pharmaceutical products. We have ongoing research and development efforts with our collaborative partners, which include the development of Hexvix™ and Benzvix™ and the development of products using photochemical internalisation technology and photochemical synergism technologies. Our future success depends on our ability to develop new products for commercialisation. We cannot be certain that our research and development efforts will result in therapeutic or diagnostic products that are safe and effective or that have potential for commercialisation. Moreover, we cannot be certain whether we will obtain regulatory approval for the sale and marketing of any of these potential products. If we are unable to successfully develop, obtain regulatory approval for and commercialise products under development, our future business, financial condition and results of operations could be materially and adversely affected. In addition, the marketing strategy, distribution channels and bases of competition of newly developed products may be different than those of our current product pipeline. There is a risk that we may not be able to compete favourably in those product categories.

We currently rely on collaborative partners for research and development.

We collaborate closely with research institutions, such as universities and contract research organisations, to conduct pre-clinical and clinical research. We continue to work closely with the Norwegian Radium Hospital, which has conducted extensive research in PDT for over 15 years and which is currently conducting exploratory and clinical research for us. We have also formed research collaborations, including those with the Imperial College of Science,

Technology and Medicine and the University of Leeds, both in the UK, a PDT research group at the Swiss Federal Institute of Lausanne and at the Municipal University Hospital in Lausanne, Switzerland, and the Drug Discovery Laboratory in Norway to conduct research, including pre-clinical studies involving new substances. The termination or other adverse affect upon these relationships could significantly harm or delay our research and product development efforts. In addition, these collaborative arrangements may not be successful or may not result in products that obtain regulatory approval or products that, if approved, are successfully marketed and sold.

We may experience difficulties marketing our products because we lack marketing experience and marketing partners.

We do not at this time have marketing partners and we lack sufficient marketing personnel and experience. We are developing plans for collaborations with strategic partners for marketing, sales and distribution of our products upon obtaining regulatory approval. We currently intend to market our products using our own sales force in the Nordic region, and we intend to rely on third parties to distribute or co-promote our products in other regions, including the United States, the rest of Europe and Australia. If and when we obtain regulatory approval for the sale of Metvix® and other products, our ability to market it through our own sales force will depend upon the successful recruitment, training and deployment of our own sales and marketing force. Development of an effective sales force will require significant financial resources and time. There is a risk that we will be unable to establish such a sales force in a timely or cost effective manner, if at all, or that such a sales force will not be successful in generating demand for our products. In addition, reliance on third party collaborators for sales and marketing presents risks, including:

- We may be unable to negotiate acceptable collaborative arrangements;
- These collaborative relationships may limit or restrict us;
- Our collaborative partners may seek to terminate relationships with us and we may be required to seek other partners, or expend substantial additional resources to pursue these activities independently; and
- We may be unable to successfully manage, interact and coordinate our timelines and objectives with our strategic partners.

Any of these factors could delay commercialisation of our products, entail higher costs and limit our ability to effectively sell our products. If we receive regulatory approval before we establish marketing capabilities, our ability to generate revenues will be limited until we do so. We cannot predict whether any of these arrangements will be concluded or if any of our products will be successfully marketed. In addition, we will be competing with companies that have established extensive marketing and sale operations. Our marketing and sales efforts may be unable to successfully compete against those companies.

Our revenues and profits may be adversely affected if we fail to obtain adequate levels of reimbursement for our products or procedures from third-party payors.

Our profitability will depend on the availability of reimbursement to patients or physicians for the cost of our procedures and products from third-party payors such as governmental programmes, private insurance and private health plans. We cannot predict whether levels of reimbursement for our products or procedures will be high enough to allow us to realise acceptable profit margins. Even if we obtain regulatory approval for a product, third-party payors may deny reimbursement if the payor determines that our particular new therapy is unnecessary, inappropriate or not cost effective. If patients or physicians are not entitled to receive reimbursement for the full cost of the treatment, patients will have to pay for the unreimbursed amounts. Some payors may require physicians to prescribe other treatments or limit the number of treatments for our products. These reimbursement factors could limit our revenues, and our profits, if physicians or patients choose therapies with higher reimbursements than our therapies or if government agencies or other third-party payors mandate a particular treatment regimen. The reimbursement status of newly-approved health care products or therapies is highly uncertain. If levels of reimbursement are decreased in the future, the demand for our products could diminish or our ability to sell our products on a profitable basis could be adversely affected.

We have a history of operating losses and we may not be profitable in the future.

We have a history of operating losses. We anticipate future losses and we may never become profitable. As of March 31, 2000, our accumulated deficit was approximately NOK 89.0 million. We cannot predict whether any of our potential products will achieve market acceptance to generate sufficient revenues to become profitable. Moreover, if we achieve profitability we cannot predict the level and timing of profitability with any degree of certainty. Our ability to achieve profitability depends upon our ability, alone or with others, to successfully complete the development of our proposed products, obtain the required regulatory clearances and manufacture and market our proposed products.

We may need additional capital in the future to continue product development and we are uncertain whether capital will be available.

Even if we receive timely regulatory approval for our first product, Metvix® for AK, high risk BCC and primary BCC, we may need substantial additional funds in order to fully develop, manufacture, market and sell our other products under development. We cannot predict exactly when additional funds will be needed. We may obtain funds through a public or private financing, including equity financing. We cannot predict whether any financing will be available on acceptable terms when we need it because investors may be unwilling to invest in our company, we may experience setbacks in our development programme or the public may fail to use our products.

If funding is insufficient, we will have to delay, reduce in scope or eliminate some or all of our research and development programmes. We cannot predict which programmes will be affected since it will depend upon the status of clinical trials at that time. We may also license rights to third parties to commercialise products or technologies that we would otherwise have attempted to develop and commercialise on our own.

If we obtain regulatory approval to market and sell our products, we may require additional funds to establish commercial-scale manufacturing arrangements and to provide for the marketing and distribution of our products. We believe that the net proceeds of this offering, together with our cash, cash equivalents and related securities investments, will be adequate to satisfy our currently planned capital needs for at least two years from the completion of this offering.

We may be adversely affected by our reliance on sole suppliers.

We depend on outside suppliers for the raw materials, components and manufacture of our products. These raw materials, components or manufacturing services may not continue to be available to our standards or on acceptable terms, if at all, and alternative suppliers may not be available to us on acceptable terms. We are currently dependent on single contract sources for the active ingredient in Metvix®, for the Metvix® cream and for our Curelight device. We do not currently have the capacity to manufacture any of these products on our own. If any of these suppliers fail to meet our needs, our business, financial condition and results of operations could suffer. In addition, if our sole source suppliers fail to meet and maintain regulatory requirements, approval of our first product could be delayed. It would be time-consuming and costly for us to obtain these products from other manufacturers.

Our manufacturers have not yet produced our products in commercial quantities. Manufacturers often encounter difficulties in scaling-up manufacturing of new products, including problems involving product yields, quality control, component and service availability, adequacy of control procedures and policies, compliance with regulations and the need for further regulatory approval of new manufacturing processes and facilities. We cannot predict whether production yields, costs or quality will be adversely affected as our appointed manufacturers seek to increase production. Any such adverse effect could delay or prevent commercialisation of our products which would have a material adverse effect on our business, financial condition and results of operations.

We may be unable to adequately protect our intellectual property rights and third party intellectual property rights may limit our ability to develop and sell our products.

Our ability to compete successfully depends, in part, on our ability to defend patents that have been issued, to obtain approval of pending patents, to file new patent applications, to protect trade secrets and to operate without infringing the proprietary rights of others. The extent to which patent protection is available in the biotechnology and pharmaceutical fields generally is uncertain and involves complex legal, scientific and factual questions.

We have filed seven patent applications in Europe, the United States and various other countries. Of these applications, we have been granted two issued patents relating to the use and compositions of esters of ALA as photosensitising agents in photochemotherapy and the process of PCI for the transfer of molecules into the cytosol of cells (for light-enhanced chemotherapy, cancer vaccines and gene therapy). We have five other applications pending for photochemical synergistic interactions for photochemotherapeutic compositions, the design and mechanism of our Curelight lamp, cancer vaccines, other ALA derivatives and formulations. For a more detailed description of our patents and patent applications, see ''Business-Intellectual Property''. Some of the risks and uncertainties relating to the protection of our intellectual property include:

- The patent applications we have submitted or may submit in the future may not result in issued patents;
- Our issued patents may be challenged by third parties and held to be invalid or unenforceable;
- Our issued patents may not provide us with proprietary protection or competitive advantages; and
- Third parties may claim that our activities infringe on their patents and proprietary technology.

We expect that there will continue to be significant litigation in the biotechnology and pharmaceutical industries regarding patents and other proprietary rights. Our competitors and other companies may have filed or may file patent applications, or otherwise have obtained or may obtain proprietary rights, to products which could compete with ours. These patents, applications or rights may conflict with our issued patents or pending applications. These conflicts could result in a rejection of our applications or the invalidation of our issued patents, and could have a material adverse effect on our competitive position. If these conflicts occur or if we believe that the products of third parties infringe on our proprietary rights, we may pursue litigation or other proceedings, or we may be required to defend against litigation by third parties. These proceedings may materially and adversely affect our competitive position, and we may not be successful in these proceedings. Litigation and other proceedings can be expensive and time consuming, even if we prevail. Defending challenges by third parties or enforcing our proprietary rights against infringement by third parties can result in the diversion of substantial financial, managerial and other resources from our business and development activities. An adverse outcome could subject us to significant liabilities to third parties or require us to cease any related research and development activities or product sales.

We also possess proprietary information in the form of trade secrets. However, we cannot assure you that the confidentiality agreements we enter into with employees, partners and consultants to protect our trade secrets will provide effective protection for our proprietary information in the event of unauthorised use or disclosure of trade secret information.

The marketability of our products may be harmed by competing products, technologies and therapies.

Many pharmaceutical companies have substantially greater financial, technical, manufacturing, marketing and distribution resources than we have which give them an advantage over us in the marketplace. The pharmaceutical and biotechnology industries are subject to rapid, unpredictable and significant technological change. Well-known pharmaceutical,

biotechnology and chemical companies are marketing well-established therapies, and/or seeking to develop new products and technologies, for the treatment of various cancers and dermatological conditions including basal cell carcinoma and actinic keratosis. For example, the current preferred methods of treating actinic keratosis are with the drug 5-fluorouracil for multiple lesions, and cryotherapy, which is less expensive. The current preferred treatments for basal cell carcinoma are surgery, irradiation and cryotherapy.

In addition, several companies are developing photodynamic therapies and photodetection products, including products for markets that we intend to pursue. Development of PDT and PDD agents are currently being pursued by a number of companies, including, but not limited to: Dusa Pharmaceuticals, Inc. (U.S.); ESC Medical Systems Ltd. (Israel); Photogen Technologies, Inc. (U.S.); Scotia Pharmaceuticals plc (UK); Medac GmbH (Germany); QLT Photo Therapeutics Inc. (Canada); Pharmacyclics, Inc. (U.S.); and Miravant, Inc. (U.S.). In December 1999, Dusa obtained FDA approval in the United States to market its Levulan® Kerastick™ PDT product based on ALA for the treatment of AK of the face and scalp. QLT's product, Photofrin®, is approved in the United States and certain countries in Europe for the treatment of esophageal cancer, in Canada for the treatment of bladder cancer, and in Japan for the treatment of esophageal and gastrointestinal cancer. In addition, its Verteporfin product is in clinical trials for the treatment of non-melanoma skin cancer and psoriasis. We are also aware that Medac GmbH is currently developing an ALA product for the diagnosis of bladder cancer, and that ESC Medical Systems Ltd. has indicated that it has used a medical grade of ALA for PDT treatment of skin cancer.

We expect that our principal methods of competition with companies that have other established therapies for BCC or AK, or with other companies providing photodynamic therapies or diagnoses, will be based upon such factors as:

- the success rate for treatment cures or accuracy of diagnosis;
- the cosmetic outcome;
- the degree of patient pain and discomfort;
- the ability to provide multiple treatments to the targeted tissue;
- the ease and cost of treatment;
- the degree of systemic toxicity resulting from the drug; and
- reimbursement of drug and treatment costs by third-party payors.

We cannot give you any assurance that new drugs or future developments in PDT or PDD or in other drug technologies will not have a material adverse effect on our business. Increased competition could result in price reductions, lower levels of third-party reimbursements, failure to achieve market acceptance, and loss of market share, any of which could have an adverse effect on our business. Further, we cannot give you any assurance that developments by our competitors or future competitors will not render our technology obsolete. See ''Business-Competition''.

We may be unable to adequately manage the potential growth of our company.

As we move from a small, development stage company to a company with products with potential for commercialisation, we may need to develop a growth plan to expand our research and development efforts, our sales and marketing personnel, our physical facilities and other operations. This potential growth and increased scope of operations, including the requirements we face as a listed company, present a number of risks, including an increase in operating expenses, the need for greater management resources and other unanticipated costs or delays. In addition, we cannot assure you that we will be able to effectively monitor the research and development and other activities, such as manufacturing, conducted by third parties. If our company continues to grow, we will need to recruit and hire additional personnel at all operations levels. Our future operating results will depend on our ability, among other things, to successfully manage growth, to expand our internal control systems, and to hire, train and

manage additional personnel. If we do not succeed in these efforts, our business could be adversely affected and the value of your investment may suffer.

If we lose key members of our management, our product development and commercialisation could be delayed; none of our employees, including our management, are subject to non-competition agreements.

We are a small company with only 17 employees. We are highly dependent on several key employees with specialised scientific and technical skills. Likewise, we rely on the research personnel at the Norwegian Radium Hospital as well as other academic and contract research organisations. We cannot be certain that these key employees or personnel will remain with our company or our collaborative partners. Our growth and future success will depend, in part, on the continued contributions of these key individuals as well as our ability to motivate and retain these qualified personnel in our speciality drug and light device areas. We currently do not employ anyone who could replace them. The loss of our President and Chief Executive Officer, Vidar Hansson, could cause significant delays in the achievement of our business and research goals since very few people with his experience and expertise could be hired. None of our employees, including our management and other key employees, are subject to non-competition agreements. Any of these key employees could leave us and engage in activities competitive with our business. Our business, financial condition and results of operations could suffer.

If we become subject to a product liability claim, we may not have adequate insurance coverage and the claim could adversely affect our business.

The development, manufacture and sale of medical products exposes us to the risk of significant damages from product liability claims. We maintain product liability insurance for coverage of our clinical trial activities. We intend to obtain coverage for our products when they enter the marketplace but we do not know if it will be available at acceptable costs. If the cost is too high, we will have to self-insure. While we have not experienced any product liability claims, a successful claim in excess of our clinical trial insurance coverage or any coverage for commercial use of our products could have a materially adverse effect on our business, financial condition and results of operations.

Our executive officers, directors and current principal shareholders will own 37.5% of our shares after the offering.

Upon completion of the offering, without taking the exercise of outstanding options into account, our executive officers, directors and current principal shareholders will, together, own an aggregate of approximately 37.0% of our outstanding shares, assuming the underwriters' over-allotment option has been exercised in full. If all outstanding options are exercised in full, these executive officers, directors and current principal shareholders collectively will own 35.7% of the then-outstanding shares. As a result, these shareholders will have the power to control or otherwise influence significantly the outcome of matters submitted for the vote of our shareholders, including the election of members of our Board of Directors, the approval of mergers and other significant corporate transactions, such as a sale of substantially all of our assets. Their combined equity interest in PhotoCure may make some transactions more difficult and may delay, defer or prevent a change in control.

You may not be able to enforce judgment against us or some of our directors and officers.

All of our assets are located outside the United States. In addition, none of our officers or directors are residents of the United States. As a result, you may not be able to effect service of process within the United States upon them or enforce against them a United States court judgment based on civil liabilities under the United States federal securities laws. Courts outside the United States may not impose civil liability on our directors for a violation of the federal securities laws of the United States. We cannot assure you that you will be able to enforce any U.S. judgments in civil and commercial matters against our officers or directors.

Risks Related to this Offering

The price of our shares may be volatile and subject to extreme fluctuation.

The securities of emerging pharmaceutical and biotechnology companies have historically been highly volatile and subject to extreme price fluctuations, which may have a material adverse effect on the market price of the ordinary shares. In addition, since we are a development stage company, any significant general market decline in similar stage pharmaceutical and biotechnology companies could make the market price of our ordinary shares even more volatile. Extreme price fluctuations could be the result of various factors, including:

- Results of our clinical and pivotal trials;
- Announcements regarding regulatory approvals, including any delays or failures to achieve approval;
- Our ability to enter into arrangements with collaborative partners;
- Our ability to successfully commercialise our products; and
- Governmental regulations, rules and orders, or developments concerning our products.

Our shares will be newly listed on the Oslo Stock Exchange and we cannot be certain an active public market will develop for our shares.

Before this offering, there has been a limited market for our shares, which are traded on the over-the-counter market in Norway. We, the selling shareholders and the underwriters will determine the initial public offering price by negotiations, and this price may not be the price at which our shares will trade. The Oslo Stock Exchange has given conditional approval for listing, but we cannot be certain that an active trading market will develop or be sustained after the offering.

Sales of our ordinary shares in the public market after this offering may result in lower market prices for our shares.

Sales of a substantial number of our ordinary shares, including shares issued upon the exercise of outstanding options, in the public market after the offering or the perception that these sales may occur, could materially and adversely affect the price of our shares and could impair our ability to obtain capital through future offerings of equity securities. These sales could be made either by existing shareholders or through a capital increase to raise additional capital. Subject to the terms of lock up agreements with the representative of the underwriters, which restrict resales of certain of our shares for 180 days after the offering, all of our shares outstanding before the offering can, upon listing, be sold immediately on the Oslo Stock Exchange without restriction.

If our listing application is not effective you may receive unlisted shares.

Although the Oslo Stock Exchange has given conditional approval to list our ordinary shares, this offering is not conditional on admission to the exchange having become effective. In accordance with Norwegian practice, the new ordinary shares are expected to be issued on May 26, 2000, before admission becoming effective on May 29, 2000. If after the closing of this offering, admission does not become effective, you will not be able to require us to return your subscription monies to you and you will hold unlisted ordinary shares.

USE OF PROCEEDS

If we sell all 2,300,000 of the shares we are offering (not including the over-allotment option) at an offering price of NOK 155 per share, we will receive NOK 334,763,750, net of commissions and expenses. We intend to use the offering proceeds to fund our research and development activities, including clinical studies, marketing and sales activities and for other general corporate and working capital purposes. We may also use a portion of the net proceeds to acquire or invest in complementary companies or technologies, although we do not currently have any acquisitions or investments planned. Pending use of the proceeds, we intend to invest such funds in money-market funds and short-term, interest-bearing investment-grade securities.

DIVIDEND POLICY

We have never paid or declared any dividends on our shares. We currently expect to retain future earnings, if any, to finance the growth and development of our business. Therefore, we do not anticipate paying cash or other dividends in the foreseeable future. Any payment of future dividends and the amounts thereof will be dependent upon earnings, financial requirements and other factors deemed relevant by our Board of Directors and our shareholders.

CAPITALISATION

The following table shows, as of March 31, 2000, our actual capitalisation and our capitalisation as adjusted to reflect the sale of the 2,300,000 new shares in the offering, at a public offering price of NOK 155 per share, and application of the net proceeds after deducting the underwriting commissions and the estimated offering expenses payable by us. The translation into euros in the table below is unaudited and is provided for illustrative and convenience purposes only.

	As of March 31, 2000			
	Actual		As adjusted	
	(NOK)	(€)[1]	(NOK)	(€)[1]
	(in thousands)			
Share capital	7,375	905	8,525	1,046
Share premium reserve	136,087	16,697	469,701	57,628
Accumulated losses	(88,963)	(10,915)	(88,963)	(10,915)
Shareholders' equity	54,499	6,687	389,263	47,759
Long term borrowings	14,180	1,740	14,180	1,740
Total	68,679	8,427	403,443	49,499

(1) Solely for your convenience, Norwegian kroner amounts have been translated into euros at the rate of €1.00 to NOK 8.1505, which was the indicative rate on May 19, 2000 as certified by the Central Bank of Norway.

SELECTED FINANCIAL DATA

The following selected financial data for the years ended December 31, 1997, December 31, 1998 and December 31, 1999 are derived from financial statements of PhotoCure, which have been prepared in accordance with Norwegian GAAP and have been audited by Arthur Andersen & Co., independent auditors. The following financial data for the three-month periods ended March 31, 1999 and March 31, 2000 are derived from our unaudited financial statements. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which we consider necessary for a fair presentation of the financial position and the results of operations for these periods. The results of operations for any quarter are not necessarily indicative of results for any future period. You should read this data in conjunction with the financial statements, related notes, and other financial information included in this prospectus. The translation into euros in the table below is unaudited and is provided for illustrative and convenience purposes only.

	Year ended December 31,				Three months ended March 31, (unaudited)		
	1997 (NOK)	1998 (NOK)	1999 (NOK)	1999 (€)[1]	1999 (NOK)	2000 (NOK)	2000 (€)[1]
	(in thousands, except per share data)						
Income Statement Data:							
Operating revenues	409	957	1,094	134	127	565	69
Operating expenses							
Labour costs	3,519	7,489	13,750	1,687	4,585	7,495	920
Research & development cost	5,969	9,358	25,902	3,178	3,902	6,546	803
Ordinary depreciation	151	198	201	25	44	69	8
Other operating expenses	2,420	3,127	7,286	894	1,297	2,917	358
Total operating expenses	12,059	20,172	47,139	5,784	9,828	17,027	2,089
Operating income	(11,650)	(19,215)	(46,045)	(5,650)	(9,701)	(16,462)	(2,020)
Financial income and expenses							
Interest income	488	1,933	5,260	645	837	1,217	150
Interest expense	134	332	722	88	178	211	26
Net financial income	354	1,601	4,538	557	659	1,006	124
Loss before tax	(11,296)	(17,614)	(41,507)	(5,093)	(9,042)	(15,456)	(1,896)
Tax							
Net loss	(11,296)	(17,614)	(41,507)	(5,093)	(9,042)	(15,456)	(1,896)
Net loss per share(2)	(1.10)	(1.55)	(3.09)	(0.38)	(0.75)	(1.06)	(0.13)

	As of December 31,			As of March 31, (unaudited)		
	1998 (NOK)	1999 (NOK)	1999 (€)[1]	1999 (NOK)	2000 (NOK)	2000 (€)[1]
	(in thousands)					
Balance Sheet Data:						
Fixed assets	860	524	64	484	943	116
Receivables	1,943	975	120	1,150	1,006	123
Securities	33,693	84,924	10,419	21,687	80,996	9,938
Cash and bank deposits	19,105	14,439	1,772	25,927	9,514	1,167
Total assets	55,601	100,862	12,375	49,248	92,459	11,344
Share capital	6,020	7,220	886	6,020	7,375	905
Share premium reserve	61,714	134,514	16,504	61,714	136,087	16,697
Accumulated losses	(32,000)	(73,507)	(9,019)	(41,042)	(88,963)	(10,915)
Shareholders' equity	35,734	68,227	8,371	26,692	54,499	6,687
Long term borrowings	12,570	14,098	1,729	12,650	14,180	1,740
Other long term liabilities	0	2,745	337	2,578	2,578	316
Current liabilities	7,297	15,792	1,938	7,328	21,202	2,601
Total shareholders' equity and liabilities	55,601	100,862	12,375	49,248	92,459	11,344

(1) Solely for your convenience, Norwegian kroner amounts have been translated into euros at the rate of €1.00 to NOK 8.1505, which was the noon buying rate on May 19, 2000 as certified by the Central Bank of Norway.

(2) Calculation based on average weighted number of shares outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with ''Selected Financial Data'' and our financial statements and related notes appearing elsewhere in this prospectus. Our financial statements and unaudited quarterly financial results included in this discussion have been prepared in accordance with Norwegian GAAP, which differs in certain respects from U.S. GAAP, see ''Description of Differences between Norwegian and U.S. GAAP'' included at the end of this section. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those set forth under ''Risk Factors'' and elsewhere in this prospectus.

Overview

We are engaged in the research and development of novel therapeutics and diagnostics and related medical devices based on our proprietary photodynamic therapy (PDT) technologies. Since our inception in 1993, we have devoted substantially all of our resources to research and develop products using these technologies. Our most advanced drug candidate, Metvix®, is in late stage clinical development.

Since our inception, we have been unprofitable and, as of March 31, 2000, we had an accumulated deficit of approximately NOK 89.0 million. The process of developing our drugs will require significant additional research and development, pre-clinical studies and clinical trials, as well as regulatory approval, manufacturing and sales and marketing activities. These activities, together with our general and administrative expenses, are expected to result in significant additional operating losses for the next several years.

A substantial portion of our operating expenses relates to fees and other amounts that have been paid to third parties relating to our research and development activities. We have outsourced a significant amount of our research and development activities, including research, pre-clinical studies and clinical trials conducted by the NRH and our other collaborative partners. We also have outsourced intellectual property (principally patent and trademark) registration and related activities.

Results of Operations

Three months ended March 31, 2000 and March 31, 1999

Operating Revenues. Operating revenues increased to NOK 0.6 million for the three months ended March 31, 2000, compared to NOK 0.1 million for the three months ended March 31, 1999. To date, all of our operating income has been from limited sales of our products under development, primarily to the pharmacy of the Norwegian Radium Hospital.

Labour Costs. Labour costs increased to NOK 7.5 million for the three months ended March 31, 2000, compared to NOK 4.6 million for the three months ended March 31, 1999. This increase was primarily the result of increases in wages and social security tax resulting from an increase in the average number of our employees from 12 in the three months ended March 31, 1999 to 17 during the three months ended March 31, 2000. In addition, we have provided for social security taxes that have or may become payable upon the exercise of employee stock options, totalling NOK 4.9 million in the first three months ended March 31, 2000, and NOK 0.2 million in the first three months ended March 31, 1999. We incurred a cost of NOK 2.6 million in the first three months ended March 31, 1999, relating to the accrued bonuses payable to our President and Chief Executive Officer; we did not incur any additional material bonus accrued for the first three months ended March 31, 2000.

Research and Development Costs. Research and development costs were NOK 6.5 million for the three months ended March 31, 2000, compared to NOK 3.9 million for the three months ended March 31, 1999. This increase was primarily due to increases in our clinical trials and patients included in these trials and the number of centres where our clinical trials were performed. Additionally, expenses relating to our registration and documentation, explorative

research and pharmaceutical development were higher during the first three months ended March 31, 2000, as compared with the same period in 1999.

Other Operating Expenses. Other operating expenses amounted to NOK 2.9 million for the three months ended March 31, 2000, compared to NOK 1.3 million for the three months ended March 31, 1999. The increase primarily related to increases in travel, patent and trademark registration, insurance costs and professional services resulting from our higher staffing levels and increased development activities.

Interest Income. Interest income was NOK 1.2 million for the three months ended March 31, 2000, compared to NOK 0.8 million for the three months ended March 31, 1999. The increase was primarily due to increased cash balances resulting from the sale of our ordinary shares that was completed in June, 1999.

Interest Expense. Interest expense was NOK 0.2 million for the three months ended March 31, 2000, which was the same amount for the three months ended March 31, 1999. We did not incur any additional indebtedness between these two periods. Interest expense consists primarily of interest paid on a NOK 3.0 million loan received by us in 1998 from the Norwegian Industrial and Regional Development Fund (SND), and accrued contingent interest payable on a NOK 10.4 million contingent loan granted to us in 1997 from the SND. See ''Liquidity and Capital Resources'' below for further information.

Years ended December 31, 1997, 1998 and 1999

Operating Revenues. Operating revenues increased to NOK 1.1 million for the year ended December 31, 1999, from NOK 1.0 million for the year ended December 31, 1998, and NOK 0.4 million for the year ended December 31, 1997. To date, all of our operating income has been from limited sales of our products under development, primarily to the pharmacy of the Norwegian Radium Hospital.

Labour Costs. Labour costs increased to NOK 13.7 million for the year ended December 31, 1999, from NOK 7.5 million for the year ended December 31, 1998, and NOK 3.5 million for the year ended December 31, 1997. The increases of NOK 6.3 million in 1999 and NOK 4.0 million in 1998 were primarily the result of increases in wages and social security tax resulting from an increase in the average number of our employees, from 6 in 1997, to 9 in 1998 and to 14 in 1999. Additionally, we have provided for social security taxes that may become payable upon the exercise of employee stock options, totalling NOK 0.2 million in 1997, NOK 2.2 million in 1998 and NOK 3.2 million in 1999, and incurred a cost of NOK 2.6 million in 1999 relating to the accrued bonus payable to our President and Chief Executive Officer.

Research and Development Costs. Our net research and development expenses increased from NOK 6.0 million for the year ended December 31, 1997, to NOK 9.4 million for the year ended December 31, 1998 to NOK 25.9 million for the year ended December 31, 1999, primarily due to increases in our clinical trials and patients included in these trials and the number of centres where our clinical trials were performed during each successive year. Additionally, we incurred increased expenses in each successive year relating to our chemical and pharmaceutical development. We expect our research and development spending to increase significantly over the next two years as we expand our research and development efforts.

We have received grants of NOK 1.7 million in 1997 and NOK 2.5 million in each of 1998 and 1999 from the Norwegian Research Council (NFR) relating to research and development of PDT for internal cancers. We have accounted for these grants as reductions in our research and development expenses for each of these years.

Other Operating Expenses. Other operating expenses increased to NOK 7.3 million for the year ended December 31, 1999, from NOK 3.1 million for the year ended December 31, 1998, and NOK 2.4 million for the year ended December 31,1997. The increase is primarily related to increases in travel and professional services resulting from our higher staffing levels and increased development activities.

Interest Income. Interest income increased to NOK 5.3 million for the year ended December 31, 1999, from NOK 1.9 million for the year ended December 31, 1998, and NOK 0.5 million for the year ended December 31, 1997. The increase in each year was primarily due to increased cash balances resulting from the sale of common stock that was completed by us in such year.

Interest Expense. Interest expense was NOK 0.7 million for the year ended December 31, 1999, compared to NOK 0.3 million for the year ended December 31, 1998, and NOK 0.1 million for the year ended December 31, 1997. Interest expense primarily consists of interest paid on a NOK 3.0 million loan received by us in 1998 from the SND, and accrued contingent interest payable on a NOK 10.4 million contingent loan received by us in 1997 from the SND. See ''Liquidity and Capital Resources'' below for further information.

Income Taxes

Since inception, we have incurred operating losses and we have neither recorded a provision for income taxes nor recorded as a deferred tax asset our tax loss carry-forwards for any of the periods presented. As of December 31, 1999, our net operating loss carry-forwards for tax purposes were approximately NOK 57.7 million. If not utilised, the net operating loss carry-forwards will expire at various dates beginning in 2006 through 2009. See note 13 to our financial statements for further information.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily through private placements of common stock and research grants. As of March 31, 2000, we had raised aggregate net proceeds from the sale of common stock of NOK 141.6 million and received and earned aggregate research grants of NOK 17.7 million (including NOK 10.4 million which has been re-classified as a loan) and received aggregate relief of indebtedness of NOK 1.8 million. Cash, bank deposits and short-term investments were NOK 99.4 million at December 31, 1999, compared to NOK 52.8 million at December 31, 1998 and NOK 19.2 million at December 31, 1997. As of March 31, 2000, cash, bank deposits and short-term investments amounted to NOK 90.5 million compared with NOK 47.6 million at March 31, 1999. Net cash used for operating activities was NOK 31.2 million, NOK 12.7 million and NOK 11.6 million for the years ended December 31, 1999, 1998 and 1997, respectively, relating to increased operating expenses during each year resulting primarily from increased research and development activities (including pre-clinical studies and clinical trials). Net cash provided by financing activities was NOK 78.1 million, NOK 46.8 million and NOK 19.1 million for the years ended December 31, 1999, 1998 and 1997, respectively. These amounts primarily related to our sale of ordinary shares during each such year.

We have obtained two loans from the SND: NOK 3.0 million received by us in 1998 and NOK 10.4 million received over a period of three years beginning in 1997. The NOK 3.0 million loan is repayable beginning in 2001, with repayments to be made in two instalments each year (each instalment of NOK 0.3 million) over a five-year period, and bears interest at a floating rate. At March 31, 2000, the rate of interest was 8.9% per annum. The NOK 10.4 million loan is repayable solely from operating revenues received from our skin cancer and dermatological products prior to December 31, 2005. Payment is based on our cumulative operating revenues falling between NOK 50 million and NOK 250 million. The maximum amount (including interest) repayable to the SND is NOK 12.5 million; at December 31, 1999, the total liability (including accrued interest) for this loan totalled NOK 11.1 million.

If the price of our shares increases, we will incur significant social security tax liabilities relating to the exercise of employee stock options, which will become payable if and when options are exercised. At December 31, 1999, we had reserved, as a current liability, NOK 5.5 million for the payment of these social security taxes, which increased to NOK 10.4 million at March 31, 2000. Additionally, we are obligated to pay to the RF fees in the amount of NOK 1.1 million per year, through December 2002, and we will be required to pay a bonus to our President and Chief Executive Officer on January 1, 2004, which we have calculated to be

NOK 2.6 million as at December 31,1999 (the full amount of which we have reserved as an accrued liability).

We expect to continue to incur substantial operating losses for the next several years. Until we can generate sufficient cash from our operations, we expect to finance future cash needs through private and public equity financings. We may seek additional research grants from the SND or others. Our principal shareholders are not obligated to provide any future financing to us, in the form of loans, capital contributions or otherwise. We cannot be certain that additional funding will be available when needed or on favourable terms. If funding is not available, we may need to delay or curtail our development and marketing activities to a significant extent. Subject to certain conditions we have been granted a NOK 2.5 million research grant from the NFR in 2000.

Change of Accounting Principles

We have made certain changes in accounting principles to comply with the new Norwegian Accounting Act. We now recognise as a short-term liability the estimated accrued social security taxes relating to outstanding employee share options. This change, made with effect as of January 1, 1999, has resulted in a reduction in shareholders' equity of NOK 2.3 million, which was based on the estimated market value of our shares at December 31, 1998. We have re-classified the grant received by us from the SND in 1997 as a long-term liability; this has offset our shareholders' equity by the amount of NOK 9.6 million by January 1, 1999.

Currency Fluctuations

We incur a significant portion of our expenses, primarily to third parties for research and development activities (including clinical trials), in various currencies, while our cash and cash-equivalent assets are primarily denominated in Norwegian kroner. We therefore are subject to currency exchange risk. We are assessing whether we should take steps to reduce this risk, but to date we have not engaged in any significant hedging or other similar actions.

Description of Differences between Norwegian and U.S. GAAP

Our financial statements are prepared in accordance with Norwegian GAAP. The new Norwegian Accounting Act (the ''Act'') was implemented on January 1, 1999. Norwegian GAAP differs in certain areas from generally accepted accounting principles in the United States (U.S. GAAP). The Company has not prepared financial statements in accordance with U.S. GAAP and, accordingly, cannot offer any assurances that the differences described below would, in fact, be the accounting principles creating the greatest differences between financial statements of the Company prepared under U.S. GAAP and under Norwegian GAAP. In addition, we cannot estimate the net effect that applying U.S. GAAP would have on our results of operations or financial position, or any component thereof, in any of the presentations of financial information in the prospectus. However, the effect of such differences may be material, and in particular, it may be that the total shareholders' equity, prepared on the basis of U.S. GAAP would be materially different due to these differences. The following summary may not include all differences which exist between Norwegian GAAP and U.S. GAAP.

A brief description of Norwegian GAAP and U.S. GAAP, as of December 31, 1999 is set out below. The organisations that promulgate U.S. GAAP have ongoing projects that could have a significant impact on future comparisons. This description is not intended to be a comprehensive listing of all such accounting policies specifically related to the Company or the industry in which it operates. U.S. GAAP is generally more restrictive and comprehensive than Norwegian GAAP regarding the recognition and measurement of transactions, account classifications, and disclosure requirements. No attempt has been made to identify disclosure, presentation or classification differences that would affect the manner in which transactions and events are reflected in the financial statements or the notes thereto.

Accounting for stock options and warrants issued to employees and third parties

U.S. GAAP on accounting for the issue of stock options to employees and third parties is complex. Under APB Opinion 25 ''Accounting for Stock Issued to Employees'' (APB 25), the compensation cost is determined at the measurement date (the date on which both the number

of shares and the exercise price are known) based on the intrinsic value—the difference between the fair value of the share and exercise price—and amortised over the vesting period. Where there are no performance conditions attached to the exercise of the options, the measurement date usually occurs at the date of grant. This type of situation is considered a ''fixed plan''. If the exercise price is equal to the market price of the shares on the date of grant, then no compensation cost will be recognised. However, where performance conditions exist or if both the number of options and the exercise price are not known at the date of grant, then the plan is considered ''variable''. Estimates of the compensation cost must then be made for each accounting period prior to the measurement date using the intrinsic value of the option at each balance sheet date. Thus, if the share price increases, the compensation charge recorded in the income statement will also increase. Our options granted to employees are a variable plan.

APB 25 may be applied; however, pro forma information regarding net income and earnings per share is required by FASB Statement No. 123 ''Accounting for Stock-Based Compensation'' (SFAS 123), as if the Company had accounted for its employee stock options under the fair value method. The fair value method considers both the intrinsic value as well as ''time value'' of the option and takes into account the volatility of the stock price, the expected life of the option, the expected dividends, and the risk-free interest rate.

Where options are granted to third parties, the fair value of the options must be determined using an option pricing model, such as the Black Scholes model. Under U.S. GAAP, for grants to third parties, the measurement date occurs on the date at which a commitment for performance to earn the equity instruments is reached, and the commitment is probable, or on the date at which performance is complete.

The treatment of stock based compensation is not specifically regulated under Norwegian GAAP. The Oslo Stock Exchange has issued a separate statement requiring, in general, similar treatment to U.S. GAAP for employee stock based compensation and third party options. However, some plans considered variable under U.S. GAAP may be treated as fixed plans according to Norwegian GAAP.

Receivables

Under both U.S. GAAP and Norwegian GAAP, accounts receivable and other receivables are carried at face value less a provision for uncollectible accounts. Thus, receivables are presented at their estimated realisable value.

Investments in marketable equity securities and debt securities

U.S. GAAP requires such investments to be classified in one of three categories: ''trading'' securities which are valued at fair market value with unrealised gains or losses recorded through the income statement; ''available for sale'' securities which are carried at fair value with changes in unrealised gains and losses being credited or charged to a separate component of equity (other comprehensive income), or ''held to maturity'' securities which are carried at amortised cost. In determining fair value, securities are valued on an individual basis and may not be valued on a portfolio basis. A decline in fair value of individual securities classified as either available for sale or held to maturity, which is considered other than temporary, is included in earnings. The new fair value represents the new cost bases such that subsequent recoveries in fair value may not be recorded in the income statement. Dividends and other distributions are recognised as other income.

Norwegian GAAP (from January 1, 1999) is similar to U.S. GAAP, with the exception of unrealised gains and unrealised losses on available for sale securities. Unrealised gains are not recognised but unrealised losses are recorded through the income statement.

Fixed assets

Under U.S. GAAP, fixed assets are capitalised and depreciated over the asset's estimated useful life. Expenditures for maintenance and repair costs are expensed as incurred while expenditures for improvements that extend the useful life of the asset are capitalised and depreciated over the same period as the underlying asset. Revaluations of property, plant and equipment are not permitted. Norwegian GAAP is similar to U.S. GAAP.

Impairment of assets

Under U.S. GAAP, if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, an impairment review must be performed by comparing the undiscounted cash flows arising from use of the asset at its current carrying value. Where this indicates a deficit, the impairment is calculated based on fair value which, in the absence of a market price, is generally calculated using discounted cash flows. An impairment under U.S. GAAP establishes a new cost base. Consequently, it may not be reversed in subsequent periods if conditions change.

Norwegian GAAP is generally in accordance with U.S. GAAP, including the test for impairment using undiscounted cash flows. However, reversal of impairment losses is required in certain circumstances.

Deferred taxation

Under U.S. GAAP, all deferred tax assets and liabilities resulting from temporary timing differences in financial and tax reporting are recognised in full but are reduced by a valuation allowance for the portion of deferred tax assets that may be more likely than not of being realised. Deferred tax liabilities and assets are separated into a net current amount and a net non-current amount based on the classification of the respective related asset or liability for financial reporting purposes. Changes in tax laws and rates are only recognised when the change is enacted.

Norwegian GAAP is similar to U.S. GAAP with the exception that deferred tax assets are recognised when it is ''probable'' that a benefit can be realised.

Dividends payable

Under U.S. GAAP, cash and other non-stock dividends should be recorded as a direct reduction of retained earnings, unless the dividends are legally declared out of additional paid in capital. Dividends are reflected as a liability once they have been formally declared.

Under Norwegian GAAP, cash and other non-stock dividends are payable out of retained earnings. The amount of dividends is subject to approval by the shareholders at the annual shareholders meeting, following the close of the financial year. However, proposed dividends are accrued in the year in which they relate and recorded as a reduction of retained earnings and recorded as a liability.

Pensions

According to U.S. GAAP, pension costs and pension liabilities are calculated based on an assumed discount rate, rate of salary progression, benefit allowances, actuarial assumptions on mortality, early retirement, etc. Pension funds are marked to market value. Pension costs and fund earnings, and pension liability and fund assets, are presented net in the financial statements. An alteration in the liability due to either a change in pension plan benefits (a plan amendment) or actuarial gains and losses is typically recognised over the average remaining service period of active plan participants.

Norwegian GAAP is similar to U.S. GAAP with the exception that the effect of plan amendments, or an alteration in the liability due to a change in pension plan benefits, may be recognised over a shorter period than the average remaining service period of active plan. The effects of amendments may be recognised immediately. Actuarial gains and losses may be amortised over the average remaining service period, but may also be recognised over a shorter period.

Revenue Recognition

U.S. GAAP states that revenue should be measurable when each of the following four criteria have been met:

- Persuasive evidence of an arrangement exists,
- Delivery has occurred or services have been rendered,
- The seller's price to the buyer is fixed or determinable, and

• Collectibility is reasonably assured.

Norwegian GAAP is similar but far less prescriptive than U.S. GAAP.

Subsidies or cash contributions from the government

We have received a government grant to fund certain research and development activities. In the event that a saleable product results from such activities, the government is entitled to receive certain royalties from sales of the product. If the activities are not successful, no repayment of such grants will occur.

Under U.S. GAAP, such subsidies from the government would be reflected as reductions of the related research and development expenses when such expenses are incurred. If revenues are generated from future sales of a product, the expense and a corresponding liability for the royalties would be recognised as such sales occur. Subsidies that have no performance conditions are recognised in the profit and loss based on performance.

According to Norwegian GAAP, subsidies or cash contributions received from the government are booked at fair value on the transaction date. These contributions are recognised as income in the same period as the corresponding costs are charged to expense and are classified as a reduction of expense in the income statement.

Subsidies or cash contributions received from the government that are subject to a conditional repayment clause are recognised as a liability and prospective repayments are recognised as instalments in the balance sheet.

Research and development costs

Under U.S. GAAP, internally generated research and development costs are charged to expense in the period in which they are incurred. However, the cost of an externally purchased intangible asset should be capitalised and amortised over its estimated useful life, not to exceed 40 years.

Under Norwegian GAAP, it is permissible to expense all internally generated research and development costs. Such costs, subject to certain criteria, can also be capitalised. Research and development purchased from external sources must be capitalised.

Costs associated with the development of new products or services, production processes, etc. are normally expensed as incurred.

Capital leases

U.S. GAAP requires the capitalisation of leases in which substantially all the risks and rewards of ownership are transferred to the lessee. A lease is capitalised if it meets any one of the four criteria of FASB Statement No. 13 ''Accounting for Leases'' (''SFAS 13'').

Accounting principles are similar, but less restrictive under Norwegian GAAP.

BUSINESS

Overview

We are a development stage pharmaceutical company engaged in the research and development of novel therapeutics and diagnostics and related medical devices based on our proprietary photodynamic therapy (PDT) technologies. We are currently developing a range of treatments for cancer and other diseases based on PDT. PDT is a two step process involving the application of a drug known as a photosensitiser followed by controlled exposure to a selective light source which activates the drug.

We were founded in 1993 with the aim to commercialise technologies developed by the Norwegian Radium Hospital (NRH), which is the largest comprehensive cancer centre in northern Europe. Since our incorporation, we have filed seven patent applications of which two are granted in major markets. In conjunction with the NRH and other collaborative partners, we are engaged in the research and development of various products, including Metvix®, Hexvix™ and Benzvix™.

Our PDT platform technologies

We have three core PDT platform technologies:

ALA-derivatives: This technology is primarily based on the development of esters and other derivatives of ALA. These compounds are selective and accumulate in cancer and other rapidly proliferating cells. Once inside the cell, the esters or derivatives convert to photosensitisers. When the photosensitiser is illuminated by light of a specific wavelength, it produces singlet oxygen, which is toxic to cells and destroys the host cell.

We are currently developing three principal products based on ALA-esters. The most advanced of these is Metvix®. Metvix® is a treatment for a form of skin cancer known as basal cell carcinoma, or BCC, and pre-cancerous skin lesions known as actinic keratosis, or AK. BCC and AK are increasingly common conditions resulting from excessive exposure of skin to sunlight, with particularly high incidence rates in the United States, Europe and Australia. We are also developing Hexvix™ for the diagnosis and treatment of internal cancers with an initial focus on bladder cancer, and Benzvix™ with an initial focus on early stage cancers in the gastrointestinal tract, particularly esophageal cancer and various pre-cancerous lesions. See ''Development Programmes''.

Photochemical synergism (PCS): We are developing a unique proprietary technology known as PCS. PCS improves the efficacy of photodynamic therapies by combining in the same drug subtherapeutic doses of systemically administered sensitisers which exhibit different characteristics. The combination of two sensitisers appears to enhance the therapeutic effect while potentially avoiding the side effects associated with therapeutic dose levels of a single sensitiser. Our pre-clinical trials conducted to date have demonstrated that certain combinations of sensitisers significantly improves tumour treatment in animal models. Based on pre-clinical and clinical experience, we believe that this technology has considerable potential for treatment for internal cancers.

Photochemical internalisation (PCI): PCI is our unique proprietary technology which allows the transfer of large, water soluble molecules into the cytosol of human cells by the use of a photosensitiser that is subsequently activated by light. This technology has potential to significantly enhance (more than 100 fold) the delivery and efficacy of therapeutic treatments. The therapeutic usefulness of macromolecules, such as in gene therapy, is often limited by an inefficient transfer of large molecules to the cytosol of a cell and a lack of tissue-specific targeting. In pre-clinical trials, our novel PCI technology has efficiently delivered large water-soluble molecules into targeted cells, indicating that PCI may have a variety of useful applications for site specific drug delivery. These include light enhanced chemotherapy, gene therapy and cancer vaccines.

Cancer: The disease and its treatments

Cancer afflicts millions of people worldwide and is currently the second leading cause of death in the western world. In the U.S. alone, over 500,000 people are expected to die of cancer in 2000, according to estimates from the American Cancer Society. The high death rate from cancer is thought to be related to two major reasons. Cancer is usually not detected before an advanced disease stage has occurred and current therapy is in most cases not curative. There is therefore a strong need to develop both a diagnostic procedure that can identify pre-malignant and malignant diseases at an early stage and new treatment modalities that can treat the disease at an early stage without reducing the patient's quality of life. Cancer is a family of over one hundred diseases that can be categorised into two broad categories; hematologic or blood borne cancers, such as lymphomas and leukaemia, and solid tumour cancers, such as skin, lung, prostate, breast and colon cancer.

There is a range of treatments commonly used to treat cancer. However, many of these have significant disadvantages.

Surgery

Surgery is often used to remove solid tumours that are accessible to the surgeon and represents the most important therapy for providing a complete cure for cancer. Surgical procedures can be effective if the tumour has not spread through the body or metastasised. However, surgery typically involves a period of hospitalisation and may cause severe discomfort and varying degrees of disfigurement to patients. Furthermore, it is often impossible to perform surgery where the tumour is in an inaccessible location, or where the tumour has metastasised.

Radiation

Radiation therapy is often used to irradiate a solid tumour and surrounding tissues, especially when a tumour is inoperable. Radiation therapy is also often used in conjunction with surgery, either to reduce the tumour mass before surgery or to destroy tumour cells that may remain at the tumour site after surgery. However, radiation therapy cannot ensure that all tumour cells will be destroyed and has only limited effectiveness against widespread metastases. In addition, radiation damages surrounding cells which may result in a range of side effects.

Chemotherapy

Chemotherapy is the primary treatment for blood-borne cancers, and involves the intravenous administration of drugs designed to destroy malignant cells. These drugs typically work by interfering with cell division and are therefore more toxic to rapidly dividing cancer cells than healthy human tissue. Chemotherapy drugs are usually used in combination to achieve the maximum impact on the cancerous cells. While surgery and radiation therapy are the primary treatments for solid tumours, chemotherapy is often used as an adjunctive therapy or as a first line therapy where cancers are inoperable or in metastatic cancers. Although chemotherapy has proved to be highly effective against some cancers, such as leukemia and lymphomas, the treatment has a number of major drawbacks. Cancer cells may rapidly develop resistance to chemotherapy drugs. Chemotherapy may also cause damage to healthy human cells, especially those which divide rapidly. This causes a range of side effects including hair loss, nausea, vomiting and anaemia, and suppresses the body's immune system.

Photodynamic Technology Overview

Photodynamic therapy, or PDT, is a minimally invasive medical treatment employing light-activated drugs known as photosensitisers. PDT is essentially a two-step process, involving the application of the drug followed by the exposure of the affected tissue to a controlled light source to activate the drug. PDT drugs may cause a therapeutic effect through several mechanisms, and may be administered systemically or topically.

Many PDT treatments currently under development are based on photosensitisers which accumulate more quickly and in higher concentrations in rapidly proliferating cells than in normal

cells. This makes PDT especially suitable for the treatment of cancers. In the absence of light, photosensitisers have little apparent toxic effect. However, the drug becomes activated once light of a specific wavelength is applied to the target tissue, causing the production of a highly reactive form of oxygen, known as singlet oxygen, that destroys the cells by disrupting normal cellular functions. This form of oxygen is produced only during exposure to light and lasts for a fraction of a second. Since the photosensitiser and the light have no effect unless combined, photodynamic therapy is a highly selective treatment, with relatively minimal damage to surrounding tissue. This unique combination of light and light active substances may result in a therapeutic effect for other reasons. For example, this combination can be used to enhance the delivery of other therapeutic compounds. Certain PDT products currently under development are oncology products and may be used either as a first line therapy or in conjunction with other treatments such as surgery, chemotherapy and radiation therapy.

Photosensitisers may also be used for the diagnosis of diseases, a process known as photodynamic diagnosis, or PDD. Certain photosensitisers cause the cells in which they have accumulated to fluoresce. When ultraviolet or blue light is directed on the tissue containing the photosensitiser, the photosensitiser glows with a reddish light, resulting in the appearance of a patch of red on a background of violet or blue. The emitted fluorescent light delineates the diseased tissue, which may be detected visually or by using instruments designed to measure the light. This is potentially of particular significance for the detection of early stage cancers or recurrent cancers which might otherwise not be detectable with standard diagnostic procedures. These cancers can then be treated using either conventional treatment or PDT.

The therapeutic effect of PDT is dependent upon using light of appropriate wavelength. Light sources may be lasers or non-laser lights. Typically, laser based light sources are used to treat internal cancers, but are relatively complex and expensive. Some developers of PDT have pioneered non-laser light sources. These are principally used for the treatment of skin cancers and other dermatological disorders.

The longer the wavelength of visible light, the deeper into tissue it penetrates. For example, red light penetrates deeper than blue light. Different wavelengths, or colours, of light including red and blue light may be used to activate photosensitisers. The selection of the appropriate colour of light for a given indication is primarily based on two criteria, the desired depth of penetration of the light into the target tissue and the efficiency of the light in activating the photosensitiser. Different photosensitisers do not absorb all colours of visible light in the same manner. For any given photosensitiser, some wavelengths are more strongly absorbed than others.

Another consideration in selecting a light source is the location of the target tissue. Lesions on the skin surface which are easily accessible can generally be treated with a non-laser light source. Internal indications, which are often more difficult to access, may require a laser in order to focus the light into a small fibre optic system which may be passed through an endoscope.

Traditionally, a number of side effects have been associated with PDT. The skin of patients treated with PDT may become highly sensitive to direct sunlight. This may require the patient to avoid direct sunlight for a period of time. The period of skin photosensitivity varies between photosensitisers and is also related to the dose given.

Since the late 1980s, a number of companies have sought to develop PDT or PDD products. We are aware of three PDT products which have received regulatory approval.

PhotoCure Strategy

Our mission is to develop and market novel therapeutic and diagnostic products and related medical devices based on our proprietary PDT technologies. The key elements of our strategy are:

Continue to develop, and obtain marketing approval for our products in all major markets: We will continue to conduct the pre-clinical and clinical trials necessary to establish the efficacy and safety of our products. Metvix® is our most advanced development stage product. In

March 2000, we announced positive initial results from our European Phase III clinical trials for AK and we filed our first MAA for this indication on May 2, 2000. In April 2000, we announced positive initial results from our pivotal Phase II trial for Metvix® for high risk BCC in Europe. We expect to file the first MAA for this indication during the first quarter of 2001. We currently plan to announce the initial Phase III results for primary BCC during the second half of 2000 and to file the first MAA for this indication twelve months later. In addition, we are conducting pre-clinical studies and planning clinical trials for Hexvix™ for the diagnosis and treatment of bladder cancer and are conducting pre-clinical studies for Benzvix™ for the treatment of pre-cancerous lesions and early stage cancer in the gastrointestinal tract, particularly esophageal cancer and dysplasias in Barrett's esophagus.

Leverage our broad platform technologies to develop and commercialise new pharmaceutical products: We will continue to exploit our proprietary PDT technologies to discover and develop new therapeutic and diagnostic products. We are evaluating ALA derivatives for new dermatological indications including psoriasis, warts and acne. In addition, we will seek to develop new products based on our PCS and PCI technologies. We may develop these products on our own or in partnership with other pharmaceutical companies.

Maintain focus on oncology market: While our PDT platform technologies are applicable to a range of indications including various dermatological conditions, we intend to maintain our primary focus on new products for the diagnosis and treatment of cancers. Cancer is the second largest cause of death in the western world. We believe that our platform technologies will enable us to develop therapeutic and diagnostic products which offer considerable advantages over many existing approaches.

Establish sales and marketing partnerships and infrastructure to promote our products: We plan to market our products through alliances with pharmaceutical companies in most markets, while in the Nordic region we intend to establish our own sales and marketing organisation. We believe our own sales force is viable in our target markets, because a relatively small number of specialists prescribe large volumes of drugs. We believe that direct sales operations will help us to deliver solutions optimised to the requirement of physicians and to allow us to retain greater value from our sales.

Maintain and strengthen development collaborations with leading academic institutions: PhotoCure was founded to commercialise technology developed by the NRH. We continue to work closely with the NRH and have formed research collaborations with the Imperial College of Science, Technology and Medicine, and the University of Leeds, both in the UK, with a PDT research group at the Swiss Federal Institute of Lausanne and at the Municipal University Hospital in Lausanne, Switzerland and with the Drug Discovery Laboratory in Norway. Additionally, we continue to conduct clinical trials in close cooperation with a number of leading clinical institutions. We intend to maintain and build upon these relationships and to partner with other centres of basic and clinical excellence.

Development Programmes

We are currently developing three products, Metvix®, Hexvix™ and Benzvix™, which are all based on ALA esters. These products address the treatment and diagnosis of cancers. The most advanced product is Metvix®.


PRE-CLINICAL
CLINICAL EXPLORATIVE
PHASE I
PHASE II
PHASE III
DEVELOPMENT PROGRAMMES
Metvix
High risk BCC
Pivotal
Primary BCC
AK (EU)
AK (US/AUS)
Immuno-compromised patients(1)
SCC in situ
PDD of BCC
Wound healing
Hexvix
Bladder cancer (PDD/PDT)
Gynaecology (PDD/PDT)
Benzvix
Gastrointestinal tract (PDD/PDT)
RESEARCH PROGRAMMES
ALA-derivatives
Psoriasis
Acne
Warts
Photochemical synergism
Photochemical internalisation
Light enhanced chemotherapy
Gene therapy
Cancer vaccine
(1)Skin dysplasia (BCC,SCC in situ, AK and warts) in immuno-compromised patients
Completed
Ongoing

Metvix®

Indication overview—Skin cancers and dermatological disorders

Skin cancers are the most common forms of cancer among fair skinned people. The frequency of skin cancer has been increasing around the world at 4-5% a year. The incidence of skin cancer is much higher among fair skinned populations, and is closely related to exposure to sunlight. Australia has the highest occurrence of skin cancers although the disease is also common in the United States and western Europe. More vacationing in sunny areas, more outdoor activities and a thinning of the ozone layer may all contribute to the increase in skin cancers.

There are two main types of skin cancer: cancer in moles (malignant melanoma) and the non-melanoma group (basal cell carcinoma and squamous cell carcinoma).

Basal cell carcinoma, or BCC, accounts for approximately 80% of non-melanoma skin cancers. There are over 1.7 million cases of BCC each year in Europe, the U.S. and Australia, and the incidence of the disease has grown at 5% per annum during the past decades. BCC is a locally invasive, slowly spreading tumour arising from the basal cell layer of epidermis. The overall metastasis rate is low, but if the tumour is not initially adequately treated, it becomes more difficult to manage and may become impossible to cure without major disadvantage for the patients. Furthermore, the location of BCC has significant influence on its behaviour. High risk BCC, as compared to primary BCC, is BCC which is difficult to treat due to the location, size or previous treatment of the lesions. The lesions that occur in the centre of the face tend to be more invasive and destructive, with greater risk of recurrence, and are more difficult to treat effectively. BCC on the nose is considered to be the location with highest risk and the most common location of recurrence. Patients with a primary BCC have a 47% chance of developing a second primary lesion within 3.5 years indicating the need for frequent skin scrutiny in these patients.

Actinic keratosis, or AK, is a pre-malignant skin disorder also associated with the exposure of skin to sunlight and is very frequent in the white population. In Australia, approximately 40% of the population older than 40 years has one or more lesions of AK, and it is estimated that there are over 15 million cases of AK world wide each year. AK is restricted to the sunlight-exposed areas of the skin, typically the face, scalp and back of the hands.

Besides the negative cosmetic effects of the lesion, AK may progress to squamous cell carcinoma, or SCC. SCC is a malignant skin tumour that usually develops in sun damaged skin. SCC and BCC are both non-melanoma skin cancers, however, SCC arises from the keratinocytes of the epidermis and is characterised by the invasion of malignant keratinocytes into the dermis with a metastatic potential. The most common sites for SCC are those most exposed to sun, such as the backs of the hands and forearms, upper part of the face, and lips. Although the transformation rate to SCC is low, it is difficult to predict if lesions will progress to SCC. Consequently, physicians usually recommend the removal of AK lesions.

SCC in situ, also known as Bowen's disease, is a form of intraepidermal SCC, usually persistent and progressive but with only limited potential for invasive malignancy. It is therefore considered as a precancerous condition. Clinically, these lesions often appear as enlarged, well demarcated, and erythamtous plaques with an irregular border and surface crusting/scaling. SCC in situ has many features that make it attractive for Metvix® PDT.

Market opportunity

A range of treatments may be applied to BCC and AK. The six most common treatment modalities for BCC are surgical excision, Moh's surgery, radiation, cryotherapy, curettage, electro-surgery or a combination of these. These treatments are all relatively effective for the majority of patients. However, these treatments may be expensive, time consuming or result in a significant reduction in a patient's quality of life, for example through disfiguration.

Surgery is the most common form of treatment for BCC, and involves the surgical removal of the lesion. On a single lesion, the treatment is a simple and cost effective procedure.

In certain circumstances, the treatment is less effective, notably where the patient has multiple lesions or the lesions are in an area close to cartilage such as the nose. Surgery may also cause scarring or disfiguration resulting in a poor cosmetic outcome.

Moh's surgery is a more sophisticated, highly effective surgical procedure with low recurrence rates if performed properly. However, the treatment is time consuming, costly and has to be performed by a skilled specialist dermatological surgeon. The treatment is only used selectively which may partially account for the high cure rate.

Radiation therapy is sometimes used to destroy cancerous lesions. The major drawback with radiation therapy is the time and expense involved with the process. A typical course of radiation therapy may involve fourteen to twenty treatment sessions, which take seven to ten days, and can be performed only at highly specialised institutions. In addition, the treatment exposes healthy tissue to potential damage from radiation. Radiation therapy is usually restricted to lesions which are difficult to treat.

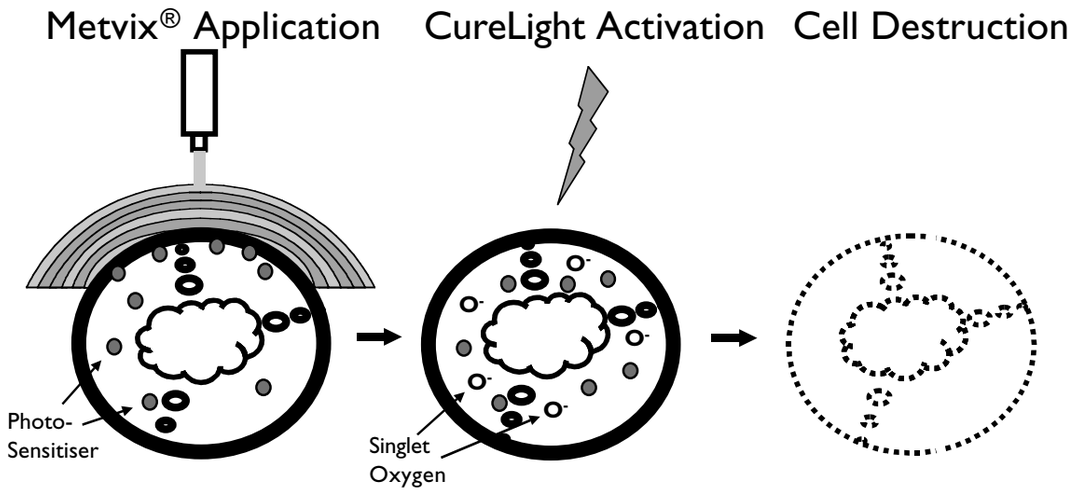
Cryotherapy involves the destruction of lesions through freezing. The procedure is inexpensive and effective for single shallow lesions but is often inadequate for deeper or multiple lesions. Cryotherapy may also result in a poor cosmetic outcome, and the patient often experiences discomfort during the procedure. The treatment is often combined with curettage for the treatment of deeper lesions.

Curettage is a surgical procedure where the lesion is scraped away. While inexpensive and effective for single shallow lesions, the procedure may be painful for the patient and often has a poor cosmetic outcome. Curettage is often combined with a specific form of surgery known as *electro-surgery* and cryotherapy.

The most frequently used treatments for AK are *cryotherapy* and *topical chemotherapy*. Topical chemotherapy involves the application of 5-FU cream for several weeks. The treatment causes considerable discomfort, scaling, erosions, and crusting which typically last for two to three weeks after the conclusion of the treatment. Topical chemotherapy is usually used for widespread facial AK and may be used in combination with other treatments.

Product description

Metvix® is our most advanced pharmaceutical product. We are initially developing Metvix® for the topical treatment of high risk BCC, primary BCC and AK. Other potential indications for Metvix® include the topical treatment of SCC in situ (Bowen's disease), for PDD of BCC, wound healing and treatment of skin dysplasia in immuno-compromised patients.



Metvix® PDT process

Metvix® is a cream which is applied topically after the removal of scales and crusts from the lesion. Following application, the cream is left to stand for a certain time period, normally three hours, to allow the active ingredient to be absorbed into the target cells. The active ingredient in Metvix® is an ALA ester, which is converted into a photosensitiser, inside the cancerous cell. The photosensitiser accumulates selectively in these cells. Once the three hour period has elapsed, the area of skin selected for treatment is illuminated by red light for approximately ten minutes. The red light excites the photosensitiser, producing cytotoxic singlet oxygen, which destroys the cell.

Curelight, our proprietary light source, produces an adjustable area of red light. The key characteristic of red light is its ability to effectively penetrate through human tissue, improving the ability of the treatment to address thicker lesions.

Product advantages

We believe that the key advantages of Metvix® include the following:

Highly effective: Metvix® has been subject to extensive clinical trials, and to date Metvix® has been used to treat approximately 2,000 patients (representing approximately 10,000 lesions). We believe that Metvix® is as effective as the commonly-used treatments for BCC and AK. In clinical trials for BCC, approximately 90% of lesions were completely destroyed. One of the main reasons for the efficacy of the treatment is that Metvix® is able to penetrate lesions. This, combined with the penetrative characteristics of red light, ensures that the photosensitiser is activated, destroying the target cells. The drug is able to penetrate sufficiently into the tumour in three hours of exposure to ensure a high probability of a complete response. Deep and more difficult to treat lesions may, however, require one or more additional treatments.

Superior cosmetic outcome: Approximately 85% of BCC and AK lesions are present on the face and scalp, where cosmetic outcome is important. Clinical trials have shown that Metvix® demonstrates high selectivity. The drug is absorbed into the target cells more readily than normal healthy tissue. Therefore, the treatment causes the destruction of these cells with minimal damage to surrounding healthy tissue. In recent clinical trials for BCC and AK, clinical investigators and patients reported a good or excellent cosmetic outcome in more than 90% of cases, and in a comparative Phase III study for AK, the cosmetic outcome with Metvix® PDT was superior to cryotherapy.

Limited side effects: The selectivity of Metvix® helps to ensure low patient pain levels and limited side effects. Throughout our trials for BCC and AK, over 99% of patients have been able to complete treatment programmes without having to withdraw due to treatment related side effects. In addition, 74% of patients prefer Metvix® instead of alternative treatments which they have tried previously.

Ability to repeat procedure: Metvix® treatments can be applied repeatedly on targeted tissues, without compromising the effectiveness of this treatment or the cosmetic outcome. This makes Metvix® especially effective for the treatment of deep and hard to treat BCC tumours which typically require multiple applications to destroy all cancerous cells. In addition, the use of Metvix® does not limit the subsequent use of alternative treatments.

Simple and cost effective procedure: The application of Metvix® cream and the use of the Curelight device are relatively simple procedures and can be performed on an outpatient basis. Treatment times are short; normally the cream is applied for only three hours or less. The simplicity and short treatment time of the procedure can result in significantly lower costs than many established treatments, especially for multiple or deep lesions. We believe that practitioners and payors of treatment expenses will be attracted to the simple and less costly Metvix® procedure.

Low systemic uptake: Our trials show that Metvix® has no known systemic adverse reactions. The high selectivity of Metvix® means that only minor quantities of the drug are absorbed into healthy human tissue. In addition, Metvix® is applied topically, not systemically, so it can be selectively administered to targeted tissues. The three hour exposure time for Metvix® is very short, which reduces the chance of the systemic uptake of the drug. Therefore, there is no need for patients to stay out of normal light following treatment. During clinical trials of Metvix®, there were no reports of adverse effects due to systemic uptake of the drug.

Clinical Results

To date, Metvix® has been used on approximately 2,000 patients during the course of clinical trials, including our compassionate use protocol. Metvix® is currently in pivotal Phase II trials for the treatment of high risk BCC, and Phase III clinical trials for primary BCC and AK. We announced positive initial results after three month follow-up for high risk BCC in April 2000. We expect to announce three month follow-up data for primary BCC in Phase III trials during the second half of 2000. Phase III trials for primary AK were initiated in the second quarter of 1999, and positive results were reported in March 2000. We filed our first MAA in Europe on May 2, 2000. Approximately 55 clinical centres worldwide have been or are participating in Metvix® clinical trials.

The following table summarises all clinical trials of Metvix®, either completed or underway to date:

Study	Title	Phase	Indication	Description / status
BCC trials				
PCT101	Open study of Metvix® 160 mg/g cream in patients with nodular BCC	I/II	Nodular BCC	■ Pharmacokinetics of Metvix® in nodular BCC including penetration depth ■ Comparison of dosing levels and application periods ■ Study completed
PCT003	Retrospective follow-up of patients with BCC after treatment with Metvix®	NA	BCC	■ Long-term recurrence rate ■ Retrospective follow up of patients with BCC in complete response following Metvix® treatment ■ Study completed
PCT203	Open study of Metvix® 160 mg/g in patients with primary BCC	II	BCC	■ Patient response, lesion response, cosmetic outcome and safety ■ Comparison of application periods ■ Three-month follow up results reported; thirty-six month follow up ongoing
PCT205	Study of PDT with Metvix® for lesions unsuitable to traditional therapy (high risk BCC)	II	High risk BCC	■ Pivotal study ■ Patient response, lesion response, 12 month recurrence, cosmetic outcome and safety ■ Independent review board for response evaluation ■ Three-month follow up results reported; twelve-month follow up ongoing
PCT303	Multicentre, randomised study of PDT with Metvix® 160 mg/g in comparison with surgical excision	III	Primary nodular BCC	■ Patient response, lesion response, two year recurrence, cosmetic outcome and safety ■ Comparison with surgical excision ■ Trial ongoing
PCT304	Multicentre, randomised study of PDT with Metvix® 160 mg/g in comparison with cryosurgery	III	Primary superficial BCC	■ Patient response, lesion response, two year recurrence, cosmetic outcome and safety ■ Comparison with cryosurgery ■ Trial ongoing
AK trials				
PCT 202	Open study of Metvix® 80/160 mg/g cream in patients with primary AK	I/II	AK	■ Lesion response, cosmetic outcome and safety ■ Comparison of different dosing levels and application periods ■ Three-month follow up results reported; twelve-month follow up ongoing

Study	Title	Phase	Indication	Description / status
AK trials (continued)				
PCT204	Study of Metvix® and 5-FU in patients with multiple, symmetrical AK	II	AK—multiple/ widespread	■ Lesion response, cosmetic outcome and safety ■ Intra-individual comparison of 5-FU and PDT with Metvix® ■ Trial ongoing
PCT301	Multicentre, randomised, study of PDT with Metvix® 160 mg/g cream in comparison with cryotherapy in patients with AK	III	AK	■ Patient response, lesion response, cosmetic outcome and safety ■ Comparison to cryosurgery ■ Study completed
PCT302	Multicentre, double blind study of PDT with Metvix® 160 mg/g or placebo cream	III	AK	■ Patient response, lesion response, cosmetic outcome and safety ■ Comparison to placebo ■ Study completed
PCT305	Multicentre, randomised study of PDT with Metvix® 160 mg/g cream in comparison with cryotherapy and PDT with placebo cream in patients with actinic keratosis	III	AK	■ Patient response, lesion response, cosmetic outcome and safety ■ Comparison with placebo and cryotherapy ■ Patient inclusion ongoing
Other trials				
PCT001	Compassionate clinical use of topical Metvix® in non-melanoma skin cancer	NA	Non-melanoma skin cancers	■ Retrospective study covering compassionate use of Metvix®. Presently more than 1,100 subjects are included. Report based on approximately 1,000 patients with 714 lesions treated ■ Trial ongoing
PCT206	Pharmacokinetics study of photosensitiser formation in patients with AK and BCC after application of Metvix®	I/II	BCC and AK	■ Pharmacokinetics of photosensitiser formation in BCC and AK ■ Comparison of placebo (in AK only) and different dosing levels ■ Study completed
PCT208	PDT with Metvix® compared to placebo in Immuno-compromised organ transplant patients with cutaneous dysplasia	II	Immuno-comprised patients (BCC, AK, warts)	■ Occurrence of new lesions in treatment area, lesion response, cosmetic outcome and safety ■ Intra-individual comparison to placebo ■ Trial ongoing
PCT209	PDT with Metvix® compared to placebo in Immuno-compromised organ transplant patients with skin dysplasia	II	Immuno-compromised organ transplant patients (BCC)	■ Lesion response, cosmetic outcome and safety ■ Intra-individual comparison to placebo ■ Trial ongoing

Key trials include the following:

Trials for BCC

PCT 205 is a pivotal Phase II study for the treatment of high risk BCC. The trial was designed to study lesion response, cosmetic outcome and safety with a twelve month follow up. In April 2000, we reported positive initial results after three month follow-up data. At three-month follow-up, Metvix® PDT showed a high cure rate and completely removed 89% of the lesions treated. We intend to file an MAA based on this trial after a twelve month follow-up period has been completed.

PCT 303 is a multicentre, Phase III randomised open study of PDT with Metvix® in comparison with simple excision surgery for patients with primary nodular BCC. The study covers approximately 110 patients at 12 sites in the EU. Patient inclusion is ongoing. We expect to report three month follow up data in 2000. Twelve month follow up will be completed in 2001.

PCT 304 is a multicentre, Phase III randomised open study of PDT with Metvix® in comparison with cryosurgery for patients with primary superficial BCC. The study covers approximately 110 patients at twelve sites in the EU. Patient inclusion has now been completed. We expect to report three month follow up data in 2000. Twelve month follow up data will be completed in 2001.

A U.S. IND application in BCC has been obtained. To fulfil the regulatory requirements for BCC in the U.S., based on our discussions with the FDA, we believe that additional clinical studies in the U.S. will be required.

Trials for AK

PCT 301 is a multicentre, Phase III randomised open study of PDT with Metvix® in comparison with cryosurgery for patients with AK. The study covers approximately 200 patients at 14 sites throughout the EU. The trial demonstrated that Metvix® gave similar results to cryotherapy in terms of removing lesions, but gave a superior cosmetic outcome, judged by both the doctors and the patients. The trial was reported in March 2000.

PCT 302 is a multicentre, Phase III randomised double-blind study of PDT with Metvix® in comparison with a placebo for patients with AK. The study covers approximately 40 patients at four sites in Norway and Denmark. The trial was reported in March 2000. The trial demonstrated that Metvix® was efficacious in removing lesions, with good/excellent cosmetic outcome.

Based on our clinical studies on AK to date, we filed our first MAA in Europe on May 2, 2000. We anticipate that additional clinical studies will be required for approval of AK in the United States and we currently are enrolling patients for PCT 305 for AK in Australia. In the U.S. we have obtained our IND for AK and are preparing a Phase III study for this indication.

Other Potential Applications

We expect to commence Phase I/II clinical trials for Metvix® as a treatment for SCC in situ (Bowen's disease), for PDD of BCC and for wound healing. In addition, skin dysplasia in immuno-compromised patients is currently a treatment challenge in dermatology. We believe that Metvix® could be an effective treatment for these patients, and we are exploring this treatment in two clinical studies.

Hexvix™

Indication overview—bladder and gynecological cancers

The initial focus of our Hexvix™ development programme is on the diagnosis and treatment of bladder cancer. Bladder cancer is a significant medical problem with approximately 50,000 cases reported annually in the U.S. and 65,000 cases in Europe. When first diagnosed, 70-80% of patients have superficial tumours. Following treatment, more than 70% of these patients will have one or more recurrences after the initial therapy, and in over 30% of cases, tumour progression occurs. The high recurrence rates in bladder cancer are generally believed to be the result of lesions which are overlooked during the initial diagnosis and treatment. Hexvix™ is also being evaluated for a number of other cancers including cervical and vulvae cancers.

Market opportunity

Bladder cancer is currently diagnosed by a combination of cystoscopic examination, biopsies and urine cytology. It is estimated that approximately 1.2 million cystoscopic procedures in the United States and approximately 1.5 million cystoscopic procedures in Europe are performed for bladder cancer each year. The cytological examination of urine and bladder washings permits the detection of tumours with a high degree of malignancy. However, tumours with a lower degree of malignancy are far harder to detect resulting in false negatives of up to 80% for urine cytology. As a result, cystoscopic examination, with biopsy, is the primary method for diagnosing earlier stage tumours. This procedure involves the insertion of a cystoscope into the patient's bladder in order to enable the surgeon to visually examine the bladder walls for any

signs of tumours. Early stage tumours are particularly difficult to identify using this method which relies to a large extent on the intuition of an experienced surgeon.

Current treatments for bladder cancer are transurrethal resection (TUR), cystectomy and drug therapy. TUR involves the minimally invasive removal of tumours. Due to the high recurrence rate, TUR is normally combined with drug therapy. Current pharmacological treatments are cytostatics and OncoTICE, a recently developed immunotherapy. However, this treatment involves considerable discomfort for the patient and has to be repeated weekly for six weeks, and thereafter monthly for a period of time.

Product description

We are initially developing Hexvix™ for the diagnosis and treatment of bladder cancer. The diagnostic procedure involves the filling of the patient's bladder with a Hexvix™ solution. This is left to stand for a period of time before the bladder is emptied, and after a further period the patient is examined. During this period the photosensitiser accumulates in the cancerous cells. The bladder is illuminated with a blue light causing red fluorescence which is clearly visible, thereby identifying cancerous tumours. Preliminary trials indicate that this method has a sensitivity of approximately 90%, as compared with sensitivity of approximately 70% for existing methods.

Following the initial diagnostic procedure, the surgeon then inserts proper light into the bladder to energise the photosensitiser and form cytotoxic singlet oxygen which destroys the cancerous cells. Suitable light sources are commercially available. Alternatively, the surgeon may perform a conventional surgical procedure (TUR), using the fluorescence as a guide to the location of the cancer.

We believe that Hexvix™ has significant advantages over existing diagnostic procedures for bladder cancer. Exploratory research suggests that Hexvix™ will allow early stage bladder cancers to be diagnosed with more accuracy, ensuring that tumours are identified and treated at an earlier stage, which may significantly improve clinical outcomes and result in lower recurrence rates. In addition, we believe that Hexvix™ will prove a more effective and less invasive treatment for bladder cancer than existing procedures.

We are aware of two other companies which are currently conducting trials using ALA as a diagnostic agent for bladder cancer. We believe that Hexvix™ has considerable advantages over ALA. Hexvix™ is effective at lower concentrations than ALA. We also believe that the diagnostic dose will be sufficient for therapy. Early trials also indicate that Hexvix™ demonstrates better selectivity and tissue distribution than ALA, which results in more accurate diagnosis.

Hexvix™ is currently being evaluated for the diagnosis and treatment of other internal cancers and pre-cancerous diseases which can be reached with a light device. These conditions include cervical cancer, vulvae cancer and other gynecological disorders.

Clinical results

We have entered into a collaborative agreement with a PDT research group at the Swiss Federal Institute of Lausanne and at the Municipal University Hospital in Lausanne, which has conducted exploratory clinical research for the Hexvix™ active ingredient in the diagnosis of bladder cancer in humans. To date exploratory clinical research on approximately 100 patients has been performed. We have completed pre-clinical toxicology studies and we expect to commence Phase I/II trials during 2000.

Benzvix™

Indication overview—gastrointestinal cancers and pre-cancerous lesions

Benzvix™ is in the early stages of development for diagnosis and treatment for early cancers in the gastrointestinal tract, particularly esophageal cancer and various pre-cancerous lesions including Barrett's esophagus. There are approximately 20,000 cases of esophageal cancer diagnosed in Europe each year and 11,000 in the U.S. In certain regions the cancer is

significantly more common. For example, in parts of China and India esophageal cancer can be up to 200 times more common than in Europe. It is estimated that there are approximately 500,000 cases of pre-malignant lesions in the oral cavity, pharynx and esophagus diagnosed in Europe each year. In addition to causing discomfort, these lesions often develop into cancerous tumours, which necessitates their removal. We believe there are approximately six million diagnostic procedures annually in Europe and in the U.S. for pre-cancerous changes in the esophagus.

Market opportunity

Cancers and pre-cancerous lesions of the gastrointestinal tract are typically diagnosed by a combination of endoscopic examination and biopsies. This procedure involves the insertion of an endoscope into the patient's gastrointestinal tract in order to enable the surgeon to visually examine the walls using white light for any signs of tumours. Early stage tumours are particularly difficult to identify using this method. Following the identification of a possible tumour, a biopsy can be taken to confirm the presence of a tumour.

Esophageal cancer is usually treated by surgery. The procedure is highly invasive and traumatic for the patient. Furthermore, the operation has a relatively low success rate, and even if successful, will significantly reduce the patient's qualify of life.

Cancers of the gastrointestinal tract are usually treated by surgery. If tumours are detected early, it may be possible to treat them by endoscopic means. If the cancer is more advanced, highly invasive and traumatic surgery will be required. Furthermore, the operation has a relatively low success rate, and even if successful, will significantly reduce the patient's quality of life.

The standard treatment for pre-malignant lesions in the oral cavity, pharynx and esophagus is surgical removal. Although effective, this treatment is invasive and may result in a permanent disability.

Product description

We envisage that Benzvix™ will be used in a similar manner to Hexvix™. It will be administered topically to the tumour and left for a period of time. This will allow the photosensitiser to accumulate in the cancerous cells. For diagnostic use, the lesion will be illuminated with a blue light causing red fluorescence which is clearly visible, thereby identifying cancerous tumours. Then, either the lesion is illuminated with red light to activate the photosensitiser leading to the destruction of the cancerous cells or the surgeon may perform a conventional surgical procedure, using the fluorescence as a guide to the location of the cancer.

Current Status

The active chemical entity has been defined and we are conducting pre-clinical studies. We currently are preparing to commence formal pre-clinical toxicology studies and we intend to commence Phase I/II trials during the next twelve months.

Research programmes

ALA Derivatives

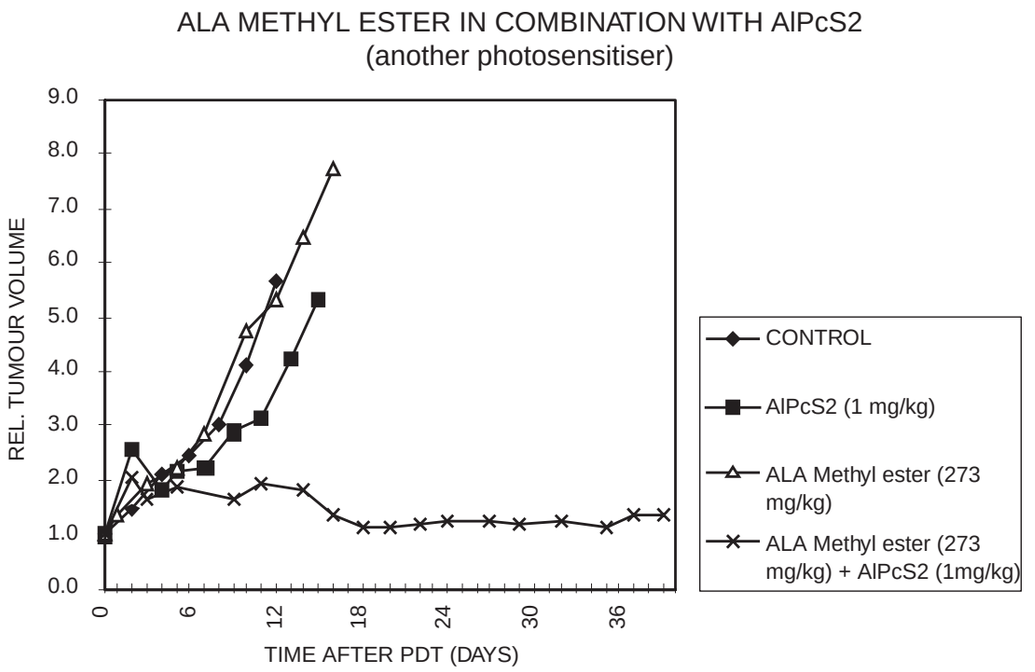
We are evaluating other ALA derivatives we have developed for the treatment of psoriasis, acne and warts. Trials conducted by third parties have shown that ALA may be effective against psoriasis and warts. However, pain caused by ALA may limit its use. We believe that the greater selectivity and penetration of our ALA derivatives will ensure acceptable levels of patient comfort. We also believe that the superior penetration of our ALA derivatives and Curelight's red light will enable the treatment to reach deep acne infections.

Photochemical Synergism (PCS)

We are developing a unique proprietary technology known as PCS. PCS aims to improve the efficacy of photodynamic therapies by combining systemically administered sensitisers to enhance the therapeutic effect while reducing the adverse effects. Different sensitisers exhibit different characteristics. For example, certain sensitisers locate, to a large extent, in the blood vessels around the tumour cells, while ALA derivatives typically locate in the tumour epithelial cells. We believe that these different properties may be combined to produce an improved therapeutic outcome.

We envisage the systemic administration of one photosensitiser in subtherapeutic concentrations, combined with an ALA derivative in order to treat internal cancers. The combination of two sensitisers appears to enhance the therapeutic effect while potentially avoiding the side effects commonly associated with therapeutic dose levels of certain single photosensitisers. For example, full therapeutic doses of synthetic porphyrins frequently give strong photosensitivity, which for certain drugs may last for several weeks after treatment. However, by using subtherapeutic doses (10%-20% of a therapeutic dose) of such a photosensitiser combined with therapeutic doses of our ALA derivatives, we have observed a therapeutic effect which we believe can be used in cancer treatment.

We have conducted pre-clinical studies in which a human tumour was injected into mice. After allowing the tumour to reach a certain size, the mice were injected with a combination of sensitisers and, after one hour, were illuminated with red light. Tumour growth was monitored following treatment. Different combinations of ALA esters and other photosensitisers were tested. In all instances, the combined therapy was more effective at restricting tumour growth than an individually administered photosensitiser. The results of such study are set out below:



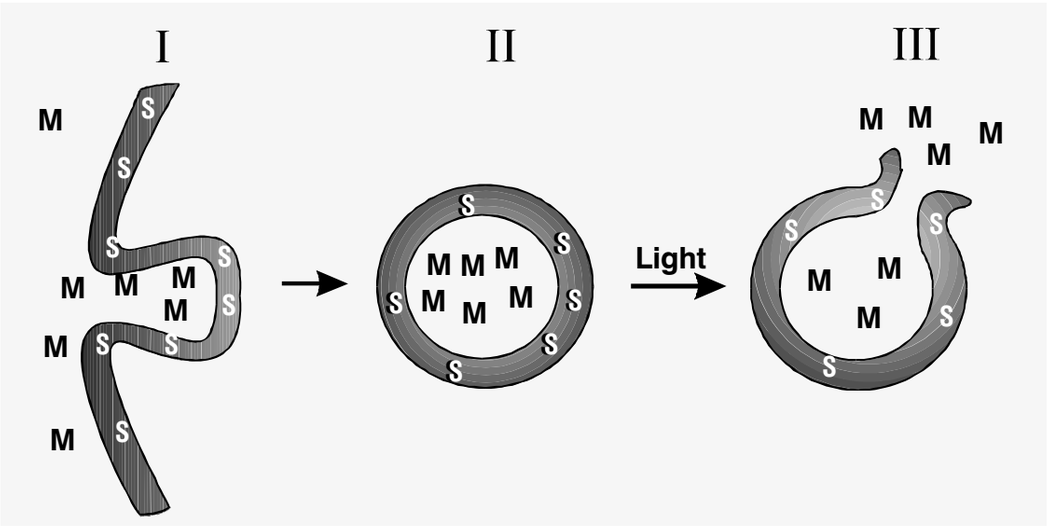
Single use of two photosensitisers did not reduce tumour growth, while a combination using PCS effectively stopped tumour growth in nude mice with human tumours.

The NRH has conducted exploratory human trials for photochemical synergistic treatment of esophageal cancer in Norway and China. The trials involved approximately 100 patients. Investigators reported a high cure rate. We believe that PCS may be applicable to a wide range of internal cancers including esophageal and gastrointestinal cancers.

We are conducting a research project in collaboration with the Imperial College of Science, Technology and Medicine in London, to develop relevant photosensitisers. Our ongoing pre-clinical research programmes utilise both existing photosensitisers and our own proprietary photosensitisers.

Photochemical Internalisation (PCI)

PCI is a unique proprietary technology which allows the transfer of large, water soluble molecules into the cytosol of human cells by the use of a photosensitiser that is subsequently activated by light. This technology has potential to significantly enhance the delivery and efficacy of therapeutic treatments. The therapeutic usefulness of macromolecules, such as in gene therapy, is often limited by an inefficient transfer of the large molecules to the cytosol of a cell and a lack of tissue-specific targeting. In pre-clinical trials, our novel PCI technology has efficiently delivered large water-soluble molecules into targeted cells, indicating that PCI may have a variety of useful applications for site specific drug delivery. We intend to commercialise PCI through licensing arrangements. We intend to develop other applications ourselves.



The illustration above shows the three steps in the PCI technology where M is a large water soluble molecule and S is a sensitiser (photosensitiser). Cells are exposed to photosensitisers and the photosensitiser is inserted into the plasma membrane. After cellular uptake of M, the cells are illuminated. Light activates the photosensitiser which ruptures the membrane and M is liberated into the cytosol.

Our research projects are focused on the development of cancer vaccines, gene therapy solutions and light enhanced chemotherapy through the delivery of large water-soluble molecules (such as toxins, plasmids and ribozymes) into targeted cells.

The following is a brief description of our research projects based on PCI:

Light enhanced chemotherapy

We are conducting early stage research into the delivery of cytotoxic molecules into the cytosol of cells. We envisage the administration of a cytotoxic drug and a photosensitiser. After a

period of time, the cytotoxic drug localises adjacent to cells. Light is then applied to the cancer cells which transfers the cytotoxic drug into the cytosol of the cell causing the destruction of the cancerous cells. In addition we are in explorative pre-clinical development of a drug consisting of a membrane localising photosensitiser and a hydrophilic cytotoxic drug that is unable to enter the cell by itself without internalisation by means of PCI. We believe that PCI will improve the therapeutic effect of the cytotoxic drug by more than 100 fold while reducing its side effects.

Cancer vaccines

We believe that PCI can enhance the delivery of cancer vaccines such as antigenic peptides and proteins. We are developing a product based on the concept of cancer antigens being transferred into the cytosol of the cell by means of PCI. The internalisation of the antigen will induce a presentation of foreign protein fragments on specific cell types and a higher cytotoxic reaction from cytotoxic T-cells can be achieved. Thus, we believe that PCI can enhance the immune response of cancer vaccines.

Gene therapy

The site specific delivery of gene therapy is a significant obstacle to the development of effective gene therapy treatments. We are working on a series of new products for gene therapy based on PCI technology. A well-known challenge in gene therapy is to bring large water-soluble molecules (i.e. genes) into cells. We believe that certain DNA sequences which may eliminate gene function (ribozymes) or neutralise gene function (antisense oligonucleotides), can be brought into the cell by PCI. The directed introduction of new genes into targeted cells by light has been demonstrated in cells in culture, and the efficiency of this can be increased up to 150 fold by PCI. We have also demonstrated PCI mediated transfection of plasmids into tumour cells in vivo. Based on our research results to date, we believe that PCI may have the potential to considerably improve existing gene therapy techniques.

Research and Development Collaborations

We aim to leverage our collaborations with academic institutions and third party contract research organisations, where possible. We have an in-house team of professionals that coordinates the activities of our external contractors and consultants.

Academic institutions

PhotoCure was founded by the Norwegian Radium Hospital Research Foundation (RF) to commercialise and develop technologies originally developed by the NRH. Collaborations with academic institutions remain a core part of our strategy for developing new products and platform technologies.

Our key collaborations include:

Norwegian Radium Hospital Research Foundation (RF): The RF is an organisation affiliated to the Norwegian Radium Hospital (NRH) which is the largest comprehensive cancer centre in Northern Europe. The RF manages all the commercial activities of the NRH. We entered into a general agreement with the RF in 1996. Under the terms of the agreement, we gained access to all PDT technologies developed by the NRH, and an option to acquire all new PDT technologies developed by the NRH. In return, we support the RF with research and development funding. The agreement was for a four year period. On March 16, 2000, the term of this agreement was extended until December 31, 2002.

Approximately 25 people are working full time on our PDT research at the NRH. The research at NRH involves several of the Research Departments and Clinical Departments. Of special importance are the clinical departments Surgery, Oncology and Gynaecology, as well as the Department of Biophysics, which has had an international reputation in photochemistry, photobiology, and photophysics for the last 20 years.

The Imperial College of Science, Technology and Medicine, London University, UK: We have an ongoing research collaboration with the Imperial College of Science, Technology and

Medicine, in London. Under the terms of this agreement, we fund a research programme focusing on the chemical synthesis of new sensitisers for PCS and PCI.

University of Leeds, UK: We have a research relationship with the University of Leeds. Under the terms of this agreement we fund a research programme at the university relating to ALA derivatives.

Swiss Federal Institute of Lausanne and the Municipal University Hospital in Lausanne, Switzerland: On March 1, 2000, we signed an agreement with a PDT research group at the Swiss Federal Institute of Lausanne and at the Municipal University Hospital in Lausanne to develop Hexvix™. The university has considerable expertise in basic and clinical research on ALA derivatives. Under the terms of the agreement, we are funding the research and have a first right of refusal to intellectual property from the research.

Drug Discovery Laboratory (DDL): We have an ongoing co-operation agreement with DDL. DDL has since 1998 assisted us within synthesis of new chemical entities for PDT. In addition, DDL assists us with our intellectual property strategy and the implementation thereof.

Contract research organisations (CROs): We outsource pre-clinical and clinical research activities to a range of CROs. Pre-clinical research includes toxicology, chemistry, pharmaceutical development as well as pharmacokinetic studies. Toxicological studies are conducted in the UK by Covance, a major provider of pre-clinical research services to the pharmaceutical industry. Clinical research includes human trials and related services such as statistical analysis of data. We rely on a range of clinical research organisations to manage our clinical research programmes. These organisations include major multinational research organisations and small highly specialised organisations. All of our research partners comply with the appropriate international standards such as Good Laboratory Practice (GLP), Good Manufacturing Practice (GMP) and Good Clinical Practice (GCP).

We also use consultants who help us to prepare submissions to governmental regulatory bodies and assist our negotiations with these organisations.

Manufacturing

We currently outsource all manufacturing operations. The active ingredient in Metvix® is manufactured in Norway by Hydro Research AS, a subsidiary of Norsk Hydro ASA (Norsk Hydro). The Metvix® finished product is manufactured and packaged in the UK by Penn Pharmaceuticals Limited. The Curelight lamp used with Metvix® is produced by Norselight AS. All of our manufacturing partners comply with Good Manufacturing Practice and other quality standards. At present we do not intend to bring any manufacturing in-house.

Norsk Hydro: In July 1999, we signed a ten year production agreement with Norsk Hydro for production of the ALA derivatives. Norsk Hydro has performed substantial development work for us in relation to the chemical development and documentation of the product, and currently supplies the active ingredients for clinical studies. Norsk Hydro is also developing the process for the synthesis and purification of the ALA esters used in Hexvix™ and Benzvix™.

We are also negotiating with other manufacturers of fine chemicals for the delivery of other photosensitisers to be used in a combination drug with ALA derivatives for PCS, as well as photosensitisers for use in PCI.

Penn Pharmaceuticals Limited: Formulations for the topical use of Metvix® are provided by Penn Pharmaceuticals, a UK-based pharmaceutical company that specialises in the production of medical products and new drugs for clinical studies.

In October 1998, we signed an agreement with Penn Pharmaceuticals for the commercial production of Metvix®. The agreement expires in October, 2008 and provides for a research and development collaboration for the manufacture of new ALA derivative products.

Norselight AS: The Curelight lamp used with Metvix® is manufactured by Norselight AS, Norway. The lamp is classified as a Type II A active medical device, and has been granted the CE mark.

Intellectual Property

Where possible, we seek to use patents and trademarks to protect our business. We currently hold two issued patents in Europe, the United States and other countries. In addition, we have filed five patent applications that are pending in Europe, United States and other countries.

One of our main patent applications is the use of ALA-esters and other ALA derivatives, for both topical and systemic treatments as well as for diagnostic purposes. This patent has been granted in the U.S., Australia and Singapore, and is pending in Europe and elsewhere internationally.

Another important patent application, which is granted in Norway, the U.S. and Singapore, and accepted in Australia and New Zealand, addresses the concept of PCI (transfer of molecules into the cytosol of cells) for new products in cancer chemotherapy, cancer vaccines, as well as a new technique for delivering genes to cells (gene therapy).

We have filed a patent application for PCS in order to protect an improved technology for treatment of internal cancers with PDT. In this patent application we describe the use of several photosensitisers with synergistic action.

We have also submitted a patent application for Curelight, our non-laser light source for topical use. We acquired the rights to this patent application from the RF. We are required to pay to the RF a royalty equal to four percent of our annual net sales of the Curelight lamps.

Our various patent applications and their status are described in the table below:

Patent application	Priority date	Status	Progress
1. Transfer of molecules to cells (PCI)	Sept. 1994	Published	Granted: Norway, U.S., Singapore Accepted: Australia and New Zealand
2. Esters of ALA	March 1995 and Dec. 1995	Published	Granted: U.S., Australia, Singapore; pending in Europe and certain other territories
3. Photochemical Synergism (PCS)	Jan. 1997	Published	Priority application filed in the UK
4. Illumination source	March 1997	Published	Priority application filed in Norway
5. Cancer vaccines	1999	Not Published	
6. ALA derivatives	1999	Not Published	
7. Formulations	1999	Not Published	

We are not aware of any formal challenges to the validity of any of our patents or patent applications.

In addition to patent protection, we also rely on trade secrets, proprietary know-how and continuing technological innovation. To protect our trade secrets and proprietary know-how, we enter into confidentiality and proprietary information agreements with our employees, research partners, consultants and others.

The Metvix® trademark is registered in several countries including Norway, Japan and the EU. The trademark is pending in the U.S.. We have also applied for trademark protection for the PhotoCure name and logo and for Hexvix™ and Benzvix™.

We may be unable to adequately protect our intellectual property rights and third party intellectual property rights may limit our ability to develop and sell our products. See ''Risk Factors''.

Marketing and Sales

As a development stage company, we do not currently have any sales and marketing activities. However, as our lead product approaches market approval, we are developing a sales and marketing strategy. As our other development programmes and platform technologies advance towards commercialisation, we will also develop a sales and marketing strategy for these products.

We currently intend to market Metvix® for high risk BCC, primary BCC and AK in the Nordic region through our own sales force. We believe that our target markets are characterised by a relatively small number of high value prescribing physicians, and therefore can be targeted by a small, specialised sales force. In the U.S., the rest of Europe and other markets, we intend to market Metvix® through one or more partnerships with other pharmaceutical companies. We believe that operating our own sales force in the Nordic market will allow us to understand the evolving requirements of doctors, surgeons and other customers and allow us to retain greater value from our sales. We will initially focus on marketing Metvix® to university hospitals and opinion leaders. Later, we will expand our marketing to cover local hospitals and clinics and practising specialists. Although we expect to obtain approval for Metvix® initially for the AK indication, we believe that BCC represents a more significant market opportunity. Assuming the product is approved for high risk BCC and primary BCC, we intend to focus our marketing efforts on these indications.

Competition

A number of companies are currently developing PDT products. In North America these companies include: Dusa Pharmaceuticals, Inc. (U.S.), Miravant, Inc. (U.S.); Pharmacyclics, Inc. (U.S.); Photogen Technologies, Inc.(U.S.); and QLT PhotoTherapeutics, Inc. (Canada). Elsewhere these companies include Scotia Pharmaceuticals plc (UK), Medac GmbH (Germany) and ESC Medical Systems Ltd. (Israel). Some of these companies are developing products which may compete directly with our products. In December 1999, Dusa obtained FDA approval in the United States to market its Levulan® Kerastick™ PDT product containing ALA free acid for the treatment of AK of the face and scalp. QLT's product, Photofrin®, is approved in the United States and certain countries in Europe for the treatment of esophageal cancer, in Canada for the treatment of bladder cancer, and in Japan for the treatment of esophageal and gastrointestinal cancer. In addition, its Verteporfin product is in clinical trials for the treatment of non-melanoma skin cancer and psoriasis. We are also aware that Medac GmbH is currently developing ALA for the diagnosis of bladder cancer, and that ESC Medical Systems Ltd. has indicated that it is supplying a ''medical grade'' of ALA for PDT treatment of skin cancer.

Our products will also compete with established treatments. For the treatment of BCC, surgery, Moh's surgery, radiation, cryotherapy, electro-surgery and curettage will remain alternatives to Metvix® PDT. For the treatment of AK, 5-FU and cryotherapy will compete with Metvix®.

The competitiveness of our products versus both existing treatments and other PDT pharmaceuticals will depend on a variety of factors, including the effectiveness of the treatment, the ease of administration, the cost of treatment, the level of side effects, and the cosmetic outcome of the procedure. We believe Metvix® and our other products will perform successfully in these areas. The marketability of our products may be harmed by competing products, technologies and therapies. See ''Risk Factors''.

Government Regulation

The manufacture and sale of pharmaceuticals and medical devices in the U.S., Europe, and most other markets are governed by a variety of laws and regulations. These laws require, among other things, (1) approval of manufacturing facilities, including adherence to good

manufacturing practice, known as GMP, during production and storage; (2) controlled research and testing of products in accordance with good laboratory and clinical practice, known as GLP and GCP respectively; (3) a submission for governmental review containing manufacturing, pre-clinical and clinical data in order to obtain marketing approval based on establishing the quality, safety and efficacy of the product for each use sought; and (4) control of marketing activities, including advertising and labelling.

Regulatory controls are a major determinant of whether a substance can be developed into a marketable product and how long such development takes. In common with other pharmaceutical companies, we are subject to strict controls on the manufacture, distribution and marketing of our products. Further controls exist over the clinical trial phases of the development of a product. The requirement in most countries to obtain and maintain registration or marketing authorisation for a product from the relevant regulatory authority is of particular importance in enabling it to be marketed in those countries. Pharmaceutical product registration or licensing is principally concerned with the safety, efficacy and quality of new medicines. Before such a product is approved for marketing, it must undergo exhaustive and lengthy clinical trials. It takes many years from the start of development of a new pharmaceutical compound to the submission of an application for registration. The application will include specific details of the plant and procedures involved in production. The time taken from submission of such application to launch of the product is typically one to three years. Europe, the U.S., Australia, Canada and Japan have very high standards of regulatory appraisal and, in most cases, a lengthy approval process. The trend in recent years has been towards greater regulation and higher standards, but also towards international harmonisation of documentation requirements for product registration.

After a product has been approved by the regulatory authorities and has been launched, it is a condition of the product approval that all aspects relating to its safety, efficacy and quality must be kept under review. Depending on the jurisdiction, fines or other penalties may be imposed for failure to adhere to the conditions of product licences and, in extreme cases, the product licence can be revoked or withdrawn. During a product's development and following its launch, the product may be the subject of third party studies and reports that evaluate or comment upon its efficacy and relative benefit, alone and in combination with other products. These studies and reports, even if not widely accepted by the scientific community, may influence the acceptance of the product in the market.

Internal monitoring procedures must also be maintained in relation to registered products to ensure that quality is assured and that operations are conducted in line with approved processes. During the life of a product, improvements and modifications to manufacturing processes may be made either directly by the manufacturer or, as necessary, with the approval of the relevant regulator. Approval is also required for any changes to product formulation, packaging or labelling. In addition, manufacturing plants and processes are subject to periodic external inspection by the regulators as part of their monitoring procedures to ensure that manufacturers are complying with prescribed standards of operation.

Within Europe, major changes in the process for regulatory approval of marketing authorisations are occurring. These regulations make provision for and require the use of one or two procedures when applying for marketing approval throughout the community. The centralised procedure uses the European Medicines Evaluation Agency (EMEA) along with the Committee for Proprietary Medicinal Products (CPMP) to oversee assessment of applications and results in the issuance of a single authorisation for the entire European Union. The mutual recognition (or decentralised) procedure provides for issuance of a national marketing authorisation in one member state, which requires mutual recognition by other European Union national authorities.

In the U.S., the pharmaceutical industry is subject to regulation by national, state and local agencies and to the regulations of the FDA, which administers requirements covering the testing, approval, manufacturing, distribution and marketing of drugs and reviews the quality, safety and efficacy of drugs marketed in the U.S. With respect to many new products, the effect of the FDA

drug approval process has been to increase substantially the amount of time and money necessary to develop and market such products in the U.S.

The steps required before a product can be produced and marketed for human use include pre-clinical studies, the filing of an application in the U.S. or in the EU, human clinical trials and the approval of an NDA in the U.S. or an MAA in the EU. Pre-clinical studies are conducted in the laboratory and on animals to obtain preliminary information on a drug's efficacy and safety. The results of these studies are submitted to the relevant regulatory body as part of the application process before approval can be obtained for the commencement of testing on humans. These pre-clinical studies may take from one to three years to perform. The human clinical testing programme involves three phases. In Phase I, studies are usually conducted on healthy human volunteers to determine the maximum tolerated dose and any product-related side effects of a product. Phase I studies generally require several months to complete. Phase II studies are conducted on a small number of patients having a specific disease to determine the most effective doses and schedules of administration. Phase II studies generally require from several months to two years to complete. Phase III involves wide scale studies on patients with the same disease in order to provide comparisons with currently available therapies. Phase III studies generally require from six months to four years to complete.

Metvix® has been tested in the required number of clinical trials prior to submitting our first MAA. However, regulatory authorities could request additional testing or data during the review process. Our other product candidates still require significant development, including additional pre-clinical and clinical testing, and regulatory marketing approval before commercialisation. We believe that our suppliers and research partners achieve the relevant levels of GMP, GLP and GCP required by all regulatory bodies.

Our medical device products are also subject to the rules and regulations established by the regulatory bodies. These products are required to be tested, developed, manufactured and distributed in accordance with the relevant regulations and directives. Devices are typically classified depending on the nature and application of the device. The classification of a device affects the degree and extent of the regulatory requirements. Our light source, Curelight, complies with EU regulations for medical devices and has obtained a CE mark.

Third-Party Reimbursement and Price Controls

Reimbursement

We expect our products to be purchased by clinics, hospitals, physicians and patients which bill various third-party payors, such as governmental programmes and private insurance plans. We expect that sales volumes and prices for our products will be heavily dependent on the availability of reimbursement from third-party payors and that patients may not be willing or able to pay directly for the costs associated with the use of our products.

Reimbursement systems vary significantly by country, and by region within some countries, and reimbursement approvals must be obtained on a country-by-country basis. Reimbursement is obtained from a variety of sources, including government-sponsored healthcare and private health insurance plans. In some countries healthcare systems are centrally organised, but in most cases there is a degree of regional autonomy either in deciding whether to pay for a particular procedure or in setting the reimbursement level. The way in which new products and services enter the healthcare system depends on the system: there may be a national appraisal process leading to a new procedure or product coding, or it may be a local decision made by the relevant hospital department. The latter is particularly the case where a global payment is made that does not detail specific technologies used in the treatment of a patient. In most countries there are also private insurance plans that may offer reimbursement for alternative therapies.

Price Controls

In addition to the normal competitive forces that affect the level of prices, a further constraint exists through the presence of price controls on pharmaceuticals. The overall cost of

providing healthcare services has been and will continue to be subject to review by governmental and legislative bodies around the world. Prices for products are sometimes subject to direct price controls and drug reimbursement programmes which have varying price control mechanisms. These controls arise because governmental agencies in a particular country are the principal purchasers of the product. Governments may also influence the price of pharmaceutical products through their control of national healthcare organisations which may bear a large part of the cost of supplying such products to consumers. In the U.S., Japan, Germany and certain other countries, pressure can be exerted on prices by government-funded or private medical care plans. Price control mechanisms operate differently from country to country and can result in large differentials in prices between markets. The effects of the inflexibility of such mechanisms may be aggravated by currency fluctuations. These price differentials in EU countries are sometimes exploited by traders (parallel importers) who purchase branded products in low-priced markets and export to high-priced markets.

Price controls can be exercised in a number of different ways. In many countries, the prices of individual products are controlled by governments. In addition, in certain countries manufacturers must file separate price applications to qualify for reimbursement by the national health insurance system. Under reference price systems, which are now in effect in a number of European countries, including Norway, Germany, the Netherlands, Sweden and Denmark, governments will only reimburse patients' drug costs on the basis of a reference price which corresponds roughly to the price of the cheapest medicine in each drug category. Products whose price exceeds the reference price will thus be more expensive for the patient to purchase. EU legislation also sets forth certain rules concerning the governmental operation of price controls and reimbursement applications.

In the U.S., there are currently no government price controls over private sector purchases. Drug manufacturers are, however, required to pay prescribed rebates to the states on certain drugs in order for such drugs to be eligible for Medicaid reimbursement. Since the enactment of such federal legislation, several states have enacted similar legislation in respect of state entitlement programmes (i.e. requiring rebates in exchange for eligibility for reimbursement by such programmes). As a result, where annual increases in manufacturers' list prices generally exceed the increase in the Consumer Price Index (the ''CPI''), public and government pressure has led to self-imposed constraints to bring manufacturers' average list price increases into line with CPI increases. Direct government purchases are subject to applicable contractual provisions and regulations. In addition, prices are being depressed by indirect pressure from purchasers who formally restrict the range of drugs, based upon therapeutic and cost criteria, which a particular group of doctors may prescribe. Such limited lists or formularies may force manufacturers either to reduce prices or be excluded from the list, thereby losing all the sales revenue from a substantial doctor population. The use of strict formulae by institutional customers is increasing rapidly in response to the current cost containment environment.

Norway has strict price controls on new medical products. A reference price system was introduced on September 1, 1993. The European Economic Area Agreement (*EEA Agreement*) came into effect on January 1, 1994, pursuant to which parallel importing was enabled. From January 1, 1995, manufacturers are entitled to act as wholesalers for their own products.

We are unable to predict whether, and to what extent, our business or products may be affected by such legislative and regulatory developments. We believe though that the use of our products for skin cancer and other oncological applications may allow for higher levels of pricing and reimbursement than dermatological applications.

Employees

We have 17 employees. All of our key executive officers have employment agreements. We intend to hire additional employees and consultants as our operations expand. During the years 1997, 1998 and 1999, we had an average of 6, 9 and 14 employees, respectively.

Properties

At present we lease approximately 250 square metres of office space adjacent to the NRH in Oslo. As we hire additional personnel, we plan to relocate locally to facilities sufficient for expansion.

We have entered into a conditional five-year lease from August 15, 2000 for approximately 1,050 square meters of office space close to our existing offices. These new offices will be sufficient to allow for expansion. Under the terms of the lease, part or whole of the office space can be sub-leased and we have the option to extend the term of the lease for an additional five years.

Legal Proceedings

We are presently not involved in any legal proceedings which we expect individually or in the aggregate to have a material adverse effect on our business, operating results or financial condition.

MANAGEMENT

The Board of Directors has overall responsibility for the management of our business, with the President and Chief Executive Officer being responsible for the day-to-day management of the company in accordance with instructions, policies and operating guidelines set out by applicable law and the Board from time to time. The address of each director and officer listed below is our address.

Board of Directors

The members of our Board of Directors are as follows:

Halvor Bjerke, age 54 was elected as a Director of PhotoCure in October 1996 and Chairman of the Board in April 1998. Mr. Bjerke is a lawyer and was Vice President and Company Secretary of Saga Petroleum ASA (now a part of Norsk Hydro ASA) for 12 years (ending 1999). Previously, he was employed as Vice President and Company Secretary of GECO and as Counselor at the Norwegian Ministry of Finance. Mr. Bjerke also serves as the Chairman of the Board of the Norwegian Radium Hospital Research Foundation (since 1996) and of Medprobe AS, a Norwegian biotechnology company (since 1987).

Per-Olof Mårtensson, age 62 was elected as a Director of PhotoCure in 1996 and Deputy Chairman of the Board in 1998. He is currently President and Chief Executive Officer of Karo Bio. 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 Health Cap AB, a Swedish investment fund in the medical field.

Åse Aulie Michelet, age 47 was elected as a Director of PhotoCure in October 1996. She serves as President of Nycomed Imaging AS and Executive Vice President of Operations of Nycomed Amersham Imaging. Previously she held management positions in research and development and strategic marketing at Nycomed ASA, which she joined in 1979. She serves on the Board of Directors of several Nycomed companies.

Tharald Brøvig, age 57 was elected as a Deputy Director of PhotoCure in 1996 and Director in 1998. He serves on the Board of Directors of a number of companies. He has also served on the Board of Directors of Hafslund Nycomed AS (Nycomed Amersham), from 1984 to 1994.

Stener Kvinnsland, M.D., Ph.D., age 51 was elected as a Director of PhotoCure in 1999. He is Professor and Head of Department of Medical Oncology and Radiotherapy at the Norwegian Radium Hospital, which he joined in 1996. Previously, he was Scientific Director of Pharmacia & Upjohn. Dr. Kvinnsland is presently Chairman of the Board of Directors of the Norwegian Cancer Society and a member of the Board of the Norwegian Cancer Society.

Lars Lindegren, age 62 was elected as a Director of PhotoCure in March 2000. He has held executive positions at Pharmacia & Upjohn (formerly Pharmacia AB) since 1989. Mr. Lindegren also serves on the board of Karlshamns AB, a Swedish public company.

Hans Petter Bugge, DVM, Ph.D., age 46 was elected as a Deputy Director of PhotoCure in May 1997. He has served as the President of the Norwegian Radium Hospital Research Foundation since 1997. Previously, he served as Marketing Manager at Alpharma and President of the National Centre for Veterinary Contract Research and Commercial Services. He currently serves on the Board of Directors of Helax Visir AS.

Remuneration to the Board

For the year ended December 31, 1999, the aggregate remuneration paid to members of our Board of Directors, and which was approved by the shareholders at the annual general meeting held on March 23, 2000, totalled NOK 780,000, of which Mr. Bjerke, as Chairman, received NOK 180,000, the Deputy Chairman received NOK 150,000, and all the other directors each received NOK 90,000.

Executive Officers

Our executive officers are as follows:

Vidar Hansson, M.D., Ph.D., age 55 has served as the President and Chief Executive Officer since January 1997. Before joining PhotoCure as CEO, Dr. Hansson was Chairman of the Board of Directors of the Norwegian Radium Hospital Research Foundation and coordinator of NRH's priority programmes in research for new diagnostics and therapies as well as Professor in Medical Biochemistry at the University of Oslo since 1981. He is currently a member of the Advisory Board of Health Cap AB, a Swedish investment fund in the medical field. Dr. Hansson holds a Ph.D. in Molecular Endocrinology/Molecular Biology.

Geir Christian Melen, age 36 has served as the Chief Financial Officer since February 1997. Mr. Melen has a master of science degree in business and, before joining PhotoCure, Mr. Melen served as Strategy and Economic Planning Manager and Finance Manager of Saga Petroleum ASA, now part of Norsk Hydro ASA, from 1990 to 1997. He previously served as a Business Consultant for Deloitte Haskins and Sells Management Consultants AS.

John Afseth, DDS, Ph.D., age 45 has served as the Vice President of Marketing and Sales since April 1998. Before joining PhotoCure, Dr. Afseth held various senior management positions, including Associate Professor at the University of Oslo, Vice President of Marketing and Sales for Dynal ASA, Chief Executive Officer of Medinnova SF and General Manager at Abbott Laboratories in Norway and Denmark. He is currently Chairman of the Board at Diatec.com. Dr. Afseth holds a Ph.D. in Microbiology.

Kjetil Hestdal, M.D., Ph.D., age 40 has served as the Vice President of Research and Development since January 1997. Before joining PhotoCure, Dr. Hestdal served as the Project Manager/Medical Expert at Sandoz (now Novartis) and as Senior Scientist as Rikshospitalet. Dr. Hestdal holds a Ph.D. in Immunology.

Scientific and Medical Advisory Board

We have established a selected group of international by recognised medical and scientific advisors. These advisors assist us in our research, development and commercialisation strategies. The members are reimbursed for the expenses of their participation. Our medical and scientific advisors are:

Stan Brown, Ph.D. Dr. Brown is a Professor of Biochemistry and the Director of the Centre for Photobiology and Photodynamic Therapy at the University of Leeds in the United Kingdom.

Lasse Braathen, M.D., Ph.D. Dr. Braathen is Professor of Dermatology and the Chairman of the Department of Dermatology at the University of Inselspital in Bern, Switzerland.

Hans Wulf, M.D., Ph.D. Dr. Wulf is a Professor of Dermatology and the Chairman of the Department Dermatology at Bispebjerg Hospital and the University of Copenhagen in Denmark.

Frank Åbyholm, M.D., Ph.D. Dr. Åbyholm is a Professor of Surgery and the Chairman of the Department of Plastic Surgery at the University of Oslo in Norway.

Whitney Tope, M.D. Dr. Tope is an Assistant Professor and Director of the Cutaneous Surgery and Laser Center of the Department of Dermatology at the University of Minnesota Hospital and Clinic in the United States.

Tor Langeland, M.D., Ph.D. Dr. Langeland is a Dermatologist at a private dermatology clinic in Oslo, Norway.

Employment Agreements

All of our employment agreements contain express obligations to maintain confidentiality with respect to our commercial and technological secrets and to assign intellectual property rights developed in the course of employment. None of our employees, however, are subject to non-competition agreements with us. The notice period in the employment agreements varies between three and six months. We have also retained numerous independent consultants and

the services of key researchers at leading university centres whose activities are coordinated by our employees.

Compensation of Executive Officers

The aggregate compensation we paid to all persons who served as executive officers during the year ending December 31, 1999, was approximately NOK 2.67 million. These figures do not include expenses reimbursed, including business travel, professional and business association dues and expenses and other benefits commonly reimbursed or paid by companies in Norway. Of this amount, we paid Mr. Hansson an annual salary of NOK 826,875.

We have granted our President and CEO a bonus which will fall due in January 2004. As of December 31, 1999, the accrued value under the terms of the agreement was NOK 2,577,519. In addition, Mr. Hansson is also entitled to a salary for eighteen months after the termination of his employment under certain circumstances. If Mr. Hansson earns other salary during this 18-month period, this salary shall be deducted from this termination compensation.

Share Option Plan

We have a share option plan to provide incentive compensation to our employees and to co-operation partners. We have the authority to grant options to subscribe for up to 1.1 million of our ordinary shares under the plan. Of this amount, 707,000 have been granted and remain outstanding. Options issued pursuant to this plan are exercisable for our ordinary shares. Participation in the plan is open to our full-time employees and other persons as the Board of Directors shall determine to be eligible. Options may be granted to individuals upon commencement of their employment contract or contract for services and additional options may be granted at a later stage. Options may only be exercised during an individual's employment with us. Options granted will have an exercise price at least equal to the fair market value of the underlying share price on the date of grant as determined by the board. Of the 707,000 options granted, an option to purchase 50,000 shares has been granted to our collaborative partner, Drug Discovery Laboratory. See ''Description of Share Capital''.

Certain terms of the options granted before completion of this offering is set forth in the table below:

Name	Number of shares	Price in NOK + 1% per month	Issue date	Options Exercised	Expiry
Hansson	0	—	—	—	—
Melen	125,000	2.75	February 1997	70,000	Dec 2001
Hestdal	125,000	2.75	February 1997	70,000	Dec 2001
Afseth	125,000	5.51	March 1998	70,000	Dec 2002
Other employees (as a group)	200,000	5.51	June 1997	100,000	Dec 2001
	165,000	27.50	April 1999	0	June 2003
	227,000	32.50	September/ October 1999	0	Nov 2003
Total	**967,000**(1)			**310,000**	

(1) Excludes an option granted to the Drug Discovery Laboratory to purchase 50,000 shares. See ''Description of Share Capital''.

Principal Interests in the Company

As of May 18, 2000	Ordinary Shares before Offering		Ordinary Shares After Offering		Number of Options
	Number	Percent	Number	Percent	
Directors					
Halvor Bjerke	3,000	*	3,000	*	—
Per-Olof Mårtensson	3,000	*	3,000	*	—
Åse Aulie Michelet	15,075	*	15,075	*	—
Tharald Brøvig	770,373(1)	5.2	770,373	4.5	—
Stener Kvinnsland	—	—	—	—	—
Lars Lindegren	20,000(2)	0.1	20,000	0.1	—
Hans Petter Bugge	—	—	—	—	—
Executive Officers					
Vidar Hansson	401,500(3)	2.7	401,500	2.4	—
John Afseth	182,800	1.2	182,800	1.1	55,000
Geir Christian Melen	144,792	1.0	124,792	0.7	55,000
Kjetil Hestdal	117,873	0.8	117,873	0.7	55,000

*Denotes less than 0.1%

(1) Includes 592,785 shares owned by Gezina A/S and 177,588 shares owned by Brøvig Shipping A/S, each of which is a company controlled by Mr. Brøvig.

(2) Includes shares beneficially owned by Mr. Lindegren.

(3) Includes 280,000 shares owned by VARAK A/S, a company controlled by Mr. Hansson.

Since April 23, 1999 to May 20, 2000, Mr. Hansson sold a total of 95,000 shares and transferred as a gift 51,500 shares to his children; Mr. Afseth sold a total of 84,000 shares, while purchasing 70,000 shares pursuant to stock options; Mr. Melen sold a total of 20,000 shares while purchasing 70,000 pursuant to stock options; and Mr. Hestdal sold 40,000 shares, while purchasing 70,000 shares pursuant to stock options.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table lists our 20 largest shareholders. As of May 18, 2000, we had 1,322 shareholders. The shares owned after the offering, as shown below, assumes that we issue 2,300,000 shares as part of the offering, the selling shareholders sell 270,000 shares as part of the offering and we issue an additional 230,000 shares upon exercise of the underwriters over-allotment option, respectively.

Shareholder	Shares owned prior to offering	Ownership percentage	Number of shares to be sold in the offering	Shares owned after the offering (without over-allotment option)	Ownership percentage	Shares owned after the offering (with over-allotment option)	Ownership percentage
Radiumhospitalets Forskningsstiftelse	5,009,000	34.0%	250,000	4,759,000	27.9%	4,759,000	27.5%
Selvaag Invest A/S	903,482	6.1%		903,482	5.3%	903,482	5.2%
Gezina AS[1]	592,785	4.0%		592,785	3.5%	592,785	3.4%
Sundt AS	510,372	3.5%		510,372	3.0%	510,372	3.0%
Bio Fund Ventures I	454,500	3.1%		454,500	2.7%	454,500	2.6%
Hansson Vidar[2]	401,500	2.7%		401,500	2.4%	401,500	2.3%
Vikerud AS	359,500	2.4%		359,500	2.1%	359,500	2.1%
Mosvold Farsund AS	306,813	2.1%		306,813	1.8%	306,813	1.8%
Vicama A/S	259,500	1.8%		259,500	1.5%	259,500	1.5%
Norsk Hydros Pensjonskasse	216,000	1.5%		216,000	1.3%	216,000	1.3%
Hartog & Co A/S	210,000	1.4%		210,000	1.2%	210,000	1.2%
Afseth John	182,800	1.2%		182,800	1.1%	182,800	1.1%
Conti AS	181,818	1.2%		181,818	1.1%	181,818	1.1%
Brøvig Shipping A/S[1]	177,588	1.2%		177,588	1.0%	177,588	1.0%
Melen Geir Christian	144,792	1.0%	20,000	124,792	0.7%	124,792	0.7%
Skandinaviska Enskilda Banken	118,639	0.8%		118,639	0.7%	118,639	0.7%
Hestdal Kjetil	117,873	0.8%		117,873	0.7%	117,873	0.7%
Sig. Bergesen D.Y. og hustru Nancy Almennyttige Stiftelse	112,500	0.8%		112,500	0.7%	112,500	0.7%
R. Ulstein Loen AS	110,350	0.7%		110,350	0.6%	110,350	0.6%
Ausibø Edvin	109,750	0.7%		109,750	0.6%	109,750	0.6%
All other shareholders (as a group)	4,270,438	29.0%		6,840,438	40.1%	7,070,438	40.9%
Total	14,750,000	100.0%	270,000	17,050,000	100.0%	17,280,000	100.0%

(1) Gezina A/S and Brøvig Shipping A/S are each controlled by Mr. Brøvig, one of our directors.

(2) Includes 280,000 shares owned by VARAK A/S, a company controlled by Mr. Hansson, our president and chief executive officer.

Certain Transactions with Shareholders

We have collaboration agreements with the NRH and RF and a production agreement with Norsk Hydro. The Research Foundation of the NRH and the Norsk Hydros Pensjonskasse (Pension Fund) are shareholders, and Norsk Hydro holds warrants to subscribe for 400,000 of our shares. In addition, we have a cooperation agreement with Drug Discovery Laboratory, which holds warrants to 50,000 of our shares. See ''Business—Research and Development Collaborations'' and ''Business-Manufacturing'' and ''Description of Share Capital''.

Shares Owned by the Underwriters

Two members of the underwriting syndicate, Fondsfinans and Christiania Markets own an aggregate of 22,318 shares, of which 19,242 are owned by Fondsfinans and its employees, and 3,076 are owned by Christiania Markets.

DESCRIPTION OF SHARE CAPITAL

The following description includes information about our share capital and a summary of some of the provisions of our articles of association and applicable Norwegian law. This description is only a summary and is qualified in its entirety by our Articles of Association and Norwegian law.

PhotoCure ASA is a public limited company organised under the laws of Norway. It was incorporated on August 27, 1993. Our shares are registered with the Norwegian Registry of Securities, known as VPS, under securities number ISIN NO 001 000 0045. The registrar is Christiania Bank og Kreditkasse, Verdipapirservice, P.O. Box 1166, Sentrum, N-0107 Oslo, Norway.

Under the terms of our production agreement with Norsk Hydro, we have granted Norsk Hydro warrants to subscribe for up to 400,000 of our shares at a price of NOK 32.50 per share, of which 200,000 are exercisable between January 1, 2002 and January 1, 2003, and 200,000 are exercisable between January 1, 2004 and September 22, 2004. Exercise of the latter grant is subject to the continuation of the production agreement. A non-compounding interest of 15% per annum of NOK 32.50 will be added to the subscription price. Those warrants are subject to customary anti-dilution protective provisions.

We have also granted to Drug Discovery Laboratory, with whom we have a cooperation agreement, warrants to subscribe for up to 50,000 of our shares at a price of NOK 125 per share, which are exercisable between January 1, 2002 and January 1, 2005. These warrants are subject to customary anti-dilution protective provisions.

Share Capital

Our articles of association provide that the share capital is NOK 7,375,000 divided into 14,750,000 shares of NOK 0.50 each. As of the date of this prospectus, there are outstanding options to employees to purchase 657,000 of our shares and warrants to Norsk Hydro and the Drug Discovery Laboratory to purchase 450,000 shares. Accordingly, if all outstanding options and warrants were exercised, 15,857,000 shares would be outstanding.

Meetings of Shareholders

The annual general meeting of our shareholders is required to be held each year on or before July 1. Norwegian law requires that written notice of general meetings be sent to shareholders whose addresses are known at least two weeks before the date of the meeting. A shareholder may vote by proxy. Although Norwegian law does not require us to send proxy forms to shareholders for general meetings, we normally include a proxy form with the notice of meetings.

Apart from the annual general meeting, extraordinary general meetings of shareholders may be held whenever considered necessary by our Board of Directors. An extraordinary general meeting shall also be convened for the consideration of specific matters at the written request of our auditors or of shareholders representing at least one-twentieth (1/20) of our share capital.

Share Register

Under Norwegian law, shares are registered in the name of the owner of the shares. As a general rule, there are no arrangements for nominee registration. However, shares may be registered with the VPS by a fund manager (bank or other nominee) approved by the Norwegian Ministry of Finance, as the nominee of foreign shareholders to the company and to the Norwegian authorities.

In the case of registration by nominees, registration with the VPS must show that the registered owner is a nominee. Registration must include the nominee's name, address and number of shares which are the subject of the nomination agreement. A registered nominee has the right to receive dividends and other distributions but cannot vote at general meetings on

behalf of the beneficial owners. Beneficial owners must register with the VPS or provide other proof of their acquisition of the shares in order to vote at general meetings.

Voting Rights

Each shareholder, except in the circumstances described below, is entitled to one vote for each ordinary share held on any resolution proposed at any of our general meetings. In general, in order to be entitled to vote, a shareholder must be registered as the beneficial owner of shares in the share register kept by our registrar. As noted in the paragraph above, owners of shares which are registered in the name of a nominee are not entitled to vote under Norwegian law, nor are the persons who are designated in the register as nominees. If these shareholders wish to vote at a shareholders' meeting, the shareholder must request that the nominee transfer the shares to a Norwegian securities account registered in the shareholder's name. The shares must be registered on the shareholder's account with the VPS before the shareholders' meeting.

As a general rule, decisions which shareholders have the corporate power to make may be made by a simple majority of votes cast by the ordinary shares. Vacancies on the Board are filled by persons who receive the most votes cast at a shareholder meeting.

Norwegian law requires that some decisions, including resolutions to waive preemptive rights in connection with any share issue, to amend the articles of association or to authorise the issue of additional shares or a reduction in the company's share capital, receive the approval of at least two-thirds of the aggregate number of votes cast by the holders of ordinary shares, as well as the holders of two-thirds of the share capital represented at a shareholders' meeting, whether or not such shares otherwise entitle the holders to voting rights. Shares held by nominees will not be taken into account for the purposes of determining the share capital represented at the shareholders' meeting.

Restriction on Ownership of Shares

Our Articles of Association contain no provisions restricting the foreign ownership of shares. There are no limitations under Norwegian law on the rights of non-residents or foreign owners to hold or vote our shares. However, in accordance with Norwegian law, in the event of the acquisition of shares or other ownership interests in some companies in Norway, the Norwegian Ministry of Industry and Energy must be notified if the purchaser, regardless of nationality, becomes the owner of shares, other ownership interests or voting rights in the aggregate meeting or exceeding the respective thresholds of one-third, one-half or two-thirds of the shares, other ownership interests or voting rights in the company. These notification requirements apply if the company has annual operating revenues exceeding NOK 50 million, has more than 50 employees, or as in our case, has received public support for research and development exceeding NOK 5 million during the past eight years. For acquisitions requiring notifications, the Norwegian Ministry of Industry and Energy may refuse to approve the acquisition or may approve it subject to certain conditions. These notification requirements apply to the acquisition of our shares.

The VPS and Transfer of Shares

The VPS is Norway's paperless centralised securities registry. It is a computerised bookkeeping system operated by an independent body in which the ownership of, and all transactions relating to, Norwegian listed shares must be recorded. Our share register is operated through the VPS.

All transactions relating to securities registered with the VPS are made through computerised book entries. The VPS confirms each entry by sending a transcript to the registered shareholder irrespective of any beneficial ownership. To effect the entries, the individual shareholder must establish a securities account with a Norwegian account agent. Norwegian banks, the Bank of Norway, authorised securities brokers in Norway and Norwegian branches of credit institutions established within the European Economic Area are allowed to act as agents.

The entry of a transaction in the VPS is *prima facie* evidence in determining the legal rights of parties as against the issuing company or a third party claiming an interest in the given security.

The VPS is strictly liable for any loss resulting from an error in connection with registering, altering or cancelling a right, except in the event of contributory negligence, in which event compensation owed by the VPS may be reduced or withdrawn.

A transferee or assignee of shares may not exercise the rights of a shareholder with respect to such shares unless the transferee or assignee has registered the shareholding or has reported and shown evidence of the share acquisition, and the acquisition of shares is not prevented by law, the Articles of Association or otherwise.

Disclosure Obligations

A person, entity or group acting in concert that acquires or disposes of shares, options for shares or other rights to shares resulting in its beneficial ownership, directly or indirectly, in the aggregate meeting, exceeding or falling below the respective thresholds of 10%, 20%, 33.3%, 50%, 66.7% or 90% of the share capital or shares carrying voting rights will, upon our listing on the Oslo Stock Exchange, have an obligation under Norwegian law to notify the Oslo Stock Exchange immediately.

Additional Issuances and Preemptive rights

All issuances of our shares, including bonus issues, require an amendment to the Articles of Association, which requires the same vote as other amendments to the Articles of Association. Furthermore, under Norwegian law, our shareholders have a preemptive right to subscribe for issuance of new shares by us. The preemptive rights to subscribe in an issue may be waived by a resolution in a general meeting by the same vote required to approve amendments to the Articles of Association. A waiver of the shareholders' preemptive rights in respect of bonus issues requires the approval of all outstanding shares.

The issuance of shares to holders who are citizens or residents of the United States upon the exercise of preemptive rights may require us to file a registration statement in the United States under United States securities laws. If we decide not to file a registration statement, those holders may not be able to exercise their preemptive rights and would be required to sell their rights to eligible Norwegian persons or other eligible non-U.S. holders to realise the value of their rights.

Under Norwegian law, bonus issues may be distributed, subject to shareholder approval, by transfer from our free equity or from our share premium reserve. These bonus issues may be effected either by issuing shares or by increasing the par value of the shares outstanding.

Dividends

Dividends in cash or in kind are payable only out of our distributable profit as determined from our audited accounts for the relevant financial year. Under Norwegian law, no interim dividends may be paid for a financial period as to which audited financial statements have not been approved by the annual general meeting of shareholders, and any proposal to pay a dividend must be recommended or accepted by the directors and approved by the shareholders at a general meeting. The shareholders at an annual general meeting may vote to reduce, but not to increase, the dividends proposed.

Dividends in cash or in kind are payable only out of (1) the annual profit according to the income statement adopted for the last financial year, (2) retained profit from previous years, and (3) distributable reserves, after deduction for uncovered loss, the book value of research and development, goodwill and net deferred tax assets recorded in the balance sheet for the last financial year, and any part of the annual profit which it would be compatible with good and careful business practice to retain with due regard to any losses which may have occurred after the last balance sheet date or which may be expected to occur. We cannot distribute any dividends if the equity, according to the balance sheet, amounts to less than 10% of the total

balance sheet without following a creditor notice procedure as required for reducing the share capital.

Under Norwegian foreign exchange controls currently in effect, transfers of capital to and from Norway are not subject to prior government approval except for the physical transfer of payments in currency, which is restricted to licensed banks. Consequently, a non-Norwegian resident may receive dividend payments without a Norwegian exchange control consent if the payment is made through a licensed bank.

Rights upon Winding Up

Under Norwegian law, a company such as ours may be wound-up by a resolution in a general meeting passed by the same majority as required for an amendment to the Articles of Association.

Mandatory Bid Requirement

Norwegian law requires any person, entity or group acting in concert that acquires more than 40% of the voting rights of a Norwegian company listed on the Oslo Stock Exchange to make an unconditional general offer to acquire the whole of the outstanding share capital of that company. The offer is subject to approval by the Oslo Stock Exchange before submission of the offer to the shareholders. The offering price per share must be at least as high as the highest price paid by the offeror in the six-month period before the date the 40% threshold was exceeded, but at least equal to the market price if the market price was higher when the 40% threshold was exceeded. A shareholder who fails to make the required offer must within four weeks dispose of sufficient shares so that the obligation ceases to apply. Otherwise, the Oslo Stock Exchange may cause the shares exceeding the 40% limit to be sold by public auction. A shareholder who fails to make such bid cannot, as long as the mandatory bid requirement remains in force, vote the shares or exercise any rights of share ownership unless a majority of the remaining shareholders approve, other than the right to receive dividends and preferential rights in the event of a share capital increase. In addition, the Oslo Stock Exchange may impose a daily fine upon a shareholder who fails to make the required offer.

Compulsory Acquisition

If a shareholder, directly or via subsidiaries, acquires shares representing more than 90% of the total number of issued shares and more than 90% of the total voting rights attached to the shares, then such majority shareholder would have the right, and each remaining minority shareholder of a company would have the right to require such majority shareholder, to effect a compulsory acquisition for cash of any shares not already owned by such majority shareholder, in accordance with Section 4-25 of the Norwegian Public Limited Companies Act 1997 No. 45. This compulsory acquisition would imply that the majority shareholder has become the owner of the thus acquired shares with immediate effect.

Upon effecting the compulsory acquisition the majority shareholder must offer the minority shareholders a specific price per share, the determination of which price would be at the discretion of the majority shareholder. Should any minority shareholder not accept the offered price, the minority shareholder may, within a specified deadline of less than a period of two months, request that the price be set by the Norwegian courts. The cost of this court procedure would be for the account of the majority shareholder, and the courts would have full discretion regarding the valuation of the shares as per the effectuation of the compulsory acquisition.

Authorisation of Additional Shares

At our annual general meeting held on March 23, 2000, our shareholders resolved the following:

''The Board is granted the authority to increase the share capital by a maximum amount of NOK 2,550,000 in one or more issues and at a subscription price per share to be decided by the Board.

(a) The Board may increase the share capital with up to NOK 550,000 through the issue of shares to employees and co-operation partners, whose closer association to the Company will, in the Board's individual assessment, benefit the shareholders. The authority may be used for the issue of share options/subscription rights under the Company's incentive programme. The right to subscribe for shares as assigned under this clause shall at the time of granting, at least, correspond with the market value per share.

(b) The Board may increase the share capital with up to NOK 2,000,000 through the issue of shares to secure the financing of the Company's development. The authority may also be used for acquisitions, mergers and for other corporate purposes, which serves the Company's development. The shares may be issued against a cash consideration or other consideration in the form of a transfer of other assets. The consideration shall, at the Board's assessment, be approximately equivalent to the share's market value.

Authority a) shall expire 24 months from the date of this Annual General Meeting; and authority b) shall apply to the Annual General Meeting 2001. The existing shareholders of the Company waive their preemptive right to subscribe for shares. Previously granted authorities shall be deemed null and void.''

Development of Share Capital

Our share capital has developed as follows since incorporation on August 27, 1993 (figures in NOK):

Year	Type of change	Par value per share	Change in share capital	Gross proceeds[1]	Number of shares	Share capital
1993	Incorporation	50,000	50,000	50,000	1	50,000
1996	Split 5,000:1	10	—	—	5,000	50,000
1996	Share issue	10	5,020	5,020	5,502	55,020
1996	Private placement	10	45,380	12,500,000	10,040	100,400
1997	Private placement[2]	10	—	12,500,000	10,040	100,400
1997	Employee issue	10	4,000	2,203,612	10,440	104,400
1998	Employee issue	10	2,000	1,101,806	10,640	106,400
1998	Issue (reserve fund)	500	5,213,600	—	10,640	5,320,000
1998	Split 1,000:1	0.50	—	—	10,640,000	5,320,000
1998	Share issue[3]	0.50	700,000	38,500,000	12,040,000	6,020,000
1999	Share issue[4]	0.50	1,200,000	78,000,000	14,440,000	7,220,000
2000	Employee issue	0.50	105,000	1,001,000	14,650,000	7,325,000
2000	Employee issue	0.50	50,000	727,000	14,750,000	7,375,000

(1) Before share issue expenses and taxes.

(2) The investors paid an additional NOK 12.5 million in June, 1997 as part of the terms agreed upon in the private placing in 1996. The payment was related to a successful outcome of on-going pre-clinical studies.

(3) The share issue in June 1998 was completed at a subscription price of NOK 27.50 per share.

(4) The share issue in June 1999 was completed at a subscription price of NOK 32.50 per share.

Our shares are currently traded on the over the counter (OTC) market in Norway. The OTC market is organised by the Association of Norwegian Stockbroking Companies (ANSC), through a voluntary submission of information from the individual stockbrokers to ANSC. Information about pricing and transactions is published on the website of the ANSC and updated every 15

minutes. Due to the voluntary nature of the submission of information, along with the fact that not all transactions are conducted through the members of ANSC, not all transactions are registered on the OTC list. Accordingly, the information available on the ANSC's website will not provide complete or accurate information about the pricing and trading volume of our shares. *There is no formal surveillance or regulation of the trading in the OTC market by the Oslo Stock Exchange or any other regulatory body and we do not have any formal obligation to publish information about our business except for what is required by Norwegian law.*

Based on information from our registrar, we have calculated the average number of our shares traded to be approximately 57,000 per day during the quarter ended March 31, 2000 as compared with approximately 47,000 per day in the quarter ended December 31, 1999. Based on information from the ANSC, the lowest and highest closing price per share in the quarter ended March 31, 2000 were NOK 64 and NOK 215, respectively. From April 1, 2000 to April 28, 2000, the price of our shares has varied between NOK 125 and NOK 165. This limited trading on the OTC market may not reflect the value of our shares.

TAXATION

Norwegian Tax Matters

The description below is a summary of some of the tax rules, which are relevant for our shareholders resident in Norway in connection with the acquisition, ownership, and realisation of the shares offered. This description is only a summary and does not describe all tax regulations, including special regulations which may be applicable to some investors. You should contact a professional tax advisor regarding your specific individual tax consequences.

Taxation of Dividends

Dividends distributed are subject to taxation in Norway as general income at a flat rate, currently 28%. According to an imputation method, shareholders who are resident of Norway for tax purposes will effectively not be subject to tax on dividend distributions from Norwegian companies because a credit is available to offset against the Norwegian tax in an amount equal to the tax to be levied on the dividends distributed.

Non-Norwegian shareholders are in principle subject to a withholding tax at a rate of 25% on dividends distributed from the Norwegian companies, unless the shareholder is carrying on business activities in Norway and the shares are effectively connected to those activities. In this case, the rules described in the paragraph above are applicable. The withholding rate of 25% is normally lower according to tax treaties between Norway and the country in which the shareholder is resident. Under most tax treaties, the rate is normally reduced to 15%.

Wealth Tax

The value of the shares is included when computing the wealth tax imposed on individuals who for tax purposes are resident in Norway. Norwegian joint stock companies and certain other companies in a similar position are not subject to wealth tax. Currently, the marginal wealth tax rate is 1.1% of the values, which apply for assessment purposes. The value for assessment purposes for shares listed on the Oslo Stock Exchange is 100% of the listed value as of January 1 in the year of assessment. Shareholders who are resident outside of Norway are ordinarily not subject to wealth tax in Norway for shares in Norwegian joint stock companies.

Inheritance and Gift Tax

Upon transfer of shares due to inheritance or gifts, such transfer may be subject to inheritance or gift tax. The basis for the computation is the market value at the time the transfer takes place. A transfer is not subject to Norwegian tax if the donor and the deceased were neither nationals nor residents of Norway.

United States Federal Income Tax Considerations

As used in this prospectus, references to a ''U.S. Holder'' are to a holder of shares that is (i) a citizen or resident of the United States, (ii) a corporation organised under the laws of the United States, any state of the United States or the District of Columbia or (iii) a person or entity otherwise subject to U.S. federal income taxation on a net income basis with respect to the shares (including a non-resident alien or foreign corporation that holds, or is deemed to hold, shares effectively connected with the conduct of a U.S. trade or business); and references to a ''non-U.S. Holder'' are to a holder that is not a U.S. person for U.S. federal income tax purposes.

Taxation of Dividends

Although we do not intend to make any distributions with respect to the shares in the foreseeable future, to the extent paid out of current or accumulated earnings and profit of PhotoCure, as determined under U.S. federal income tax principles (and subject to the PFIC rules discussed below), distributions, if any, made with respect to the shares will be includable for U.S. federal income tax purposes in the income of a U.S. Holder as ordinary dividend income in an amount equal to the sum of any cash and the fair market value of any property distributed by

PhotoCure, before reduction for Norwegian withholding tax. To the extent that the distribution exceeds our current or accumulated earnings and profits, it will be treated as a non-taxable return of capital to the extent of the U.S. Holder's adjusted tax basis in its shares and thereafter as taxable capital gain. Dividends generally will be treated as income from sources outside the United States and generally will be passive income (or, in the case of certain holders, ''financial services income'') for purposes of the foreign tax credit limitation. Dividends that we pay will not be eligible for the dividends received deduction allowed to corporations in certain circumstances under the Code. U.S. Holders may elect annually to either deduct Norwegian withholding tax against their income or to credit the withholding taxes against their U.S. tax liability, subject to U.S. foreign tax credit limitation rules.

A non-U.S. Holder generally will not be subject to U.S. federal income tax or withholding tax on distributions with respect to the shares that are treated as dividend income for U.S. federal income tax purposes unless such dividends are effectively connected with the conduct of a trade or business within the United States by such non-U.S. Holder (and are attributable to a permanent establishment maintained in the United States by such non-U.S. Holder, if an applicable income tax treaty so requires as a condition for such non-U.S. Holder to be subject to U.S. taxation on a net income basis with respect to income from shares), in which case the non-U.S. Holder generally will be subject to tax with respect to such dividends in the same manner as a U.S. Holder. Any such effectively connected dividends received by a non-United States corporation may also, under certain circumstances, be subject to an additional ''branch profits tax'' at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. A non-U.S. Holder generally will not be subject to U.S. federal income tax or withholding tax on distributions with respect to the shares that are treated as capital gain for U.S. federal income tax purposes unless such holder would be subject to U.S. federal income tax on gain realised on the sale or other disposition of the shares, as discussed below.

Taxation of Capital Gains

Subject to the PFIC rules discussed below, upon the sale of other disposition of shares, a U.S. Holder will recognise gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realised on the disposition of shares and the U.S. Holder's adjusted tax basis in the shares. Such gain or loss generally will be subject to U.S. federal income tax. U.S. Holders who are individuals are subject to a maximum tax rate on long-term capital gains which generally include gains from the disposition of a capital asset held for more than one year. For U.S. federal income tax purposes, capital losses are subject to limitations on deductibility. Gain realised by a U.S. Holder on the sale or other disposition of shares generally will be treated as income from sources within the United States for purposes of the foreign tax credit limitation.

A Non-U.S. Holder will not be subject to U.S. federal income tax or withholding tax on gain realised on the sale or other disposition of shares unless (i) the gain is effectively connected with a trade or business of the non-U.S. Holder in the United States (and is attributable to a permanent establishment maintained in the United States by such non-U.S. Holder, if an applicable income tax treaty so requires as a condition for such non-U.S. Holder to be subject to U.S. taxation on a net income basis with respect to gain from the sale or other disposition of the shares) or (ii) such holder is an individual who is present in the United States for 183 days or more in the taxable year of the sale, and certain other conditions are met. Effectively connected gains realised by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional ''branch profits tax'' at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

Passive Foreign Investment Company Status

We will be classified as a ''passive foreign investment company'' (''PFIC'') for U.S. federal income tax purposes if certain tests are met. We will be a PFIC with respect to a U.S. Holder if for any taxable year in which the U.S. Holder held the shares, either (i) 75% or more of our gross income for the taxable year is passive income or (ii) the average value of our assets (during the taxable year) which produce or are held for the production of passive income is at

least 50% of the average value of all assets for such year. Passive income means, in general, dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business and not derived from a related person), annuities, and gains from assets which would produce such income other than sales of inventory. For purposes of the PFIC tests, if a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated as owning its proportionate share of the assets of the other corporation, and as if it had received directly its proportionate share of the income of the other corporation. The effect of this specific provision with respect to us and ownership of our subsidiaries is that, for purposes of the income and assets tests described above, we will be treated as owning directly the proportionate share of the assets of our subsidiaries and of receiving directly our proportionate share of each of those companies' income, if any, so long as we own, directly or indirectly, at least 25% by value of the particular company's stock. Active business income of our subsidiaries will be treated as our active business income, rather than as passive income.

A determination as to PFIC status is made annually (although an initial determination that we are a PFIC will generally be binding on a shareholder who does not make the qualified election discussed below with respect to the first year such shareholder holds or is deemed to hold the shares). Whether PhotoCure is a PFIC in any year and the tax consequences relating to PFIC status will depend on the composition of our income and assets. For example, we retain in our business a substantial amount of cash and cash equivalents, and such cash balances are considered by the IRS to be passive assets, even if held as working capital for an active business. Accurate predictions of the composition of our income are particularly difficult in light of the volatile nature of earnings patterns in technological industries. In addition, U.S. tax law is not entirely clear as to the proper classification of all types of income that we may realise or all types of assets that we may hold. We will, however, monitor our income and assets closely in order to make an annual determination as to whether we may be a PFIC. Following the close of any tax year, we intend to promptly send a notice to all shareholders of record at any time during such year, if we determine that we are a PFIC.

If we are a PFIC, each of our direct and certain indirect shareholders that is a U.S. person (''U.S. Shareholders'') either (i) may make an election to report currently its *pro rata* share of our ordinary earnings and net capital gain even if no distributions are actually received from us (the ''qualified election''), or (ii) upon a disposition of shares, including a disposition pursuant to an otherwise tax-free reorganisation, or receipt of an ''excess distribution'' (as defined in the Code), will be subject to tax (including an interest charge) generally as if the gain or distribution were earned rateably over the period in which the shares were held and face other adverse tax consequences. Alternatively, if our shares constitute ''marketable stock'' as defined in the Code and Treasury regulations, U.S. Shareholders may make a mark-to-market election with respect to the shares under which the U.S. Shareholder would include in income each year an amount equal to the excess, if any, of the market value of the shares as of the close of the taxable year over the U.S. Shareholder's adjusted basis in such stock. Marketable stock includes stock that is regularly traded on a qualified exchange or other market. In general, stock is regularly traded for any calendar year if the stock is regularly traded for at least 15 days during each calendar quarter during the calendar year. A qualified exchange or other market includes a foreign securities exchange if it is regulated by a governmental authority of the country in which the market is located and meets specified criteria. Although the shares have been given conditional approval to be admitted to the Main List of the Oslo Stock Exchange, we cannot assure you whether our shares will be regularly traded on the Oslo Stock Exchange or that the Oslo Stock Exchange constitutes a qualified exchange or other market for purposes of the mark to market rules. Under this election, the U.S. Shareholder would be allowed a deduction for the excess, if any, of the adjusted basis of the shares over the market value of the shares as of the close of the taxable year but only to the extent of any net mark-to-market gains with respect to the shares included by the shareholder for prior taxable years. The U.S. Shareholder's adjusted basis in the shares would be adjusted to reflect the amounts included or deducted under this election. Amounts included in income pursuant to a mark-to-market election, as well as gain on the actual sale or other disposition of the shares, would be treated as ordinary income. Ordinary loss treatment would also apply to the deductible portion of any mark-to-market loss on the shares,

as well as to any loss realised on the actual sale or other disposition of the shares to the extent that the amount of such loss did not exceed the net mark-to-market gains previously included with respect to such stock. An election to mark to market will apply to the taxable year for which made and all subsequent taxable years, unless the shares cease to be treated as marketable stock or the Secretary of the Treasury consents to the revocation of such election. The procedural requirements and forms for making the mark-to-market election have not yet been made available by the Internal Revenue Service. A shareholder who makes a qualified election may recognise ordinary income or loss as a result of currency fluctuations between the dates of deemed and actual distributions from us.

If we become a PFIC, each U.S. Shareholder would be required annually to file IRS form 8621 (Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund) with such shareholder's timely filed income tax return and with the Internal Revenue Service, whether or not the qualified election or the mark-to-market election is made. A U.S. Shareholder choosing to make a qualified election must also include a shareholder election statement and the PFIC annual information statement provided by us (as described below) when filing IRS Form 8621 and its income tax return, and should send a copy of the shareholder election statement to the Internal Revenue Service. If we determine that we have become a PFIC, within two months after the end of each year we intend to supply the PFIC annual information statement necessary to make the qualified election for such year to each U.S. Shareholder of record at the end of such year. In such case, we also intend to supply the PFIC annual information statement to any shareholder or former shareholder who requests it.

Prospective purchasers of the shares are urged to consult their tax advisors regarding the PFIC rules and their effect on an investment in shares, with particular regard to (i) the advisability of making the qualified election in the event that we notify our shareholders that we have become a PFIC in any taxable year, or (ii) the advisability of making the mark-to-market election.

Backup Withholding and Information Reporting

Under current regulations, dividends paid on our shares will not be subject to U.S. information reporting requirements or backup withholding unless we have a fiscal or paying agent in the United States. Under Treasury Regulations that have been proposed to be effective after 1997, however, dividends paid within the United States, or paid outside the United States by a U.S. payor or middleman, will be subject to U.S. backup withholding at a 31% rates unless applicable certification requirements are satisfied.

In addition, under current regulations, the payment of the proceeds of a sale of shares to or through a U.S. office of a broker will be subject to both U.S. backup withholding and information reporting unless the holder or beneficial owner certifies its non-U.S. status under penalties or perjury or otherwise establishes an exemption. U.S. information reporting and backup withholding generally will not apply to a payment made outside the United States of the proceeds of a sale of shares through an office outside the United States of a non-U.S. broker. However, U.S. information reporting requirements (but not backup withholding) will apply to a payment made outside the United States of the proceeds of a sale of shares through an office outside the United States of a broker that is a United States person, that derives 50% or more of its gross income for a specific three-year period from the conduct of a trade or business in the United States, or that is a ''controlled foreign corporation'' as to the United States, unless the broker has documentary evidence in its files that the holder or beneficial owner is a non-United States person or the holder or beneficial owner otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules from a payment to a holder will be refunded (or credited against such holder's U.S. federal income tax liability, if any), provided the required information is furnished to the IRS.

Foreign Currency Issues

If dividends are paid in Norwegian kroner the amount of the dividend distribution included in the income of a U.S. Holder will be the U.S. dollar value of the payments made in Norwegian kroner determined at a spot, Norwegian kroner/U.S. dollar rate applicable to the date such

dividend is includable in the income of the U.S. Holder, regardless of whether the payment is in fact converted into U.S. dollars. Generally, gain or loss (if any) resulting from currency exchange fluctuations during the period from the date the dividend is paid to the date such payment is converted into U.S. dollars will be treated as ordinary income or loss. The gain or loss will generally be income from sources within the United States for foreign tax credit limitation purposes. We have never paid cash dividends on our shares, and do not intend to do so for the foreseeable future.

UNDERWRITING

Underwriters	Number of Shares
Deutsche Bank AG	1,542,000
Fondsfinans ASA	514,000
Carnegie ASA	321,250
Christiania Bank og Kreditkasse ASA	192,750
Total	2,570,000

Selling Restrictions

General

No action has been taken or will be taken in any jurisdiction other than the Kingdom of Norway by the underwriters or by us that would permit a public offering of the ordinary shares.

United States

The ordinary shares have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except to qualified institutional buyers, or QIBs, in reliance on Rule 144A under the Securities Act and to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. Each of the underwriters has agreed that, except as permitted under the Underwriting Agreement, it will not offer or sell the ordinary shares (1) as part of its distribution at any time or (2) otherwise until 40 days after the later of the commencement of the offering and the closing date (the ''Restricted Period''), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells ordinary shares during the Restricted Period a confirmation or other notice describing the restrictions on offers and sales of the ordinary shares within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Transfers of the ordinary shares purchased and sold under Rule 144A are restricted as described below under ''Restrictions on Resale and Transfer''.

In addition, until 40 days after the commencement of this offering, an offer or sale of the ordinary shares by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if the offer and sale is made otherwise than in accordance with Rule 144A under the Securities Act.

The underwriters propose to offer and sell the ordinary shares only outside the United States in reliance on Regulation S under the Securities Act and in the United States only to QIBs in reliance on Rule 144A under the Securities Act. Any offer or sale of ordinary shares made in reliance on Rule 144A will be made by broker-dealers who are registered as such under the U.S. Securities Exchange Act of 1934.

Restrictions on Resale and Transfer

This offering is being made in accordance with Rule 144A and Regulation S under the Securities Act. The ordinary shares have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons except to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or to certain persons in offshore transactions in accordance with Regulation S.

Each purchaser of ordinary shares offered and sold in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A thereunder will be deemed to have represented and agreed as follows:

Each purchaser understands that the ordinary shares have not been and will not be registered under the Securities Act and that, if in the future it decides to offer, resell, pledge or otherwise transfer the ordinary shares, they may be offered, sold, pledged or otherwise

transferred only (a) to a person whom the seller reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A under the Securities Act, (b) in an offshore transaction in accordance with rule 903 or rule 904 of Regulation S under the Securities Act or (c) under an exemption from the Securities Act provided by Rule 144, if available, in each case in accordance with any applicable securities laws of any state of the United States, unless PhotoCure determines otherwise consistent with applicable law.

In addition, each purchaser of ordinary shares offered and sold in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A will be deemed to have represented and agreed that it is a QIB as defined in Rule 144A, that it is aware that the sale to it is being made in reliance on Rule 144A and that it is acquiring the shares for its own account or for the account of a QIB. Furthermore, each recipient of new shares in the United States will be required to deliver an Investment Letter.

The underwriters reserve the right to reject, for any reason, any offer to ordinary shares that may be offered in this offering, including offers from residents of the United States.

ADDITIONAL INFORMATION RELATING TO THE OFFERING

General

The Offer

The Oslo Stock Exchange has given conditional approval for all our ordinary shares issued to date, and to be issued in this offering, to be admitted to the Main List of the Oslo Stock Exchange. The offer will be made:

- to the public in Norway; and
- to institutional and certain other investors internationally, including an offering under Rule 144A to qualified institutional buyers in the United States.

The Offering Price

The offering price is NOK 155 per share. Before the offering, there has been a limited market for the ordinary shares on the OTC market in Norway. The offering price will be determined by us after consultation with the underwriters.

Allocation of Shares

In the institutional tranche, the offer shares will be allocated by us after consultation with Deutsche Bank and Fondsfinans. In determining the basis of the allocation of the offer shares, as well as the split between the allocation of shares offered to Norwegian investors and international investors, consideration will be given to the then prevailing market and economic conditions, investor demand and our desire to expand our international investor base. The goal of the allocation is to develop a diversified share structure and an appropriate spread of shareholders.

In the retail tranche, objective allotment criteria will be employed for scaling down or rejecting applications, using the VPS automated standard allotment or random allotment procedures. Accordingly, an applicant may not receive all of the shares being applied for and it is possible that an applicant may not receive any. Successful applicants will at least be allocated a minimum allocation of a round lot. Each investor may only complete one subscription form. The board has the authority to reject any subscription at its discretion.

Subscribers not resident in Norway may elect to have payment for the shares subscribed by them debited directly from such account with a Norwegian bank.

Shares Offered by the Selling Shareholders

The Selling Shareholders will be permitted to sell up to an aggregate of 270,000 shares in the offering. The Selling Shareholders' shares will be sold at the same price and on the same conditions as the shares newly issued by us in connection with the offering, and none of the Selling Shareholder's shares will be sold unless our Board of Directors determines that the shares to be issued by us in connection with the offering (except for the over-allotment option) are fully subscribed. Shares to be sold by Selling Shareholders will be offered and sold on a pro rata basis.

The Norwegian Offering

Further details of the Norwegian offering are set out in the relevant subscription forms, which may be obtained at any of the Subscription Offices set forth below.

Book-building Period for the Norwegian Institutional Tranche

The book-building period for the institutional tranche of the Norwegian offering is scheduled to take place from May 5, 2000 to and including May 19, 2000 (the ''Book-building Period''). The Book-building Period will end at 16:00 hours (Oslo time) on May 19, 2000 or earlier as may be determined by the underwriters.

Subscription for the Norwegian Institutional Tranche

All subscriptions for the institutional tranche of the Norwegian offering must be made on a special subscription form that is available at the subscription offices. Subscription forms that are

incomplete will be considered invalid and will not be processed by the underwriters. Properly completed subscription forms must be received by the underwriters by 16:00 hours (Oslo time) on May 19, 2000. All subscriptions in the institutional tranche must be more than NOK 3,000,000.

Subscription Period for the Norwegian Retail Tranche

The subscription period for the retail tranche of the Norwegian offering is scheduled to take place from May 5, 2000 to and including May 18, 2000. The subscription period will end at 16:00 hours (Oslo time) on May 18, 2000. The subscription period for the Norwegian retail tranche is one day shorter than the subscription period for the Norwegian institutional tranche due to the additional administrative process required for the retail tranche. Retail subscribers will be deemed to have subscribed in accordance with the subscription form submitted to the underwriters pursuant to which the underwriters are authorised to subscribe on their behalf once the price has been determined. Notification to the subscribers and to the public of the subscription price, as set out in the book-building, will be provided through a newspaper announcement which will be placed as soon as the price has been determined, on *www.photocure.com*, as well as through contacting the underwriters. The OSE will be informed of the price in writing once it has been determined. Subscribers will be notified together with the notification of allotment.

Subscription for the Norwegian Retail Tranche

All subscriptions for the retail tranche of the Norwegian offering must be made on a special subscription form that is available at the subscription offices. Subscription forms that are incomplete will be considered invalid and will not be processed by the underwriters. Properly completed subscription forms must be received by the underwriters by 16:00 hours (Oslo time) on May 18, 2000. All subscriptions in the retail tranche must be at least NOK15,000. The maximum amount which can be subscribed through the Norwegian retail tranche is NOK 3,000,000. The application amount must be either NOK 15,000, NOK 20,000, NOK 25,000, NOK 50,000, NOK 100,000, NOK 250,000, NOK 500,000, NOK 750,000, NOK 1,000,000, NOK 1,500,000, NOK 2,000,000, NOK 2,500,000 or NOK 3,000,000. Subscribers wanting to subscribe for an amount in excess of NOK 3,000,000 must do so through the institutional tranche.

Listing

We have applied for, and been granted a conditional approval for listing on the Oslo Stock Exchange on or before June 1, 2000. The Company expects the listing to take place on or about May 29, 2000.

Subscription Offices

The prospectus is available free of charge to the public at the subscription offices at the addresses listed below:

Fondsfinans ASA
P.O. Box 1782 – Vika
Haakon VII's gt. 2
N-0122 Oslo
Norway
Fax: +47 23 11 30 03
Tel: +47 23 11 30 00

Carnegie ASA
P.O. Box 684 – Sentrum
Stranden 1 – Aker Brygge
N-0106 Oslo
Norway
Fax: +47 22 00 94 20
Tel: +47 22 00 93 00

Christiania Markets
P.O. Box 1166 – Sentrum
Middelthunsgt. 17
N-0107 Oslo
Norway
Fax: +47 22 69 05 09
Tel: +47 22 48 50 00

Pricing and Payment for the Shares

When subscribing for shares, each subscriber in the Norwegian retail tranche shall give a one-time authorisation to debit a given bank account with a Norwegian bank for the amount the subscriber is allocated. The amount will be charged on or about May 25, 2000. If no such election has been made, payment for the new shares allotted to such subscribers must be made in immediately available funds on or before the payment date. Further details are set out in the application form. If there are insufficient funds on the account, or for any reason it is impossible

to debit the given bank account on the date for debit, or payment in full has not been received when due, our Board of Directors reserves the right to cancel the subscription and allow others to utilise the subscription, in accordance with the Norwegian Public Limited Companies Act Section 2-13, or to let the underwriters advance the amount not paid on the subscribers' behalf or to sell the shares at the cost and risk of these subscribers. Interest at the annual rate of 12% will be charged on any late payment.

The Rights of the Shares

The newly issued shares shall, from the date of registration in the VPS, carry the same rights as ordinary shares outstanding before the offering. Allocated new shares shall not be transferable until they have been fully paid up and registered to the subscriber's account with the VPS.

Transaction Costs

From the proceeds of the offering, we will pay transaction costs and all other directly attributable costs in connection with the offering. The total estimated costs in connection with the offering, including the underwriting commissions paid to the members of the underwriting syndicate, are expected to total approximately 6.1% of the aggregate offering price.

	NOK
Underwriting fee (20% of 4.25%)	3,030,250
Management fee (20% of 4.25%)	3,030,250
Selling commission (60% of 4.25%)	9,090,750
Legal fees and expenses	
Dorsey & Whitney (London)	2,700,000
Wikborg, Rein & Co. (Oslo)	385,000
Advokatfirmaet Schjødt AS (Oslo)	500,000
Accounting	
Arthur Andersen & Co. (Oslo)	500,000
Other (printing, distribution, OSE charges, other)	2,500,000
Total	21,736,250

Legal and accounting fees will be determined in accordance with general market practice for these services.

Resolution to Issue New Shares

On May 2, 2000 the Board of Directors resolved to increase our share capital with NOK 1,150,000 from NOK 7,375,000 to NOK 8,525,000 by issuing 2,300,000 new shares, each at NOK 0.50. The offering price was fixed by the Board of Directors in a separate board meeting on May 20, 2000.

The premium will be added to our share premium reserve.

Inspection of Documents

Our corporate documents referred to herein may be inspected during normal office hours at our principal office address.

LEGAL MATTERS

Advokatfirmaet Schjødt AS, our Norwegian counsel, will pass upon the validity of the issuance of ordinary shares offered by this prospectus for us. Wikborg, Rein & Co, Norwegian counsel to the underwriters, and Dorsey & Whitney LLP, United States counsel to the underwriters, will pass upon legal matters in connection with the offering for the underwriters.

INDEPENDENT AUDITORS

The financial statements as of December 31, 1997, 1998 and 1999 and for the years then ended, included in this prospectus, have been audited by Arthur Andersen & Co., independent auditors, as stated in their reports appearing herein.

GLOSSARY

AK	Actinic keratosis, sun damaged skin
ALA	5-amino levulinic acid; a precursor in heme biosynthesis (ALA-free acid)
ALA derivative	Unique chemical entity derived from ALA
ALA ester	An esterised derivative of ALA
Antigen	A molecule that is capable of stimulating production of an antibody in the body—usually a foreign or potentially toxic molecule.
BCC	Basal cell carcinoma, non-melanoma skin cancer
Benzvix™	Our ALA derivative product under development for the treatment of early cancers and premalignant disease in the mouth, esophagus and gastrointestinal tract
Cancer	A group of diseases in which cells grow unrestrained in an organ or tissue in the body; can spread to tissues around it and destroy them or be transported through blood or lymph pathways to other parts of the body.
Cytosol	The soluble fraction of a cell
Disease indication	The specific clinical condition for which a drug is intended to be used.
Double blind	A type of clinical trial study in which neither the doctor nor the patient knows whether the patient is being administered a placebo or the test drug
Efficacy	The measure of a drug's effectiveness
FDA	Food and Drug Administration (U.S. drug regulatory authority)
Hexvix™	Our ALA derivative product under development for the treatment and diagnosis of early cancer of the urological and gynecological tract
High risk BCC	BCC which because of size, location or previous treatment is not suitable for alternative therapies
IND	Investigational New Drug Application (U.S.)
MAA	Marketing Authorisation Application (Europe)
NDA	New Drug Application (U.S.)
NFR	Norwegian Research Council (Norges forskningsråd)
NRH	Norwegian Radium Hospital
OSE	Oslo Stock Exchange
OTC market	Over-the-counter market
PCI	Photochemical internalisation
PCS	Photochemical synergism
PDD	Photodynamic diagnosis or detection
PDT	Photodynamic therapy

Phase I clinical trials	Study conducted to determine the biological effects of a drug, especially safety and tolerability, and pharmacokinetics.
Phase I/II clinical trials	Studies carried out in patients with disease whereby the drug being tested would otherwise be inappropriate for testing in healthy subjects.
Phase II clinical trials	Studies in a limited number of patients with the aim of making a preliminary determination of the safety and efficacy as well as determination of a drug to provide proof of principle and/or to study drug dose ranges.
Phase III clinical trials	Larger clinical trials to confirm drug efficacy and safety prior to seeking marketing approval.
Pivotal study	The final decisive efficacy study prior to submission of MAA or NDA
PpIX	Protoporfyrin IX, a photosensitiser
Primary BCC	BCC that has not been previously treated
RF	Norwegian Radium Hospital Research Foundation
SCC	Squamous cell carcinoma, non-melanoma skin cancer
SND	Norwegian Industrial and Regional Development Fund (Statens Nærings-og distriktsutviklingsfond)
TUR	Transurrethal resection
VPS	Norwegian Centralised Securities Registry (Verdipapirsentralen)

PHOTOCURE ASA

DIRECTORS REPORT AND ACCOUNTS FOR 1999

1. The company's activities

PhotoCure ASA is a Norwegian pharmaceutical company founded in 1993. The company's mission is to develop and sell pharmaceuticals and medical devices for photodynamic therapy and diagnosis of cancer and other diseases. Photodynamic therapy is a form of treatment, which makes use of light to activate light sensitive drugs. The company's products are based on proprietary technology developed through research carried out at the Norwegian Radium Hospital (Det Norske Radiumhospital, NRH) in Oslo.

The company's first products, Metvix® and Curelight, are currently being tested in final clinical registration studies (Phase III) for non-melanoma skin cancer (basal cell carcinoma, BCC) and pre-cancerous conditions (actinic keratosis, AK). Metvix® is a cream which is applied to the area of skin to be treated. Once the cream has been in contact with the skin for a specific time period, the area is illuminated with red light from the Curelight lamp to complete the treatment session. The company plans to file a Market Authorisation Application (MAA) for Metvix® in Europe during 2000.

AK is a pre-cancerous skin disease, also known as solar keratosis or actinic keratosis. BCC, which should not be confused with malignant melanoma, is the most common form of skin cancer and also the most common form of any kind of malignancy amongst fair-skinned individuals. BCC and AK are frequent disorders caused by exposure to sun-light, and their incidence is especially high amongst fair-skinned individuals living in sun rich areas.

On the basis of an up-dated review of available publications, PhotoCure has re-evaluated the estimated number of cases of such skin diseases likely to occur annually. Any such figures are subject to a degree of uncertainty, not least with respect to the proportion of total incidences of AK which are actually recognised and treated. It is estimated that in the European Union incidences of BCC exceed 500,000 cases annually, with an equivalent figure for AK of approximately 5 million cases annually. The company estimates that in Europe, 20% of all incidences of AK are treated. The equivalent figures for BCC and AK in the United States are estimated at 1 million and 10 million respectively. It is estimated that 4 million cases of AK are treated in the United States every year, representing 40% of the total cases of AK.

The company estimates that in Australia there are approximately 175,000 new cases of BCC per year, with an equivalent figure of 2 million new cases of AK. PhotoCure estimates that the historic increase in total incidences has been 5% per annum. The company expects that this trend will continue due to BCC and AK occurring several decades after a patient's exposure to sun-light, and because of the increased age of the populations. In Europe and the United States both BCC and AK primarily affect older people.

PhotoCure has its offices in Oslo adjacent to the Norwegian Radium Hospital. The company had 17 employees at the end of 1999, as compared to 12 employees at the beginning of the year.

The working environment in the company is considered to be satisfactory. No accidents or injuries were recorded in 1999. Absence from work due to temporary sickness totalled 27 days out of approximately 3,000 working days for the year. No employee of the company has been registered as being on long-term sick leave.

The company does not pollute the external environment.

2. Research and development

Clinical trials are on schedule

By the end of 1999 a total of more than 1,700 patients had been treated with Metvix® in clinical studies. As at year-end, PhotoCure had completed three clinical studies, and was

2. Research and development (Continued)

engaged in a further 10 ongoing studies involving approximately 50 leading research centres in 12 European countries. The studies are being carried out in order to allow the company to file a MAA for three different types of skin diseases, actinic keratosis (AK), basal cell carcinoma (BCC) and high risk BCC. The latter category refers to cases of BCC where the BCC lesions are not suited to traditional therapy due to their size, location or previous treatment. The aggregate documentation is expected to position Metvix® as a new treatment alternative for skin cancer and pre-cancerous skin conditions.

If PhotoCure obtains marketing approval, the company intends to market Metvix® in tubes containing two grams of the cream each. The contents of one tube will in most cases be sufficient for the treatment of 2-4 skin lesions (a lesion being a damaged or unhealthy area of skin), corresponding to the average number of lesions per patient. Treatment can be administered on an out patient basis. The treatment session starts with a limited preparation of the skin lesion following the diagnosis. Metvix® cream is then applied to the lesion and is subsequently covered with a plastic film. After a certain period of time, typically three hours, the treatment session is completed by illuminating the area with red light from the Curelight lamp for approximately 10 minutes.

In May 1999 the patient inclusion was completed for two efficacy studies (Phase II) for BCC and AK respectively. These studies involved 262 patients and together with results of two previous studies they provide the documentation for the selection, dose and application period for Metvix®. The studies involved the evaluation of response to Metvix® three months after the first treatment. Patients who did not show a complete response after one treatment were given a further treatment after the three-month period, and response to this treatment was again evaluated after a further three months. Response evaluations will also be performed after periods of one and three years following treatment in the AK and BCC study respectively. A summary of the results from the three-month response evaluation is close to conclusion.

An important milestone was achieved at the beginning of October 1999 when treatment of the patients taking part in PhotoCure's two final clinical registration studies for AK (Phase III) reached its conclusion. These two studies compared Metvix® to placebo and cryosurgery. A total of 242 patients were involved, and a summary of the results from the two studies is close to conclusion.

In early November 1999 the treatment of patients involved in PhotoCure's final (pivotal) registration study (Phase II) for High Risk BCC was completed. In this study, lesions considered unsuitable for traditional therapy due to size, location or previous treatment were treated with Metvix®. A total of 94 patients were involved in the study, and responses will be evaluated 3 months and 12 months following treatment. This study provides the basis to file a MAA for Metvix® for High Risk BCC.

PhotoCure achieved another important milestone in October 1999 when patient treatment started for the final stage in clinical studies (Phase III) for BCC. In the first of these studies Metvix® is to be compared with surgical excision of nodular BCC (thick BCC lesions), whilst the second study involves a comparison of Metvix® and cryosurgery for the treatment of superficial BCC (thin BCC lesions). It is intended that 110 patients will be involved in each of the two studies.

In December 1999 PhotoCure received approval from the US Health Authorities (Food and Drug Administration, FDA) to start clinical trials (Investigational New Drug, IND) of Metvix® in the United States. PhotoCure has initially chosen to focus on skin cancer (basal cell carcinoma, BCC) in patients who have been through an organ transplantation. Such patients show a much higher incidence of this kind of disorder than individuals with no suppression of the immune systems.

12 months storage approval for Metvix®

PhotoCure has received approval for 12 months storage of Metvix® for use in clinical trials when stored at 2-8 degrees Celsius. The formal investigation of storage limits and

2. Research and development (Continued)

documentation for the active ingredients of Metvix®, as well as for the Metvix® cream itself, are on schedule.

CE certification for Curelight

The Curelight lamp is used in clinical trials carried out by PhotoCure. This light source activates light sensitive drugs which accumulate in the cells following the application of the Metvix® cream. Curelight was approved as a medical device Type IIa in 1999, and has been granted CE certification. This confirms that Curelight satisfies all current European quality requirements for medical devices.

Co-operative arrangements for research

The company has entered into a co-operation agreement with the Research Foundation (RF) of the NRH. This agreement gives the company access to, and an option to acquire new technology and new 'know-how' developed by the NRH in the area of photodynamic therapy (PDT). In return, the company participates in financing research and development carried out in this area. In addition to the agreement with RF, PhotoCure has ongoing research agreements with other institutions including the Imperial College of Science, Technology and Medicine in London, Leeds University and the Drug Discovery Laboratory in Oslo.

Research programmes for the diagnosis and treatment of internal cancers

The principles behind the use of light activated drugs and illumination are also applicable to internal cancers. PhotoCure has initiated pre-clinical research including formal toxicological trials to identify drugs which will be suitable for the diagnosis and treatment of cancer and pre-cancerous conditions of the bladder, oral cavity, throat and esophagus, as well as in gynaecology. This research now allows PhotoCure to start the formal process of product development in all these therapy areas.

In addition, the company and research staff at NRH has investigated the effect of combinations of light-sensitive drugs. The company's research on animal models has demonstrated that the use of combinations of active ingredients can produce a significant increase in effectiveness over the use of only a single dose ingredient. The experience gained from this research has been successfully applied by researchers at NRH in an academic research project carried out in China on cancer of the esophagus. The positive results achieved have encouraged the company to plan further research on one or more combination products for internal cancers.

Research programme in light enhanced chemotherapy, gene therapy and cancer vaccines

It is the case that many important functional substances such as genes, cancer-specific proteins (antigens) and certain chemotherapy drugs are rapidly broken down in the cells, and therefore do not have the effect that might otherwise be expected. PhotoCure possesses a unique platform technology to overcome this problem. Light and light activated substances are used to reduce the ability of cells to break down drugs and accordingly increase (by up to 100 times) the ability of the substances to exercise their desired effect on unhealthy cells. By way of example the company has demonstrated that in applications such as the transfer of genes to cells in cell cultures (gene therapy) and to cancer cells in animals this technology is capable of increasing the effect the genes have on the cells and thereby their potential to affect the cells' function.

Photochemical techniques can also increase the cells up-take of cancer-specific proteins and thereby increase the immune response and cell death following administration of cancer vaccines. Furthermore, research carried out by NRH on PhotoCure's technology has demonstrated that light enhanced chemotherapy has proven to be very effective in treating tumours in animals. On the basis of these important observations the company is of the view

2. Research and development (Continued)

that it possesses technology which can be of major importance for improving existing treatment methods for certain types of cancer, as well as for cancer vaccines and gene therapy.

3. Manufacturing alliances

PhotoCure entered into an agreement with Hydro Research AS (HR) in August 1999 for the production of the chemical ingredients for Metvix® (P-1202) and other future products. Norsk Hydro has carried out extensive product development for PhotoCure over a number of years in respect of the chemical development, production and documentation of P-1202. The production agreement with HR runs for a period of 10 years from 1 January 2000, and the parties have agreed to negotiate a further increase in production after the first three years.

In order to provide an incentive for HR to produce relatively limited volumes of pharmaceutical ingredients for PhotoCure, the agreement contains specific provisions for HR to acquire the right to subscribe for a total of up to 400,000 shares in PhotoCure at NOK 32.5 per share plus 15% p.a. Accordingly, the warrants were issued to HR in an Extraordinary General Meeting of PhotoCure held on 22 September 1999.

PhotoCure also entered into an agreement in 1999 with Penn Pharmaceuticals in Wales for the production of Metvix® on a commercial basis. Penn Pharmaceuticals is a highly specialised and skilled manufacturer of pharmaceuticals. PhotoCure also makes use of Penn Pharmaceuticals for its pharmaceutical research and the development of new products.

4. Patents and patent applications

The Australian authorities accepted and approved PhotoCure's application for a patent for ALA esters (including P-1202) in 1999. Australia has the highest incidence of skin cancer and sun-damaged skin in the world. This combined with the fact that Australia is the first country to approve this important patent application makes this approval an important milestone for the company. Singapore has also approved the patent, and patent applications have been filed in a further 27 countries.

Applications by the company for patents to protect its technology for gene therapy, vaccine development and light enhanced chemotherapy (photochemical internalisation) have been granted in Norway, Australia, Singapore and the USA. Applications are currently being considered, or will be considered in due course, in a further 30 countries.

In addition to the patents and patent applications mentioned above, PhotoCure is pursuing two further separate patent applications. These relate to the company's illumination source (Curelight) and photochemical synergism. Photochemical synergism refers to the use of two different types of light sensitive drugs which produce a synergy effect when they are used in combination in the treatment of cancer.

PhotoCure submitted a further two new patent applications during 1999.

5. The company's financial situation

PhotoCure currently carries out limited sales of its products under development, primarily to the pharmacy of the Norwegian Radium Hospital. Total sales in 1999 amounted to NOK 1,094,560 as compared to NOK 956,700 in 1998.

The company has received approval from the Research Council of Norway (Norges forskningsråd, NFR) for a grant of NOK 2.5 million for 2000. The total amount of grants received in the years 1997, 1998 and 1999 amounted to NOK 6.7 million.

In 1997 the Norwegian Industrial and Regional Development Fund (Statens nærings- og distriktsutviklingsfond, SND) approved a conditional grant of NOK 10.4 million for PhotoCure's dermatology project. This amount has now been disbursed in full. If the company generates sales revenues from its dermatology project, there are specific provisions attached to this grant

5. The company's financial situation (Continued)

which require the payment of an agreed percentage of accumulated sales revenues as royalty. Any such royalty payments to SND are subject to an upper limit of NOK 12.5 million in aggregate. SND has also granted PhotoCure a risk loan of NOK 3 million.

The development of pharmaceuticals involves significant expenditures, and this is reflected in the company's operating deficit of NOK 46,044,517 for 1999. The operating deficit in 1998 amounted to NOK 19,215,505. All research and development costs are expensed when incurred. The increase in the operating deficit reflects increased R&D activity in respect of Metvix® and other products. Wage and salary costs increased due to an increase in the number of employees. In addition, a provision has been made for the estimated employer's social security contributions related to the value of the employee share options as of 31 December 1999, as well as an accrued but not yet paid bonus to the President and CEO.

Net financial items improved from a positive NOK 1,601,092 in 1998 to NOK 4,537,746 in 1999 as a result of the capital raised by a share issue in June 1999. The share issue raised a total of NOK 78 million (before deducting the expenses of the share issue), at a price of NOK 32.50 per share. The company offered a total of 2.4 million shares and the issue was oversubscribed by approximately 1 million shares. The new issue was carried out in combination with a sale of 1.2 million shares by existing shareholders of NOK 39 million. A total of 14.44 million shares were outstanding on 31 December 1999, and the company had 538 shareholders at that date. By way of comparison the company had 46 shareholders at the start of 1999. The Extraordinary General Meeting of the company held on 22 September 1999 resolved to remove the previous formal requirement for the Board of Directors to approve all transactions in the company's shares.

The company pursues a cautious investment strategy of its liquid assets, and at year-end its liquid assets were invested in money market funds and bank deposits. In the future liquid assets will primarily be invested in bank deposits or in interest bearing securities with remaining maturity of up to 1 year. The return on the company's liquid assets is dependent on interest rates in the money market and can accordingly fluctuate considerably from time to time. Shareholders' equity amounted to NOK 68,227,569 at 31 December 1999. The company has sufficient equity and liquid assets relative to its current level of activity to continue its operations during year 2000.

The company incurs costs in a number of foreign currencies, and also receives income denominated in foreign currencies. PhotoCure is accordingly exposed to movements in exchange rates to some extent. The company makes continuous assessments on whether steps should be taken to reduce this risk

The financial statements have been prepared on the assumption that the company is a going concern, cf. Section 4-5 of the Accounting Act.

The Board of Directors proposes that the deficit for the year of NOK 41,506,771 is to be covered by transfer from the company's share premium reserve. The Board does not propose the payment of any dividend in respect of the 1999 financial year.

There have been no events since the end of the 1999 financial year of any material significance to an evaluation of the company's financial condition and results.

6. Future prospects

The company plans to apply during the second quarter of the current year for its shares to be listed on the Oslo Stock Exchange. The company would like to issue new shares in conjunction with a listing in order to secure financing for the company's development and achieve a wider distribution of its shares.

PhotoCure plans to file its first MAA during the current year for Metvix® in Europe. As a result of its continuing significant investments in research and development, PhotoCure expects to incur a loss also in 2000. The focus of the company's research and development activity has

6. Future prospects (Continued)

so far been on Metvix® and Curelight. The development of these products is now in its final phase, and in the future the research and development activities will be focused to an increasing extent on the diagnosis and treatment of various types of internal cancer.

PhotoCure is a development stage pharmaceutical company. The company made significant progress during 1999 towards the commercialisation of its first products. The company would however like to stress that there are risks associated with the commercialisation of its products, as well as with the financing of the company's continuing development.

Oslo, 24 February 2000

Halvor Bjerke, Chairman

Per-Olof Mårtensson, Deputy Chairman

Svein S. Jacobsen

Tharald Brøvig

Åse Aulie Michelet

Stener Kvinnsland

Vidar Hansson, President and CEO

This is a translation from Norwegian.

FINANCIAL STATEMENTS

PhotoCure ASA
STATEMENT OF OPERATIONS

	Note	Twelve months ended December 31 1999	1998	1997
Operating revenues				
Operating revenues	9	1,094,560	956,700	409,063
Total revenues		**1,094,560**	**956,700**	**409,063**
Operating expenses				
Labour costs	6, 10	13,749,997	7,488,963	3,518,995
Ordinary depreciation	1	200,967	197,624	150,548
Other operating expenses	11, 12	33,188,113	12,485,617	8,389,516
Total expenses		**47,139,077**	**20,172,205**	**12,059,059**
Operating income		**(46,044,517)**	**(19,215,505)**	**(11,649,996)**
Financial income and expense				
Interest income		5,259,689	1,932,827	488,231
Interest expense		721,944	331,735	134,017
Net financial income		**4,537,746**	**1,601,092**	**354,214**
Loss before tax		(41,506,771)	(17,614,413)	(11,295,782)
Tax	13	—	—	—
Net loss for the year	14	**(41,506,771)**	**(17,614,413)**	**(11,295,782)**
Annual settlement disposition				
Transfer from share premium reserve	4	(41,506,771)	(17,614,413)	(11,295,782)
Total transfer		**(41,506,771)**	**(17,614,413)**	**(11,295,782)**

PhotoCure ASA
BALANCE SHEET

	Note	As of December 31 1999	1998	1997
ASSETS				
Fixed assets				
Financial fixed assets				
Long term outstanding claims	6	—	177,428	—
Total financial fixed assets		**—**	**177,428**	**—**
Tangible fixed assets				
Machinery and equipment	1	523,772	682,336	385,357
Total tangible fixed assets		**523,772**	**682,336**	**385,357**
Total fixed assets		**523,772**	**859,764**	**385,357**
Current assets				
Receivables				
Accounts receivables		59,778	241,080	12,300
Other current receivables		29,139	198,476	255,384
Outstanding refund of dues		397,530	655,610	220,333
Grants receivable	12	488,084	848,367	1,787,749
Total receivables		**974,531**	**1,943,533**	**2,275,766**
Investments				
Securities	2	84,924,470	33,693,079	—
Total securities		**84,924,470**	**33,693,079**	**—**
Bank deposits, cash in hand, etc.				
Cash and bank deposits	3	14,439,253	19,104,592	19,247,558
Total cash		**14,439,253**	**19,104,592**	**19,247,558**
Total current assets		**100,338,254**	**54,741,204**	**21,523,324**
Total assets		**100,862,026**	**55,600,968**	**21,908,681**
SHAREHOLDERS' CAPITAL AND LIABILITIES				
Paid-in-capital				
Share capital	4,5	7,220,000	6,020,000	104,400
Share premium reserve	4	61,007,569	29,714,341	14,631,434
Total paid-in-capital		**68,227,569**	**35,734,341**	**14,735,834**
Total shareholders' capital	4	**68,227,569**	**35,734,341**	**14,735,834**
LIABILITIES				
Long-term liabilities				
Pension liabilities	6	165,023	—	—
Other long-term liabilities	7	16,676,478	12,569,437	4,398,575
Total long-term liabilities		**16,841,501**	**12,569,437**	**4,398,575**
Current liabilities				
Accounts payable		4,933,087	2,394,248	1,789,219
Employee withholding taxes and social security costs		345,697	193,204	300,880
Other current liabilities	8	10,514,172	4,709,738	684,173
Total current liabilities		**15,792,956**	**7,297,190**	**2,774,272**
Total shareholders' capital and liabilities		**100,862,026**	**55,600,968**	**21,908,681**

Oslo 24 February 2000
The Board of Directors of PhotoCure ASA

HALVOR BJERKE (sig)
Chairman of the board

PER-OLOF MÅRTENSSON (sig)
Deputy chairman

THARALD BRØVIG (sig)

ÅSE AULIE MICHELET (sig)

STENER KVINNSLAND (sig)

SVEIN S JACOBSEN (sig)

VIDAR HANSSON (sig)
President and CEO

PhotoCure ASA
CASH FLOW STATEMENT

	Note	Twelve months ended December 31 1999	1998	1997
Cash flow from operations				
Loss before taxes		(41,506,771)	(17,614,413)	(11,295,782)
Ordinary depreciation	1	200,967	197,624	150,548
Change in pension liability		342,451	(177,428)	—
Change in accounts receivables		181,302	(228,780)	(12,300)
Change in accounts payable		2,538,839	605,029	852,021
Change in other short-term items		7,036,459	4,478,902	(1,335,494)
Net cashflow from operations		(31,206,753)	(12,739,066)	(11,641,007)
Cash flow from investments				
Sales of operating fixed assets		0	—	122,000
Investments in operating fixed assets	1	(334,236)	(494,603)	(324,177)
Net cashflow from investing activities		(334,236)	(494,603)	(202,177)
Cash flow from capital transactions				
New loans raised		4,107,041	8,170,863	4,398,575
Paid-in shareholders' capital	4	74,000,000	38,612,919	14,703,613
Net cash flow from capital transactions		78,107,041	46,783,782	19,102,188
Net change in cash during the year		46,566,052	33,550,113	7,259,004
Balance sheet items				
Net change in liquid capital during the year		46,566,052	33,550,113	7,259,004
Cash balance as of 1st of January		52,797,671	19,247,558	11,988,554
Cash balance as of December 31		99,363,723	52,797,671	19,247,558

PhotoCure ASA
NOTES TO FINANCIAL STATEMENTS
31 DECEMBER, 1999

SIGNIFICANT ACCOUNTING POLICIES

PhotoCure ASA (the ''Company'') has presented the accompanying financial statements in accordance with the Accounting Act of 1998 (the ''Accounting Act'') and laws, accounting standards, principles, and practices generally accepted in Norway.

Change of accounting principles

Certain changes in accounting principles have been made to comply with the new Accounting Act. The following effects of applying the new accounting principles have been reflected in shareholders' equity:

Estimated accrued Social Security tax on subscription rights/warrants for the employee option programmes has been recognised as a short-term liability. The implementation effect as of 1 January, 1999, of NOK 2,320,166 has been offset against shareholders' equity. The share options/warrants were marked to the assumed market value at 31 December, 1999. For further information, see notes 4, 8 and 10.

Contributions received from the government that are subject to a conditional repayment clause are now recognised as long term debt in the balance sheet. The implementation effect as of 1 January, 1999, of NOK 9,569,438 was offset against shareholder's capital. For further information, see notes 4 and 7.

Certain reclassifications have been made to the prior period statements to conform them to the 31 December, 1999, classifications.

Revenue recognition

The revenue from sales of goods is recognised when the goods are delivered.

Research and development costs

All costs related to research and development charges are expensed as incurred.

Cash contributions from the government

Cash contributions received from the government are booked at the value of the cash contributions at the time of the transaction. These cash contributions are recognised as income in the same period as the corresponding costs are charged to expense and are classified as a reduction of expense in the income statement.

Cash contributions from the government that are subject to a conditional repayment clause are recognised as a liability and prospective repayments are recognised as instalments in the balance sheet.

Assessment of balance sheet items

Assets linked to the operating cycle, as well as receivables that are due within one year, are classified as current assets. Other assets are classified as fixed assets. The same principle is applied for classifying liabilities.

Current assets are valued at the lower of cost or market value. Short-term liabilities are recognised at cost.

Fixed assets are valued at purchase price. Periodically, fixed assets are evaluated for possible impairment and are written down to market value if the decline in value is not considered temporary and is in accordance with generally accepted accounting practice. The

PhotoCure ASA
NOTES TO FINANCIAL STATEMENTS (Continued)
31 DECEMBER, 1999

write down will be reversed when the conditions leading to the decline in value no longer exist. Long term debt is recognised at the nominal value.

Receivables

Account receivables and other receivables are carried at face value less a provision for uncollectible accounts. The provision is an estimate of the realisability of the account balance.

Short term investments

Investments in securities are valued at the lower of cost or market value. Dividends and other distributions are recognised as financial income.

Fixed assets

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

Pensions

Pension costs and pension liabilities are calculated based on an assumed discount rate, rate of salary progression, pension and social benefit allowances, actuarial assumptions on mortality, early retirement, etc. Pension funds are marked to market value and reduced by the net pension liability. Alternation in the liability due to change in pension plan benefits is 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 is more than ten percent of the greater of the gross pension fund or pension liability.

Share options and warrants

Any intrinsic values on share options/warrants granted to employees are measured at the date of grant and are recognised over the vesting period. Social security taxes on the additional compensation expense are treated the same way.

Warrants to non-employees are recognised at fair market value and are accrued according to the underlying agreement.

Taxes

Taxes in the income statement consist of taxes payable for the current period and the change in deferred taxes. Deferred taxes are 28% of the temporary timing differences that exist between tax and accounting value in addition to tax operating loss carryforwards. Tax assets and liabilities from temporary timing differences that reverse or may be reversed in the same period are offset. The realisation of tax assets from temporary timing differences must be probable through either future earnings or through a realistic tax plan. Deferred taxes are presented on a net basis in the balance sheet.

Cash flow analysis

The cash balance is defined as the total of cash, bank deposits, and money market funds. The cash flow analysis is based on the indirect method.

PhotoCure ASA
NOTES TO FINANCIAL STATEMENTS (Continued)
31 DECEMBER, 1999

NOTE 1—SPECIFICATION OF FIXED ASSETS

	Machinery/ Equipment	Cars	Computer-hardware	Total
(Amounts in NOK)				
Purchase price as of 01/01/1999	454,189	190,000	406,672	1,050,861
Purchases in 1999	—	—	334,236	334,236
Purchase price as of 31/12/1999	**454,189**	**190,000**	**740,908**	**1,385,097**
Accumulated depreciation and write downs	399,282	101,355	360,688	861,325
Book value as of 31/12/1999	**54,907**	**88,645**	**380,220**	**523,772**
Depreciation expense for 1999	29,040	38,016	133,911	200,967
Estimated useful life	5 years	5 years	3 years	
Depreciation method	Straight-line	Straight-line	Straight-line	

The Company rents space in Noreveien 7 under an agreement that may be terminated with three months notice. The rent for 1999 was NOK 173,100.

NOTE 2—SECURITIES

The Company's portfolio of securities consists of investments in money market funds. The interest rate follows the current market rate for such securities. As of 31 December, 1999, the investments are comprised of the following:

	Number of shares	Value in balance sheet	Market value	Interest income for the period
(Amounts in NOK)				
Vesta Forvaltning AS	5,999.9082	60,075,599	60,087,372	1,388,380
Storebrand Fondene AS	2,342.0943	24,848,871	24,848,871	87,372
Other	—	—	—	819,599
Total		**84,924,470**	**84,936,243**	**2,295,351**

NOTE 3—BANK DEPOSITS

As of 31 December, 1999, the Company had restricted deposits of NOK 440,435 to fund employee withholding taxes.

NOTE 4—SHAREHOLDERS' CAPITAL

The following reflects the change in accounting principles under the Accounting Act and the reclassifications to prior period to conform to the new classifications.

PhotoCure ASA
NOTES TO FINANCIAL STATEMENTS (Continued)
31 DECEMBER, 1999

NOTE 4—SHAREHOLDERS' CAPITAL (Continued)

(Amounts in NOK)

	Common stock	Reserve fund	Share premium reserve	Other equity capital	Total
Shareholders' capital as of 31/12/1998 prior to the new Accounting Act	6,020,000	41,603,944			47,623,944
Transfer of reserve fund to share premium reserve		(41,603,944)	41,603,944		—
Shareholders' capital as of 31/12/1998 according to the new Accounting Act	6,020,000	—	41,603,944		47,623,944
Change in accounting principle:					
Government contributions recognised in Balance sheet				(9,569,438)	(9,569,438)
Social security tax on share options/warrants recognised in Balance sheet				(2,320,166)	(2,320,166)
Shareholders' capital as of 01/01/1999 (According to the new Accounting Act)	6,020,000	—	41,603,944	(11,889,604)	35,734,340
Transferred from share premium reserve to cover losses			(11,889,604)	11,889,604	—
Share issuance in 1999	1,200,000		72,800,000		74,000,000
Current year loss			(41,506,771)		(41,506,771)
Shareholders' capital as of 31/12/1999	7,220,000	—	61,007,569	—	68,227,569

The issue price of the common stock was NOK 32.50 per share. Issuance costs totalled NOK 4 million, and are offset directly against the share premium reserve.

NOTE 5—COMMON STOCK AND INFORMATION ON SHAREHOLDERS

Common stock outstanding as of 31 December, 1999:

Number of shares	Face value per share	Common Stock
14,440,000	NOK 0.50	NOK 7,220,000

All shares have the same rights in the Company, including equal voting rights.

As of 31 December, 1999, the Company had issued subscription rights for 1,367,000 shares of common stock. 967,000 of these rights were issued to employees. The remaining 400,000 in subscription rights are related to an agreement with Hydro Research AS. For further information, see note 16.

PhotoCure ASA
NOTES TO FINANCIAL STATEMENTS (Continued)
31 DECEMBER, 1999

NOTE 5—COMMON STOCK AND INFORMATION ON SHAREHOLDERS (Continued)

Ownership structure

The main shareholders in the Company as of 31 December, 1999, were:

	Shares	Ownership percentage	Percentage of voting rights
Radiumhospitalets Forskningsstiftelse	5,009,000	34.7%	34.7%
Selvaag Invest AS	906,500	6.3%	6.3%
Mosvold Farsund AS	709,140	4.9%	4.9%
Gezina AS	592,785	4.1%	4.1%
Sundt AS	581,350	4.0%	4.0%
Bio Fund Ventures I KY	454,500	3.1%	3.1%
Hansson Vidar	451,500	3.1%	3.1%
Vicama AS	259,500	1.8%	1.8%
Hartog & Co, AS	230,000	1.6%	1.6%
Norsk Hydros Pensjonskasse	216,000	1.5%	1.5%
Conti AS	181,818	1.3%	1.3%
Brøvig Shipping AS	180,000	1.2%	1.2%
Afseth John	147,800	1.0%	1.0%
Total with greater than 1% ownership percentage	9,919,893	68.6%	68.6%
Total others	4,520,107	31.4%	31.4%
Total amount of shares	14,440,000	100.0%	100.0%

Shares owned, either directly or indirectly, by members of the board, the President and CEO, and other members of management as of 31 December, 1999, included:

Name	Position	Number of shares
Tharald Brøvig	Member of the Board of Directors	772,785
Åse Aulie Michelet	Member of the Board of Directors	12,075
Vidar Hansson	President and CEO	451,500
John Afseth	Vice President of Marketing and Sales	147,800
Geir Christian Melen	Chief Financial Officer	94,792
Kjetil Hestdal	Vice President of Research and Development	62,873

NOTE 6—PENSION LIABILITIES

The Company has a collective pension arrangement (the ''Plan'') through Norske Liv Pensjonskasse AS. As of December 31, 1999, the Plan covered thirteen employees.

PhotoCure ASA
NOTES TO FINANCIAL STATEMENTS (Continued)
31 DECEMBER, 1999

NOTE 6—PENSION LIABILITIES (Continued)

The Plan follows preliminary Norwegian Standards for Accounting. The pension benefit calculation is based on the following assumptions:

Expected long term rate of return on plan assets	7.5%
Discount factor	6.5%
Rate of salary progression	3.1%
Yearly adjustment of G*	2.6%
Increase in pension benefits	2.2%

The underlying actuarial assumptions used are standard, insurance industry guidelines.

* G is the basic amount in the National Insurance

Current year net periodic pension expense was calculated as follows:

	1999	1998
(Amounts in NOK)		
Service cost—benefits earned during the period	332,547	259,784
Interest cost on projected benefit obligations	32,321	14,705
Actual return on plan assets	(44,283)	(31,247)
Net amortisation and deferral	1,473	0
Social security taxes	20,393	0
Net pension expense	342,451	243,242

Pension liability:

	As of 31 December 1999	As of 31 December 1998
(Amounts in NOK)		
Projected benefit obligation	862,111	604,631
Plan assets at fair value	(634,729)	(696,996)
Unrecognised net loss	(82,752)	(85,063)
Net benefit obligation before Social security tax	144,630	(177,428)
Social security tax	20,393	—
Accrued pension costs	165,023	(177,428)

NOTE 7—LONG TERM LIABILITIES

The Company has a risk loan from the Norwegian Industrial and Regional Development Fund (''SND'') with a face value of NOK 3 million. The loan was granted and received during 1998, and repayment does not begin until 2001. Thereafter, the loan will be repaid in two instalments per year, over a 5-year period. Each instalment is NOK 300,000 and bears interest at the current floating rate. As of 31 December, 1999, the floating interest rate was 8.9%.

SND contributions that contain a conditional repayment clause total NOK 10.4 million and are to be repaid as royalty. The royalty payment is based on total operating income from the Company's dermatology products obtained prior to year-end 2005. The payment is calculated for operating income between NOK 50 and 250 million and the maximum aggregate payment is NOK 12.5 million. It is assumed that the Company will earn operating income equivalent to the

PhotoCure ASA
NOTES TO FINANCIAL STATEMENTS (Continued)
31 DECEMBER, 1999

NOTE 7—LONG TERM LIABILITIES (Continued)

maximum payment. The total liability, including accrued interest, was NOK 11,098,959 as of 31 December, 1999.

The President and CEO's bonus, inclusive of Social Security tax, is to be paid in 2004. The provision for the accrued liability as of 31 December, 1999, was NOK 2,577,519. For further information, see note 10.

NOTE 8—OTHER CURRENT LIABILITIES

	As of December 31		
	1999	1998	1997
(Amounts in NOK)			
External research and development costs	2,991,067	1,616,324	26,289
Calculated social security tax on share options/warrants	5,523,945	2,320,166	153,166
Miscellaneous accrued costs	1,999,160	773,248	504,717
Total	10,514,172	4,709,738	684,172

NOTE 9—OPERATING REVENUES

Operating revenues consist of revenues from sales of development phase products.

Approximately 90% of total revenues were generated from sales in the Norwegian market. The remaining revenues were generated by sales to Finland, Sweden, and Switzerland.

NOTE 10—LABOUR COSTS, NUMBER OF EMPLOYEES, AND ADDITIONAL COMPENSATION COSTS, ETC.

	Twelve months ended December 31		
	1999	1998	1997
(Amounts in NOK)			
Wages	6,472,572	4,143,640	2,756,322
Social security tax	4,515,801	2,873,573	605,773
Pension costs	342,451	243,242	127,026
Other compensation	2,419,173	228,508	29,874
Total labour cost	13,749,997	7,488,963	3,518,995
Average number of employees	12.7	8.4	5.3

Compensation paid to the President and CEO and the Board of Directors

Compensation for the 12 month period ending December 31, 1999:

	President and CEO	Board of Directors
(Amounts in NOK)		
Wages	877,330	—
Pension premium	58,013	—
Other compensation	7,837	220,000

The Company's President and CEO may claim compensation for a maximum of eighteen months beyond the dismissal period, under certain conditions. If the President and CEO receives other compensation for his services during the eighteen-month period, the amount of other

PhotoCure ASA
NOTES TO FINANCIAL STATEMENTS (Continued)
31 DECEMBER, 1999

NOTE 10—LABOUR COSTS, NUMBER OF EMPLOYEES, AND ADDITIONAL COMPENSATION COSTS, ETC. (Continued)

compensation received will be deducted from the compensation to be paid by the Company. The Company's President and CEO has earned an additional right for bonus, to be paid out January 1, 2004. The bonus amount shall be sufficient to cover yearly payments of NOK 350,000 (1996 value) each year over a 7 year period. The bonus was expensed in 1999, and was recognised in the balance sheet as a long term liability. For further information, see note 7.

Share options/warrants granted to management as of 31 December, 1999:

Position	Number of subscription rights	Exercise price	Exercise period
Vice President of Research and Development	125,000	NOK 2.75, 1% added per month from December 1996*	09/02/1998 to 31/12/2001
Chief Financial Officer	125,000	NOK 2.75, 1% added per month from December 1996*	09/02/1998 to 31/12/2001
Vice President of Marketing and Sales	125,000	NOK 5.51,1% added per month from April 1998*	31/12/1999 to 31/12/2002

* Compounded interest is not calculated

The President and CEO and the members of the Board of Directors do not have subscription rights.

Auditor

The auditor's fee in 1999 was NOK 35,000. In addition, the Company paid NOK 46,500 for advisory services.

Employees' right to subscribe for shares in the Company

As a part of the Company's incentive policy, most employees have been granted share options/warrants. Share options/warrants were granted at the assumed a market value per share. A non-compounding rate of one percent is added to the base subscription rate each month, until the right is exercised. In most cases, the subscription rights may be exercised three to five years after the grant date. The Board of Directors has, on four occasions, been mandated to grant subscription rights to employees. The following overview represents subscription rights for employees as of 31 December, 1999:

Common stock authorised (in NOK)	537,500
Number of shares authorised	1,075,000
Subscription rights granted (number of shares)	967,000
Subscription rights exercised (number of shares)	—

PhotoCure ASA
NOTES TO FINANCIAL STATEMENTS (Continued)
31 DECEMBER, 1999

NOTE 11—OTHER OPERATING EXPENSES

	Twelve months ended December 31		
	1999	1998	1997
(Amounts in NOK)			
External research and development costs	28,402,445	11,857,928	7,644,880
Contribution received for research and development	(2,500,000)	(2,500,000)	(1,674,893)
Travelling expenses	1,656,124	625,346	257,349
Patent and trade mark registration fees	1,443,376	613,228	1,013,983
Other costs	4,186,169	1,889,115	1,148,197
Total other operating expenses	33,188,113	12,485,617	8,389,516

NOTE 12—RESEARCH AND DEVELOPMENT

The Company develops pharmaceutical medical products and related medical devices for treatment and diagnosis of cancer and other diseases. The Company has incurred NOK 28,402,445 in externally generated costs during 1999. In addition, the Company has incurred internal research and development costs for the management of projects. The Company has received a cash contribution from the Research Council of Norway (the ''NFR'') for research and development related to internal cancer. In 1999, the cash contribution from the NFR amounted to NOK 2.5 million. Earned cash contributions that are not paid out to the Company are recognised in the balance sheet. The NFR has subject to certain conditions granted the Company an additional NOK 2,5 million in cash contributions for year 2000.

NOTE 13—TAXES

Significant components of the Company's tax assets and liabilities as of 31 December, are shown below:

	1999	1998	1997
Taxes payable	—	—	—
Change in deferred taxes	—	—	—
This year's total tax expense	—	—	—

Taxes payable was calculated as follows:

	1999	1998	1997
(Amounts in NOK)			
Loss before taxes	(41,506,771)	(17,614,413)	(11,295,782)
Permanent differences	(3,901,585)	(898,987)	23,072
Change in temporary differences	6,943,587	7,133,099	4,551,812
Basis for calculation of taxes payable	(38,464,769)	(11,380,301)	(6,720,898)
Tax rate of 28%			
Taxes payable on current year income	—	—	—

PhotoCure ASA
NOTES TO FINANCIAL STATEMENTS (Continued)
31 DECEMBER, 1999

NOTE 13—TAXES (Continued)

Specification of the basis for deferred tax assets and liabilities

Temporary differences:

	1999	1998	1997
(Amounts in NOK)			
Fixed assets	(1,939,092)	(71,317)	(98,653)
Liabilities	(16,787,948)	(11,712,136)	(4,551,701)
Operating loss carryforward	(57,686,721)	(19,221,952)	(7,841,651)
Total	(76,413,761)	(31,005,405)	(12,492,005)
Deferred tax asset	21,395,853	8,681,513	3,497,761

The Company has not recognised the deferred tax asset in the balance sheet.

At 31 December, 1999, the Company had an operating loss carryforward of NOK 57,686,721. The operating loss carryforward expires according to the following schedule:

	(Amounts in NOK)
2006	1,120,753
2007	6,720,898
2008	11,380,301
2009	38,464,769
Total	57,686,721

NOTE 14—EARNINGS PER SHARE

The loss per share was NOK 3.09 for 1999. The number of weighted average outstanding shares used in the calculation was 13.34 million.

NOTE 15—RELATED PARTY TRANSACTIONS

The Company has an agreement of collaboration with The Norwegian Radium Hospital Research Foundation. This arrangement gives the Company access to, and an option to acquire, new technology and ''know how'' within the field of Photodynamic therapy (''PDT'') developed at the Norwegian Radium Hospital. In return the Company contributes financially for research and development. As a part of this agreement, patents concerning PDT were transferred to the Company in 1996. The agreement was signed 25 October, 1996, and covers a period of four years, with an option for extension on certain terms. The financial contribution by the Company is NOK 400,000 paid twice a year. In addition, the Company paid an initial contribution of NOK 1 million. The total amount paid, as of 31 December, 1999, was NOK 3.4 million.

The Norwegian Radium Hospital Research Foundation owns 34.7% of the Company's shares.

NOTE 16—WARRANTS TO NON-EMPLOYEES

As a part of the collaboration agreement with Hydro Research AS concerning production of chemical products, the Company has entered into a warrant agreement with Hydro Research AS. The arrangement allows Hydro Research AS, under certain conditions, to subscribe for 400,000 shares of common stock. One of the conditions that must be met in order to receive the rights is that Hydro Research AS may not break the collaboration agreement. The collaboration

PhotoCure ASA
NOTES TO FINANCIAL STATEMENTS (Continued)
31 DECEMBER, 1999

NOTE 16—WARRANTS TO NON-EMPLOYEES (Continued)

agreement is effective from 1 January, 2000. The calculated fair value related to the issued rights will be recognised as expense over the exercise period beginning in year 2000.

Subscription rights (Number of shares)	Exercise period	Exercise rate	Calculated value (as of 22/09/1999)
200,000	01/01/2000—01/01/2003	NOK 32.50 + 15% per year	NOK 1,360,000
200,000	01/01/2004—22/09/2004	NOK 32.50 + 15% per year	NOK 1,712,000

* The interest rate is calculated from 19/08/1999 and excludes compounded interest.

The subscription rights' value was calculated using the Black Scholes model for valuation of options.

NOTE 17—FINANCIAL RISK

The return on the Company's investments in securities depends on the interest rate obtained in the money market. Over time, the market fluctuations may be significant.

The Company receives income and incurs costs in various currencies. Consequently, the Company is exposed to currency risk. The Company makes continuous assessments on whether steps should be taken to reduce this risk.

TRANSLATION FROM NORWEGIAN

AUDITOR'S REPORT FOR 1999

Arthur Andersen & Co
Statsautoriserte revisorer
Drammensveien 165
Postboks 228 Skøyen
0213 Oslo
Telefon 22 92 80 00
Telefaks 22 92 89 00
Org. nr. NO - 910 167 707

To the Annual Shareholders' Meeting of
PhotoCure ASA

We have audited the annual financial statements of PhotoCure ASA as of 31 December 1999, showing a loss of NOK 41,506,771. We have also audited the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the appropriation of the loss. The financial statements comprise the balance sheet, the statements of operations and cash flows and the accompanying notes. These financial statements are the responsibility of the Company's Board of Directors and Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway. Those standards and practices 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 have been prepared in accordance with law and regulations and present the financial position of the Company as of 31 December 1999, 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 Company's management has fulfilled its obligation in respect of registration and documentation of accounting information as required by law and accounting standards, principles and practices generally accepted in Norway
- the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the appropriation of the loss is consistent with the financial statements and comply with law and regulations.

ARTHUR ANDERSEN & CO.

Henning Strøm (sig)
State Authorised Public Accountant (Norway)

Oslo,
24 February 2000

The Articles of Association of PhotoCure ASA are in Norwegian. The following is merely a translation of the actual Articles of Association.

Articles of Association for PhotoCure ASA

As of February 29, 2000

§ 1

The Company's name is PhotoCure ASA. The Company is a public limited company.

§ 2

The Company's headquarters is located in Oslo, Norway.

§ 3

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

§ 4

The share capital of the company amounts to NOK 7,375,000 divided on 14,750,000 shares at NOK 0.50 each, registered by name and fully paid in. All shares in the Company shall be registered with the Norwegian Registry of Securities (VPS).

§ 5

The Board of Directors of the Company shall consist of up to 7 members. The General Meeting elects the chairman and deputy chairman.

The Board of Directors can grant power of attorney. The authorised signatory of the Company is exercised by the chairman of the Board of Directors and the deputy chairman together, or three board members together.

§ 6

The Annual General Meeting is held each year before 1st of July.

The General Meeting decides on:

1. Approval of Profit and Loss Account and Balance Sheet.
2. Employment of net income or coverage of net loss based on the finalised balance sheet and payment of dividends.
3. Election of the Board of Directors and decision on remuneration to the board members.
4. Appointment of auditor and decision on her/his remuneration.
5. The General Meeting shall also address and decide on cases listed in the summons and other matters required by law and directions.

§ 7

Extraordinary general meetings are held when the Board of Directors finds it necessary, or it is required by the Company's auditor or shareholders representing a minimum of 1/10 of the share capital, when it at the same time is enclosed information on matters to be treated.

§ 8

All current laws and regulations pertinent to public limited companies apply to PhotoCure at all times.

REGISTERED OFFICE

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UNDERWRITERS

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N-01608 Oslo
Norway

Norwegian Offering

Fondsfinans ASA
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Haakon VII's gt 2
N-0122 Oslo
Norway

Christiania Markets
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Middelthunsgt. 17
N-0107 Oslo
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INDEPENDENT AUDITORS

Arthur Andersen & Co.
P.O. Box 228 Skøyen
N-0213 Oslo
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LEGAL ADVISORS TO THE COMPANY

Advokatfirmaet Schjødt AS
Dr. Mauds gt. 11
P.O. Box 2444 Solli
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LEGAL ADVISORS TO THE UNDERWRITERS

As to Norwegian law

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As to United States law

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