Annual Report 2001

COMPANY PROFILE

PhotoCure ASA is a Norwegian pharmaceutical company founded in 1993. The company's mission is to develop and market pharmaceuticals and medical devices for the diagnosis and treatment of cancer and other diseases, using its proprietary photodynamic therapy (PDT) technologies.

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 that activates the photosensitiser. PhotoCure is also employing photodynamic technology in diagnosis of diseases, a process known as photodynamic diagnosis (PD).

In addition to PhotoCure's lead product, Metvix® PDT, which has received marketing authorisation approval and Hexvix® PD which is undergoing phase III clinical trials, PhotoCure has three core PDT/PD platform technologies; Photosensitisers, Photochemical Synergism (PCS) and Photochemical Internalisation (PCI). The company is using these to develop a pipeline of follow-on products and technologies. PCI Biotech AS, a subsidiary of PhotoCure ASA, was established to ensure the optimal development of the PCI technology.

Metvix® PDT, which is targeted at treatment of skin cancer and pre-cancerous skin lesions is approved in 14 countries across Europe and New Zealand, with applications also filed for the major markets of Australia and the US. The company has taken significant steps forward in the commercialisation of Metvix® PDT by its own sales force in the Nordic countries and by signing an exclusive global licensing agreement with Galderma S.A. to market Metvix® PDT outside of the Nordic region.

Hexvix® PD is targeted at the detection of bladder cancer and is currently undergoing phase III clinical trials in Europe and the US.

MILESTONES 2001

Metvix® PDT

- Marketing authorisation applications submitted in the EU, New Zealand, Australia and the US
- Marketing applications approved in 14 European countries
- Swedish Authorities approval of price reimbursement for Metvix® cream
- Launched in Sweden for the treatment of actinic keratosis (AK) and basal cell carcinoma (BCC)
- Exclusive global licensing agreement outside of the Nordic area signed with Galderma S.A.

Hexvix® PD

- Phase II clinical trial showed that Hexvix® fluorescence cystoscopy provided better diagnosis of bladder cancer compared to standard cystoscopy
- IND application granted from US FDA
- European and US Phase III multi-centre studies started for the detection of bladder cancer

Benzvix®

- Preclinical studies continued
- Initiated preparations for clinical studies

PCI Biotech AS

- PCI Biotech AS started development of its first products for the research market

PRESIDENT'S STATEMENT

2001 has been a very special year for PhotoCure. By delivering its first commercial product, Metvix® PDT, for the treatment of skin cancer and precancerous skin lesions, and by gaining a dermatology focused marketing and distribution partner, Galderma S.A., PhotoCure has become one of the most promising biotech companies in the international arena.

Metvix® Approved

Metvix® PDT was launched in Sweden in October 2001 and has also been approved in 13 other European countries and New Zealand. Moreover, approvals are pending in the US, Australia and Switzerland.

Metvix® PDT's appeal is characterised by the fact that it is a straightforward, complete treatment for either actinic keratosis or basal cell carcinoma that delivers excellent cosmetic effects. The cosmetic results that Metvix® PDT delivers makes it particularly suited for treating areas on the head, neck and hands, where the resulting appearance after treatment can have a major impact on the patient's quality of life. The beneficial cosmetic effects of Metvix® PDT makes it potentially interesting for the treatment of acne, sun damaged skin, and cutaneous viral and fungal conditions.

Galderma S.A. – Our Marketing Partner in Dermatology

The market potential for Metvix® PDT is large, with more than 15 million new cases of actinic keratosis and close to 2 million new cases of basal cell carcinoma in Europe and the US each year.

In order to access this market potential, PhotoCure signed its most significant commercial deal to date with Galderma S.A. in December 2001. As a result of this deal, Galderma S.A. has become Photocure's global marketing and development partner in dermatology. Galderma S.A, which is a joint venture between L'Oreal and Nestlé, is a world leader in dermatology products. The company is a truly global operation with a strong market presence in the US – one of the 70 markets around the world in which it operates.

Hexvix® Promises to Improve Bladder Cancer Detection and Treatment

With our first product Metvix® PDT close to global launch, we are now looking forward to bringing our second product, Hexvix® to the market. Hexvix® is being developed for the improved detection of early-stage bladder cancer, a significant medical problem. Bladder cancer is characterized by high recurrence rates of around 70% after initial therapy. This is largely due to the fact that current diagnostic methods fail to detect a significant number of early-stage flat bladder tumours.

Hexvix® is currently in clinical phase III trial in Europe and in the US. The phase II trials for Hexvix® showed very encouraging results. The use of Hexvix® enabled four times more patients with carcinoma *in situ* (CIS) lesions and ten times the number of such lesions to be detected compared to the standard white light cystoscopy procedure which is normally used. Overall, 32% more patients in the phase II trial with bladder cancer, regardless of type, were detected by Hexvix® cystoscopy compared to standard cystoscopy.

Prof Vidar Hansson, President and CEO of PhotoCure

PhotoCure's treatment is straightforward

1. Lesions are prepared
2. Metvix® cream is applied
3. Curelight™ is used for about 10 mins. to activate the treatment

1.

2.

3.

The market size for cystoscopic testing is around 2.5 million tests annually in Europe and the US alone. We are looking forward to generating similarly favourable results from our European and US phase III studies, which will take place in around 20 study centres in the US and 30 study centres in Europe.

PCI Biotech AS Commercialises Photochemical Internalisation Technology

During the course of 2001, PhotoCure's subsidiary, PCI Biotech AS, has been focused on ensuring the successful launch of its first products for the life science research market. The new products, LumiTrans™ and LumiSource™, which are aimed at making transfection experiments cheaper and more productive, are expected to be launched in 2002. The key advantages of PCI Biotech's technology are that macromolecules can be transferred into the cell, perhaps at higher levels than before, using less or cheaper vectors, or by introducing macromolecules previously found to be too difficult to move through the cell membrane. This is groundbreaking technology and the market size is growing.

PCI Biotech aims to:

- Solve major problems associated with internalisation of macromolecules in cells for both the research market and clinical therapeutic markets
- Develop products and technologies targeted to facilitate research on gene function, protein function and regulation
- Foster partnerships and alliances to develop novel medicines using photochemical internalisation technology combined with other molecules and technologies
- Offer attractive non-exclusive licensing deals to companies that can utilize the PCI technology, particularly in the areas of:
  - gene therapy for cancer and other diseases
  - chemotherapy for cancer and other diseases
  - drug targeting

With the first products to be launched this year and a number of potential products in the pipeline, PCI Biotech AS is well positioned to participate in the explosive increase in genomic and proteomic research, as well as contributing to the new therapies and drugs.

Financial Performance Over 2001

Launching Metvix® in Sweden towards the end of 2001 meant that revenue significantly increased. The company also made substantial investments in commercialising Metvix® PDT and moving Hexvix® PD into the final clinical stage. Due to upfront and milestone payments from the Galderma deal, PhotoCure's cash position continues to be secure, as demanded through our management philosophy and controls.

PhotoCure outperformed the Oslo Stock Exchange and performed better than the other PDT companies in 2001. The shareholder base over the 2001 period, continued to transform internationally although major stocks are still held in Scandinavia. Over the next year we hope to encourage increased international investment in our stock.

An Exciting Year Leads the Way to a Rewarding Future

In 2001, the achievements that we have accomplished here at PhotoCure have been tremendous. The management and the Board of Directors wish to congratulate and show appreciation for everybody involved in these recent outstanding successes and look forward to more great accomplishments together with what is rapidly becoming an internationally recognised biotech company.

Looking ahead, PhotoCure expects to generate global revenues with Metvix® PDT and to finalise the phase III trials in Europe and the US for Hexvix®. The company also looks to its pipeline of preclinical products. Benzvix®, a product for diagnosis and treatment of cancers of the gastrointestinal tract, is now about to begin initial clinical trials.

Future success is a balance between achievements and expectations. Metvix® PDT is the first product offering an alternative in its area of medicine. This enables PhotoCure to enter a pharmaceutical market, which until now had not been fully explored. With a lot of hard work ahead of us, the challenges to conquer this market are considerable. It remains our aim to deliver a continuous flow of successful and innovative products for the diagnosis and treatment of cancer.

Vidar Hansson
President and CEO of PhotoCure

THE PHOTOCURE SHARE

In 2001 PhotoCure's share price increased by 64% and was among the top performers on the Oslo Stock Exchange. It performed clearly better than the photodynamic therapy companies listed on Nasdaq. At the end of the year, PhotoCure had signed a major global marketing deal with Galderma S.A. for Metvix® PDT to consolidate this performance. This was set against a solid background throughout the year, of regulatory approvals for Metvix® as well as phase II results and start of phase III studies for Hexvix®.

Listing

PhotoCure's shares were listed on the main list of the Oslo Stock Exchange in 2000. The ticker symbol is PHO (Reuters PHO.OL).

Performance Over the Year 2001

The first half of 2001, was fairly dynamic and changeable in terms of share price stability. Highs and lows were driven by the steady progress of Metvix® PDT through clinical trials, by positive news on Hexvix® Phase II trials and from quarterly reports that tracked the increasing investment being made to bring Metvix® PDT and other products to market.

With the world economy suffering severe effects following the disasters on September 11th, PhotoCure's share price fell rapidly. Since then however, the stock has risen dramatically and has recovered faster than the Oslo Stock Exchange General Index. This solid performance has been fuelled by the exciting commercial progress made with Metvix®, first in Sweden and also later in 13 other European countries. The year culminated in signing a global marketing deal with Galderma S.A. The share price increased from NOK 73 by the end of 2000 to 120 NOK by the end of 2001, an increase of 64%.

Trading Volume

During the course of 2001, the average daily trading volume of PhotoCure's shares reported on or to the Oslo Stock Exchange was 24,684 shares. One round lot consists of 50 shares. A total of 6.1 million shares were traded on the Oslo Stock Exchange in 2001.

Market Capitalisation

PhotoCure's market capitalisation at the end of 2001 was NOK 2.07 billion (NOK 1.25 billion in 2000).

Shares and Share Options

At the end of 2001 the outstanding number of shares was 17,285,000 shares. In addition, 55,000 shares were subscribed but not paid in at year end. PhotoCure had also issued 918,000 share options and warrants at the end of 2001. Of these, 468,000 options were held by employees of the company.

Financial Events 2002

PhotoCure intends to release its quarterly financial statements during 2002 on the following dates:

7th May	Report 1st Quarter 2002
19th August	Report 2nd Quarter 2002
6th November	Report 3rd Quarter 2002

The company's Annual General Meeting will be held in Oslo on the 20th March 2002.

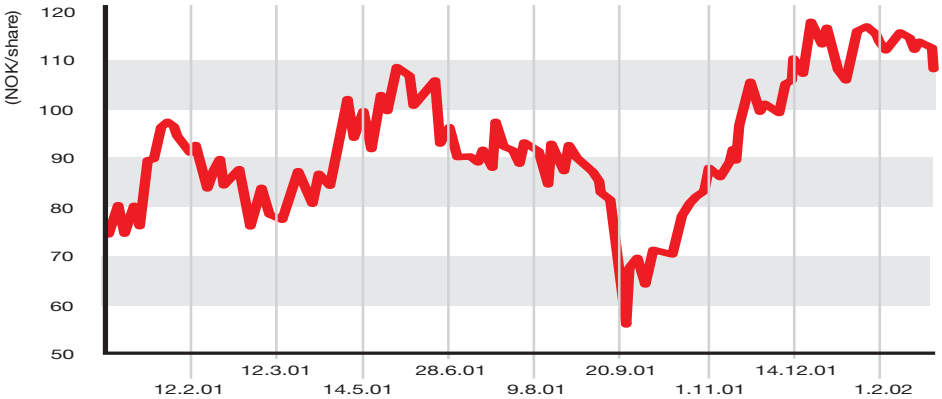
Shareholder Information

Share price sensitive information is distributed through press releases, reports and presentations. This information is available on www.photocure.com. On the website there is also other useful information about PhotoCure and its products as well as coverage by financial analysts.

Share Ownership

PhotoCure had 2,341 shareholders as of 31st December 2001. 87% of the shares were held by domestic shareholders.

PhotoCure Shareprice up to 28th February 2002



Major Shareholders as of 31st December 2001

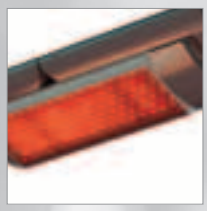
Shareholder	Number of shares	% of issued share capital
Radiumhospitalets Forskningsstiftelse	4 759 000	27.5%
Gezina AS	770 373	4.5%
Selvaag Invest AS	603 482	3.5%
Sundt AS	438 749	2.5%
Vidar Hansson/Varak AS	409 500	2.4%
JP Morgan Chase Bank	331 000	1.9%
Gjensidige NOR Sparebank	300 150	1.7%
Orkla ASA	300 000	1.7%
Ferd Invest	300 000	1.7%
Vicama AS	285 221	1.7%
Norsk Hydros Pensjonskasse	238 863	1.4%
Citibank Intl. Plc. (nominee)	225 300	1.3%
Sig. Bergesen D.Y.	225 000	1.3%
Gambak	200 000	1.2%
Commerzbank (nominee)	186 800	1.1%
Sparebanken 1 Life Insurance	185 105	1.1%
Vikerud AS	172 968	1.0%
Hestdal, Kjetil	172 873	1.0%

Shareholders According to Size of Shareholding at 31st December 2001

Shareholdings	Number of Shareholders	Number of Ordinary Shares	Percentage of Ordinary Shares
1-999	1,640	443,180	2.5
1,000-9,999	541	1,288,882	7.5
10,000-99,999	126	3,833,978	22.2
100,000-499,999	31	5,586,105	32.3
500,000 and more	3	6,132,855	35.5
Total	**2,341**	**17,285,000**	**100.0**

METVIX® PDT

Metvix® is a cream applied topically after limited preparation of the lesion. Following application, the Metvix® cream is left to stand on the lesion's surface for three hours, to allow the absorbance of the active ingredient into the target cells. The active ingredient in Metvix® is methyl aminolevulinate (MAL), which is converted into a photosensitiser inside the cancerous cell, where it accumulates selectively. The area of skin selected for treatment is illuminated by red light, using PhotoCure's light source, for approximately ten minutes. The red light excites the photosensitiser, producing cytotoxic singlet oxygen, which destroys the cancer cells.



Curelight™ lamps are revolutionary and proprietary to PhotoCure

Metvix® PDT offers an efficient treatment for actinic keratosis (AK, precancerous skin lesions) and basal cell carcinoma (BCC, a form of skin cancer) with a superior cosmetic outcome and is PhotoCure's most advanced pharmaceutical product. The product was approved in 14 European countries in 2001 and in New Zealand early in 2002.

Metvix® also has potential for use in photo dynamic diagnosis (PD) of BCC, treatment of skin dysplasia in immuno-compromised patients, squamous cell carcinoma *in situ*, wound healing, acne and warts.

Actinic Keratosis

Actinic keratosese (AKs) are very common, precancerous lesions that arise on photo-damaged skin, with extensive sun exposure and skin type being the most important factors in their development. Approximately 60% of squamous cell carcinomas develop from AK. Thus, the lesions require careful evaluation and effective treatment. Despite this, PhotoCure estimates that in Europe, only 20-30% of the 5 million estimated cases are treated. The incidence is also particularly high in Australia, with approximately 2 million new cases per year, and in the United States with an estimated 10 million cases annually. Therefore, AK represents a significant and increasing market.

Basal Cell Carcinoma

Basal cell carcinoma is the most common form of skin cancer affecting an estimated one million Americans each year. As with AK, this condition is increasingly common due to excessive exposure of skin to sunlight and an ageing population. The European Union also has a high annual incidence (exceeding 500,000) and in Australia, approximately 200,000 new cases are reported each year. The incidence of BCC is predicted to increase by 3-5% per annum.

Metvix® PDT – the Benefits

The combination of Metvix® cream and PhotoCure's light source treatment has a number of key advantages:

- It is highly effective at killing cancer cells selectively, achieving complete cure rates in excess of 90% in clinical trials
- It produces superior cosmetic results, with no burns or scars or other significant side effects
- The procedure is straightforward and can be repeated if necessary

Curelight™

Curelight™ is PhotoCure's proprietary red light source. The key characteristic of red light is its ability to penetrate through human tissue, thus improving the ability of the Metvix® PDT treatment to permeate thicker lesions. Three different Curelight™ lamps are available.

Clinical Development of Metvix® PDT

Importantly, Metvix® PDT has consistently been the patient's preferred choice of treatment through-out trials, which is probably attributable to the cosmetic benefits and the patient friendly and non-invasive technique involved.

During clinical trials, Metvix® PDT was used on more than 3,000 patients in over 100 clinical centres worldwide, encompassing Europe, Australia and the US. After favourable results from Phase III trials in Europe, Australia and the US, Metvix® PDT has received regulatory marketing authorisation approval (MAA) in 14 European countries (including Germany, UK,

Spain and Italy) and New Zealand. PhotoCure has also filed for MAA in the US, Australia and Switzerland.

A Phase III multi-centre clinical trial in Australia yielded very positive results using Metvix® PDT for treatment of difficult to treat BCC, with 89% of lesions cured after 3 months and 65% of cosmetic results described as excellent or good. In addition, 2 European Phase III multi-centre studies demonstrated that Metvix® PDT gave superior results compared to surgery in treatment of nodular basal cell carcinoma and cryotherapy in treatment of superficial basal cell carcinoma.

In the US, Phase III clinical trials demonstrated that Metvix® PDT completely removed 88% of AK lesions tested and was judged excellent by investigators for 91% of the patients involved.

Commercialisation of Metvix® PDT

PhotoCure has built its own sales organisation in the Nordic countries. However, in order to maximise the global commercial potential of Metvix® PDT, in December 2001 the company signed an exclusive global licensing agreement with Galderma S.A. This agreement gives Galderma the exclusive right to market both the Metvix® cream and PhotoCure's activating light sources outside the Nordic region.

Under the terms of the agreement, PhotoCure received €12 million in February 2002, and is entitled to a further €18 million upon approval of marketing authorisations and the launch of Metvix® in certain regions. PhotoCure will also, in addition to royalties, receive milestone payments from Galderma based on the global sales of Metvix® for sales exceeding €25 million per year as well as payment for the manufacture of the light sources and the Metvix® cream. PhotoCure is guaranteed significant royalties and milestone payments during the five years following marketing approval of Metvix® in the US.

Following an initial period, Galderma will assume the responsibility for the formulation of Metvix®, while PhotoCure will continue as supplier of the active ingredient.

Under certain conditions, PhotoCure has also granted Galderma the rights to market Metvix® for the treatment of additional indications. For indications where PhotoCure and Galderma agree on a development plan, Galderma will fund 75% of the development costs. PhotoCure will also receive royalties and further milestone payments if Metvix® receives marketing authorisation for new indications.

About Galderma

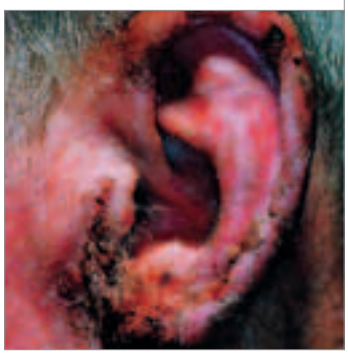
Galderma S.A., a joint venture between Nestlé and L'Oreal, is the only global company exclusively dedicated to providing dermatological treatments. The company has subsidiaries in 32 countries, with sales force operations in more than 70, visiting approximately 85% of the estimated 65,000 dermatologists around the world.

Galderma has a centralised corporate marketing structure that coordinates and implements worldwide product strategies and core marketing campaigns for global strategic brands such as Metvix®. This structure thereby provides support to experienced local marketing teams that carry out plans and adapt strategies to suit their local market's needs.

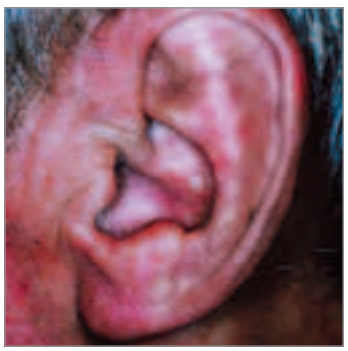
In addition to unrivalled market coverage, Galderma has close relationships with key opinion leaders and has extensive knowledge of the indications for which Metvix® is likely to be developed in the future. The company therefore represents an excellent choice to take Metvix® PDT to a worldwide dermatology market.

Treatment of actinic keratosis of the ear

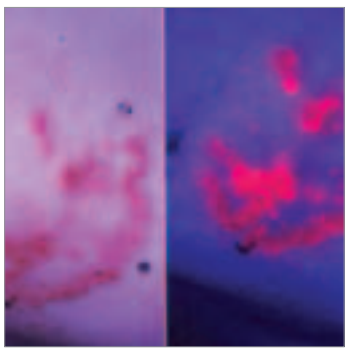
The effect following one complete treatment with Metvix® PDT



Before treatment



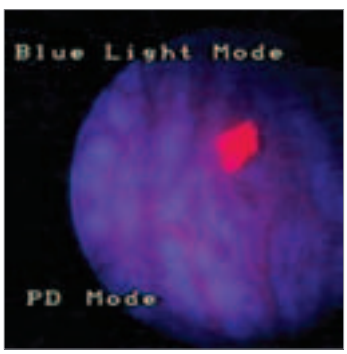
After treatment



Metvix® is selective for cancer cells as shown using blue light

HEXVIX®

Hexvix® for the diagnosis and treatment of bladder cancer, is PhotoCure's second most advanced product. In 2001, the development programme for Hexvix® has progressed very well and PhotoCure is expected to file for marketing approval with regulatory authorities in the 1st half of 2003.



Cystoscopic view of the bladder wall with normal light above top, and again with blue light below. A carcinoma *in situ* (CIS), precancerous lesion can be seen with the Hexvix® photodiagnosis.

The difficulty of identifying bladder cancer at the initial diagnosis and poor tumour resection is thought to be the main reason that 70% of bladder cancer patients have one or more recurrences after initial therapy. Despite effective treatment over 30% of these patients experience tumour progression. Better methods for diagnosis and tumour resection are clearly the key to improving the overall prognosis for bladder cancer patients.

Hexvix® Photodynamic Diagnosis (PD) can Improve the Diagnosis and Treatment of Bladder Cancer

PhotoCure's proprietary Hexvix® diagnostic procedure is designed to significantly improve the surgeon's ability to identify cancerous and precancerous lesions The diagnostic procedure involves filling the patient's bladder with Hexvix® solution for 60 minutes before examination. Hexvix® accumulates in the cancerous cells and when illuminated with blue light, emits a red fluorescence colour that makes the tissue clearly visible to the surgeon.

Current Diagnosis and Treatment of Bladder Cancer

Bladder cancer is currently diagnosed by white light cystoscopic examination, including biopsies and detection of cancer cells in the urine. Diagnosing early-stage tumours involves the insertion of a cystoscope into the patient's bladder for visual examination of the bladder walls. Pre-malignant tissue and carcinoma *in situ* (CIS) is particularly difficult to identify using this method due its 'flat' appearance. In order to diagnose or rule-out bladder cancer, more than 2.5 million cystoscopic bladder inspections are performed in Europe and the US each year.

Current treatments for bladder cancer include transurethal resection (TUR), cystectomy (removal of the bladder) and local and systemic drug therapy. TUR involves surgical removal of tumours, but due to the high recurrence rate, it is often combined with local drug therapy. As an alternative, Hexvix® photodynamic therapy (PDT) could be carried out by illuminating the bladder with an appropriate light source in order to activate the photosensitive molecules. This activation leads to the production of singlet oxygen that destroy the cancer cells. This may also be an alternative for patients who fail initial local drug therapy.

Positive Phase II Trial Results

In August 2001, PhotoCure announced favourable results from its Phase II trials for Hexvix® performed in Switzerland, Germany, Sweden and Norway. Hexvix® fluorescence cystoscopy was shown to provide better diagnosis of bladder cancer compared to standard white light cystoscopy. The principal investigator involved in the study has already adopted Hexvix® for routine use in his clinic.

A total of 52 patients with known or suspected bladder cancer underwent both Hexvix® fluorescence cystoscopy and standard cystoscopy examination. Biopsies were taken from all visible tumours and suspicious areas to confirm the findings. Results showed that of 45 patients with bladder cancer, 29% had carcinoma *in situ* (CIS) tumours. Of these CIS tumour patients, 92% were diagnosed through Hexvix® fluorescence cystoscopy compared to 23% by standard cystoscopy. When assessing the results in terms of all bladder tumour types, 96% of patients with tumours were detected with Hexvix® compared to 73% by standard cystoscopy.

BENZVIX®

Ongoing Hexvix® Phase III Studies

Patient enrolment for a multi-centre Phase III study across 8 European countries began in October 2001. Around 300 patients are to be included at 22 leading university hospitals in a study designed to document the safety and efficacy of Hexvix® fluorescence cystoscopy. In December 2001, PhotoCure was granted an Investigational New Drug application by the US Food and Drug Administration (FDA) in order to be permitted to start the final conclusive Phase III clinical studies in the US. The US study will be performed as a multi-centre trial in collaboration with around 20 leading urology clinics across the US. PhotoCure plans to submit its first Marketing Authorisation Application for Hexvix® in the first half of 2003.

Hexvix® PD and PDT for Other Cancer Types

Hexvix® also has potential for the diagnosis and treatment of other internal cancers and precancerous diseases that can be accessed with a light source. The types of cancer currently being evaluated include cervical cancer, cancer of the vulva and other gynaecological disorders.

PhotoCure's main product in preclinical development, Benzvix®, is aimed at diagnosing and treating early-stage cancers of the gastrointestinal tract, particularly oesophageal cancer and various precancerous lesions as well as colon cancer.

Benzvix® was developed to be used in a similar manner to Hexvix®, and works on the principle of utilising light illumination for the diagnosis and treatment of disease. Administered locally to the tumour and left for a period of time allows the photosensitiser to accumulate in the cancerous cells. For diagnostic use, the area can be illuminated with a blue light to cause red fluorescence of the cancer cells, making them clearly visible to the surgeon. For treatment, the area can be illuminated by red light to activate the photosensitive molecules and destroy the precancerous or cancerous cells.

PhotoCure has estimated that each year in Europe and the US, there are around six million diagnostic procedures carried out for precancerous changes in the oesophagus alone. In other regions such as China and India, cases of oesophageal cancer can be up to 200 times more common than in Europe.

Other Potential Applications for Hexvix® and Benzvix®

PhotoCure is also evaluating Hexvix® and Benzvix® for other applications. These applications includes precancerous and cancerous lesions in the throat, pharynx and larynx as well as photodynamic therapy following surgical removal of brain and breast tumours.

PCI BIOTECH AS

PhotoCure's subsidiary, PCI Biotech AS was established in 2000 to allow research and development of its proprietary technology, photochemical internalisation, to progress in its own right. The technology has the potential to significantly enhance the efficiency of drugs and investigational molecules delivered to specific, targeted cells. Photochemical internalisation therefore addresses a large market in the pharmaceutical industry, as well as with customers working in the life sciences, the drug discovery and development industry, and in academic institutions.

Commercialisation of PCI Biotech's first proprietary transfection products, LumiTrans™ and LumiSource™ was significantly advanced this year. The products will be offered for testing and sale in the Nordic countries during 2002. The company has in 2001, focused on its in-house development programmes and on extending the proprietary technology into other areas. The PCI technology is still early in its development towards commercialisation and extensive research still has to be done before commercial returns can be achieved.

Photochemical Internalisation

Photochemical internalisation was developed to get large molecules into target cells in a biological active form. Normally a cell will degrade large molecules into fragments through a process termed as endocytosis. It is therefore a major challenge to researchers to introduce large molecules such as DNA or antibodies into the cell and still maintain functionality so that the molecule can have a specific effect in the cell.

The internalisation problem has held up research and discovery on macromolecules for a number of years. Many of the targets for new drugs are in fact inside the cell but have been up till now, highly inaccessible.

Large, water-soluble molecules such as antibodies can be engulfed by cells along with nutrients. The endosome is an apparatus used by the cell to take in nutrients and is formed when the cell membrane internalises and pinches off to form a 'digestive bubble'. Normally the endosome then acts as the cellular gut, breaking down the nutrients. PCI Biotech's technology ensures that the endosome leaks its contents into the cell before fusion with lysosomes and enzymic digestion occurs.

Photochemical internalisation is not only an efficient and specific drug delivery technology, it is also applicable to a great area of molecular biology and functional proteomic research. Examples of PCI usage are mentioned below.

In-vitro Research – Drug Discovery

The method can in principle be used both *in-vitro* and *in-vivo* for introducing all types of macromolecules into cells in a site-directed, light-induced manner. *In-vitro* LumiSource™ and LumiTrans™ can be used as a tool for academic research. The pharmaceutical industry can use it during the drug discovery process, for example in drug target validation.

Drug Delivery

There are many pharmaceutical and biotechnology companies developing therapeutic macromolecules that could substantially benefit from the use of the PCI technology, increasing both the efficiency and the specificity of these molecules for many diseases. In research and in preclinical animal trials, the PCI technology has efficiently delivered both genes and proteins into the target cells, indicating that PCI has a variety of useful applications for site-specific drug delivery. These include light-enhanced chemotherapy, gene therapy, protein therapy and cancer vaccines. Photochemical targeting of therapeutic antibodies against intracellular targets is also an important potential application.

Cancer Treatment

PCI is an attractive technology for the development of new treatments for a number of cancers, since the technology has the potential to significantly enhance by more than 100 fold, the delivery of toxic molecules specifically to cancer cells. Very encouraging results from cancer treatment studies in mice have implied that the PCI technology will be a very potent improvement in the development of new drugs for cancer treatment.

PCI could make it possible to exploit water soluble molecules whose potential cytotoxic activity is normally hampered by lack of the ability to directly pass through cell membranes. Such molecules can still be taken up by endocytosis and could be rendered active in the desired area of the body by the use of PCI, while in non-illuminated parts of the body they would still be inactive. PCI has the potential to make cytotoxic therapy substantially more specific.

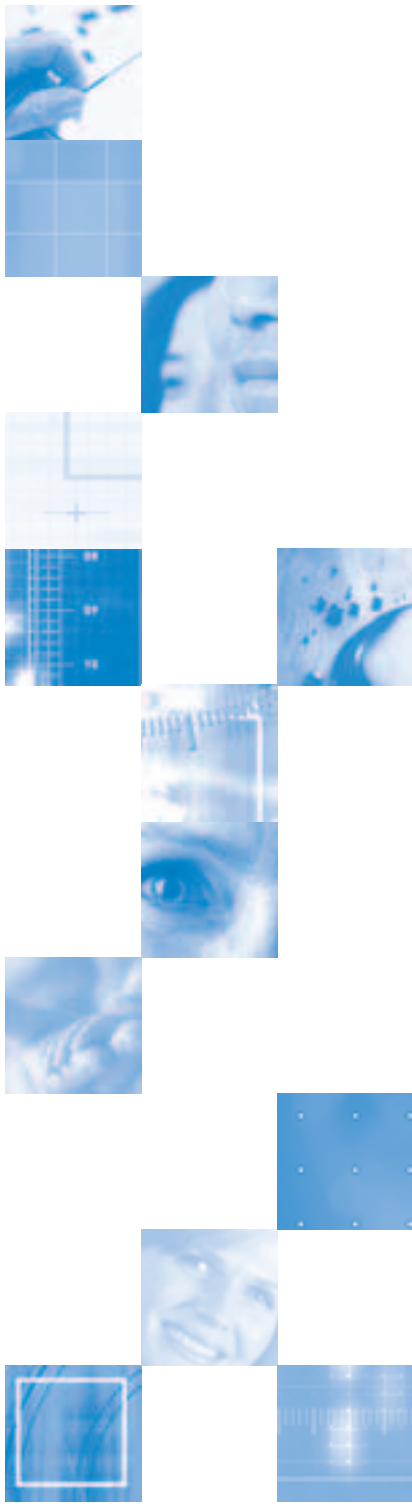
A Solid Foundation for the Future

PCI Biotech was created as a subsidiary in order to allow the technology to be developed and exploited to its full potential. The technology has been developed with help from the Norwegian Radium Hospital (NHR), Northern Europe's largest centre for cancer research and cancer treatment.

Approximately 20 full time scientists at NRH perform research in PCI and related areas. PCI Biotech has (through PhotoCure) all rights for commercial exploitation of new results. This year saw the organisation expand and move its first products, LumiTrans™ and LumiSource™ closer towards the life science research market. Dr Andreas Grimeland, the CEO and Dr Anders Høgset, a founder and now the Vice President of R&D, have created a sound basis for the company to grow with clear strategic aims:

- Provide important new drug delivery technologies for the clinical market
- Solve the major problems associated with internalisation of macromolecules in cells for the research market
- Develop products and technologies targeted to facilitate research on gene function, protein function and regulation
- Foster partnerships and alliances to develop novel medicines using the photochemical internalisation technology combined with other molecules and technologies
- Offer attractive non-exclusive licensing deals to companies that can utilize the PCI technology, particularly in the areas of:
  - drug targeting
  - drug delivery
  - cancer treatment

With the potential of solving broad problems within the life science, drug discovery and drug development industries, the company looks set for an exciting future.



PDT/PD RESEARCH AND DEVELOPMENT

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

PhotoCure operates its research and development activities through a 'virtual' structure, which is based around collaborations with a range of academic institutions globally and a number of third party contract research organisations.

PhotoCure has adopted this approach to its R&D activities because its gives the company access to world-leading research whilst at the same allowing it to both manage the costs of its development programmes prudently as well as perform the development work rapidly. At present PhotoCure has only 25 people working in-house in R&D. However, these people manage numerous suppliers of preclinical and clinical services worldwide.

The company has a number of research projects with several institutions. Major and long-term agreements have been entered into with the following:-

Norwegian Radium Hospital Research Foundation (RF)

PhotoCure's most important and long-standing research relationship is with the Norwegian Radium Hospital Foundation; indeed the roots of the company can be traced back to work undertaken at this leading research institute. In 1996 PhotoCure entered into a general four-year agreement with the Norwegian Radium Hospital Research Foundation (RF), which is affiliated to the Norwegian Radium Hospital (NRH). The patents covering Metvix®, Hexvix® and Benzvix® were all filed by NRH.

Under the terms of this agreement, PhotoCure gains access to and an option to acquire all of the new PDT technologies developed by the NRH. In return, PhotoCure supports the RF with research and development funding. This four-year agreement was extended in March 2000 to December 2002.

The Imperial College of Science, Technology and Medicine, London University, UK

PhotoCure has an ongoing research collaboration with the Imperial College in London, initiated in 1997. Under the terms of this agreement, PhotoCure funds a research programme focusing on the chemical synthesis of new sensitisers for, photochemical synergism (PCS) and PCI.

University of Leeds, UK

PhotoCure has a research relationship with the University of Leeds. Under the terms of this agreement, PhotoCure funds a research programme at the university for photosensitisers.

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

In March 2000, PhotoCure signed an agreement with a PDT research group at the Swiss Federal Institute of Technology and at the Municipal University Hospital in Lausanne to collaborate in the development of Hexvix®. The University has considerable expertise in basic and clinical research on photosensitisers. Under the terms of the agreement, PhotoCure is funding research and has a first right of refusal to intellectual property from the research relating to the use of Hexvix® for the diagnosis and treatment of bladder cancer.

Drug Discovery Laboratory (DDL), Norway

PhotoCure entered into a cooperation agreement with DDL in 1998. Under the terms of the agreement, DDL assists PhotoCure with the synthesis of new chemical entities for PDT and with the intellectual property strategy and implementation. This deal covers both chemistry and pharmaceutical outsourcing, as well as patenting.

Contract Research Organisations (CROs)

PhotoCure outsources most of its preclinical and clinical research activities, including toxicology, chemistry, pharmaceutical development and clinical studies, to a range of CROs. Toxicological studies are conducted in the UK by Covance, a major provider of preclinical research services to the pharmaceutical industry. Clinical research, including human trials and related services such as statistical analysis of data, are managed for PhotoCure by a range of CROs, including major multinational research organisations and small highly specialised organisations. The CROs carrying out clinical work for PhotoCure include among others Smerud Medical Research (Norway), Clinical Data Care (Sweden), Inveresk (UK/US), CuTech (US) and Parexel (UK/Germany).

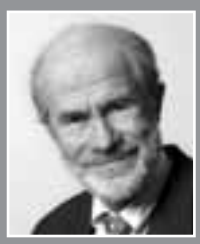
All of PhotoCure's research partners comply with the appropriate international standards such as Good Laboratory Practice (GLP), Good Manufacturing Practice (GMP) and Good Clinical Practice (GCP).

BOARD OF DIRECTORS

Halvor Bjerke, age 55 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 64 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 49 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 59 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 Dierctors of Hafslund Nycomed AS (Nycomed Amersham), from 1984 to 1994.

Stener Kvinnsland, M.D., Ph.D, age 53 was elected as a Director of PhotoCure in 1999. He is part of the management team of the Norwegian Cancer Society. Previously he was Professor and Head of Department of Medical Oncology and Radiotherapy at the Norwegian Radium Hospital. He has also served as Scientific Director of Pharmacia & Upjohn.

Lars Lindegren, age 64 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.

Erik Engebretsen, age 48, was elected as a Director of PhotoCure in March 2001. Mr Engebretsen is a graduate of the Norwegian School of Management and holds an MBA and MS from the University of Wisconsin. He is the Managing Director of Gezina AS, a private venture and investment company. Previously he served as Chief Operating Officer and CFO at Tandberg Television ASA. He is also a member of the Board of Directors with a number of public and private companies including Braathens ASA and Mallin AS.

EXECUTIVE OFFICERS

Vidar Hansson, M.D., Ph.D., age 58 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. Dr. Hansson holds a Ph.D. in Molecular Endocrinology/Molecular Biology.

Geir Christian Melen, age 38 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.

Kjetil Hestdal, M.D., Ph.D., age 42 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 at Rikshospitalet. Dr. Hestdal holds a Ph.D. in Immunology.

DIRECTORS REPORT 2001

From being a pure development stage pharmaceutical company, PhotoCure has in the course of 2001 become a commercial pharmaceutical company, selling and promoting its own products in addition to having an extensive research and development programme.

The most important events in 2001 are listed below.

Approval of Metvix®

PhotoCure's first pharmaceutical product, Metvix® PDT (photodynamic therapy), was in 2001 approved in Sweden for treatment of pre-cancerous skin lesions (actinic keratosis, AK) and skin cancer (basal cell carcinoma, BCC). This approval was later acknowledged in another 13 European countries, amongst these are Germany, UK, Italy and Spain. In February 2002, the product was also approved in New Zealand. Marketing authorisation applications for Metvix® have also been filed in the US, Australia and Switzerland.

In October, Metvix® PDT was launched in Sweden as the first country in the world. PhotoCure has, in accordance with its strategy, built up its own sales and marketing organisation to cover the Nordic countries. This sales organisation will market both Metvix® and the PhotoCure light sources. The company has three different light sources, which all can be used separately to activate Metvix®. By the end of January 2002, PhotoCure Sweden had supplied more than 40 clinical centres with lamps and also provided them with training in the use of Metvix® PDT.

Marketing and cooperation agreement signed with Galderma S.A.

In December, PhotoCure signed a licensing agreement with Galderma S.A. for Metvix® PDT. The agreement gives Galderma exclusive global marketing rights to both the Metvix® cream and PhotoCure's activating light sources for AK and BCC outside of the Nordic region. Galderma, which is owned by Nestlé and L'Oréal, is a global company dedicated to the marketing of medical products for dermatological treatments.

Under the terms of the agreement, PhotoCure received €12 million in February 2002, and is entitled to a further €18 million upon approval of marketing authorisations and the launching of Metvix® in certain areas. PhotoCure will also, in addition to royalties, receive milestone payments from Galderma based on the global sales of Metvix® for sales exceeding €25 million per year as well as payment for the manufacture of the light sources and the Metvix® cream. PhotoCure is guaranteed significant royalties and milestone payments during the five years following marketing approval of Metvix® in the US.

Following an initial period, Galderma will assume the responsibility for the formulation of Metvix®, while PhotoCure will continue as supplier of the active ingredient. PhotoCure will still be responsible for marketing authorisation applications in the EU, the US, Australia and New Zealand. Galderma is responsible for marketing authorisation applications in other countries.

Under certain conditions, PhotoCure has also granted Galderma the rights to market Metvix® for the treatment of additional indications. For indications where PhotoCure and Galderma agree on a development plan, Galderma will fund 75% of the development costs. PhotoCure will also receive royalties and further milestone payments if Metvix® receives marketing authorisation for new indications.

The estimated number of new cases of BCC in the US, the EU and Australia is at least 2 million a year, while the corresponding estimate for AK is a minimum of 20 million.

PhotoCure is developing Metvix® for new indications and the company has recently received positive data from a clinical pilot study on the treatment of acne. The global sales of pharmaceutical products for the treatment of acne constitute approximately NOK 1.7 billion.

Hexvix® PDT – on-going clinical phase III studies

In September, PhotoCure ASA started patient enrolment in a European multi-centre phase III study, designed to document the safety and efficacy of Hexvix® fluorescence cystoscopy for detection of bladder cancer. About 300 patients will be included, across 22 university hospitals. The results from this study, together with the results from a similar study in the US, will constitute the critical clinical documentation for applications for international marketing authorisations.

The Hexvix® phase II study, which was carried out at university hospitals in Switzerland, Germany, Sweden and Norway, showed that Hexvix® fluorescence cystoscopy provided better diagnosis of bladder cancer compared to standard cystoscopy. The method was shown to give particularly good results for diagnosis of potentially dangerous pre-cancerous lesions. The diagnostic procedure with Hexvix® involves filling the patient's bladder with 50 ml of Hexvix® solution for 60 minutes, before the bladder is emptied and subsequently examined. Hexvix® accumulates in the cancerous cells and, when illuminated with blue light, the cancer cells emit a red colour that makes them clearly visible for the surgeon.

A total of 52 patients with known or suspected bladder cancer were examined with both standard cystoscopy and Hexvix® fluorescence cystoscopy. Biopsies were taken from all visible tumours and suspicious areas to confirm the findings. Results showed that among 45 patients with bladder cancer, 29% had serious pre-cancerous tumours. Among these, 92% were diagnosed with Hexvix® fluorescence cystoscopy, compared to 23% with standard cystoscopy. When assessing the results in terms of all bladder tumour types, 96% of the patients with bladder cancer were detected with Hexvix®, compared to 73% of the patients diagnosed with standard cystoscopy.

Bladder cancer is the sixth most common malignant disease worldwide. In 1990, more than 50,000 new cases were reported in the US and 66,500 new cases were reported in Europe. Market investigations show that more than 2.5 million cystoscopies (bladder inspections) are performed every year in Europe and North America to diagnose or rule out bladder cancer.

PhotoCure exploiting new important indications

Preclinical development of Benzvix® is progressing. Benzvix® is being developed for photodiagnosis and photodynamic therapy of

pre-malignant and malignant lesions in the gastro-intestinal tract, including the oesophagus, stomach and colon. PhotoCure is also assessing the possibilities of developing products for the oral cavity, pharynx, brain tumours, and breast cancer as well as for gynaecology. Pilot studies on patients with pre-malignant lesions in the oesophagus and colon are about to be started.

PCI Biotech AS developing new transfection methods

The subsidiary PCI Biotech AS is currently working on the development of new transfection methods for both research and clinical markets. The technology platform consists of a unique method for delivering large molecules (pharmaceuticals) to intracellular targets, a problem which restrains the development of pharmaceuticals based on gene technology, antibodies and so on. The company is working actively to develop this technology.

Financially strong

PhotoCure's total operating revenues for 2001 amounted to NOK 5.4 million, compared to NOK 4.7 million in 2000. Operating revenues include sales of products and government grants.

As planned in the 2001 budget, considerable amounts were spent on research and development in connection with the products that the company is developing. The group's operating loss for 2001 amounted to NOK 127.9 million, compared to an operating loss in 2000 of NOK 66.8 million. All costs related to research and development are expensed as they incur. The increase of the operating loss is primarily caused by increased research and development activities related to Metvix® and Hexvix®. The increase in labour costs is a result of a larger number of employees in marketing and the subsidiary PCI Biotech AS. Other operating costs have primarily increased due to higher marketing costs in relation with the commercialisation of Metvix®.

Net financial income improved from NOK 16.8 million in 2000 to NOK 26.2 million in 2001. This is mainly a result of higher average liquid assets in 2001 as well as a higher interest rate.

The group's net loss for 2001 amounted to NOK 101.7 million, compared to NOK 50.0 million in 2000. PhotoCure ASA (the mother company) had a net loss of NOK 93.3 million in 2001 compared to a net loss of NOK 49.7 million in 2000. The Board of Directors of PhotoCure ASA proposes that the net loss is covered by a transfer from the company's other equity capital. Available equity capital will after this amount to NOK 206.7 million. The Board will not propose payment of any dividend in respect of the 2001 financial year.

For its liquid assets, the group has adopted a cautious investment strategy, investing in bank deposits and money market funds with maturities of up to one year. The profit from PhotoCure's liquid assets is dependant on the interest rates in the money market and may therefore vary considerably. By 31st December 2001, the group's equity capital amounted to NOK 259.4 million, while liquid assets amounted to NOK 305.2 million. The group's reduction in liquid assets in 2001 totalled to NOK 94.5 million. The Company received in February Euro 12 million (equals NOK 93 million) from Galderma.

PhotoCure's costs and revenues are in a number of different currencies. The group is therefore, to a certain extent, subject to fluctuations in the exchange rates. This risk is constantly assessed.

The financial statements have been prepared on the assumption that the company is a going concern, cf. Section 3-3 of the Accounting Act.

Since the end of the financial year of 2001, there have been no events, other than those stated in this report, that are of any material significance to an evaluation of the company's financial conditions and results.

Stronger organisation

PhotoCure is located in modern office facilities in Oslo, adjacent to the Norwegian Radium Hospital. The PhotoCure group had 31 employees at the end of 2001, 5 of which are employed at the subsidiary PCI Biotech AS. The group uses to large extent external suppliers and consultants.

The working environment in the company is considered to be good. No accidents or injuries were reported in 2001. Absence from work due to sickness totalled to 72 working days in 2001, which equals 1.1% of total working days in 2001.

The company does not pollute the external environment.

Positive future prospects

PhotoCure's main focus will now be to secure the commercial success of its first pharmaceutical product, Metvix®, exclusively developed by PhotoCure. This will be achieved in close co-operation with Galderma S.A., PhotoCure's marketing partner for Metvix® PDT outside the Nordic countries. The Metvix® documentation is already approved by 14 European countries and New Zealand. Moreover, marketing authorisation applications for Metvix® are pending in the US, Australia and Switzerland, and in co-operation with Galderma, applications will also be filed in other countries. Before PhotoCure can expect substantial income from Metvix®, healthcare professionals must receive necessary training, lamps must be distributed, price and reimbursement needs to be negotiated and so on.

The on-going clinical phase III programme for Hexvix® PD is critical for the marketing authorisation application planned to be filed in the first half of 2003.

The research and development activities of PhotoCure are now focused on new indications for Metvix® PDT, Hexvix® PD and Benzvix®. Research and development costs related to Metvix® are expected to be lower in 2002 than in 2001, while the costs related to Hexvix® and Benzvix® are expected to increase. Future research and development activities will, to a growing extent, be focused on diagnosis and treatment of various types of internal cancer and pre-cancerous lesions. As a result of PhotoCure's significant investments in research and development, the company also expects to incur a loss in 2002.

PhotoCure is a development stage pharmaceutical company that successfully reached all of its pre-set milestones in 2001, and is now in the process of commercialising Metvix® PDT in a number of countries. The company still would like to draw attention to the inherent risks associated with the development and commercialisation of its products.

Oslo, 26 February 2002

Halvor Bjerke, Chairman of the Board
Per-Olof Mårtensson, Deputy Chairman
Tharald Brøvig, Member of the Board
Erik Engebretsen, Member of the Board
Stener Kvinnsland, Member of the Board
Lars Lindegren, Member of the Board
Åse Aulie Michelet, Member of the Board
Vidar Hansson, President and CEO.

INCOME STATEMENT

PhotoCure ASA

(Amounts in NOK 000's)

Parent				Group		
2000	**1999**		**Note**	**2001**	**2000**	**1999**
		Operating Revenues				
2 300	2 131	Sales	1	2 330	2 131	1 095
3 231	2 558	Other Operating Revenues	1	3 022	2 558	2 500
5 531	**4 689**	**Total Operating Revenues**		**5 352**	**4 689**	**3 595**
		Operating Expenses				
23 086	17 237	Labour Costs	2,3	25 737	17 440	13 750
740	410	Ordinary Depreciation	5	758	410	201
101 038	53 550	Other Operating Expenses	6,7	106 723	53 621	35 689
124 864	**71 197**	**Total Operating Expenses**		**133 218**	**71 471**	**49 640**
-119 333	**-66 508**	**Operating Income**		**-127 866**	**-66 782**	**-46 045**
		Financial Income and Expense				
27 332	18 119	Interest Income		27 486	18 149	5 260
-1 305	-1 355	Interest Expense		-1 308	-1 355	-722
26 027	**16 764**	**Net Financial Income**		**26 178**	**16 794**	**4 538**
-93 306	**-49 744**	**Loss Before Tax**		**-101 688**	**-49 988**	**-41 507**
0	0	Tax	8	0	0	0
-93 306	**-49 744**	**Net Loss for the Year**	9	**-101 688**	**-49 988**	**-41 507**
		incl. minority interest in the amount of		-1 074	0	0

BALANCE SHEET AS OF DECEMBER 31

PhotoCure ASA

(Amounts in NOK 000's)

Parent 2001	Parent 2000		Note	Group 2001	Group 2000
		Fixed Assets			
		Tangible Fixed Assets			
2 090	1 497	Machinery and Equipment	5	2 123	1 497
		Financial Fixed Assets			
1 778	1 066	Long Term Outstanding Claims	3	1 812	1 066
5 000	5 000	Investment in Subsidiary	10	0	0
6 778	**6 066**	**Total Financial Fixed Assets**		**1 812**	**1 066**
8 868	**7 563**	**Total Fixed Assets**		**3 935**	**2 563**
		Current Assets			
		Receivables			
4 287	0	Inventory	4	4 287	0
141	230	Accounts Receivable		141	230
4 045	260	Receivables from Group Companies	17	0	0
3 405	1 335	Net prepaid VAT		4 382	1 343
0	460	Outstanding Refund of Dues	1	0	460
1 629	571	Other Receivables		1 646	571
13 507	**2 856**	**Total Receivables**		**10 456**	**2 604**
		Investments			
283 564	366 009	Securities	11	283 564	366 009
21 009	28 645	Cash and Cash Equivalents	12	21 614	33 674
318 080	**397 510**	**Total Current Assets**		**315 634**	**402 287**
326 948	**405 073**	**Total Assets**		**319 569**	**404 850**

BALANCE SHEET AS OF DECEMBER 31

PhotoCure ASA

(Amounts in NOK 000's)

Parent				Group	
2001	**2000**		**Note**	**2001**	**2000**
		Equity			
		Paid in Capital			
8 642	8 545	Share Capital	13,14	8 642	8 545
48 235	346 937	Additional Paid-in Capital	13	48 235	346 937
4 392	2 132	Other Paid-in Capital	13	4 392	2 132
61 269	**357 614**	**Total Paid-in Capital**		**61 269**	**357 614**
		Retained Earnings			
206 694	0	Retained Earnings	13	198 129	-254
267 963	**357 614**	**Total Equity**		**259 398**	**357 360**
		Liabilities			
		Other Long Term Debt			
17 362	17 155	Other Long Term Debt	15	17 362	17 155
		Short Term Debt			
7 831	12 051	Accounts Payable		7 930	12 051
3 476	3 910	Employee Withholding Taxes and Social Security Tax		3 864	3 910
30 316	14 343	Other Current Liabilities	16	31 015	14 374
41 623	**30 304**	**Total Current Liabilities**		**42 809**	**30 335**
58 985	**47 459**	**Total Liabilities**		**60 171**	**47 490**
326 948	**405 073**	**Total Equity and Liabilities**		**319 569**	**404 850**

Oslo, 26 February 2002
The Board of Directors of PhotoCure ASA

Halvor Bjerke
Chairman of the Board

Per-Olof Mårtensson
Deputy Chairman

Tharald Brøvig

Åse Aulie Michelet

Stener Kvinnsland

Lars Lindegren

Vidar Hansson
President and CEO

CASH FLOW STATEMENT

PhotoCure ASA

(Amounts in NOK 000's)

Parent			Group		
2001	**2000**		**2001**	**2000**	**1999**
		Cash Flow From Operations			
-93 306	-49 744	Loss Before Taxes	-101 688	-49 988	-41 507
739	410	Ordinary Depreciation	758	410	201
-22	-58	Gain on Sale of Tangible Fixed Assets	-21	-58	0
-712	-1 231	Change in Pension Liability	-746	-1 231	342
-4 287	0	Change in Inventory	-4 287	0	0
89	-170	Change in Accounts Receivables	89	-170	181
-4 221	7 118	Change in Accounts Payables	-4 121	7 118	2 539
11 541	5 679	Change in other Short-term Items	15 396	5 962	7 036
-90 179	**-37 996**	**Net Cash Flow from Operations**	**-94 620**	**-37 957**	**-31 207**
		Cash Flow from Investments			
-1 403	-1 474	Investments in Tangible Fixed Assets	-1 496	-1 474	-334
0	-5 000	Investment in Subsidiary	0	0	0
93	151	Proceeds from Sale of Tangible Fixed Assets	132	151	0
-1 310	**-6 323**	**Net Cash Flows from Investing Activities**	**-1 364**	**-1 323**	**-334**
		Cash Flow from Capital Transactions			
506	778	New Loans Raised	506	778	4 107
-300	-300	Payment on Loans	-300	-300	0
1 202	339 131	Paid-in Equity	1 273	339 121	74 000
1 408	**339 609**	**Net Cash Flow from Capital Transactions**	**1 479**	**339 599**	**78 107**
-90 081	**295 290**	**Net Change in Cash During the Year**	**-94 505**	**300 319**	**46 566**
394 654	**99 364**	**Cash and Cash Equivalents as of 01.01**	**399 683**	**99 364**	**52 798**
304 573	**394 654**	**Cash and Cash Equivalents as of 31.12**	**305 178**	**399 683**	**99 364**

NOTES TO FINANCIAL STATEMENTS FOR 2001

The notes to the financial statements include both the PhotoCure Group and the parent company PhotoCure ASA, and are representative of both except where explicitly indicated.

ACCOUNTING PRINCIPLES

The accompanying financial statements are presented in accordance with the Accounting Act of 1998 (the 'Accounting Act') and generally accepted accounting principles.

Consolidation principles

The group accounts include the parent company PhotoCure ASA and its subsidiaries.

The group accounts indicate the cumulative financial net income and position of the economic entity consisting of PhotoCure ASA and it's subsidiaries. The subsidiaries are consolidated on a line-by-line basis within the group accounts. The minority's share of net income after tax is presented as a separate line item. Negative minority share is recognised as a reduction to retained earnings.

Uniform principles have been utilised in the preparation of group accounts. All significant group transactions and intercompany balances have been eliminated.

The subsidiaries appear at cost within the parent company accounts.

Revenue recognition

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

Signing fees are recognised over the minimum contract period, and milestones related to regulatory approvals and product launches relating to license agreements, are recognised upon achievement.

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

Research and development

All costs related to research and development, performed by the company, are expensed as incurred.

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

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

Assessment of balance sheet items
Assets relating to the operating cycle, as well as receivables due within one year from the time of acquisition are classified as current assets. Other assets are classified as fixed assets. The same principle is applied to the classification of liabilities.

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. Fixed assets are written down to market value in the event of value impairment not considered to be temporary, in accordance with generally accepted accounting principles. Such write-downs are reversed when the conditions causing to the impairment in value are no longer present. Long-term debt is recognised at the face value.

Receivables

Account receivables and other receivables are presented at face value less a provision for uncollectable accounts. The provision is based on an evaluation of the realisable value of the individual receivables.

Short term investments

Securities are placed in a money market fund with a life of less than one year in underlying securities. Money market funds are carried at market value.

Inventory

Stock of purchased inventory is valued on the basis of the lower of cost or market, and on the basis of the first in-first out principle. Inventory relating to products under development are expensed as incurred.

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 as operating costs. Expenditures for improvements are capitalised and depreciated at the same rate as the underlying asset.

Pensions

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

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

Share options and warrants

Options/warrants are issued to employees at exercise prices, which reflect, at a minimum, market value at the time of issuance, and therefore have no intrinsic value at the time of issuance. Options/warrants are not discounted to reflect time value. Social security taxes relating to additional compensation expense are treated similarly.

Warrants issued to non-employees are recognised at fair market value and are accrued on the basis of the underlying agreement.

Taxes

Tax expense is comprised of taxes payable for the current period and the change in deferred taxes. Deferred taxes are calculated at 28% of the temporary differences that exist between tax and accounting values, and tax operating loss carryforwards. Tax assets and liabilities resulting from temporary timing differences that reverse or may be reversed in the same periods are offset against one another. The company has not recognised a deferred tax asset relating to net positive temporary differences.

Cash flow statement

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

Equity transactions

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

NOTE 1 – OPERATING REVENUES

Revenues relate to sales of development phase products and approved products.

The company received contributions from Norges Forskningsråd (The Research Council of Norway) for research and development amounting to mNOK 2.5 in 2001.

NOTE 2 – LABOUR COSTS, ADDITIONAL COMPENSATION COSTS, NUMBER OF EMPLOYEES, ETC

	Group			Parent	
(Amounts in NOK 000's)	**2001**	**2000**	**1999**	**2001**	**2000**
Wages	14 463	9 106	6 473	12 406	8 903
Social security tax	8 138	5 783	4 516	7 821	5 783
Pension expense	992	642	342	772	642
BOD fees, bonuses and other compensation	2 144	1 909	2 419	2 087	1 909
Total labour costs	**25 737**	**17 440**	**13 750**	**23 086**	**17 237**
Average number of employees	28.3	18.0	12.7	25.3	17.9

Compensation to CEO and BOD	**CEO**	**BOD**
(Amounts in NOK 000's)		
Wages	1 297	
Pension premium	70	
Other compensation	7	950

The Company's President and CEO may, under certain conditions, claim compensation for a maximum of eighteen months beyond the dismissal period. If the President and CEO receives other compensation for his services during the eighteen-month period, the amount of other compensation received will be deducted from the compensation to be paid by the Company. The Company's President and CEO has earned an additional bonus, payable 1 January 2004. The bonus amount shall be sufficient to cover annual payments of NOK 350,000 (1996 value) each year over a 7-year period. The bonus has been expensed, and is recognised in the balance sheet as a long-term liability. For additional information, see note 15.

Subscription rights earned by employees of PhotoCure as of 31 December 2001

Total subscription rights	Exercise price	Exercise period
392 000	NOK 27.50-32.50 incrementally increased by 1% per month from date of issuance	01.01.2002 – 23.11.2003
76 000	NOK 91-129	01.01.2003 – 31.12.2006

In connection with the Company's incentive policy, the majority of employees have been granted subscription rights to Company stock. Subscription price is at a minimum set at estimated market value at the time of subscription issuance. The Board of Directors has not been issued subscription rights.

The Board of Directors has approved a new, three-year incentive program for the company's employees, which includes company management. The program will encompass employees as benefits relating to the existing program expire. Under the new incentive program, providing the satisfaction of certain conditions, 100,000 share options/subscriptions will be issued for year 2002, in which each share option provides a right to subscribe to one share in the company. Such options will be earned upon the satisfaction of certain benchmark goals as specified within the work program and within the 2002 budget.

Of the earmarked subscription rights/stock options, up to 20,000, 10,000 and 10,000 may be issued to the Chief Executive Officer, the Chief Financial Officer and the Vice President of Research and Development, respectively.

In connection with the company's employee co-ownership program, selected employees of PhotoCure ASA have been offered to subscribe shares in the company, in which portions of payable amounts have been deferred. Upon sale of shares acquired in connection with this program, the company shall be entitled to the portion of proceeds, which corresponds with the difference between the subscription price and the market value of stock as of the date of subscription. In the event that such stock is held for 10 years, a final settlement, based on the same principles, will be effectuated. In the event that such shares are sold within a specified period, the company has, on the basis of defined terms, pre-emptive rights. As of 31 December 2001, 25,000 shares have been subscribed to in connection with the program (Please also refer to Note 14).

Auditor

The auditor's fee in 2001 was NOK 150,000. In addition, the Company paid NOK 25,000 for consulting services.

NOTE 3 – PENSION LIABILITIES

The Group is enrolled in a collective pension arrangement (the "Plan") through Norske Liv Pensjonskasse AS/Vesta Forsikring.

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

	2001	2000	1999
Expected long term rate of return on plan assets	7.5%	7.5%	7.5%
Discount factor	6.5%	6.5%	6.5%
Rate of salary progression	3.5%	3.5%	3.1%
Yearly adjustment of G*	3.0%	3.0%	2.6%
Increase in pension benefits	2.5%**	2.5%	2.2%

* G is the basic amount in the National Insurance

** Yearly pension adjustment assumption relating to the subsidiary is 3.0%.

Underlying actuarial assumptions relating to demographic factors and terminations are in line with standard, insurance industry guidelines. The calculation is based on coverage of 21 employees in the Group and 16 employees in the parent company.

Current year net periodic pension expense was calculated as follows

	Group			Parent	
(Amounts in NOK 000's)	**2001**	**2000**	**1999**	**2001**	**2000**
Service Cost	844	460	333	648	460
Interest Expense	117	63	32	115	63
Actual return on plan assets	-206	-103	-44	-205	-103
Net amortisation and deferral	31	10	1	31	10
Social security tax	206	211	20	183	211
Net pension expense	**992**	**641**	**342**	**772**	**641**

Pension liability

	Group		Parent	
(Amounts in NOK 000's)	**31.12.2001**	**31.12.2000**	**31.12.2001**	**31.12.2000**
Projected benefit obligation	2 729	1 499	2 535	1 499
Plan assets at fair value	- 3 813	-2 304	-3 589	-2 304
Unrecognised net loss	-724	-261	-724	-261
Net obligation before social security tax	-1 808	-1 066	-1 778	-1 066
Social security tax	-4	0	0	0
Accrued pension liability (asset)	**-1 812**	**-1 066**	**-1 778**	**-1 066**

NOTE 4 – INVENTORY

Inventory consists of raw materials and purchased components.

NOTE 5 – SPECIFICATION OF TANGIBLE FIXED ASSETS

	Group	Parent
(Amounts in NOK 000's)		
Purchase price as of 01.01.2001	2 215	2 215
Additions	1 496	1 403
Sales/retirement	134	93
Purchase price as of 31.12.2001	**3 577**	**3 525**
Depreciation and write-downs	1 454	1 435
Book value as of 31.12.2001	**2 123**	**2 090**
Depreciation	758	740
Useful life	3-5 years	3-5 years
Depreciation method	Straight-line	Straight-line

NOTE 6 – OTHER OPERATING EXPENSES

	Group			Parent	
(Amounts in NOK 000's)	**2001**	**2000**	**1999**	**2001**	**2000**
External research and development costs	78 036	42 299	28 403	73 796	42 299
Marketing expense	10 145	2 145	435	9 963	2 145
Travel expense	4 207	2 096	1 656	4 012	2 096
Patent and trademark registration fees	1 999	1 417	1 443	1 759	1 417
Other costs	12 336	5 664	3 752	11 508	5 593
Total	**106 723**	**53 621**	**35 689**	**101 038**	**53 550**

NOTE 7 – RESEARCH AND DEVELOPMENT

The Company develops products for treatment of cancer and other diseases. The Company has incurred mNOK 78.0 in externally generated expenses during 2001. Internal research and development costs, such as project manager salaries, etc are not included in the amount above.

The Company's management believes that costs related to research and development will be covered by future income from products under development

NOTE 8 – TAXES

	Group			Parent	
(Amounts in NOK 000's)	**2001**	**2000**	**1999**	**2001**	**2000**
Tax Expense consists of the following:					
Taxes payable on net income	0	0	0	0	0
Change in deferred tax	0	0	0	0	0
Tax expense	**0**	**0**	**0**	**0**	**0**

Taxes payable was calculated as follows:

	Group			Parent	
(Amounts in NOK 000's)	**2001**	**2000***	**1999**	**2001**	**2000***
Net income before tax	- 101 688	- 49 988	- 41 507	-93 306	- 49 744
Permanent differences	211	-21 421	-3 901	211	-21 412
Unrealised gains/losses on securities	- 1 613	- 1 663		- 1 613	- 1 663
Realised losses on securities		- 41			- 41
Realised gains on securities	1 016			1 016	
Change in temporary differences	2 829	- 293	6 978	2 857	-293
Basis for calculation of taxes payable	**- 99 246**	**-73 406**	**-38 430**	**- 90 836**	**-73 153**
Tax (28%)					
Taxes Payable on Net Income	**0**	**0**	**0**	**0**	**0**

* Correction made relative to 2000 financial statements.

Specification of the basis for deferred tax assets and liabilities:

	Group			Parent	
(Amounts in NOK 000's)	**2001**	**2000***	**1999**	**2001**	**2000***
Temporary differences:					
Fixed assets	- 2 721	- 2 976	- 1 939	- 2 714	- 2 976
Securities	2 974	1 624	-39	2 974	1 624
Liabilities	- 20 355	- 16 524	-16 788	-20 355	- 16 524
Net pension asset	1 812	1 066		1 778	1 066
Loss carryforward	- 230 303	- 131 058	-57 652	- 221 640	- 130 805
Total	**- 248 594**	**-147 868**	**-76 418**	**-239 958**	**-147 615**
Deferred tax asset (28 %)	69 606	41 403	21 397	67 188	41 332

* Correction made relative to 2000 financial statements.

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

As of 31 December 2001, the Company had an operating loss carryforward of mNOK 230.3. The operating loss carryforward expires according to the following schedule:

(Amounts in NOK 000's)	Group	Parent
2006	1 121	1 121
2007	6 721	6 721
2008	11 380	11 380
2009	38 430	38 430
2010	73 406	73 153
2011	99 246	90 836
Total	**230 304**	**221 640**

RISK per share amounts to NOK 0.- as of 31 December 2000 and is estimated by the Company to amount to NOK 0.- as of 31 December 2001.

NOTE 9 – NET INCOME PER SHARE (GROUP)

Net income per share	**2001**	**2000**	**1999**
W.A.S.O.*	17 162 301	16 098 839	13 447 123
W.A.S.O.* (diluted)	17 690 939	16 935 720	13 951 439
Avg. net income per share	-5.93	-3.11	-3.09

* Weighted Average Shares Outstanding

NOTE 10 – INVESTMENT IN SUBSIDIARIES

Company	Location	Year of Acquisition	Company Share Capital	Ownership and Voting Share	Book Value	Equity 31.12.2001	Net Income 2001
PCI Biotech AS*	Oslo, Norway	2000	NOK 114 200	87.6%	mNOK 5.0	mNOK-3.6	mNOK-8.4
PhotoCure Australia Pty Ltd	Melbourne, Australia	2000	AUD 12	100%	mNOK 0	AUD 1 988	AUD 2 000

* Formerly PhotoChemical Internalisation Biotech AS

NOTE 11 – SECURITIES

The Company's securities portfolio consists of investments in money market funds, which invest in short term interest bearing securities. Rate of return is in line with the going market rate for similar securities. Investments as of 31 December 2001 were as follows:

(Amounts in NOK 000's)	Book Value	Market Value	Return
Skandia Pengemarkedsfond	214 561	214 561	15 143
Storebrand Fondene AS	69 003	69 003	9 524
Total	**283 564**	**283 564**	**24 667**

NOTE 12 – CASH DEPOSITS

Restricted cash as of 31 December 2001:

(Amounts in NOK 000's)	Group	Parent
Restricted cash	1 924	1 769

NOTE 13 – EQUITY

Equity in Parent

(Amounts in NOK 000's)	Share Capital	Share premium reserve	Other restricted Capital	Retained Earnings	Total Parent
Equity as of 01.01.2001	**8 545**	**346 937**	**2 132**		**357 614**
Registration of equity	12	182	- 194		0
Accrued subscription rights			2 215		2 215
Unpaid subscription			239		239
Share issue employees	85	1 116			1 201
Transfer from share premium reserve		- 300 000		300 000	0
Net loss for the year				- 93 306	- 93 306
Equity as of 31.12.2001	**8 642**	**48 235**	**4 392**	**206 694**	**267 963**

A share issue in the amount of NOK 72,500 was effectuated through the redemption of 145,000 subscription rights/employee options. An additional increase in the amount of NOK 12,500 was effectuated in connection with employees' purchase of 25,000 shares. Please also refer to Note 2.

Pursuant to the Board of Directors recommendation, the General Assembly approved a motion to transfer NOK 300 million from additional-paid-in-capital to retained earnings. The resolution was made public with a two-month term of objection. Upon the end of the term, and as of 31 December 2001, creditors had raised no objections. The transfer was registered with the Register of Business Enterprises in 2002.

Equity in Group

(Amounts in NOK 000's)	**Total Paid in Capital**	**Retained Earnings**	**Minority Interest**	**Total Equity**
Equity as of 01.01.2001	**357 614**	**-254**		**357 360**
Equity transactions in parent	3 655			**3 655**
Transferred from share premium reserve	-300 000	300 000		**0**
Share increase in subsidiary			71	**71**
Equity transfer from majority to minority		-559	559	**0**
Net loss for the year		-100 614	-1 074	**-101 688**
Negative minority share transferred to Retained Earnings		-444	444	**0**
Equity as of 31.12.2001	**61 269**	**198 129**	**0**	**259 398**

NOTE 14 – SHARE CAPITAL AND SHAREHOLDER INFORMATION

Registered share capital in PhotoCure ASA was comprised of the following as of 31 December 2001:

Shares Outstanding	**Par Value**	**Book Value of Share Capital**
17 285 000	NOK 0.50	NOK 8 642 500

An additional 55,000 shares have been paid in for prior to 31 December 2001, but not registered with the Register of Business Enterprises until 2002.

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

The Board of Directors was authorised by the General Assembly on 29 March 2001 to issue 5.1 million shares. Of this authorisation, issuance of (a) 4.0 million shares relates to the financing of the company's development, while issuance of (b) 1.1 million shares relates to issuance of stock to employees and to certain strategic partners. The remaining authorisation as of 31 December 2001 was 4,875,000 shares. Authorisation relating to (a) remains effective through the annual general assembly in 2002, while authorisation relating to (b) remains effective through the annual general assembly in 2003. Previously reported authorisations have expired.

The following table provides an overview as to the status of authorisations as of 31 December 2001:

(Amounts in # of shares)	**Ordinary Share Issue**	**Employee Issue**
Issue authorisation general assembly 29.03.01	4 000 000	1 100 000
Share issues pursuant to general assembly	0	225 000
Remaining Issue Authorisation	**4 000 000**	**875 000**

In addition, subscription rights to 468,000 shares were issued to employees (see note 2), and remain unexercised, as well to 50,000 shares to strategic partners (see below). Independent subscription rights to 400,000 shares have also been issued to Hydro Research AS (see below).

Subscription rights to non-employees

A research and development contract has been entered into in which a strategic partner has been issued subscription rights to 50,000 shares. Such rights may be exercised at a maximum of 12,500 shares per year as of 1 January of each year, for a period of three years, from 1 January 2002 through 1 January 2005, provided that the cooperation agreement is not cancelled. The subscription rights are exercisable through 31 December 2005. The issue price is NOK 125 per share, and the total value of all subscription rights was estimated at NOK 3,135,000 at the time of issuance. The strategic partner assists PhotoCure ASA in the development of new substances and in patenting issues.

In conjunction with the co-operative agreement with Hydro Research AS relating to production of chemical substances, independent subscription rights to 400,000 shares have been issued to Hydro Research AS provided the satisfaction of certain requirements, including that the cooperation agreement is not cancelled by Hydro Research AS. The agreement became effective on 1 January 2000.

Subscription Rights (total shares)	**Exercise Period**	**Exercise Price**	**Est. Value (as of 22.09.99)**
200 000	01.01.2002 – 01.01.2003	NOK 32.50 + 15% interest p.a.*	NOK 1 360 000
200 000	01.01.2004 – 22.09.2004	NOK 32.50 + 15% interest p.a.*	NOK 1 712 000

* Interest is calculated from 8 August 1999. Interest is not compounded.

The value of subscription rights for both companies is calculated on the basis of Black-Scholes model for valuation of options.

A total of 918,000 subscription rights (including independent subscription rights) remained unexercised as of 31 December 2001.

Ownership structure

The primary shareholders in the Company as of 31 December 2001, were:

	Shares	Ownership Percentage
Radiumhospitalets Forskningsstiftelse	4 759 000	27.5%
Gezina AS	770 373	4.5%
Selvaag Invest AS	603 482	3.5%
Sundt AS	438 749	2.5%
Vidar Hansson/Varak AS	409 500	2.4%
JP Morgan Chase Bank	331 000	1.9%
Gjensidige NOR Sparebank	300 150	1.7%
Orkla ASA	300 000	1.7%
Ferd Invest	300 000	1.7%
Vicama AS	285 221	1.7%
Norsk Hydros Pensjonskasse	238 863	1.4%
Citibank Intl. Plc. (nominee)	225 300	1.3%
Sig. Bergesen D.Y.	225 000	1.3%
Gambak	200 000	1.2%
Commerzbank (nominee)	186 800	1.1%
Sparebanken 1 Life Insurance	185 105	1.1%
Vikerud AS	172 968	1.0%
Hestdal, Kjetil	172 873	1.0%
Total with greater than 1% ownership	**10 104 384**	**58.5%**
Total Other	7 180 616	41.5%
Total shares outstanding	**17 285 000**	**100.0%**

Shares owned directly or indirectly by members of the Board of Directors, Chief Executive Officer, and management, and related parties to such:

Name	Position	Number of shares
Halvor Bjerke	Chairman of the Board	5 500
Per-Olof Mårtensson	Deputy Chairman	3 000
Tharald Brøvig	Member of the Board	770 373
Åse Aulie Michelet	Member of the Board	15 075
Lars Lindegren	Member of the Board	24 377
Erik Engebretsen	Member of the Board	0
Hans Petter Bugge	Deputy Member of the Board	750
Vidar Hansson	President and CEO	409 500
Geir Christian Melen	Chief Financial Officer	124 792*
Kjetil Hestdal	VP R&D	172 873
Auditor		0

* Does not include 55,000 shares, which have been subscribed to but for which payment has not been made as of 31.12.01.

NOTE 15 – LONG TERM DEBT

The Company has a risk loan outstanding to the Norwegian Industrial and Regional Development Fund ("SND") with a face value of NOK 2.4 million. Biannual loan payments of NOK 300,000 will be made over a 5-year period. Each instalment reflects the current floating interest rate, which was 9.9% p.a.

SND contributions that contain a conditional repayment clause total mNOK 10.4 are to be repaid in the form of royalties. The royalty payment is based on accumulated revenues of between mNOK 50 and 250, related to the Company's dermatological products, earned by the year ended 31 December 2005. Accumulated royalty liability has a mNOK 12.5 cap, the achievement of which is assumed. The total liability, including accrued interest, was mNOK 11.7 as of 31 December 2001.

Bonus liability to the Chief Executive Officer amounting to mNOK 3.2 (including related social security tax) as of 31 December 2001, has been accrued, and is payable in 2004. (See note 2.)

NOTE 16 – OTHER SHORT TERM DEBT

	Group		Parent	
(Amounts in NOK 000's)	**2001**	**2000**	**2001**	**2000**
External research and development expenses	15 551	3 520	15 278	3 520
Provision for social security tax- subscription rights	8 307	5 101	8 307	5 101
Miscellaneous accrued cost	7 157	5 753	6 731	5 722
Total	**31 015**	**14 374**	**30 316**	**14 343**

NOTE 17 – INTERGROUP BALANCES

PhotoCure ASA *(Amounts in NOK 000's)*	**2001**	**2000**
Other receivables	4 240	260
Other short term debt	195	0
Total (net)	**4 045**	**260**

NOTE 18 – RELATED PARTY TRANSACTIONS

The Company is party to a collaboration agreement with The Norwegian Radium Hospital Research Foundation (RF). Under this agreement, the Company is allowed access to, and an option to obtain, new technology and "know how" within the field of Photodynamic therapy ("PDT") developed at the Norwegian Radium Hospital. As consideration, the Company makes financial contributions toward research and development. The agreement, signed 25 October 1996, initially covered a period of four years, but was extended an additional two years, i.e. through 31 December 2002.

During 2001, the Company, under the terms of the contract, made payments in the amount of NOK 1.35 million, research and development services, at arms-length terms, to DNR, via RF.

NOTE 19 – 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 as to whether steps should be taken to reduce this risk.

NOTE 20 – OTHER LIABILITIES

In order to satisfy conditions relating to the going concern assumption, PhotoCure ASA has issued a guarantee, with an upper limit of NOK 10 million, in which the continued operations of its subsidiary PCI Biotech AS are guaranteed through 30 June 2003. The guarantee will expire upon the effectuation of a share increase in which equity of an amount sufficient to ensure the satisfaction conditions relating to the going concern assumption is received.

The company rents office space at Hoffsveien 48 in Oslo. Yearly rental expenses amount to mNOK 2.7, including shared costs. Rent is adjusted yearly to reflect the change in the consumer price index. The effective date of the rental agreement is 1 September 2000, and is mutually binding through 31 August 2005, at which time the agreement expires. PhotoCure ASA has an option to extend the agreement for an additional five years at the going market rate.

PhotoCure ASA has granted its subsidiary PCI Biotech a right to borrow, on the basis of no collateral, up to NOK 10 million at 10% interest. The loan may, upon certain conditions, be converted into shares in PCI Biotech AS. No amounts were drawn under the terms of this agreement during 2001.

NOTE 21 - SIGNIFICANT NON-RECURRING TRANSACTIONS

PhotoCure ASA, on 19 December 2001, entered into a licensing agreement with Galderma S.A. The agreement became effective as of 1 February 2002 and provides Galderma with exclusive rights to the global marketing of Metvix® cream and to PhotoCure's light sources relating to photodynamic treatment, outside the Nordic Area. In connection with this agreement, PhotoCure received €12 million, and is entitled to an additional €18 million upon the granting of marketing approval, and product launch of Metvix® in certain regions. PhotoCure will, in addition to royalty, receive milestone payments from Galderma on the basis of global sales of Metvix® in excess of €Euro 25 million per year, as well as payment for production of light sources and Metvix®. Irrespective of actual sales, PhotoCure is guaranteed significant royalty and milestone payments for the first 5 years following granting of marketing approval of Metvix® in the United States.

AUDITOR'S REPORT FOR 2001

To the Annual Shareholders' Meeting of PhotoCure ASA

We have audited the annual financial statements of PhotoCure ASA as of 31 December 2001, showing a loss of NOK 93.306.000 for the parent company and a loss of NOK 101.688.000 for the group. We have also audited the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the appropriation of the loss. The financial statements comprise the balance sheet, the statements of profit and loss and cash flows, the accompanying notes and the consolidated accounts. 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,

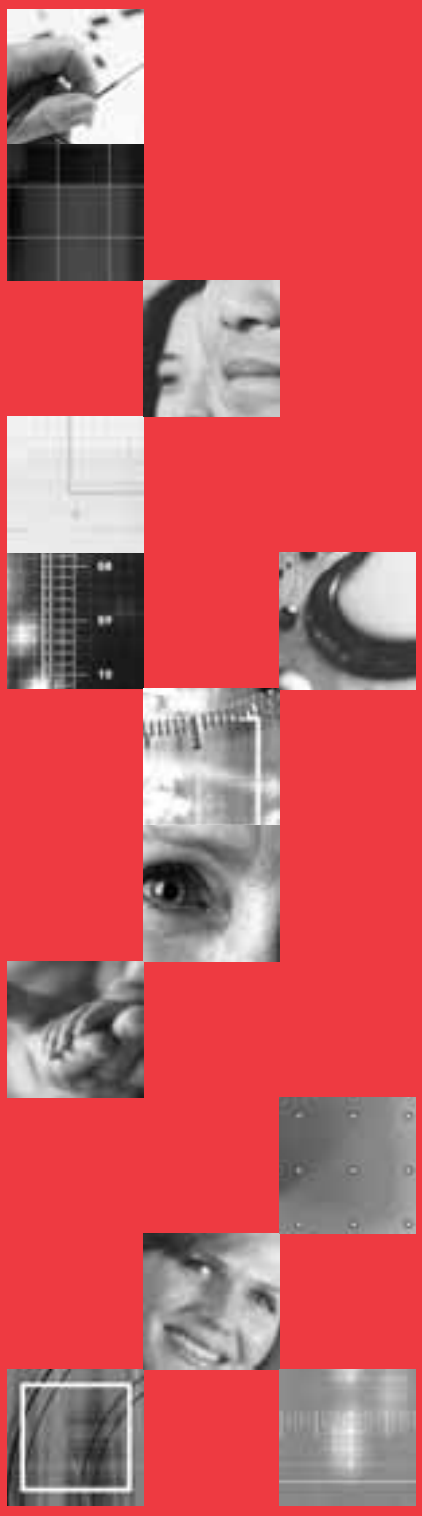
- the financial statements have been prepared in accordance with law and regulations and present the financial position of the Company and of the Group as of 31 December 2001, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles 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

State Authorised Public Accountant (Norway)

Oslo, 26 February 2002



PhotoCure ASA is a Norwegian listed company with the mission to develop and sell pharmaceuticals and medical devices based on proprietary photodynamic technologies. The company develops products for skin cancer and other skin diseases, internal cancer, gene therapy and cancer vaccines. Metvix® PDT is approved for the treatment of basal cell carcinoma (skin cancer) and actinic keratosis (pre-cancerous skin lesions). PhotoCure's second pharmaceutical product, Hexvix®, is currently undergoing phase III clinical trials for bladder cancer detection.

PCI Biotech AS was established as a subsidiary of PhotoCure ASA to develop and commercialise new photochemical-based cell internalisation technologies for the research market as well as products in oncology and gene therapy.

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