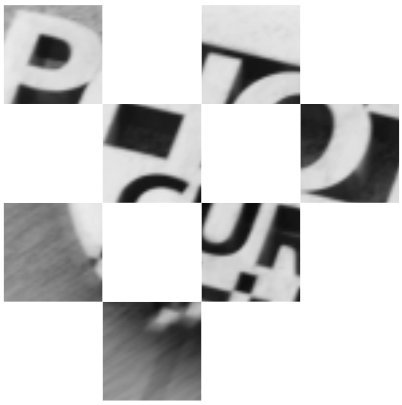

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MILESTONES LAST YEAR

Metvix® PDT

- New Drug Application (NDA) for Metvix® PDT treatment of actinic keratosis (AK) deemed "approvable" by the US FDA
- Market Authorisation Application (MAA) recommended for approval in Australia for the treatment of actinic keratosis
- Approved in 14 European countries and New Zealand
- Revenues increased to NOK 25.2 million in 2002 (NOK 2.3 million in 2001)
- 130 centres established in the Nordic countries by February 2003
- Galderma started launch of Metvix® and Aktilite™ in Germany in February 2003, with UK launch to follow
- New collaboration agreement signed with the Norwegian Radium Hospital

Hexvix®

- Positive results from first European phase III clinical trial for bladder cancer detection
- First Marketing Authorisation Application for EU filed in Sweden in December 2002
- Phase III studies initiated in the US

Benzvix®

- Development as a product for photo-diagnostics and PDT for early lesions in the gastro-intestinal tract progressing
- Patients recruited in pilot clinical studies

PCI Biotech AS

- Promising results from preclinical studies of Photochemical Internalisation (PCI) in combination with approved cytotoxic drug for tumour treatment
- Collaboration agreement signed with the Norwegian Radium Hospital

PRESIDENT'S STATEMENT

In 2002, PhotoCure made considerable progress in building a business that has the potential to generate significant value for its shareholders. Commercially, the Company's first product, Metvix® PDT for the treatment of skin cancer and pre-cancerous skin lesions, has been well accepted in the Nordic markets where PhotoCure is handling the marketing. In addition, PhotoCure's global marketing partner, Galderma S.A., has invested significant marketing resources ahead of its first launch of Metvix® in Germany in February 2003. Launch in the UK is expected to follow thereafter.
The excellent clinical results that we have generated with Hexvix® to date, suggest that this product for optical imaging of bladder cancer will also be a commercial success when it is launched. An application for marketing approval in Europe was filed in December 2002.

Metvix® Sales
In 2002, PhotoCure took a major step forward with the launch of Metvix® PDT in Sweden. Over the past year, the product has been rolled out across all of the Nordic countries and sales have continued to progress as more centres have adopted this new form of therapy. Looking ahead, we anticipate further growth in 2003, based on our objective of having 150 centres established in the Nordic region by May 2003. In February 2003, 130 of these were already in place.

In February 2003, a further important step in the commercial life of Metvix® took place with the launch of the product in Germany by our global marketing partner Galderma. The licensing agreement we signed with Galderma in late 2001 was designed to ensure that the large market potential for Metvix® PDT could be accessed in the best possible way. This market comprises more than 15 million new cases of actinic keratosis and close to two million new cases of basal cell carcinoma in Europe and the US each year.

During the course of 2002, we have been encouraged by the close working relationship that we have developed with Galderma and the resources that they have allocated to Metvix®. Based on these two factors, we expect the product to achieve an attractive level of sales internationally.

Metvix® is now approved in 14 European countries and in New Zealand, and in 2002 the US FDA deemed the New Drug Application (NDA) for the product "approvable" for actinic keratosis. This is an important step towards the final Marketing Authorisation. In addition, an NDA for basal cell carcinoma was filed in the US in February 2003. Furthermore, in February 2003, the Australian Drug Evaluation Committee recommended for approval our Marketing Authorisation Application (MAA) in Australia for the treatment of actinic keratosis.

Our belief in the major commercial potential of Metvix® PDT is due to both the marketing structure that we have created as well as the fact that it is a complete treatment for either actinic keratosis or basal cell carcinoma. The treatment is straightforward, can be completed in one or two consultation and achieves high cure rates and excellent cosmetic effects. The cosmetic results that Metvix® PDT delivers make 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.

Hexvix® Set to Improve Bladder Cancer Detection
PhotoCure's second product, Hexvix®, which is being developed for the improved detection of early-stage bladder cancer, is now within sight of the market. Bladder cancer is a significant medical problem and is characterized by high recurrence rates, of the order of 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® completed its first European phase III study in September 2002. The positive results from this study led to a Marketing Authorisation Application (MAA) being submitted in December 2002 in Sweden. In the US, phase III trials are ongoing under an Investigational New Drug (IND).

The studies undertaken with Hexvix® have shown a significant and clinically relevant improvement over the use of standard cystoscopy for both "flat" lesions, such as carcinoma in situ (CIS) and dysplasia, and for small papillary lesions. The ease of implementing Hexvix® fluorescence cystoscopy as a

supplementary diagnostic method to standard cystoscopy and its favourable safety profile suggests that it will easily be added to current standard procedures.

The fact that Hexvix® fluorescence cystoscopy, as an adjunct to the already existing method, detects 29% more patients with CIS lesions than standard cystoscopy, is compelling clinical evidence that Hexvix® is an efficacious and clinically important product. More accurate and earlier detection of bladder cancer results in better patient management and thus clear benefits for the patient.

The market size for cystoscopic testing for bladder cancer is more than four million tests annually in Europe and the US alone, representing a significant commercial opportunity for Hexvix®. As with Metvix®, PhotoCure intends to market the product in the Nordic countries.

Benzvix® to clinic
2002 also saw PhotoCure's third product, Benzvix®, begin initial clinical studies in patients with gastro-intestinal diseases.

PCI Biotech AS – A New Focus on Therapeutics
PCI Biotech AS is focusing on using its PCI (photochemical internalisation) technology as a drug delivery platform to develop improved therapeutic products. Such products will typically be developed in collaboration with therapeutics companies and generating such collaborations is now the main aim of the PCI Biotech management.

The research products LumiTrans® and LumiSource®, developed by PCI Biotech, are used in collaborations both with academia and industrial partners in order to clearly demonstrate the benefits of the PCI technology platform.

PCI Biotech's technology has several key advantages. Macromolecules can be transferred into the cell at higher levels than before, using fewer or cheaper vectors. The technology can also be used to introduce macromolecules previously found to be too difficult to move through the cell membrane. This is ground-breaking technology and there is a multi-billion dollar market for novel drug delivery technology that really does improve the clinical profile of new therapeutic products. Initially, PCI Biotech will focus on improving anti-cancer therapies.

Further Investment in Cancer Therapy
In June, PhotoCure made an investment in Anticancer Therapeutic Inventions AS (ATI), a Norwegian company developing novel anticancer products based on radiopharmaceuticals. The investment in ATI provides PhotoCure with an option to strengthen its anti-cancer portfolio by giving it access to Alpharadin™. Alpharadin™ is a completely new concept within radiopharmaceuticals where cancer cells are irradiated locally with alpha particles. Alpharadin™ is a target-specific radiopharmaceutical being developed for the selective irradiation of bone metastases, and is currently undergoing phase I/II clinical trials in patients with this disease. Alpharadin™ is the first drug of its kind being developed.

Increasing Revenues
The growing revenues in the Nordic markets, along with sales to our global marketing partner, enabled PhotoCure to achieve sales of NOK 28.7 million during 2002. This revenue, allied to careful cost controls, led to a reduction in the losses for the first year ever.

2003 – A Year of Further Significant Progress
Like 2001, 2002 has been a year of significant achievement for PhotoCure. The management and the Board of Directors wish to congratulate and show appreciation to everybody involved in these successes and look forward to many more as PhotoCure continues its development into one of the world's successful biotechnology companies.

2003 is expected to be another important year for PhotoCure. It has started well with the recent launch of Metvix® PDT by Galderma in Germany, and with the UK launch imminent. The year should also see further important milestones with the US FDA approval of Metvix® and the initial approval of Hexvix® in Europe. These are all key events, which should allow PhotoCure to become one of the few profitable biotechnology companies in Europe.

Vidar Hansson
President and CEO of PhotoCure

THE PHOTOCURE SHARE

In 2002, PhotoCure's share price ended the year down 70% at NOK 36. In a trend repeated all across Europe, biotechnology companies lost a great deal of value during 2002. However, companies such as PhotoCure, which are selling products today, have been able to withstand the worst of the harsh economic climate.

Listing
PhotoCure ASA is a public limited company with headquarters in Oslo, Norway. The company'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 2002
The PhotoCure share suffered significantly during 2002 owing to the harsh environment for equities, dropping from NOK 120 at the end of 2001 to NOK 36 by the end of 2002, a decrease of 70%. This is despite increasing revenues from sales and milestones relating to Metvix® and encouraging clinical trial data released on Hexvix®. The downward movement of the share price was halted by the 3rd quarter of 2002, when the clinical acceptance of Metvix® and its revenue-generating potential became evident for the first time on the Profit & Loss statement.

2003 should also see further important milestones with Metvix® and Hexvix® in Europe and in the US. In addition, PhotoCure's global marketing partner, Galderma S.A., has invested significant marketing resources into its first launch of Metvix® in Germany in February 2003. Launch in UK is expected to follow thereafter. These are key events that should allow PhotoCure to become one of the few profitable biotechnology companies in Europe.

Trading Volume
During the course of 2002, the average daily trading volume of PhotoCure's shares reported on or to the Oslo Stock Exchange was 33,464 shares. One round lot consists of 200 shares. A total of 8.3 million shares were traded on the Oslo Stock Exchange in 2002.

Market Capitalisation
PhotoCure's market capitalisation at the end of 2002 was NOK 628 million (NOK 2.07 billion in 2001).

Shares and Share Options
At the end of 2002, the outstanding number of shares was 17,445,000 shares. PhotoCure had also issued 618,329 share options and warrants at the end of 2002. Of these, 368,329 options were held by employees of the company.

Financial Events 2002
PhotoCure intends to release its quarterly financial statements during 2003 on the following dates:

13.05.2003	Report 1st Quarter 2003
19.08.2003	Report 2nd Quarter 2003
06.11.2003	Report 3rd Quarter 2003

The company's Annual General Meeting will be held in Oslo on 3 April 2003.

Shareholder Information
Share price sensitive information is distributed through stock exchange notices, 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 2,385 shareholders as of 31 December 2002. Domestic shareholders in Norway hold 90% of the shares.

PhotoCure Share price up to 20 February 2003 (NOK/ share)

Top Ten Shareholders as of 31 December 2002

Shareholder	Number of shares	% of issued share capital
Radiumhospitalets forskningsstiftelse	3,859,000	22.1%
Tharald Brøvig/Gezina AS	922,373	5.3%
Selvaag Invest AS	603,482	3.5%
Sundt AS	420,749	2.4%
Ferd Invest	400,000	2.3%
Verdipapirfondet Fondsfinans	382,382	2.2%
Morgan Stanley and Co intl. Ltd	382,200	2.2%
Marlin Verdi AS	368,487	2.1%
Vidar Hansson/Varak AS	367,500	2.1%
Vicama AS	285,221	1.6%

Shareholders According to Size of Shareholding at 31 December 2002

Shareholdings	Number of Shareholders	Number of Ordinary Shares	% of Ordinary Shares
1-999	1,521	436,446	2.5%
1,000-9,999	677	1,720,378	9.9%
10,000-99,999	157	4,343,704	24.9%
100,000-499,999	27	5,571,617	31.9%
500,000 and more	3	5,372,855	30.8%
Total	2,385	17,445,000	100.0%

CORPORATE GOVERNANCE

PhotoCure's goal is to create value for its shareholders. Well-defined corporate bodies and prudent management are important factors in achieving this goal. In this section, important parts of PhotoCure's corporate governance are described.

Shareholder Rights
PhotoCure treats all shareholders equally by having only a single share class, no voting restrictions and no restrictions on trading.

General Meeting
The Annual General Meeting (AGM) of the company is held each year before 1 July. The AGM decides on:

- Approval of the Profit & Loss Account and Balance Sheet
- Employment of net income or coverage of net loss based on the audited balance sheet and payment of dividends.
- Election of the Board of Directors and decision on remuneration to the board members.
- Appointment of auditor and decision on her/his remuneration.
- The AGM shall also address and decide on cases listed in the summons and other matters required by law.

Voting on resolutions at the AGM can be done by personal presence or by power of attorney. Owners of shares, which are registered in the name of a nominee, are not entitled to vote under Norwegian law, nor are the persons who are designated in the register as nominees. If these shareholders wish to vote or be present at the AGM, the shareholder must request that the nominee transfer the shares to a Norwegian securities account registered in the shareholder's name prior to the shareholders' meeting.

Apart from the AGM, extraordinary general meetings of shareholders may be held whenever considered necessary by the Board of Directors. An extraordinary general meeting shall also be convened for the consideration of specific matters at the written request of our auditor or of shareholders representing at least 5% of our share capital.

For mandates granted to the Board of Directors, see Notes to the financial statements, Note 15.

Board of Directors
The Board of Directors of the Company shall consist of up to seven members and act as nominating committee for the election of the Board of Directors. The Board of Directors appoints a chairman and a deputy chairman among its elected members. All members are independent of management and free from any business or other relationship which could materially interfere with the exercise of independent judgement. Profiles on each are included on page 7. The Board of Directors had eight meetings in 2002.

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

The Board is responsible for the strategy, performance, control and management of the company. The responsibility for implementing the Board's courses of action is delegated to the Chief Executive within certain limits authorised by the Board.

Remuneration and Performance Evaluation of Senior Management
The Company has a Remuneration committee consisting of the Chairman and the Deputy Chairman of the Board of Directors. The Company operates an incentive programme for management, which is outlined in the Notes to Financial Statements, Note 2.

Total compensation, bonuses, and number of shares and share options owned or granted directly or indirectly by members of the Board of Directors and Chief Executive Officer are detailed in the Notes to Financial Statements, Note 2 and 15. Number of shares and share options owned by senior management and related parties are also detailed in these notes.

External Communications
Share price sensitive information is distributed through stock exchange notices, press releases, reports and presentations. This information is available on the Oslo Stock Exchange website www.ose.no or our website www.photocure.com. On our website there is also other useful information about PhotoCure and its products as well as coverage by financial analysts.

BOARD OF DIRECTORS

Erik Engebretsen, age 54, was elected as a Director of PhotoCure in March 2001 and Chairman of the Board in March 2002. Mr Engebretsen is a graduate of the Norwegian School of Management and holds an MBA and MS from the University of Wisconsin-Madison. He is the Managing Director of Gezina AS, a private venture and investment company. Previously he has served as Chief Executive Officer and Chief Financial Officer in various public companies. He is also a member of the Board of Directors with a number of public and private companies.

Per-Olof Mårtensson, age 65, was elected as a Director of PhotoCure in 1996 and Deputy Chairman of the Board in 1998. He is currently Chairman of the Board of Karo Bio AB after being President and Chief Executive Officer of the same company. Before joining Karo Bio AB, he held various senior management positions in the pharmaceutical industry, including Executive Vice President of Pharmacia AB; President of AB Leo; Vice President of Pharmaceutical Operations of Astra AB and Member of the Advisory Board of HealthCap AB, a Swedish investment fund in the medical field. He is also a member of the Board of Directors of a number of public and private companies, including Maxim Pharmaceuticals Inc. and BioInvent International AB.

Halvor Bjerke, aged 56, was elected as Director of PhotoCure in October 1996 and served as Chairman of the Board from April 1998 to March 2002. 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 served as Chairman of the Board of the Norwegian Radium Hospital Research Foundation from 1996 to 2002 and is currently Chairman of the Board of several companies including the following biotech companies: Rheumatech AS, Spermatech AS, Medprobe AS and Thya Medica.

Tharald Brøvig, age 60, was elected as a Deputy Director of PhotoCure in 1996 and Director in 1998. He serves on the Board of Directors of the following companies quoted on the Oslo Stock Exchange: Tomra ASA, Tandberg ASA, Tandberg Television ASA and Crystal Production ASA. He has also served on the Board of Directors of Hafslund Nycomed AS (Now part of Amersham Health) from 1984 to 1994.

Lars Lindegren, age 65, was elected as a Director of PhotoCure in March 2000. He is currently Chairman of the Board of Metcon Medicin AB and serves on the Board of Wilhelm Sonesson AB, Angiogenetics Sweden AB, Gallileo Genomics Inc. and Xanthus Life Sciences Inc. He has held various senior management positions in the pharmaceutical industry including Executice Vice President of Pharmacia AB and President of Astra Pharmaceuticals International.

EXECUTIVE OFFISERS

Vidar Hansson, M.D., Ph.D., age 59, 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 39, has served as the Chief Financial Officer since February 1997. Mr Melen has a Master of Science degree in business and, before joining PhotoCure, he served from 1990 to 1997 as Strategy and Economic Planning Manager and Finance Manager of Saga Petroleum ASA, now part of Norsk Hydro ASA. He previously served as a business consultant for Deloitte Haskins and Sells Management Consultants AS.

Kjetil Hestdal, M.D., Ph.D., age 43, 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.

METVIX® PDT

Metvix® is delivered as a cream to be 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 photo-sensitiser 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, Aktilite™, for approximately ten minutes. The red light excites the photosensitiser, producing cytotoxic singlet oxygen, which destroys the cancer cells.

Metvix® PDT offers an efficient treatment for actinic keratosis (AK, pre-cancerous 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 is approved for the treatment of AK and BCC in 14 European countries and in New Zealand. Metvix® PDT was recently deemed "approvable" by the US FDA for treatment of AK, and in February 2003, the Australian Drug Evaluation Committee recommended for approval our Marketing Authorisation Application (MAA) for the treatment of actinic keratosis. PhotoCure is marketing Metvix® PDT in the Nordic region, and revenues from the product are already increasing rapidly. Metvix® PDT was launched in Germany in February 2003, and preparations are well underway for a UK launch.

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

Actinic Keratosis

Actinic keratoses (AKs) are very common, pre-cancerous 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 carcinoma develop from AK. Thus, the lesions require careful evaluation and effective treatment. Despite this, PhotoCure estimates that in Europe, only 20-30% of the five million estimated cases are treated. The incidence is also particularly high in Australia, with approximately two million new cases per year, and the US, with an estimated ten 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 US citizens each year. As with AK, this condition is increasingly common owing 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, with complete cure rates in excess of 90% achieved in clinical trials
- It produces superior cosmetic results
- The procedure is straightforward and can be repeated if necessary
- Topical treatment means low risk of side effects

Aktilite™

The key characteristic of red light to be used together with Metvix® is its ability to penetrate human tissue, thus improving the ability of the Metvix® PDT treatment to permeate thicker lesions. PhotoCure offers three different proprietary red light sources. The original broadband lamp used in all clinical trials

is still available together with PhotoCure's newly developed Aktilite™ CL16, with 16 LEDs, irradiating an area of 40x50mm, and the larger Aktilite™ CL128 having 128 LEDs, irradiating an area of 90x190mm. Both Aktilite™ light sources are based on the durable LED light technology making the lamps almost maintenance-free.

Clinical Development of Metvix® PDT

Importantly, Metvix® PDT has consistently been the patient's preferred choice of treatment throughout trials, which is most likely 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 Authorisations in 14 European countries (including Germany, the UK, Spain and Italy) and in New Zealand. PhotoCure has also filed MAAs 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 treated cured after three months and 65% of cosmetic results rated excellent or good. In addition, two 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.
In September 2002, PhotoCure's NDA for Metvix® PDT treatment of AK was deemed "approvable" by the US FDA. This represents an important milestone for PhotoCure and a significant step towards introducing Metvix® PDT into the largest pharmaceutical market in the world.

The company filed a second NDA for Metvix® PDT in February 2003 in the US for the treatment of BCC, after recently completing a trial in nodular BCC. Because nodular lesions are often deep, they are usually excised surgically, leaving the patients with scars. In this specific trial, the nodular lesions were first treated with photodynamic therapy and six months later removed surgically in order to verify the outcome histologically.The specimens were subject to a very strict, conservative assessment of treatment efficacy. Metvix® PDT proved far superior to the comparator, placebo PDT, with a complete clinical response rate of 82% (78% histologically verified).

Commercialisation of Metvix® PDT

Following on the success of clinical trials, the commercialisation of Metvix® PDT is progressing as planned. PhotoCure has built its own sales organisation in the Nordic countries and this is already contributing to a significant rise in Metvix® PDT revenues. The product has been launched in Sweden and Norway, and launch activities are ongoing in Denmark and Finland. Metvix® PDT has been extremely well received by dermatologists, and, as of February 2003,

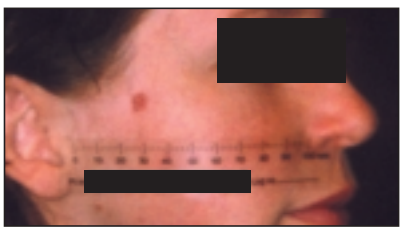
PhotoCure's treatment is straightforward

1. Lesions are prepared

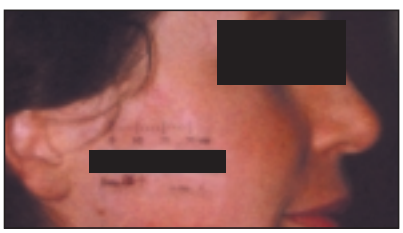
2. Metvix® cream is applied

3. Aktilite™ is used for about 10 mins. to activate the treatment

Treatment of nodular Basal Cell Carcinoma on the cheek



Before treatment



Complete response after treatment with Metvix® PDT

200 light sources have been installed at 130 clinical centres. PhotoCure is on target to have 150 centres equipped in the Nordic countries by May 2003.

Taking Metvix® PDT Worldwide

In order to maximise the global commercial potential of Metvix® PDT, in 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, Aktilite™, outside the Nordic region.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 is still responsible for MAAs in the EU, US and Australia. Galderma is responsible for MAAs in other countries.

Galderma is stepping up its preparations to launch Metvix® PDT on the world's major pharmaceutical markets and more resources have been allocated for Metvix® PDT than for any other product in its portfolio. Metvix® PDT was a main focus at Galderma's exhibition stand at the World Congress of Dermatology in Paris, and five scientific presentations were held on the clinical studies of Metvix® PDT. In addition, Galderma sponsored a separate Metvix® PDT symposium.

On 1 February 2003, Galderma started the launch of Metvix® PDT in Germany.
In parallel with the launch, Galderma hosted a successful market introduction seminar in Berlin, which was attended by about 150 leading dermatologists. The full-day seminar featured lectures by key opinion leaders in the dermatology field and participants were introduced to Metvix® PDT by a video presentation showing actual treatments in established clinics.

Galderma has established several educational centres in Germany and will now focus on providing training courses at these centres for dermatologists and on equipping clinical centres with light sources. Market introduction of Metvix® PDT in the UK will follow later this year.

Pre-launch activities have also started in Switzerland, with Galderma present at the National Congress of Dermatology. This meeting of Swiss dermatologists in 2002 had PDT as the main theme and interest was very high for Metvix® PDT, with several pre-orders already placed for the Aktilite™ light source.

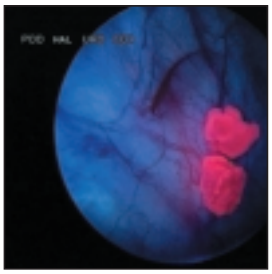
Under certain conditions, PhotoCure has also granted Galderma the rights to market Metvix® for the treatment of additional indications. For indications where PhotoCure and Galderma agree on a development plan, Galderma will fund 75% of the development costs. PhotoCure will also receive royalties and further milestone payments if Metvix® receives marketing authorisation for new indications. PhotoCure and Galderma have initiated the preparation of a large European clinical study in treatment of skin dysplasia (AK etc) in immuno-suppressed patients.

About Galderma S.A.

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 can then provide support to experienced local marketing teams that carry out plans and adapt strategies to suit their local markets. Galderma is working with the communications agency Hill & Knowlton to develop the marketing campaign for Metvix® PDT, and a specialised sales force of six people (in addition to Galderma's existing sales force) have been employed to cover Germany.

In addition to unrivalled market coverage, Galderma has close relationships with major 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.

HEXVIX®



Hexvix®, for the diagnosis and treatment of bladder cancer, is PhotoCure's second most advanced product. During 2002, Hexvix® has progressed very well, with promising results from the first phase III clinical trial. This has enabled the company to file its first Marketing Authorisation Application (MAA) earlier than expected, in Sweden in December 2002. This is the first step towards a mutual recognition within the EU.

The difficulty of identifying bladder cancer at the initial diagnosis and incomplete tumour resection is thought to be the main reason that 70% of bladder cancer patients have one or more recurrences after initial therapy. Despite 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.

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 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 4 million cystoscopic bladder inspections are performed in Europe and the US each year.

Current treatments for bladder cancer include transurethal resection of bladder (TURB), cystectomy and local and systemic drug therapy. TURB involves surgical removal of tumours, but due to the high recurrence rate, it is often combined with local drug therapy.

Hexvix® can Improve the Diagnosis and Treatment of Bladder Cancer

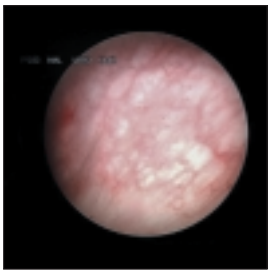
PhotoCure's proprietary Hexvix® Photodynamic Diagnosis (PD) is designed to significantly improve the physician's ability to identify cancerous and pre-cancerous lesions. The diagnostic procedure involves filling the patient's bladder with Hexvix® solution for 60 minutes before examination. Hexvix® accumulates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

Hexvix® photodynamic therapy (PDT) could be carried out both as a supplement to TURB and an alternative to (intravesical) pharmacotherapy, 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 destroys the cancer cells. This may also be an alternative for patients who cannot support standard treatment.

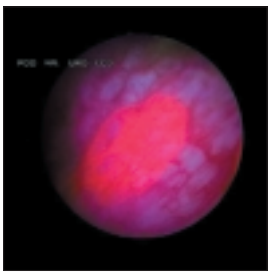
Positive results from Phase III Study

PhotoCure's first multi-centre phase III study of Hexvix® for the detection of bladder cancer is completed. This study, which involved 211 patients at high risk of developing bladder cancer, took place at 19 leading university clinics throughout Europe. The results confirmed that the main patient benefit of Hexvix® fluorescence cystoscopy is to detect more patients with flat cancer lesions (carcinoma in situ, CIS) than traditional white light cystoscopy. This should allow more patients with CIS to receive adequate treatment earlier.

In the study, Hexvix® fluorescence cystoscopy detected almost 30% more patients with CIS lesions compared to standard white light cystoscopy. Additionally, in a majority of patients with this type of cancer, more cancer lesions were found with Hexvix® than with



The bladder inspected with standard white cystoscopy



A cancer lesion (carcinoma in situ) detected only when Hexvix® fluorescence cystoscopy is employed

standard white light cystoscopy. Using Hexvix® fluorescence cystoscopy, 97% of the CIS lesions were detected, compared to 59% with standard white light cystoscopy. Pooling results from all lesion types, Hexvix® identified 97% of all tumours, compared to 78% for white light. The investigators reported that in more than 60% of the patients, Hexvix® fluorescence cystoscopy gave valuable information for the diagnosis and treatment of the patient. The safety profile of Hexvix® was excellent, with no major side effects reported.

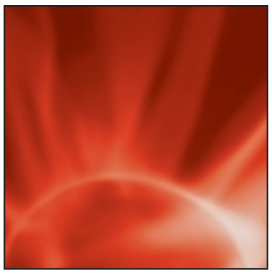
In the US and Canada, Hexvix® has been granted Investigational New Drug (IND) status by the FDA and phase III studies have been initiated at 19 leading urology centres.

Commercialisation of Hexvix® Initiated

In addition to gathering data to support a European MAA for Hexvix®, PhotoCure has started pre-launch activities, selected a contract manufacturer, completed market research studies and initiated pre-marketing. Price and reimbursement preparations are ongoing and out-licensing activities have been initiated, although PhotoCure intends to retain marketing rights to Hexvix® for at least the Nordic region.

Hexvix® PD and PDT for Other Cancer Types

Hexvix® also has potential for the diagnosis and treatment of other internal cancers and pre-cancerous 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.



BENZVIX®

PhotoCure is developing Benzvix® for the PD and PDT of early-stage cancers of the gastro-intestinal tract, particularly oesophageal and colon cancers. Benzvix® works on the same principle as Hexvix® and the first patients in pilot clinical studies using Benzvix® have recently been recruited.

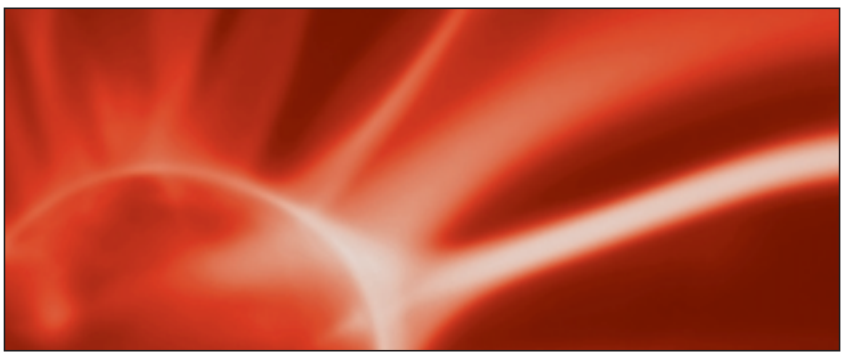
PhotoCure has estimated that each year in Europe and the US, there are around six million diagnostic procedures carried out for pre-cancerous changes in the oesophagus alone. In the UK, gastro-intestinal (GI) cancers account for 25% of all cancers diagnosed. A significant percentage of GI tumours are curable by surgery with or without chemotherapy or radiotherapy. However 50-70% of patients relapse or present with disease too advanced to be cured.

Improving Diagnosis and Treatment using Benzvix®

Benzvix® was developed to be used in a similar manner to Hexvix® and works on the principle of using light illumination for the diagnosis and treatment of disease. Administered locally to the tumour, Benzvix® is left for a period of time, allowing 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 pre-cancerous or cancerous cells.

Other potential applications for Benzvix®

PhotoCure is also investigating the use of Benzvix® for other applications, including the PD and PDT of pre-cancerous and cancerous lesions in upper airways and in gynaecological indications.



PCI BIOTECH AS

LumiSource®

PhotoCure's subsidiary, PCI Biotech AS, was established in 2000 to commercialise its proprietary technology, photochemical internalisation (PCI). The technology has the potential to significantly enhance the efficiency of drugs and investigational molecules delivered to specific, targeted cells. Photochemical internalisation 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.

PCI Biotech is focusing on the delivery of therapeutic molecules to develop improved therapeutic products.
The company's strategy is to use its proprietary molecule delivery products, LumiTrans® and LumiSource®, in collaborations with industrial and academic groups in order to generate the data needed to fully capitalise on the PCI technology opportunity.

Photochemical Internalisation
Photochemical internalisation was developed to introduce large molecules into target cells in a biologically active form. The inability to internalise therapeutic macromolecules has been a major factor in slowing the flow of new medicines to the market. In addition, development of new drugs has been adversely impacted by the fact that many therapeutic targets of interest are inside the cell and until now, have been highly inaccessible.

Large, water-soluble molecules, such as DNA and antibodies, are not able to penetrate the cell membrane, but can be engulfed along with the nutrients the cell needs in a process called endocytosis. The endosome, which mediates this process, is formed when the cell membrane internalises and pinches off to form a "digestive bubble". Normally the endosome then breaks down its contents. However PCI Biotech's technology is able to ensure that the endosome leaks its contents into the cell before enzymatic digestion occurs, so that the functionality of the macromolecule will be maintained.

Photochemical internalisation is an efficient and specific drug delivery technology, and exploiting this application of the technology is currently the main focus of PCI Biotech. However, PCI is also applicable to molecular biology and functional proteomics research, and specific business opportunities within these areas will also be explored.

Drug Delivery
There are many pharmaceutical and biotechnology companies developing therapeutic macromolecules, which could benefit substantially from the use of the PCI technology, increasing both the efficiency and the specificity of drugs for many diseases. In research and in pre-clinical trials, the PCI technology has efficiently delivered both low molecular weight anti-cancer drugs and proteins into the target cells, indicating that PCI has a variety of useful applications for site-specific drug delivery. In addition, PCI is being explored in the field of gene therapy and DNA vaccines.
Photochemical enhancement of antibody based therapeutics is also an important potential application.

Cancer Treatment
PCI is an attractive technology for the development of new treatments for a number of cancers and this is a key focus area for PCI Biotech. The technology has the potential to significantly enhance, by more than 100-fold, the delivery of anti-cancer molecules specifically to cancer cells, and 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 cancer treatments.

PCI could make it possible to utilise water-soluble molecules whose potential cytotoxic activity is normally hampered

RESEARCH AND DEVELOPMENT

by their inability to directly pass through cell membranes. Employing PCI, such molecules could be rendered active in the desired area of the body only, potentially making cytotoxic therapy substantially more specific.

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

A Solid Foundation for the Future
PCI Biotech has made significant progress in 2002. The technology has been developed with help from the Norwegian Radium Hospital (NRH), Northern Europe's largest centre for cancer research and cancer treatment, and this collaborative effort has been extended as a result of a new agreement.

At present, approximately 20 full time scientists at NRH perform research in PCI and related areas. PCI Biotech has all rights for commercial exploitation of new results.

Under the leadership of Eystein Westgaard and with its new strategic focus on the delivery of new drugs, PCI Biotech is in a strong position to create significant value for PhotoCure's shareholders.

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

Norwegian Radium Hospital Research Foundation
PhotoCure's most important and long-standing research relationship is with the Norwegian Radium Hospital Research Foundation (RF), which is affiliated to the Norwegian Radium Hospital (NRH). The main patents covering Metvix®, Hexvix® and Benzvix®, as well as the PCI-technology, were all filed by NRH. Under the terms of this agreement, PhotoCure supports the RF with research and development funding and gains access to, and an option to acquire all of, the new PDT technologies developed by the NRH. In February 2003, the parties have entered into a new three-year agreement, in which PhotoCure has a unilateral option to extend the agreement on an annual basis, up to a total of five years. The new agreement excludes PCI-technology, which has been split out into a separate agreement with PCI Biotech.

University of Leeds, UK
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
PhotoCure has an agreement with the Swiss Federal Institute of Technology and the Municipal University Hospital to collaborate in the development of Hexvix®. 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
DDL assists PhotoCure with the synthesis of new chemical entities for PDT and with the intellectual property strategy and implementation under the terms of this cooperation agreement.

Contract Research Organisations (CROs)
PhotoCure outsources most of its pre-clinical and clinical research to a range of CROs. Toxicological studies are conducted in the UK by Covance, a major provider of pre-clinical research services to the pharmaceutical industry. Clinical research, such as human trials and statistical data analysis, is undertaken by a range of CROs including Smerud Medical Research (Norway), Clinical Data Care (Sweden), Inveresk Research (UK/US), CuTech (US), Parexel (UK/Germany) and PPD Development (UK/US).

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

DIRECTORS' REPORT

In 2002, PhotoCure has made significant progress in commercialising Metvix® PDT (photodynamic therapy) for the treatment of skin cancer and pre-malignant skin conditions. In the Nordic countries, commercial sales of Metvix® cream have begun, and the investments made in sales and marketing are starting to pay off. In markets outside the Nordic region, Galderma, PhotoCure's global marketing partner, has made extensive launch preparations and recently launched Metvix® PDT in Germany.

Hexvix®, a pharmaceutical product for the detection of bladder cancer, has reached an important milestone with the submission of its first marketing authorisation application. The application was submitted to Swedish authorities in December 2002, as a first step towards European approval.

Commercialisation of Metvix® on Track
In 2001, Swedish authorities issued a marketing authorisation for Metvix® PDT for pre-malignant skin conditions (actinic keratosis, AK) and skin cancer (basal cell carcinoma, BCC). During the course of 2002, marketing authorisations were also issued in Norway, Denmark, Finland and Iceland. This means that PhotoCure now has obtained marketing authorisations in all its markets and this enables the company to focus on sales and marketing activities.
In the course of 2002, PhotoCure has established a dedicated marketing and sales force in the Nordic region, and Metvix® PDT courses have been held for doctors and nurses from more than 150 clinics. There is a total of about 400 dermatology clinics in the Nordic countries, and as of today, about 130 of these clinics offer Metvix® PDT, most of them located in Sweden and Norway.

There has also been a positive development when it comes to payment arrangements for doctors and patients. Metvix® cream is priced at about NOK 1100 to wholesaler, while the price to the patient varies, because the pharmacy's gross profit is different in each of the Nordic countries. In Sweden, Metvix® cream is reimbursed by the authorities, while in Denmark, Metvix® is reimbursable on a named patient basis. Establishment of procedure codes for private dermatologists in the Nordic countries is ongoing.

Market analyses performed in 2002 show that the occurrence of skin cancer (BCC) and pre-malignant skin conditions (AK) is higher than indicated in official reports to the authorities. In the Nordic countries, it is now estimated that there are about 45,000 new cases of BCC every year, while the occurrence of AK is estimated to be 10 times higher. The number of BCC treatments in the Nordic countries is estimated to be about 80,000 each year, while the number of AK treatments is about 110,000. The market analyses also show that close to 100% of all dermatologists in the Nordic countries have a good knowledge about Metvix® PDT and that they are positive to the method that they consider important in the treatment of AK and BCC.

Galderma S.A., PhotoCure's partner for sales and marketing of Metvix® PDT in markets outside of the Nordic region, hosted a scientific symposium in February 2002 in connection with the launch of Metvix® PDT in the German market. This is the first step on the way to full commercialisation of Metvix® PDT in Germany. Galderma will now start training courses for health personnel, installation of lamps, as well as giving the clinics support with their first Metvix® PDT treatments. This is Galderma's first Metvix® launch, and will be followed by a launch in Great Britain.

In the beginning of 2002, New Zealand was the first country outside Europe to issue a marketing authorisation for Metvix® PDT. In Europe, Metvix® PDT is now approved in 14 countries.
In addition, PhotoCure has received statements from the American Food and Drug Administration (FDA) and the Australian Drug Evaluation Committee (ADEC) that the marketing authorisation applications for Metvix® PDT for the treatment of AK may be approved. PhotoCure has recently sent a marketing authorisation application to the FDA for Metvix® PDT treatment of BCC.

Hexvix® Closer to Commercialisation
Hexvix® is a product for detection and treatment of bladder cancer.
In December 2002, the first marketing authorisation application for Hexvix® for the detection of bladder cancer was filed with the Swedish authorities. This took place several months earlier than scheduled, and this application may pave the way for marketing authorisations in

the remaining CE/EEA countries.

The clinical studies that form the basis of this application were preformed at 20 leading university hospitals in Europe. Hexvix® provides the possibility of a better detection of bladder cancer compared to the current standard method. The fact that Hexvix®, as an adjunct to the already existing method, detects close to 30% more patients with flat, aggressive bladder cancer (CIS; carsinoma in situ) shows that Hexvix® is an effective and clinically important product. More accurate and earlier detection of bladder cancer results in a better prognosis for the patients. In addition, phase III clinical studies with Hexvix® are ongoing at 19 reputable centres in the US.

Bladder cancer is the sixth most common malignant disease worldwide. In North America and Europe, about 200,000 new cases of the disease are detected each year. Market analyses show that more than 4 million cystoscopies (bladder-inspections) are performed in North America and Europe every year to detect or to rule out bladder cancer. This, and the fact that the clinical studies show that Hexvix® covers a large medical need, indicates that the commercial potential for Hexvix® fluorescence cystoscopy is considerable.

Ongoing Explorative Clinical Studies
PhotoCure has initiated several clinical pilot studies. The scope of these studies is to explore the possibility of using the company's products for the detection or treatment of other cancer diseases. Numerous patients are included in these studies, which include cancer in the uterus, in the gastro-intestinal tract and the treatment of bladder cancer.

PCI Biotech AS
PhotoCure's subsidiary, PCI Biotech, is 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 intra-cellular targets. This includes cytostatica, antibodies, or genes for the treatment of diseases using gene therapy.

Financial Position
PhotoCures total operating revenues in 2002 amounted to NOK 28.7 million, compared to NOK 5.4 million in 2001.

The Groups operating loss in 2002 amounted to NOK 109.5 million, compared to an operating loss of NOK 127.9 million in 2001. All costs related to research and development are expensed as they incur. The reduction in operating loss is primarily due to the increase in sales revenues. The reduction in labour costs is mainly caused by reduced provisions for social security tax related to employee share options.

Net financial income amounted to plus NOK 13.5 million in 2002, a reduction from NOK 26.2 million in 2001. This is mainly caused by a reduction in liquid funds and the fact that a larger share of the liquid funds has been placed on a euro account, with lower interest rates and an unfavourable development of the exchange rate.

The Group's net loss amounted to NOK 96.0 million in 2002, while the net loss in 2001 amounted to NOK 101.7 million.

PhotoCure ASA (the parent company) had a net loss of NOK 86.3 million in 2002, compared to a net loss of NOK 93.3 million in 2001. The Board of Directors of PhotoCure ASA proposes that the net loss be covered by a transfer from other equity capital. Available equity capital will after this transfer amount to NOK 185.3 million, of which NOK 124.3 million is distributable reserves. The Group's equity capital amounted to NOK 167.0 million as of 31.12.2002, which gives an equity ratio of 55.9%.

The Group has adopted a cautious investment strategy for its liquid funds. These are invested in bank deposits and money market funds with maturity up to one year. The profit from the company's liquid funds is dependant on the interest rates in the money market, and may therefore vary over time. Liquid funds of the Group amounted to NOK 249.5 million as of 31.12.2002. Net cash flow from operations amounted to NOK -50.9 million in 2002, compared to NOK -94.6 million in 2001. Based on this, the Group's financial freedom to act is good.

Costs and revenues of the PhotoCure Group accrue in 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. 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 substantial significance to an evaluation of the company's financial conditions and results.

Organisation
PhotoCure has its office in Oslo. At the end of 2002, the PhotoCure Group had 35 employees, five of which are employed in the subsidiary PCI Biotech AS. The PhotoCure Group makes to a large extent use of external suppliers for production, research and development, as well as regulatory work. The working environment in the company is considered to be good. No accidents or injuries were registered in 2002. Absence from work due to illness totalled 220 working days, which equals 2.8% of total working days in 2002.

The company does not pollute the external environment.

Other Matters
In April 2002, PhotoCure ASA filed papers in an Australian court to invalidate patent no. 624985 assigned to Queen's University in Kingston, Canada. The patent is licensed to DUSA Pharmaceuticals, Inc. and relates to a method for photodynamic therapy using 5-aminolevulinic acid. In the papers submitted to the court, PhotoCure asserts that publications, which predate the Queen's University patent, preclude the patenting of 5-aminolevulinic acid for photodynamic therapy. DUSA has filed a cross-claim in the same proceeding.

Future Prospects
PhotoCure will continue to focus on securing the commercial success of its first proprietary product, Metvix®. This will be achieved in close cooperation with Galderma S.A., the company's marketing partner for Metvix® outside the Nordic region. The Metvix®-documentation is already approved by 14 European countries and New Zealand. Before PhotoCure can expect substantial income from the countries where Metvix® is approved, healthcare professionals need to be properly trained, lamps must be distributed, and price and reimbursement agreements must be established. Launch preparations for Hexvix® are ongoing, and the company expects the first launch to take place in Sweden.

Research and development costs related to Metvix® are expected to be lower in 2003 than in 2002, while costs related to Hexvix® and Benzvix® are expected to increase. This implies that future research and development activities to a growing extent will comprise diagnosis and treatment of different types of internal cancer and pre-malignant lesions. As a result of PhotoCure's significant investments in research and development, the company also expects to incur a loss in 2003.

In 2002, PhotoCure started the launch of Metvix® in the Nordic countries, while its partner Galderma, recently hosted a launch symposium in Germany, the first launch within Galderma's marketing area. As for Hexvix®, the first marketing authorisation application has been filed. PhotoCure would still like to draw attention to the inherent risks associated with the development and commercialisation of its products.

Oslo, 25 February 2003
The Board of Directors of PhotoCure ASA

Erik Engebretsen
Chairman of the Board

Per-Olof Mårtensson
Deputy Chairman

Halvor Bjerke
Member of the Board

Tharald Brøvig
Member of the Board

Lars Lindegren
Member of the Board

Vidar Hansson
President and CEO of PhotoCure ASA

INCOME STATEMENT

PhotoCure ASA

(Amounts in NOK 000's)

Parent				Group		
2002	**2001**		**Note**	**2002**	**2001**	**2000**
		Operating revenues				
25 223	2 300	Sales revenues	1	25 223	2 330	2 131
2 344	3 231	Other operating revenues	1	3 486	3 022	2 558
27 567	**5 531**	**Total operating revenues**		**28 709**	**5 352**	**4 689**
		Operating expenses				
5 832	0	Cost of goods sold		5 832	0	0
15 273	23 086	Payroll expense	2,3	18 795	25 737	17 440
1 253	740	Ordinary depreciation	5	1 269	758	410
105 713	101 038	Other operating expenses	6,7	112 339	106 723	53 621
128 071	**124 864**	**Total operating expenses**		**138 235**	**133 218**	**71 471**
-100 504	**-119 333**	**Operating income**		**-109 526**	**-127 866**	**-66 782**
		Financial income and expense				
20 978	27 332	Interest income	8	20 271	27 486	18 149
-6 743	-1 305	Interest expense	8	-6 750	-1 308	-1 355
14 235	**26 027**	**Net financial income**		**13 521**	**26 178**	**16 794**
-86 269	**-93 306**	**Loss before tax**		**-96 005**	**-101 688**	**-49 988**
0	0	Tax expense	9	0	0	0
-86 269	**-93 306**	**Net loss for the year**	10	**-96 005**	**-101 688**	**-49 988**
		incl. minority interest in the amount of		-906	-1 074	0

BALANCE SHEET AS OF DESEMBER 31

PhotoCure ASA

(Amounts in NOK 000's)

Parent				Group	
2002	**2001**		**Note**	**2002**	**2001**
		Fixed assets			
		Plant & equipment			
4 724	2 090	Machinery and equipment	5	4 742	2 123
		Financial fixed assets			
1 512	1 778	Long term outstanding claims	3	1 429	1 812
5 019	5 000	Investment in subsidiary	11	0	0
6 250	0	Investment in shares	11	6 250	0
12 781	**6 778**	**Total financial fixed assets**		**7 679**	**1 812**
17 505	**8 868**	**Total fixed assets**		**12 421**	**3 935**
		Current assets			
		Inventory			
26 089	4 287	Inventory	4	26 132	4 287
		Receivables			
2 081	141	Accounts receivable		2 081	141
11 802	4 045	Receivables from group companies	18	0	0
7 060	5 034	Other receivables		8 869	6 028
20 943	**9 220**	**Total receivables**		**10 950**	**6 169**
		Investments			
215 414	283 564	Securities	12	215 414	283 564
		Cash and cash equivalents			
32 752	21 009	Cash and cash equivalents	13	34 089	21 614
295 198	**318 080**	**Total current assets**		**286 585**	**315 634**
312 703	**326 948**	**Total assets**		**299 006**	**319 569**

BALANCE SHEET AS OF DESEMBER 31

PhotoCure ASA

(Amounts in NOK 000's)

Parent 2002	Parent 2001		Note	Group 2002	Group 2001
		Equity			
		Paid-in capital			
8 723	8 642	Share capital	14,15	8 723	8 642
52 291	48 235	Additional paid-in capital	14	52 291	48 235
3 880	4 392	Other paid-in capital	14	3 880	4 392
64 894	**61 269**	**Total paid-in capital**		**64 894**	**61 269**
		Retained earnings			
120 424	206 694	Retained Earnings	14	102 105	198 129
185 318	**267 963**	**Total equity**		**166 999**	**259 398**
		Liabilities			
		Other long term liabilities			
17 879	17 362	Other long term liabilities	16	17 879	17 362
		Current liabilities			
14 057	7 831	Accounts payable		17 714	7 930
2 223	3 476	Employee withholding taxes and social security tax		2 456	3 864
79 473	0	Deferred income	1	79 473	0
13 753	30 316	Other current liabilities	17	14 485	31 015
109 506	**41 623**	**Total current liabilities**		**114 128**	**42 809**
127 385	**58 985**	**Total liabilities**		**132 007**	**60 171**
312 703	**326 948**	**Total equity and liabilities**		**299 006**	**319 569**

Oslo, 25 February 2003

The Board of Directors of PhotoCure ASA

Erik Engebretsen	Per-Olof Mårtensson	Halvor Bjerke
Chairman of the Board	*Deputy Chairman*	Member of the Board
Tharald Brøvig	Lars Lindegren	Vidar Hansson
Member of the Board	Member of the Board	President and CEO of PhotoCure ASA

CASH FLOW STATEMENT

PhotoCure ASA

(Amounts in NOK 000's)

Parent			Group		
2002	**2001**		**2002**	**2001**	**2000**
		Cash flow from operations			
-86 269	-93 306	Loss before taxes	-96 005	-101 688	-49 988
1 253	739	Ordinary depreciation	1 269	758	410
0	-22	Gain on sale of machinery & equipment	0	-21	-58
266	-712	Change in pension liability	383	-746	-1 231
-1 244	0	Remaining items	-1 244	0	0
-21 802	-4 287	Change in inventory	-21 845	-4 287	0
-1 940	89	Change in accounts receivables	-1 940	89	-170
6 227	-4 221	Change in accounts payables	9 784	-4 121	7 118
79 473	0	Change deferred income	79 473	0	0
-27 601	11 541	Change in other short-term items	-20 781	15 396	5 962
-51 637	**-90 179**	**Net cash flow from operations**	**-50 906**	**-94 620**	**-37 957**
		Cash flow from investments			
-3 887	-1 403	Investments in machinery & equipment	-3 887	-1 496	-1 474
0	93	Sales of fixed assets	0	132	151
-19	0	Investment in subsidiary	-19	0	0
-5 000	0	Investments in other companies	-5 000	0	0
-8 906	**-1 310**	**Net cash flows from investing activities**	**-8 906**	**-1 364**	**-1 323**
		Cash flow from capital transactions			
0	506	New loans	0	506	778
0	-300	Payment on loans	0	-300	-300
4 136	1 202	Paid-in equity	4 137	1 273	339 121
4 136	**1 408**	**Net cash flow from capital transactions**	**4 137**	**1 479**	**339 599**
-56 407	**-90 081**	**Net change in cash during the year**	**-55 675**	**-94 506**	**300 319**
304 573	**394 654**	**Cash and cash equivalents as of 01.01**	**305 177**	**399 683**	**99 364**
248 166	**304 573**	**Cash and cash equivalents as of 31.12**	**249 502**	**305 177**	**399 683**

NOTES TO FINANCIAL STATEMENTS FOR 2002

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 in Norway.

Consolidation principles
The group accounts include the parent company PhotoCure ASA and its subsidiaries, i.e. companies in which the parent company directly or indirectly owns more than 50 percent or has power to control.

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

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

The subsidiaries appear at cost within the parent company accounts.

Consolidation
Acquisition of entities is recognized on the basis of the acquisition method unless otherwise stated. The acquisition method prescribes that the entity's assets and liabilities that exist at the date of acquisition are recorded at fair value. Consideration exceeding that, which relates to identifiable assets and liabilities is classified as goodwill. For partially owned subsidiaries, the minority's share of excess values is included in identified assets and liabilities in the balance sheet. The minority owners' share of excess values is included in minority interests in the group's equity.

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.

Payment in connection with signing of licensing agreement is recognised over the minimum contract period, and milestones related to regulatory approvals and product launches relating to such 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. Acquisitions of independant research and development projects are capitalised as intangible assets provided the conditions for capitalisation are fulfilled.

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.

Unless otherwise stipulated, 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.

Currency
Monetary items in foreign currency are

translated at prevailing rates as of the balance sheet date . Realised and un-realised currency gains and currency losses are included within net loss. Transactions in foreign currencies are recorded at prevailing rates as of the transaction date.

Receivables
Account receivables and other receivables are presented at face value less a provision for doubtful 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 and intangible assets
Fixed and intangible 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.

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

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. Recognition of a deferred tax asset is subject to probable future application.

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.

Net loss per share
Net loss per share is calculated by dividing net loss related to weighted average common stock outstanding during the period. Diluted net loss per share also reflects outstanding options.

NOTE 1 – OPERATING REVENUES

Revenues relate to sales of products, royalties and earned signing income. All revenues originate from the same business area, including research, development, production and sales of pharmaceutical products and associated medical devices.

PhotoCure ASA, has received a signing fee for entering into a licensing agreement with Galderma S.A. Of this signing fee, NOK 14.3 million is included in sales revenues in 2002. The remaining NOK 79.5 million are included as deferred income in the balance sheet as of 31.12.2002.

Other operating revenues includes public contributions from "Skattefunn" in 2002 in the amount of NOK 3.2 million to the group and NOK 1.6 million to the parent company.

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

	Group			Parent	
(Amounts in NOK 000's)	**2002**	**2001**	**2000**	**2002**	**2001**
Wages	18 226	14 463	9 106	15 650	12 406
Social security tax	3 156	2 591	1 849	2 780	2 274
Social security tax share options	-6 127	5 547	3 934	-6 127	5 547
Pension expense	2 041	992	642	1 606	772
BOD fees, bonuses and other compensations	1 500	2 144	1 909	1 364	2 087
Total labour costs	**18 796**	**25 737**	**17 440**	**15 273**	**23 086**
Average number of employees	34.8	28.3	18.0	29.4	25.3

Compensations to CEO and BOD	**CEO**	**BOD**
(Amounts in NOK 000's)		
Wages	1 221	
Pension premium	79	
Other compensations	19	1 289

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 16.

Subscription rights earned by employees of PhotoCure as of 31.12.2002*:

Total subscription rights	Exercise price	Exercise period
237 000	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
55 329***	NOK 107.50	Up to 1/3 may be exercised at the earliest in 2003, up to 2/3 at the earliest in 2004 and all by 31.12.2005

* Conditional award of subscription rights for 2003 is not included in this table.
** Interest is not compounded.
*** Including 20,000 subscription rights earned by the company management, for more information see note 15.

In connection with the Company's incentive policy, the majority of employees have been granted subscription rights to Company stocks. 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 extended the incentive program for company employees, including company management. 118,550 contingent share options/subscriptions have been be issued for 2003, 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 2003 budget. 1/3 of the share options/subscriptions may be exercised each year starting in 2004 and ending in 2006. All the share options must be exercised by 31 December 2006. Of these subscription rights/share options, 20,000 were issued to the Chief Executive Officer, 10,000 were issued to the Chief Financial Officer and 10,000 were issued to the Vice President of Research and Development.

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 2002, 25,000 shares were subscribed to in connection with the program (please also refer to note 15).

Auditor
The auditor's fee in 2002 was NOK 175,000 for the parent company and NOK 205,000 for the Group. Payments relating to other audit services for 2002 amounted to NOK 185,000 for the parent company and NOK 197,000 for the Group, of which audit services related to tax issues amount to NOK 91,000 for both parent company and Group.

NOTE 3 – PENSION LIABILITIES

The Group is enrolled in a collective pension arrangement (the "Plan") through Nordea Liv Norge AS.

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

	2002	2001	2000
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%	3,5%
Yearly adjustment of G*	3,0%	3,0%	3,0%
Increase in pension benefits	3,0%	2,5%	2,5%

* G is the basic amount in the National Insurance

Underlying actuarial assumptions relating to demographic factors and terminations are in line with standard, insurance industry guidelines. The calculation is based on coverage of 28 employees in the Group and 23 employees in the parent company.

Current year net periodic pension expense was calculated as follows:

	Group			Parent	
(Amounts in NOK 000's)	2002	2001	2000	2002	2001
Service cost	1 732	844	460	1 347	648
Interest expense	223	117	63	207	115
Actual return on plan assets	-199	-206	-103	-190	-205
Net amortisation and deferral	91	31	10	86	31
Social security tax	194	206	211	156	183
Net pension expense	**2 041**	**992**	**641**	**1 606**	**772**

Pension liability:

	Group		Parent	
(Amounts in NOK 000's)	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Projected benefit obligation	-5 383	-2 729	-4 733	-2 535
Plan assets at fair value	5 011	3 813	4 544	3 589
Unrecognised net loss	1 797	724	1 701	724
Net plan assets before social security tax	**1 425**	**1 808**	**1 512**	**1 778**
Social security tax	4	4	0	0
Accured plan assets (liabilities)	**1 429**	**1 812**	**1 512**	**1 778**

NOTE 4 - INVENTORY

	Group		Parent	
(Amounts in NOK 000's)	**31.12.2002**	**31.12.2001**	**31.12.2002**	**31.12.2001**
Raw materials	20 928	0	20 928	0
Finished goods	5 083	4 287	5 040	4 287
Purchased goods for resale	121	0	121	0
Total inventory	**26 132**	**4 287**	**26 089**	**4 287**

NOTE 5 – PLANT AND EQUIPMENT

	Group	Parent
(Amounts in NOK 000's)	**Machinery & equipment**	**Machinery & equipment**
Purchase price 01.01.2002	3 572	3 525
Additions	3 887	3 887
Disposals	0	0
Purchase price 31.12.2002	**7 459**	**7 412**
Accumulated depreciation 01.01	1 449	1 435
Depreciation expense	1 269	1 253
Disposals	0	0
Accumulated depreciation 31.12	2 718	2 688
Book value 31.12.2002	**4 741**	**4 724**
Book value 01.01.2002	2 123	2 090
Expected economic life	3-5 år	3-5 år
Depreciation method	Linear	Linear

NOTE 6 – OTHER OPERATING EXPENSES

	Group			Parent	
(Amounts in NOK 000's)	**2002**	**2001**	**2000**	**2002**	**2001**
External research and development costs	77 300	78 036	42 299	72 378	73 796
Marketing expense	7 720	10 145	2 145	7 494	9 963
Travel expense	5 039	4 207	2 096	4 859	4 012
Patent and trademark registration fees	10 032	1 999	1 417	9 422	1 759
Other costs	12 248	12 336	5 664	11 560	11 508
Total other operating expenses	**112 339**	**106 723**	**53 621**	**105 713**	**101 038**

NOTE 7 – RESEARCH AND DEVELOPMENT

The Company develops products for treatment of cancer and other diseases. The Company has incurred NOK 77.3 millon in externally generated expenses during 2002. 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 – FINANCIAL ITEMS

	Group			Parent	
(Amounts in 000's)	**2002**	**2001**	**2000**	**2002**	**2001**
Interest income	18 404	26 407	17 961	18 346	26 256
Interest income group				782	0
Foreign exchange gains	1 867	1 079	188	1 850	1 076
Total financial income	**20 271**	**27 486**	**18 149**	**20 978**	**27 332**

	Group			Parent	
(Amounts in 000's)	**2002**	**2001**	**2000**	**2002**	**2001**
Interest expenses	459	758	587	459	681
Foreign exchange loss	6 120	315	630	6 114	316
Other financial expenses	171	235	138	170	308
Total financial expenses	**6 750**	**1 308**	**1 355**	**6 743**	**1 305**

NOTE 9 – TAXES

Tax expense consists of the following:

	Group			Parent	
(Amounts in NOK 000's)	**2002**	**2001**	**2000**	**2002**	**2001**
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)	**2002**	**2001**	**2000**	**2002**	**2001**
Net loss before tax	**-96 005**	**-101 688**	**-49 988**	**-86 269**	**-93 306**
Expected nominal rate	-26 881	-28 473	-13 997	-24 155	-26 126
Permanent differences	-840	270	-6 009	-392	270
Write down of deferred tax assets	27 721	28 203	20 006	24 548	25 856
Taxes payable on net loss	**0**	**0**	**0**	**0**	**0**

Specification of the basis for deferred tax assets and liabilities:

	Group		Parent	
(Amounts in NOK 000's)	**2002**	**2001**	**2002**	**2001**
Temporary differences:				
Fixed assets	-2 514	- 2 721	-2 503	- 2 714
Securities	1 041	2 974	1 041	2 974
Liabilities	-11 763	- 20 355	-11 763	-20 355
Net pension asset	1 429	1 812	1 512	1 778
Loss carryforward	-335 791	- 230 303	-315 915	- 221 640
Total	**-347 597**	**- 248 594**	**-327 628**	**-239 958**
Deferred tax asset (28%)	-97 327	69 606	91 736	67 188
Deferred tax asset not recognized	97 327	-69 606	-91 736	-67 188
Book value of deferred tax asset	**0**	**0**	**0**	**0**

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
2012	105 488	94 275
Total	**335 791**	**315 915**

RISK per share amounts to NOK 0 as of 31 December 2001 and is estimated by the Company to amount to NOK 0 as of 31 December 2002.

NOTE 10 – NET LOSS PER SHARE (GROUP)

Net loss per share	**2002**	**2001**	**2000**
W.A.S.O.*	17 417 589	17 162 301	16 098 839
W.A.S.O.* (diluted)**	17 586 161	17 690 939	16 935 720
Avg. net loss per share	-5.51	-5.93	-3.11

* Weighted Average Shares Outstanding

** Excluded from calculation when antidilution results.

NOTE 11 – INVESTMENT IN SUBSIDIARIES AND OTHER COMPANIES

Company	Location	Year of acquisition	Company share capital	Ownership and voting share	Book value	Equity 31.12.2002	Net income 2002
PCI Biotech AS	Oslo, Norway	2000	NOK 114 400	90.7%	mNOK 5.0	mNOK-13.3	mNOK –9.7
PhotoCure Australia Pty Ltd	Melbourne, Australia	2000	AUD 12	100%	mNOK 0	AUD 1 988	AUD 0

PhotoCure owns 12,500 shares in Anticancer Therapeutic Inventions AS (ATI), corresponding to 6.8% of the company shares. ATI is a Norwegian company that develops radioactive drugs for the treatment of cancer. The shares are recognized at cost price NOK 6.25 million.

NOTE 12 – 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 2002 were as follows:

(Amounts in NOK 000's)	Book value	Market value	Return
DnB Asset Management ASA	155 916	155 916	11 355
Storebrand Fondene AS	59 498	59 498	4 495
Total	**215 414**	**215 414**	**15 850**

NOTE 13 – CASH DEPOSITS

Restricted cash as of 31 December 2002:

(Amounts in NOK 000's)	Group	Parent
Restricted cash	2 138	2 029

NOTE 14 – EQUITY

Equity in parent

(Amounts in NOK 000's)	Share capital	Share premium reserve	Other restricted capital	Retained earnings	Total parent
Equity as of 31.12.2001	**8 642**	**48 235**	**4 392**	**206 694**	**267 963**
Registration of equity	28	211	-239		0
Accrued subscription rights			-273		-273
Share issue employees	53	3 844			3 897
Net loss of the year				-86 269	-86 269
Equity as of 31.12.2002	**8 723**	**52 291**	**3 880**	**120 425**	**185 318**

Equity in group

(Amounts in NOK 000's)	Total paid in capital	Retained earnings	Minority interest	Total equity
Equity as of 31.12.2001	**61 269**	**198 129**	**0**	**259 398**
Equity transactions in parent	3 625			3 625
Share increase in subsidiary			1	1
Equity transfer from majority to minority			-19	-19
Net loss of year		-95 099	-906	-96 005
Negative minority share transfered to retained earnings		-924	924	0
Equity as of 31.12.2002	**64 894**	**102 105**	**0**	**166 999**

Accumulated negative minority interest included in Group equity as of 31.12.2002 amounts to NOK 1.2 million.

NOTE 15 – SHARE CAPITAL AND SHAREHOLDER INFORMATION

Registered share capital in PhotoCure ASA comprised of the following as of 31 December 2002:

Share outstanding	Par value	Book value of share capital
17 445 000	NOK 0.50	NOK 8 722 500

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 2002 to issue 2.93 million shares, of which (a) 1.83 million shares relate to the financing of the company's development, while issuance of (b) 1.1 million shares relate to issuance of stock to employees and to certain strategic partners. The remaining authorisation as of 31 December 2002 was 2,905,000 shares. Authorisation relating to (a) remains effective through the annual general assembly in 2003, while authorisation relating to (b) remains effective through the annual general assembly in 2004. Previously reported authorisations have expired.

The following table provides an overview as to the status of authorisations as of 31 December 2002:

(Amounts in # of shares)	Ordinary share issue	Employee issue
Issue authorisation general assembly 20.03.2002	1 830 000	1 100 000
Share issues pursuant to general assembly	0	25 000
Remaining issue authorisation	**1 830 000**	**1 075 000**

In addition, subscription rights to 368,329 shares were issued to employees (see note 2), and remain unexercised, as well to 50,000 shares to strategic partners (see below).

As described in note 2, selected employees in PhotoCure ASA have been offered share subscriptions, where portions of the payments are deferred. The company will receive a maximum payment of NOK 2.1 million from those who as per 31 December 2002 have acquired shares under this arrangement.

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 200,000 shares have been issued to Hydro Research AS provided the satisfaction of certain requirements, including that Hydro Research AS does not cancel the cooperation agreement. The agreement became effective on 1 January 2000.

Subscription rights (total shares)	Exercise period	Exercise price	Est. value (as of 22.09.1999)
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 618,329 subscription rights (including independent subscription rights) remained unexercised as of 31 December 2002.

Ownership structure

The primary shareholders in the Company as of 31 December 2002, were:

	Shares	Ownership percentage
Radiumhospitalets forskningsstiftelse	3 859 000	22.1%
Tharald Brøvig/Gezina AS*	922 373	5.3%
Selvaag Invest AS	603 482	3.5%
Sundt AS	420 749	2.4%
Ferd Invest	400 000	2.3%
Verdipapirfondet Fondsfinans	382 382	2.2%
Morgan Stanley and Co intl. Ltd	382 200	2.2%
Marlin Verdi AS	368 487	2.1%
Vidar Hansson/Varak AS*	367 500	2.1%
Vicama AS	285 221	1.6%
Sig. Bergesen D.Y og almennyttige stiftelse	252 750	1.4%
Norsk Hydros Pensjonskasse	249 263	1.4%
Sparebankenes sikringsfond	242 137	1.4%
Gjensidige NOR spareforsikring	229 950	1.3%
JP Morgan Chase Bank	206 084	1.2%
Orkla ASA	200 000	1.1%
Royal Trust Corporation of Canada	190 200	1.1%
Total with greater than 1% ownership	**9 561 778**	**54.8%**
Total other	7 883 222	45.2%
Total shares outstanding	**17 445 000**	**100.0%**

* Includes shares owned by related parties

Shares owned directly or indirectly by members of the Board of Directors, Chief Executive Officer, and management, and related parties to such as of 31 December 2002:

Name	Position	Number of shares	Subscription rights*
Erik Engebretsen	Chairman of the Board	27 000	0
Per-Olof Mårtensson	Deputy Chairman	3 000	0
Halvor Bjerke	Member of the Board	5 500	0
Tharald Brøvig	Member of the Board	922 373	0
Lars Lindegren	Member of the Board	24 377	0
Vidar Hansson	President and CEO	367 500	10 000
Geir Christian Melen	Chief Financial Officer	119 792	5 000
Kjetil Hestdal	VP R&D	122 873	5 000
Auditor		0	0

* Please refer to Note 2 for more information about subscription rights.

NOTE 16 – OTHER LONG TERM LIABILITIES

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 NOK 10.4 million are to be repaid in the form of royalties. The royalty payment is based on accumulated revenues of between NOK 50 and 250 million, related to the Company's dermatological products, earned by the year ended 31 December 2005. Accumulated royalty liability has a NOK 12.5 million cap, the achievement of which is assumed. The total liability, including accrued interest, was NOK 12.1 million as of 31 December 2002.

A bonus due the Chief Executive Officer, in the amount of NOK 3.4 million (including related social security tax) as of 31 December 2002, has been accrued, and is payable in 2004. (See note 2.)

NOTE 17 – OTHER CURRENT LIABILITIES

	Group		Parent	
(Amounts in NOK 000's)	**2002**	**2001**	**2002**	**2001**
External research and development expenses	10 118	15 551	10 118	15 278
Provision for social security tax-subscription rights	15	8 307	15	8 307
Miscellaneous accured cost	4 352	7 157	3 620	6 731
Total	**14 485**	**31 015**	**13 753**	**30 316**

NOTE 18 - INTERGROUP BALANCES

	Parent	
(Amounts in NOK 000's)	**2001**	**2000**
Other receivables	11 802	4 240
Other short term debt	0	195
Total (net)	**11 802**	**4045**

NOTE 19 – RELATED PARTY TRANSACTIONS

In February 2003, the Company renewed the 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") and diagnostics ("PD") developed at the Norwegian Radium Hospital (NRH). As consideration, the Company makes financial contributions toward research and development. The new agreement covers a period of three years and gives PhotoCure a unilateral right to extend it annually for two additional years. The original agreement was signed 25 October 1996 and covered a period of four years, but was later extended through 31 December 2002.

During 2002, the Company, under the terms of the contract, made payments in the amount of NOK 2.8 million, research and development services, at arms-length terms, to NRH, via RF.

NOTE 20 – FINANCIAL RISK

The return on the Company's investments in securities depends on the interest rate obtained in the money market, and may therefore vary over time.

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 21 – 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 15 million, in which the continued operations of its subsidiary PCI Biotech AS are guaranteed through 30 June 2004. 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.

In 2001, PhotoCure ASA entered into a loan agreement with its subsidiary PCI Biotech AS. The balance including interest amounted to NOK 11.8 million as of 31 December 2002. This loan, including interest, is fully redeemed in 2003 through PhotoCure's subscription of 589,100 PCI Biotech shares at the price of NOK 20 per share. The company has in January entered into a new loan agreement with PCI Biotech AS of up to NOK 5 million. The outstanding balance is subject to compounding of 10% interest p.a.. No security has been provided. The loan becomes due on 1 July 2003.

The company rents office space at Hoffsveien 48 in Oslo. Yearly rental expenses amount to NOK 2.4 million, 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.

NOTE 22 – SIGNIFICANT NON-RECURRING TRANSACTIONS

On 19 December 2001, PhotoCure ASA entered into a licensing agreement with Galderma S.A. The agreement became effective as of 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 Euros, and is entitled to an additional 18 million Euros 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 EUR 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.

NOTE 23 – OTHER MATTERS

In April 2002, PhotoCure filed papers in an Australian court to invalidate Australian patent no. 624985 assigned to Queen's University in Kingston, Canada. The patent is licensed to DUSA Pharmaceuticals Inc. and relates to a method for photodynamic therapy using 5-aminolevulinic acid. In the papers that were filed, PhotoCure asserts that publications, which predate the Queen's University patent preclude the patenting of 5-aminolevulinic acid for photodynamic therapy. DUSA has put forward a cross-claim.