PCI Biotech

Annual Report 2008

PCI Biotech Holding ASA

www.pcibiotech.com

A drug (coloured orange) is captured in endosomes (seen as orange spots) inside the cells. The green area represents the entire cell; the blue area is the cell nucleus.

DIRECTORS' REPORT 2008

PCI Biotech Holding ASA

PCI Biotech Holding ASA ("PCI Biotech" or "the company") was until 16 June 2008 a subsidiary of Photocure ASA ("Photocure").

The shares that Photocure owned in PCI Biotech AS were spun off to PCI Biotech Holding ASA in return for a payment to the shareholders of Photocure of one share in PCI Biotech Holding ASA for each share they owned in Photocure.

The PCI Biotech group consists of the parent company PCI Biotech Holding ASA and its subsidiary PCI Biotech AS.

PCI Biotech became listed on the Oslo Axess market on 18 June 2008.

Good progress in research and development

PCI Biotech is focusing on the development of technology and products for the delivery of current and future drugs. The company has a patented technology platform within photochemical internalisation (PCI) which can be used to increase the effect of cytoxins and other drugs by combining a light-sensitive substance and light in order to deliver drugs into the cells.

In 2008 PCI Biotech has further developed production of the active ingredient in Amphinex® and reduced production costs significantly. In addition, the company has developed a new and improved formulation of Amphinex® based on well-established pharmaceutical ingredients. This new formulation is expected to improve tolerance of the product.

Preparations to commence the first clinical study with PCI technology were completed in 2008. The preclinical documentation of Amphinex® was completed and the application to start the study was approved by the Norwegian Medicines Agency. The study will focus on the safety profile of Amphinex® in combination with the cytoxin Bleomycin® and will be carried out at the Norwegian Radium Hospital department of Oslo University Hospital, among other places. Secondary end points are the effect in several types of cancer, including skin cancer, breast cancer and cancer in the head and throat region. It has proved more difficult than expected to gain access to patients for this study in Norway. The company is therefore in the process of setting up additional clinical centres in Europe.

The PCI technology is very suitable for delivering different types of macromolecules. The company has continued the development of the delivery technology for biological drugs. SiRNA are biopharmaceutical molecules that potentially can be used for the treatment of a number of important groups of illnesses. One of the biggest challenges in regard to making the most of siRNA lies in the transport of the molecules into the cells in the body where they are to carry out a specific effect. In 2008, studies were carried out involving animal models which indicate that the PCI technology can give a significant increase in the desired biological effect of siRNA.

PCI Biotech strengthens its organisation

Erling Øverland was elected as the new chairman of the board at the extraordinary general meeting on 22 October 2008. Erling Øverland has considerable international experience within finance, economics, business development and marketing from leading positions in Statoil. He also has extensive management experience. Erling Øverland was the elected president and chairman of the Confederation of Norwegian Enterprise (NHO) from 2004 until 2008.

PCI Biotech has offices in Oslo and had 7 employees at the end of 2008. The company's senior management team con-

This translation of the Annual Report 2008 is for information purposes only.

sists of Per Walday, managing director and Anders Høgseth, research and development director.

PCI Biotech is planning to establish a core of 8-10 people who will coordinate a carefully selected group of consultants and academic collaborations.

Karin Nord, PhD, was appointed as pharmaceutical director on 1 October 2008. She came from a position as director of GxP projects and quality at GE Healthcare and was responsible for the quality of all global development projects. Karin Nord has a doctorate in pharmacy from the University of Oslo and has extensive experience within pharmaceutical development and production.

Kristin Eivindvik, MSc. is appointed as project director as of March 2009. She has previously worked for GE Healthcare as global project director with responsibility for several development projects. Kristin Eivindvik has considerable experience within development and registration of drugs, medical technical equipment and combined products.

The group largely employs external contractors for production, research and development as well as regulatory work. The work environment within the company is considered to be good. No accidents or injuries were recorded in 2008. The sickness absence for the group was 17 working days in 2008, which amounts to 2.3% of working time. The sickness absence in the parent company was 0 days in 2008.

PCI Biotech's objective is to be a workplace with full equality between women and men in all areas. The company has traditionally recruited from environments where the number of women and men is relatively equally represented. Women make up 40% of the board members of the company. There are no women members of the senior management team. The arrangement of working hours within the company is independent of gender.

The company does not pollute the external environment.

Financial position

Both PCI Biotech Holding ASA and PCI Biotech AS were included in the consolidated accounts of Photocure ASA up to the demerger/listing of PCI Biotech Holding ASA in June 2008. The consolidated results of PCI Biotech Holding ASA include the whole of 2008 for PCI Biotech AS and the period from 16 June 2008 to 31 December 2008 for PCI Biotech Holding ASA.

PCI Biotech Holding ASA had no operating revenue or operating costs in 2007, which was the first year of operation. Financial income amounted to NOK 572 in 2007.

The PCI Biotech Holding ASA group had NOK 7.4 million in other operating revenue in 2008. This is research grants from Norway and the EU. There was no revenue in the parent company in 2008.

Total expenses in the group were NOK 19.5 million in 2008, made up of NOK 14.3 million in R&D expenses and NOK 5.2 million in other operating costs. Total expenses in the parent company in 2008 were NOK 2.2 million in other operating costs.

The operating result was NOK -12.1 million in the group and NOK -2.2 million in the parent company in 2008.

In accordance with IAS 36, assessment shall be made of the balance sheet value of the shares in the subsidiary company PCI Biotech AS if events occur which can give indication of a permanent and significant decline in value. On indication of a permanent decline in value, the shares shall be valued at the lowest of book value

DIRECTORS' REPORT 2008

and recoverable amount. Recoverable amount is defined as the higher of fair value (market capitalization) and utility value.

PCI Biotech Holding ASA has completed a valuation of the shares in PCI Biotech AS. Calculating the value of a start-up company like PCI Biotech AS is difficult and encumbered with great uncertainty. The valuation concludes that the shares must be written down by NOK 44 million to NOK 6.0 million as per 31 December 2008, which makes the equity of PCI Biotech Holding ASA equal to market capitalisation as per 31 December 2008.

The board of PCI Biotech Holding ASA proposes that the result for the year of NOK -45.4 million is transferred to uncovered losses. Following this, the equity of PCI Biotech Holding ASA amounts to NOK 60.0 million, which gives an equity ratio of 97 %. There was no non-restricted equity as per 31 December 2008.

PCI Biotech AS had negative equity as per 31 December 2008. PCI Biotech Holding ASA has provided a guarantee which guarantees the future operation of PCI Biotech AS until 20 June 2010, limited upwards to NOK 20 million. The board of Biotech Holding ASA is intending to propose to the general assembly of PCI Biotech Holding ASA on the 30 April 2009 that the parent company supply capital to PCI Biotech AS.

A share issue of NOK 60.0 million was done prior to the market listing of PCI Biotech Holding ASA.

Liquid funds in the group totalled NOK 50.1 million at the end of 2008. The group employs a prudent investing strategy for its liquid funds. The return on the company's liquid funds depends on the rate of interest in the money markets and will therefore vary over time. The liquid funds are placed in short term money market funds. The balance sheet total of the group was NOK 54.6 million at the end of 2008. There were 5 416 390 outstanding shares as per 31 December 2008. Net cash flow from operational activities in the group amounted to NOK -9.4 million in 2008.

The group's expenses and revenue are accrued in several different currencies. The group is thereby exposed to fluctuations in exchange rates. The risks are assessed on a regular basis. PCI Biotech does not at present employ any financial hedging instruments.

PCI Biotech does not recognise deferred tax assets in the balance sheet due to uncertainty as to when the company will actually accrue a liability to pay tax. All research expenses are expensed in the tax accounts as per 31 December 2008.

In accordance with § 3.3 (a) of the Norwegian Accounting Act, it is confirmed that the conditions for assuming that the company will continue as a going concern are present and that the financial statements have been prepared on the basis of this assumption. No events have occurred since the end of 2008, except those which are stated in this report that are of major significance for the assessment of the company's financial position and results.

Future prospects

PCI Biotech is focusing on continuing the development of the company and new products based on the company's unique technological platform.

The focus within R&D will be to complete the company's first clinical study at the Norwegian Radium Hospital and other chosen European clinical centres, as well as continuing the preclinical activities in order to expand use of the company's technology.

PCI Biotech's vision is to develop effective products for delivery of existing and future drugs and to build a portfolio of licence agreements.

Oslo, 26 February 2009
The Board of Directors of PCI Biotech holding ASA

Erling Øverland, Chairman of the Board

Theresa Comiskey Olsen, Board Member

Eva Steiness, Board Member

Kjetil Taskén, Board Member

Flemming Ørnskov, Board Member

Per Walday, CEO

INCOME STATEMENT

PCI Biotech Holding ASA
(Amounts in NOK 000s except per share data)

Parent				Group	
2007	**2008**		**Notes**	**2008**	**2007**
-	-	Other income	**2**	7 367	5 867
0	**0**	**Total income**		**7 367**	**5 867**
-	-	Research and development expenses		-14 323	-14 732
-	-2 246	Other operating expenses		-5 182	-1 298
0	**-2 246**	**Total other expenses**	**4, 5, 6, 7**	**-19 505**	**-16 030**
0	**-2 246**	**Operating profit/loss(-)**		**-12 139**	**-10 163**
1	945	Financial income	**8**	992	354
-	-44 147	Financial expenses	**8**	-229	-329
1	**-43 202**	**Net financial profit/loss(-)**		**763**	**25**
1	**-45 448**	**Profit/loss(-) before tax**		**-11 375**	**-10 138**
-	-	Tax expense	**9**	-	-
1	**-45 448**	**Net profit/loss(-) for the year**		**-11 375**	**-10 138**
		Earnings per share	**10**		
		Basic		-2,82	-3,76
		Diluted		-2,82	-3,76

BALANCE SHEET AS OF 31 DECEMBER

PCI Biotech Holding ASA
(Amounts in NOK 000s)

Parent				Group	
2007	**2008**	**ASSETS**	**Notes**	**2008**	**2007**
		Non-current assets			
-	-	Intangible assets	**11**	76	130
-	-	Machinery and equipment	**11**	119	14
-	5 999	Investment in subsidiaries	**12**	-	-
0	**5 999**	**Total non-current assets**		**196**	**144**
		Current assets			
-	-	Accounts receivable		300	247
-	6 301	Interest bearing loan group company		-	-
-	-	Other receivables		3 938	3 774
-	6 301	Total receivables	**15**	4 238	4 021
1 001	49 311	Cash and short term deposits	**16**	50 142	3 699
1 001	**55 612**	**Total current assets**		**54 380**	**7 720**
1 001	**61 611**	**Total assets**		**54 576**	**7 864**

BALANCE SHEET AS OF 31 DECEMBER

PCI Biotech Holding ASA
(Amounts in NOK 000s)

Parent				Group	
2007	**2008**	**EQUITY AND LIABILITIES**	**Notes**	**2008**	**2007**
		Equity			
1 000	16 249	Issued capital	**17**	16 249	323
-	88 796	Share premium		88 036	20 120
-	415	Other paid-in capital		415	-
1	-45 447	Retained earnings		-55 399	-15 203
1 001	**60 013**	**Total equity**		**49 301**	**5 240**
		LIABILITIES			
		Current liabilities			
-	40	Accounts payable	**13**	2 728	894
-	-	Employee withholding taxes and social security tax		313	102
-	1 181	Intercompany balances		-	-
-	377	Other current liabilities	**19**	2 234	1 628
0	**1 598**	**Total current liabilities**	**18**	**5 275**	**2 624**
0	**1 598**	**Total liabilities**		**5 275**	**2 624**
1 001	**61 611**	**Total equity and liabilities**		**54 576**	**7 864**

Oslo, 26 February 2009
The Board of Directors of PCI Biotech holding ASA

Erling Øverland, Chairman of the Board

Theresa Comiskey Olsen, Board Member

Eva Steiness, Board Member

Kjetil Taskén, Board Member

Flemming Ørnskov, Board Member

Per Walday, CEO

STATEMENT OF CHANGES IN EQUITY

PCI Biotech Holding ASA - group
(Amounts in NOK 000s)

	Notes	Issued capital	Share premium	Other paid-in equity	Loss	Total equity
Equity as of 31.12.2006	**17**	**222**	**0**	**0**	**-5 064**	**-4 842**
Share issue		101	20 139			20 240
Costs regarding share issue			-19			-19
Net profit for the year					-10 139	-10 139
Equity as of 31.12.2007	**17**	**323**	**20 120**	**0**	**-15 203**	**5 240**
Consolidation changes		884	27 912		-28 821	-25
Capital increase		6 042	-6 042			0
Share issue		9 000	51 000			60 000
Costs regarding share issue			-4 954			-4 954
Employees' options				415		415
Net profit for the year					-11 375	-11 375
Equity as of 31.12.2008	**17**	**16 249**	**88 036**	**415**	**-55 399**	**49 301**

PCI Biotech Holding ASA - parent
(Amounts in NOK 000s)

	Notes	Issued capital	Share premium	Other paid-in equity	Loss	Total equity
Equity as of 12.3.2007	**17**	**100**	**0**	**0**	**0**	**100**
Share issue		900				900
Costs regarding share issue						0
Net profit for the year					1	1
Equity as of 31.12.2007	**17**	**1 000**	**0**	**0**	**1**	**1 001**
Share repayment		-1 000				-1 000
Share issue by in kind issue		1 207	48 792			49 999
Capital increase		6 042	-6 042			0
Public share issue		9 000	51 000			60 000
Costs regarding share issue			-4 954			-4 954
Employees' options				415		415
Net profit for the year					-45 448	-45 448
Equity as of 31.12.2008	**17**	**16 249**	**88 796**	**415**	**-45 447**	**60 013**

PCI Biotech Holding ASA
(Amounts in NOK 000s)

Parent 2007	Parent 2008		Group 2008	Group 2007
1	-45 448	Profit/loss(-) before tax	-11 375	-10 139
-	-	Ordinary depreciation & amortisation	71	34
-	44 000	Write down of shares	-	-
-	415	Share-based payments expense	415	-
-	-	Pension costs	24	35
-1	-945	Interest income	-932	-330
-	-	Interest expense	4	305
-	-	Other items	-49	-35
-	-	Change in inventory	-	34
-	-	Change in receivables	-564	-1 495
-	40	Change in accounts payable	1 834	100
-	1 558	Change in other accruals	1 163	500
0	**-380**	**Net cash flows from operating activities**	**-9 409**	**-10 991**
-	-6 301	Loan to group company		
-	-	Investments in machinery and equipment	-122	-179
1	945	Interest received	932	330
1	**-5 356**	**Net cash flows from investing activities**	**810**	**151**
900	60 000	Share issue	60 000	20 221
-	-4 954	Costs regarding share issue	-4 954	-
-	-	Loan taken	-	2 277
-	-	Interest paid	-4	-305
-	-1 000	Repayment of capital	-	-
-	-	Repayment of loans	-	-8 552
900	**54 046**	**Net cash flows from financing activities**	**55 042**	**13 641**
901	**48 310**	**Net change in cash during the year**	**46 443**	**2 801**
100	**1 001**	**Cash and cash equivalents as of 01.01**	**3 699**	**898**
1 001	**49 311**	**Cash and cash equivalents as of 31.12**	**50 142**	**3 699**

ACCOUNTING PRINCIPLES

1. Information about the company and the group

The 2008 annual accounts of PCI Biotech Holding ASA (the company) and the consolidated annual accounts for the group were approved for publishing by the board on 26 February 2009. The establishment of the group in 2008 is described in more detail under point 3.

PCI Biotech Holding ASA is a public limited company registered in Norway. The company's operations are associated with the research and development of pharmaceutical products. The company's shares are listed on the Oslo Axess market. The company's registered office is Hoffsveien 48, NO-0377 Oslo, Norway.

2. Basis for the preparation of the annual accounts

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

The annual accounts of the company and the group are presented in accordance with International Financial Reporting Standards (IFRS), as laid down by the International Accounting Standards Board and implemented by the EU as per 31 December 2008.

PCI Biotech Holding ASA has NOK as its functional currency and presentation currency. All financial information is reported in whole 1,000 NOK as long as not mentioned otherwise.

3. Basis and principles for preparing the consolidated accounts

At the extraordinary general meeting of PCI Biotech Holding ASA (PCI H) on 9 April 2008, a plan for spinning off the shares in PCI Biotech AS from Photocure ASA (PHO) was approved. PHO owned 91.4% of the shares in PCI Biotech AS. The demerger was completed by transferring the shares in PCI Biotech AS to PCI H. The shareholders of PHO received 1 share in PCI H for every share they owned in PHO as payment. The demerger process was based on a value of NOK 50 million for 100 % of the shares in the company on the recommendation of external advisers. Firstly the share capital of PCI H was written down to NOK 0 and repaid to PHO. Then an increase in the share capital of PCI H was adopted where minority shareholders of PCI Biotech AS transferred their shares to PCI H in return for payment in shares in the company corresponding to their shareholding in PCI Biotech AS and valued to equal that which the shareholders of PHO had received as payment.

The time of the accounting implementation of the demerger was set as 16 June 2008, as all the conditions of the demerger were complied with at this point. The financial results of PCI H and PCI Biotech have been consolidated from this date in the group's consolidated income statement.

PCI Biotech Holding ASA was a company without any activity, and the transfer of all the shares in PCI Biotech AS has been recorded as a reverse acquisition in the consolidated accounts of PCI Biotech Holding ASA. This means that PCI Biotech AS is recorded at continuity in the consolidated accounts and that PCI H has been included in the accounting consolidation from 16 June. The group's comparative figures for 2007 are those of PCI Biotech AS. In the company accounts for PCI Biotech Holding ASA the transaction is recorded at fair value at the time of the transaction in accordance with IAS 27. Subsequent accounting is carried out in accordance with chapter 4 (e).

In June 2008 PCI H became listed on the Oslo Axess market and a public issue was carried out at the same time with subscription for 3,000,000 shares at a price of NOK 20.

The consolidated accounts include the overall financial results and financial position when the parent company PCI H and its subsidiary company are presented as a single financial unit. The subsidiary company will be fully consolidated into the group accounts. The consolidated accounts are prepared according to uniform accounting policies for similar transactions and events under otherwise equal conditions. Intra-group transactions and intercompany balances, including intra-group earnings and unrealised gains and losses, are eliminated.

Changes in accounting policies

There have been no amendments to the company's accounting policies in 2008 compared to the previous year.

Adopted new/revised/additional standards and interpretations with a future date of implementation and which have not been previously implemented in the annual accounts for 2008, are listed in chapter 5.

PCI Biotech does not anticipate that these new/revised/additional standards and interpretations listed in chapter 5 will have any significant effect on the annual accounts at the time of implementation.

Important accounting valuations, estimates and assumptions

Preparation of the annual accounts in accordance with IFRS requires the use of valuations, estimates and assumptions that have consequences for recognition in the balance sheet of assets and liabilities, the valuation of contingent liabilities and recorded revenues and expenses.

The use of estimates and assumptions is based on the company management's best discretion.
In the process to apply the policies for accounting, the company management has made the following valuations and estimates that are of significance for recognised values in the annual accounts for 2008:

- The valuation of PCI Biotech AS in the parent company is based on an assessment of the future commercial value of the PCI technology, patents and the results of the studies that are carried out by the subsidiary company.
- The company cannot render probable future earnings large enough to justify recognising development costs in the balance sheet before marketing permission is obtained. Development costs are recognised as an expense on an ongoing basis until national marketing permission for the product and indication is obtained. Further development of the product after marketing permission has been given and a market launch carried out will be recorded on the balance sheet in the extent that this involves significant changes in the product that are likely to generate future economic benefits.
- The market value of subscription rights is calculated according to the Black-Scholes method. This method entails use of estimates and discretion described in more detail in note 5.

4. Summary of important guidelines for accounting for the company

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

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

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

b. Currency
Monetary items in foreign currencies are converted at closing rate of exchange. Realised and unrealised exchange gains and losses are included in financial items unless otherwise stated. Transactions in foreign currencies are recorded at the exchange rate on the date of transaction.

c. Tangible fixed assets
Tangible fixed assets are recorded at cost less accumulated depreciation and write-downs. Tangible fixed assets are depreciated over the expected useful life of the assets taking any residual value into consideration. Costs accrued for major replacements and updates for tangible fixed assets are added to cost if it is probable that the costs will generate future economic benefits for the company and if the costs can be reliably measured. Ordinary maintenance is charged against income on an ongoing basis.

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

- production and test equipment
  5 years
- fixtures and fittings and equipment
  3 – 5 years

Intangible assets are amortised straight-line over the estimated useful life from the time they are available for use as follows:

- software 5 years

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

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

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

Profits from the sale of tangible fixed assets and intangible assets are recorded under "Other operating income" while losses are recorded under "Other operating expenses".

d. Research and development
Research costs are charged against income on an ongoing basis. Development costs are recognised in the balance sheet as intangible assets only if there is an identifiable element that is expected to give future economic benefits and when the costs of such an element can be accurately measured. Development costs are recognised in the balance sheet as intangible assets if all of the following criteria exist:

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

ACCOUNTING PRINCIPLES

When all the above criteria are met, costs related to development shall be recognised in the balance sheet. Costs which have been taken as an expense in previous accounting periods cannot be recognised in the balance sheet at a later date.

As the company cannot render probable future earnings from products under development, the costs for company-developed research and development are taken as an expense on an ongoing basis until national marketing permission for the product and indication are obtained. Cost sharing of research and development expenses with licence partners is recorded as a reduction in costs.

e. Investment in subsidiary companies

Shares and investments with the aim of long-term ownership are recorded in the balance sheet as long-term investments and are valued at the lower of cost and fair value. Write-downs for permanent declines in value are made on the basis of individual valuations. Any realised and unrealised profits/losses and any write-downs related to these investments will be recorded in the income statement as financial items.

f. Financial assets and liabilities

Financial assets and liabilities are recognised in the balance sheet when the company enters into a binding agreement in regard to the item.

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

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

f.3 Interest-bearing liabilities are recognised at fair value at the time of recognition. In subsequent periods, interest-bearing liabilities are recorded at amortised cost according to the effective interest method.

f.4 Trade accounts payable are recorded at amortised cost.

f.5 Financial income consists of interest income on bank balances and money market funds, and exchange rate gains from currency items. Financial expense consists of interest expense on borrowing and exchange rate losses from currency items.

g. Recognition of revenue

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

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

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

h. Government grants and assistance

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

i. Licence costs

The company has entered into agreements with external partners in regard to access to technology in the form of licence agreements and agreements which give the right to use patented technology

j. Pensions

The company has an agreement concerning contribution-based pensions for the company's employees. Contributions that constitute from 5 % to 8 % of the employee's ordinary salary up to 12 x the basic amount (G) of the Norwegian national insurance scheme are paid to the employee's contribution account. The company's payment of contributions is charged against income in the period it is accrued. Any payments made to the contribution fund are recognised in the balance sheet.

Salary to employees over and above 12 x G is not included in the company's agreement concerning contribution-based pension, and no other agreements have been entered into regarding general payment for pensions for salary above this level.

k. Share-based remuneration

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

The costs regarding the equity transactions with the employees are recorded over the period until the employees can exercise their subscription rights. The company's equity is increased correspondingly. The fair value of the subscription rights is cal-

culated according to the Black-Scholes model. Each option programme is calculated separately with the actual exercise price and duration of the programme. The subscription rights immediately cease to be valid if the employee's employment with the company is terminated.
Employer's social security contributions on outstanding subscription rights are accrued as personnel costs over the exercise period of the rights based on the intrinsic value of the rights.

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

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

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

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

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

n. Contingent liabilities and assets
Contingent liabilities are defined as:
- possible liabilities as a result of earlier events where their existence depends on future events;
- liabilities that are not included because it is not probable that they will lead to an outflow of resources from the company; or
- liabilities that cannot be measured with sufficient reliability.

Contingent liabilities are not included in the annual accounts. Notes on significant contingent liabilities are provided, with the exception of contingent liabilities with little probability of occurring.

A contingent asset is not included in the annual accounts, but is recorded if there is a certain probability that the benefit will accrue to the company.

o. Events after the balance sheet date
New information regarding the company's financial position on the balance sheet date has been taken into account in the annual accounts. Events after the balance sheet date that do not affect the company's financial position on the balance sheet date, but which will affect the company's financial position in the future, are reported if they are significant.

p. Cash flow statement
The cash flow statement is prepared according to the indirect method.

q. Equity
Amounts that are distributed to or contributed by shareholders are included directly in equity. The company's equity is increased in direct relation to the cost of share-based remuneration for employees.

r. 1 The nominal value of own shares is presented in the balance sheet as a negative equity element. The purchase price over and above the nominal value is recorded as a reduction of other equity. Profits or losses on transactions in own shares are not included in the income statement.

r. 2 Transaction charges in connection with equity transactions are included directly in equity after deduction for tax. Only transaction charges that are directly attributable to the equity transaction are included directly in equity.

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

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

5. Approved IFRSs and IFRICs with future dates of implementation

Amendment to IFRS 2 Share-based Payment: Vesting conditions and cancellations

This amendment of IFRS 2 provides clearer guidance as to what are deemed to be recognition conditions and what are not. Furthermore, the recording of lapsed rights in option schemes which is due to conditions other than vesting conditions not being met, is also regulated. The date of implementation for the amendment of IFRS 2 is 1 January 2009.

IFRS 3 (revised) – Business Combinations

In relation to the existing IFRS 3, the revised standard involves a few changes and clarifications which apply to application of the purchase method. Actual conditions covered include goodwill in connection with phased purchase, minority interests, contingent payments and purchase costs. The date of implementation of IFRS 3 (R) is set as 1 July 2009, but IFRS 3 (R) has yet to be approved by the EU.

IFRS 8 – Operating Segments

IFRS 8 replaces IAS 14 - Segment Reporting. The standard requires that the group uses a senior management approach for identification of the segments. In general, the information that is reported shall be that which is used by senior management internally for evaluating the segments' results and for determining how resources shall be allocated to the segments. IFRS 8 requires information regarding the basis on which segment information is compiled, and in regard to the types of products and services from which each segment receives income. The date of implementation for IFRS 8 is 1 January 2009.

IAS 1 (revised) – Presentation of Financial Statements

The revised standard entails changes in the standard layouts, particularly in the presentation of equity, and introduces a layout for non-owner transactions - "Statement of Total Recognised Income and Expense" (Comprehensive income). The date of implementation for IAS 1(R) is 1 January 2009.

IAS 23 (revised) – Borrowing Costs

The most significant change in IAS 23 (R) is that it will no longer be permitted to recognise borrowing costs in the income statement on an ongoing basis that relate to a qualifying asset. Recognition in the balance sheet of borrowing costs will thereby be the only permitted solution. The date of implementation for IAS 23 (R) is 1 January 2009.

IAS 27 (revised) – Consolidated and Separate Financial Statements

In relation to the current IAS 27, the revised standard provides more guidance in regard to the reporting of changes in ownership interests in subsidiary companies and for the demerger of subsidiary companies. Furthermore, current rules associated with the allocation of losses between the majority and the minority interests are changed such that a deficit shall be charged to the minority interest even if this is negative. The date of implementation for IAS 27 (R) is set for 1 July 2009, but IAS 27 (R) is yet to be approved by the EU.

Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments

The change in IAS 32 entails that certain written put options shall be classified as equity. The change in IAS 1 concerns the requirement to provide associated information in the notes to the financial statements. The date of implementation for the amendments to IAS 32 and IAS 1 is set as 1 January 2009, but the amendments are yet to be approved by the EU.

Amendments to IAS 39 Financial Instruments – recognition and measurement - Eligible Hedged Items

The changes in IAS 39 entail a clarification of the rules where a financial instrument (hedging object) is hedged in regard to selected risks or components of cash flows. The adopted changes primarily provide a number of additional guidelines for hedging unilateral risk (hedging with options) and hedging of inflation risk, but also clarify the guidelines that the designated risks and cash flows must be identifiable and authentically measurable. The date of implementation for the amendment to IAS 39 is set as 1 July 2009, but the amendment is yet to be approved by the EU.

IFRIC 13 – Customer Loyalty Programmes

The interpretation deals with how loyalty programmes that a company has for its customers in order to reward them for previous purchases and provide incentives for additional purchases, shall be recognised and measured. The interpretation had a date of implementation of 1 July 2008, but had not been approved by the EU at that time. The interpretation has now been approved by the EU for the financial year that begins after 31 December 2008.

IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The interpretation deals with limitations in recognising in the balance sheet pension funds where mandatory or contractual minimum amounts that have been paid in exceed the liability. The date of implementation of the interpretation was 1 January 2008, but it had not been approved by the EU at that time. The interpretation has now been approved by the EU for financial years commencing after 31. December 2008.

IFRIC 16 – Hedges of a net investment in a foreign operation

The interpretation concerns the accounting treatment of hedging of currency exposure associated with net investments in foreign business units. The interpretation clarifies which types of hedges will be able to qualify for hedge accounting and which risks will be able to be hedged. The date of implementation of the interpretation was 1 October 2008, but is yet to be approved by the EU.

IFRIC 17 – Distributions of non-cash assets to owners

The interpretation concerns the accounting treatment of dividend payments to shareholders which are paid in assets other than cash. The date of implementation of the interpretation was 1 July 2009, but is yet to be approved by the EU.

IASB's annual improvement project

Amendments have been adopted in a number of standards with a date of implementation in 2009. Below is a list of the most important changes that may have an impact on recognition, measurement and information in notes to the financial statements:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: In connection with the planned sale of controlling ownership in subsidiary companies, all assets and liabilities in subsidiary companies shall be classified as being held for sale even if the company intends to retain a non-controlling shareholding after the sale.
- IAS 1 Presentation of Financial Statements: Assets and liabilities classified as being held for sale in accordance with IAS 39 are not automatically classified as current in the balance sheet.
- IAS 16 Property, Plant and Equipment: Operating equipment which is owned for leasing out and which is sold at the end of the lease period as part of ordinary operations, shall be transferred to inventory.
- IAS 19 Employee benefits:
  - o Changes in the definition of the terms: costs in connection with earlier period's pensionable earnings, return on pension funds, current and other long-term benefits.
  - o Changes in pension plans that reduce the benefits associated with future pensionable earnings are treated as a reduction.
  - o The reference to IAS 37 concerning contingent liabilities is removed.
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance: Future loans from government sources at a rate of interest lower than the market rate of interest are not exempted from the requirement to determine an estimated rate of interest. The difference between loan sums received and present value shall be recorded as a government grant.
- IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures: Changes in certain information in notes to the financial statements shall be XXX in the event such investments are recognised at fair value in accordance with IAS 39.
- IAS 36 Impairment of Assets: Certain information shall be given in notes to the financial statements in connection with write-down tests when discounted future cash flows are used to estimate fair value less deduction for sales costs.
- IAS 38 Intangible Assets: Expenses for advertising and sales promotion measures shall be recognised as an expense at the time when the product becomes available to companies or when the service is received.
- IAS 39 Financial Instruments: Recognition and Measurement:
  - o A change in the use of a derivative in connection with designation of the derivative as a hedging instrument or when hedging ends, shall not be considered to be a reclassification. Derivatives can therefore be included or removed from the category "fair value with changes in value over the income statement" after first-time recognition.
  - o In recalculating amortised cost in accordance with IAS 39.AG8 for an instrument which is or has been subject to fair value hedging, the original effective rate of interest shall not be used, but instead an effective rate of interest which takes into consideration the effect of hedging.
  - o The reference to "segment" has been removed in regard to designation and documentation of hedging conditions.
- IAS 40Investment property: Property under construction or development for future use as investment property comes within the scope of IAS 40.

None of the changes will entail a change in the group's application of accounting policies or information in notes to the financial statements.

NOTES

NOTE 1 – TAKEOVER OF SHARES IN PCI BIOTECH AS

The plan to spin off the shares in PCI Biotech AS (PCI) from Photocure ASA (PHO) was adopted at the extraordinary general meeting of PCI Biotech Holding ASA (PCI H) held on 9 April 2008. PHO owned 91.4% of the shares in PCI. The demerger was carried out by transferring the shares in PCI to PCI H. The shareholders of PHO received 1 share in PCI H for each share they owned in PHO as payment.

The date of the accounting implementation of the takeover was set as 16 June 2008 as all the preconditions for the demerger were met on this date.

The accounting treatment in the consolidated accounts of PCI Biotech Holding ASA is regulated in IFRS 3. As the shares in PCI H were directly owned on the date of the demerger by the shareholders of PHO, this was not a transaction under the same control according to IFRS 3. There was no contractual agreement between the shareholders that regulated financial or operational conditions. The acquisition method therefore forms the basis for the consolidated accounts of PCI H.
As PCI H was a recently established company without any commercial operations, the transfer of PCI is recorded as a reverse acquisition in the consolidated accounts of PCI H. This means that PCI is recorded at continuity in the consolidated accounts and that from 16 June it is PCI H which is included in the accounting consolidation. It is therefore assumed that PCI has constituted the group from an accounting perspective from 1 January 2007 and up to 16 June 2008.

Per 16 June 2008:
(Figures in NOK 1,000)

Fixed assets	**PCI Biotech Holding ASA**	**PCI Biotech AS**	**Eliminations**	**PCI Biotech Holding ASA consolidated**
Intangible assets				
Operating equipment	-	105	-	105
Financial assets	-	44	-	44
Total	50 000	-	-50 000	0
Sum anleggsmidler	**50 000**	**149**	**-50 000**	**149**
Current assets				
Receivables	2	3 209	-	3 211
Liquid assets	-6	-100	-	-106
Total current assets	**-4**	**3 109**	**0**	**3 105**
Total assets	**49 996**	**3 258**	**-50 000**	**3 254**
Equity and liabilities				
Share capital	7 249	323	-323	7 249
Share premium reserve	42 750	20 119	-20 119	42 750
Other equity 1.1.2008	0	-15 203	-34 318	-49 521
Other equity 1.1. – 16.6.2008	-24	-4 760	4 760	-24
Total equity	**49 976**	**479**	**-50 000**	**455**
Current liabilities				
Trade accounts payable	-	547	-	547
Public sector charges payable	-	165	-	165
Other current liabilities	21	2 067	-	2 088
Total current liabilities	**21**	**2 779**	**0**	**2 800**
Total equity and liabilities	**49 996**	**3 258**	**-50 000**	**3 254**

NOTE 2 – SALES REVENUE AND OTHER OPERATING INCOME

Operating revenue consists primarily of government grants for research and development. Government grants for 2008 consist of project funding from the Research Council of Norway for the company's own projects and for participation in joint projects amounting in total to NOK 4.9 million. The equivalent funding from the Research Council of Norway in 2007 totalled NOK 4.1 million. Government grants also consisted of NOK 1.6 million under the Norwegian SkatteFUNN tax deduction scheme in both 2007 and 2008. One of PCI Biotech's development projects is also part of an EU programme and funding of NOK 0.8 million in 2008 (NOK 0.2 million in 2007) has been received for this project

OTHER OPERATING INCOME

(Figures in NOK 1,000)	Group		Parent	
	2008	**2007**	**2008**	**2007**
Grants from Research Council of Norway	4 954	4 105	-	-
Grants from SkatteFUNN	1 600	1 600	-	-
Grants from EU programmes	813	162	-	-
Total	**7 367**	**5 867**	**0**	**0**

NOTE 3 – SALES REVENUE AND OTHER OPERATING INCOME

PCI Biotech Holding ASA, together with PCI Biotech AS, only has one operating segment which covers research and development. PCI Biotech AS develops products for a clinical market based on the company's patented technology for transporting molecules into living cells. In 2008 the company has primarily had external costs within research and development and fees for patent registration. The company expects that development costs will be covered by future revenues from products currently being developed.

NOTE 4 – INCOME STATEMENT ACCORDING TO CLASSIFICATION

The list below shows operating costs according to classification.

		Group		Parent	
(Figures in NOK 1,000)	**Note**	**2008**	**2007**	**2008**	**2007**
Payroll expenses	5	5 774	2 456	1 302	-
R&D costs excluding salaries / other operating costs		9 509	10 368	-	-
Ordinary depreciation and amortisation	11	71	34	-	-
Other operating costs		4 151	3 172	944	-
Total operating costs		**19 505**	**16 030**	**2 246**	**0**

Specification of Other operating costs:

(Figures in NOK 1,000)	Group 2008	Group 2007	Parent 2008	Parent 2007
Travel costs	140	87	-	-
Patent costs, legal and other fees	3 344	2 762	862	-
Other costs	667	323	82	-
Total other operating costs	**4 151**	**3 172**	**944**	**0**

NOTE 5 – PAYROLL EXPENSES AND REMUNERATION

(Figures in NOK 1,000)	Note	Group 2008	Group 2007	Parent 2008	Parent 2007
Salaries		3 323	1 316	300	-
Employers' social security contributions		466	181	42	-
Option costs		415	-	415	-
Pension costs	6	272	50	-	-
Contracted personnel and admin. services		1 120	586	146	-
Other benefits		178	323	399	-
Total payroll expenses		**5 774**	**2 456**	**1 302**	**0**
No. of full-time equivalent positions		4,9	3,5	0,5	

Share-based payments

An incentive scheme for the company's employees was adopted at the extraordinary general meeting of PCI Biotech Holding ASA held on 26.5.2008. It was decided to award up to 405 000 share options/subscription rights for 2008, where each share option gives the right to subscribe for one new share in the company at a price of NOK 20.00. The share options can be exercised with one third of the options per year from and including 2009 onwards. All share options expire one week after publication of the accounts for Q2 2013.

The subscription rights will expire immediately in the event that the employee's employment with the company is terminated. The board of directors has not been awarded any subscription rights. NOK 0.4 million has been taken as an expense in 2008 for share-based remuneration.

Employees of PCI had the following options as per 31.12.2008:

Option programme	**2008**
Year of allocation	2008
Number	255 000
Exercise price (NOK)	20,00
Deadline	2013

No. of employee options and average exercise price in PCI, and transactions during the year.

		2008
	Number	**Average exercise price (NOK)**
Outstanding at start of year	0	0.00
Allocated during the year	255 000	20.00
Become invalid during the year	0	0.00
Exercised during the year	0	0.00
Expired during the year	0	0.00
Outstanding at end of year	255 000	20.00
Exercisable options 31.12	0	0.00

Average weighted life of outstanding share options is 2.2 years as per 31 December 2008.
Average weighted market value of issued options in 2008 was NOK 5.96.

Exercise prices and average life or outstanding share options as per 31.12.08 are as follows:

	No. of options	Exercise price	Average remaining life
	255 000	NOK 20.00	2.2 years

Calculation method for fair value of subscription rights / employee share options

The fair value of subscription rights is calculated according to the Black-Scholes method. In view of the lack of any history with regard to market listing of the shares, volatility has been calculated on the basis of Algeta AS, a comparative Norwegian biotechnology company which has also been recently market listed. This presupposes that historic volatility indicates future volatility, which is not necessarily the case. The subscription price is set as the market price at the time of allocation. The risk-free interest rate is based on the 5-year Norwegian government bond yield. Each option programme is calculated separately with actual exercise price and life span of the programme. The exercise date for the options is calculated on the basis of experience from Photocure ASA and differentiates between senior managers and other employees. The interest advantage is insignificant and has not been taken into consideration in the accounts. The table below shows the values that have been used in the model.

	2008
Dividend	-
Expected volatility (%)	38 %
Historical volatility (%)	38 %
Risk-free interest (%)	4.85 %
Expected life of options (years)	2.2

NOTE 6 – PENSION COSTS

As per 31.12.2008 the company does not have any funds in the premium / contribution funds compared with NOK 23 000 as per 31.12.07. These funds have been used in 2008 to pay parts of contributions and premiums in the contribution-based scheme. The pension scheme fulfils the requirements concerning occupational pensions for the company's employees.

The pension cost for the year is calculated as follows:

(Figures in NOK 1,000)	Group		Parent	
	2008	**2007**	**2008**	**2007**
Total pension costs for contribution schemes	**272**	**50**	**0**	**0**

NOTES

NOTE 7 – AUDITING FEES

(Figures in NOK 1,000 ex. VAT)	Group 2008	Parent 2008
Statutory auditing	233	147
Other attestation services	17	-
Total	**250**	**147**

NOTE 8 – FINANCIAL INCOME AND EXPENSE

	Group		Parent	
(Figures in NOK 1,000)	**2008**	**2007**	**2008**	**2007**
Interest income	932	330	844	1
Interest income group	-	-	101	-
Foreign exchange gains	60	24	-	-
Total financial income	**992**	**354**	**945**	**1**

	2008	2007	2008	2007
Interest expense	3	305	-	-
Foreign exchange losses	85	24	-	-
Other financial expense	141	-	147	-
Write-downs on financial assets	-	-	44 000	-
Total financial expense	**229**	**329**	**44 147**	**0**

NOTE 9 – TAX

Reconciliation of tax against expected nominal rate of tax:

	Group		Parent	
(Figures in NOK 1,000)	**2008**	**2007**	**2008**	**2007**
Profit/loss before tax	-11 375	-10 139	-45 448	1
Expected nominal rate of tax (28%)	-3 185	-2 839	-12 725	0
Permanent differences	-1 925	-459	10 849	-
Deferred tax advantage not recognised in balance sheet	5 110	3 298	1 876	0
Total tax for the year	**0**	**0**	**0**	**0**

Specification of basis for deferred tax / tax advantage

Tax effect of temporary differences:	Group		Parent	
(Figures in NOK 1,000)	**2008**	**2007**	**2008**	**2007**
Fixed assets	7	-8	-	-
Receivables/liabilities	-	-	-	-
Net pension funds / premium fund	-	7	-	-
Loss to be carried forward	-19 156	-14 031	-1 876	-
Write-down of deferred tax advantage	**19 156**	**14 031**	**1 876**	**-**
Deferred tax advantage recognised in balance sheet	**0**	**0**	**0**	**0**

The company has no history of taxable profits and deferred tax assets are therefore valued as NOK 0.
There is no time limit on losses to be carried forward.

NOTE 10 – EARNINGS PER SHARE

Earnings per share (diluted earnings per share) are calculated on the basis of the financial result after tax for the year (financial result after tax for the year adjusted for dilutive effects) divided by a weighted average number of outstanding shares over the year (weighted average number of outstanding shares over the year adjusted for dilutive effects). Accretive effects are not taken into consideration.

Earnings per share	**2008**	**2007**
Weighted average number of shares	4 031 144	2 696 100
Dilution effect	0	0
Weighted average number of shares diluted	4 031 144	2 696 100
Earnings per share in NOK	**-2,82**	**-3,76**
Earnings per share in NOK diluted	**-2,82**	**-3,76**

NOTE 11 – TANGIBLE FIXED ASSETS

		Group	
(Figures in NOK 1,000)	**Software**	**Equipment**	**Total**
Acquisition cost as per 1.1.07	-	47	47
Additions in 2007	162	17	179
Disposals and scrapping in 2007	-	-	0
Acquisition cost as per 31.12.07	162	64	226
Additions in 08	-	121	121
Disposals and scrapping in 08	-	-	0
Acquisition cost as per r 31.12.08	**162**	**185**	**347**
Accumulated depreciation as per 1.1.07	-	47	47
Ordinary depreciation for 2007	32	2	34
Disposals in 2007	-	-	**0**
Accumulated depreciation as per 31.12.07	32	49	81
Ordinary depreciation for 08	54	17	71
Disposals in 08	-	-	0
Accumulated depreciation as per 31.12.08	**86**	**66**	**152**
Book value as per 31.12.07	**130**	**14**	**144**
Book value as per 31.12.08	**76**	**119**	**196**

Leasing costs	**2008**	**2007**
Leasing of office premises	88	71
Total leasing costs	**88**	**71**

The company leases premises in Hoffsveien 48 in Oslo. The lease runs from 1.12.2008 until 31.3.2011. The rent is NOK 250 000 for 2009 and will be NOK 312 500 from 1.1.2010 until the end of the term of the lease. Annual adjustment of the rent is equivalent to the change in the consumer price index.

NOTES

NOTE 12 – SHARES IN SUBSIDIARY COMPANIES

Company	Location	Year of acquisition	Share capital of company	Equity participation and share of voting rights	Book value	Equity	Financial result for 2008
PCI Biotech AS	Oslo, Norge	2008	323 260	100,00 %	5 999 428	-4 712 000	-9 952 000

The market value of PCI Biotech Holding ASA has halved in the period from June 2008 to December 2008, in line with the decline in many of the world's financial markets. The market value of the PCI Biotech Holding Group was NOK 59.6 million as per 31.12.2008 which means that a recoverable amount must be calculated for the shares in PCI Biotech AS.

PCI Biotech Holding ASA opts to base this calculation on a share analysis carried out by Fondsfinans ASA dated 10 February 2009. Fondsfinans sets the target value as NOK 10 per share and therefore a target value of NOK 54 million for PCI Biotech Holding ASA. It is the company's view that the value of the shares in PCI Biotech AS as per 31.12.2008 shall be calculated on the fair value on the basis of the analysis by Fondsfinans.

According to IAS 36, utility value is the value of future, estimated cash flows from share investments and estimated realisation sum. However, the utility value based on future cash flows from the investment in PCI Biotech AS is encumbered with uncertainty linked to both the consequences of the current finance crisis and stage of development and the scope of the expected clinical results. The utility value of the investment in PCI Biotech AS is therefore considered to be less relevant than fair value.

On the basis of that described above, a discretionary valuation has been made that assumes a permanent and significant fall in the value of the shares which PCI Biotech Holding ASA owns in PCI Biotech AS. The shares in PCI Biotech AS have therefore been written down by NOK 44 million to NOK 6 million as per 31.12.2008. This means that the equity of PCI Biotech Holding ASA is equal to the market value of the company as per 31.12.2008.

NOTE 13 – FINANCIAL RISK

This note describes the group's various financial risks and the management of these. In addition, numerical tables for risk associated with financial risks are also presented.

(I) Organisation of financial risk management

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

Centralised risk management

PCI has a centralised risk management. The most important tasks of this are to ensure the group's financial freedom to act, both in a short-term and long-term perspective, and to monitor and manage financial risk in cooperation with the individual units in the company. The finance department maintains dialogue with the company's bankers and carries out any necessary hedging transactions in regard to interest rates and currencies. Any permits required for borrowing and entering into derivative framework agreements are given on an annual basis by the board of directors. A hedging-oriented view forms the basis for the management of the finance department's positions so that all transactions with financial instruments have a counter item in an underlying commercial hedging requirement

Financial risk within the company

This section describes the most important risk factors within each business area and the management of these. In this context, financial risk is understood as risk associated with financial instruments. These can either be hedging instruments for underlying risk or be considered themselves as a source of risk. Market risk is not hedged with financial instruments.

Research development activities

PCI carries out research and development for new innovative medical products based on the company's patented technology. The currency risk in research and development is limited to the purchase of services, primarily the implementation of clinical studies. There is also a degree of currency risk associated with the purchase of goods and services, first and foremost in EUR and USD. Currency exposure associated with research and development is not normally hedged.

(II) Classes of financial risk

Interest rate risk

PCI does not have any interest-bearing debt, and the group's interest rate risk is primarily associated with the group's cash positions and cash equivalents. This risk is managed at group level. The main strategy is to diversify the risk and invest in money market funds with low risk, high liquidity and short duration. Over 95 % of the investments are denominated in NOK and are not hedged

Liquidity risk

One of the most important objectives of Photocure's finance policy is to ensure that the group has financial freedom to act in the short and long-term in order to attain strategic and operational goals.

PCI shall have sufficient funds to cover known capital requirements during the forthcoming 12 month period in addition to a strategic reserve. The new issue market is used as a source of liquidity when this is appropriate and the conditions in these markets are competitive

Cash flow in research and development greatly depends on the level of the clinical programmes. The finance department monitors the cash flows in a short and long-term perspective through reporting.

PCI's most important source of finance are share issues, milestones associated with licence agreements and government grants. The finance department is also continually evaluating other sources of financing.

PCI does not have any loan agreements with key business ratio requirements.

The following table shows an overview of the maturity structure of the group's financial obligations, based on non-discounted contractual payments.

	Remaining period				
	Less than 1 month	**1–3 months**	**3–12 months**	**1–5 years**	**Total**
31.12.08					
Trade accounts payable	2 228	500	-	-	**2 728**
Other current liabilities	797	1 500	300	-	**2 597**
31.12.07					
Trade accounts payable	674	220	-	-	**894**
Other current liabilities	-	683	1 047	-	**1 730**

Currency risk

As NOK is the group's presentation currency, PCI is exposed to translation risk associated with the group's foreign net exposure. PCI strives as far as possible to achieve the lowest possible net currency exposure.

The company's expenses and revenues accrue in various currencies, primarily EUR and the NOK. USD exposure is associated with R & D costs. PCI is therefore exposed to fluctuations in foreign exchange rates. The company evaluates whether measures should be taken to reduce the currency risk in significant transactions.

PCI does not have any outstanding hedges for future transactions as per 31.12.2008.

The following table shows the group's sensitivity for potential changes in the NOK exchange rate, with all other factors remaining constant. The calculation assumes an equal change against all relevant currencies. The effect in the income statement comes from changes in the value of monetary items.

	Change in the NOK exchange rate	Effect on operating result
2008	+ 10 %	535
	- 10 %	-535

NOTE 14 – CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

	Group				
31.12.2008	**Earmarked on first-time inclusion**	**Lending and receivables**	**Cash**	**Other financial liabilities**	**Total**
Assets					
Trade accounts receivable	-	300	-	-	**300**
Other current receivables	-	-	-	-	**0**
Cash and cash equivalents	48 240	-	1 902	-	**50 142**
Total financial assets	**48 240**	**300**	**1 902**	**0**	**50 442**
Liabilities					
Trade accounts payable	-	-	-	-2 728	**-2 728**
Other current liabilities	-	-	-	-2 234	**-2 234**
Total financial liabilities	**0**	**0**	**0**	**-4 962**	**-4 962**

	Group				
31.12.2007	**Earmarked on first-time recognition**	**Lending and receivables**	**Cash**	**Other financial liabilities**	**Total**
Assets					
Trade accounts receivable	-	247	-	-	**247**
Other current receivables	-	3 428	-	-	**3 428**
Cash and cash equivalents	-	-	3 699	-	**3 699**
TOTAL FINANCIAL ASSETS	**0**	**3 675**	**3 699**	**0**	7 374
Liabilities					
Trade accounts payable	-	-	-	-894	**-894**
Other current liabilities	-	-	-	-1 730	**-1 730**
Total financial liabilities	**0**	**0**	**0**	**-2 624**	**-2 624**

NOTE 15 – RECEIVABLES

(Figures in NOK 1,000)

	Group		Parent	
	31.12.08	**31.12.07**	**31.12.08**	**31.12.07**
Trade accounts receivable	300	247	-	-
Short-term interest-bearing debt group	-	-	6 301	-
Other receivables	3 938	3 774	-	-
Sum	**4 238**	**4 021**	**6 301**	**0**

NOTE 16 – CASH AND CASH EQUIVALENTS

(Figures in NOK 1,000)

	Group		Parent	
	31.12.08	**31.12.07**	**31.12.08**	**31.12.07**
Cash and cash equivalents, restricted [1]	206	108	-	-
Cash and cash equivalents, non-restricted	1 696	3 591	1 071	1 001
Money market unit trusts, non-restricted	48 240	-	48 240	-
Total	**50 142**	**3 699**	**49 311**	**1 001**

[1]Restricted cash and cash equivalents as per 31.12.08 are security for the employees' tax.

NOTE 17 – SHARE CAPITAL

The registered share capital in PCI Biotech Holding ASA as per 31.12.2008 was:

	No. of shares	**Nominal value per share**	**Share capital in NOK**
Share capital as per 12.3.2007	**1 000**	**NOK 100,00**	**100 000**
Share issue as per 12.12.2007	9 000	100,00	900 000
Share capital as per 31.12.2007	**10 000**	**100,00**	**1 000 000**
Repayment of share capital	-10 000	100,00	-1 000 000
Spun-off shares in PCI Biotech as non-cash contribution	22 093 301	0,30	6 627 990
Minority shares in PCI Biotech as non-cash contribution	2 070 593	0,30	621 178
	24 163 894	0,30	
Reverse split 10 : 1	2 416 389	3,00	
Share issue in 2008	3 000 000	3,00	9 000 000
Share capital as per 31.12.2008	**5 416 390**	**3,00**	**16 249 171**

All shares have equal voting rights and otherwise have equal rights in the company.

Ordinary shares are classified as equity. Expenses which are directly attributable to the issue of ordinary shares are included in the accounts as a reduction of equity (share premium reserve).

NOTES

Ownership structure

The largest shareholders of PCI Biotech Holding ASA as per 31.12.2008 were:	Shares	Shareholding in %
Photocure ASA	1 048 000	19.35 %
The Norwegian Radium Hospital Research Foundation	600 727	11.09 %
LGJ Invest AS	400 100	7.39 %
KLP LK aksjer	318 800	5.89 %
Fondsavanse AS	304 900	5.63 %
Gezina AS	282 415	5.21 %
Vicama A/S	270 859	5.00 %
MP Pensjon	250 000	4.62 %
Verdipapirfondet KLP	156 830	2.90 %
Bio-medisinsk innovasjon	103 753	1.92 %
Sparebanken vest aksjer handel II	100 000	1.85 %
Pumpøs A/S	80 000	1.48 %
Skagen vekst	75 000	1.38 %
CAT invest 1 AS	55 811	1.03 %
Bergen kommunale pensjonskasse	55 000	1.02 %
Total for shareholders with a shareholding of more than 1 %	4 102 195	75.8 %
Total other shareholders	1 314 195	24.2 %
Total number of shares	**5 416 390**	**100.0 %**

Shares owned, directly or indirectly, by members of the board, the managing director and senior managers and their immediate family per 31.12.2008:

Name	Position	No. of shares	No. of subscription rights*
Erling Øverland	Chairman	30 000	0
Kjetil Taskén	Board member	0	0
Eva Steiness	Board member	0	0
Theresa Comiskey Olsen	Board member	5 000	0
Flemming Ørnskov	Board member	0	0
Per Walday	Managing director	10 000	120 000
Anders Høgset	Research director	43 400	90 000

** See note 5 for further information about subscription rights.*

Information regarding the incentive programme for the senior managers of the company is described in more detail in Note 5.

NOTE 18 – CAPITAL STRUCTURE

The company does not have any interest-bearing debt as per 31.12.08.

NOTE 19 – OTHER CURRENT LIABILITIES

(Figures in NOK 1,000)	Group		Parent	
	31.12.08	**31.12.07**	**31.12.08**	**31.12.07**
Provision for accrued external R & D costs	1 342	1 463	-	-
Accrued bonus, holiday pay, salaries	813	165	342	-
Misc. other accrued costs	79	-	35	-
Total other current liabilities	**2 234**	**1 628**	**377**	**0**

NOTE 20 – PROVISION OF GUARANTEES

PCI Biotech Holding ASA has provided a financial guarantee in favour of its subsidiary company PCI Biotech AS for a maximum sum of NOK 20 million in order to ensure continued operations. This guarantee is valid until 30 June 2010.

NOTE 21 - TRANSACTIONS WITH RELATED PARTIES

(Figures in NOK 1,000)

	Directors' fees paid	Salary	Bonus	Benefits in kind	Pension cost	Total
Senior managers 2008						
Per Walday, managing director from April 08		784	-	8	68	860
Anders Høgset, research and development director from April 08		729	-	10	50	789
Total senior managers		**1 513**	**0**	**18**	**118**	**1 649**
Board of directors 2008						
Erling Øverland, chairman						-
Kjetil Tasken						-
Eva Steiness						-
Theresa Comiskey Olsen		44	*			44
Flemming Ørnskov						-
Total remuneration		**1 557**	**0**	**18**	**118**	**1 693**

* Legal fees excl. VAT

	Directors' fees paid	Salary	Bonus	Benefits in kind	Pension cost	Total
Senior managers 2007						
Anders Høgset, managing director	-	693	-	6	49	748
Total senior managers	**0**	**693**	**0**	**6**	**49**	**748**
Board of directors 2007						
No remuneration paid to board in 2007	-	-	-	-	-	-
Total remuneration	**0**	**693**	**0**	**6**	**49**	**748**

NOTES

PCI Biotech's policy regarding determination of salaries and other remuneration to senior managers is to pay market rates of salary and provide other remuneration that is competitive in terms of employment conditions for managers. It is important to attract the necessary competence and experience so that this promotes value generation within the company and builds mutual interests between shareholders and senior managers. The results-based remuneration shall be linked to value generation for the shareholders or performance for the company over time.

The main principles for the company's remuneration of senior managers are as follows:
- Salaries are reviewed annually
- Bonus payments are calculated on the basis of goals for the company set by the board of directors and achievement of personal goals. The company's CEO has a bonus agreement for up to 25 % of ordinary salary, other senior managers have bonus agreements for up to 15 % of their ordinary salaries.
- Senior managers participate in the company's incentive scheme with allocation of subscriptions rights for the company's shares
- Senior managers participate in the general pension scheme in the company

Bonus payments to senior managers are calculated on the basis of the company's financial results, the company's development work and on the achievement of personal goals.

Senior managers participate in the company's pension scheme which is a defined-contribution scheme involving payment of between 5 % and 8 % of the employee's salary up to a maximum of 12 times the basic amount of the Norwegian national insurance scheme (G). The pension scheme also includes disability cover.

The CEO has an agreement for a 6-month period of notice and for severance pay for a further 6 months on certain conditions. There are no agreements for other senior managers over and above the legal requirements.

Senior managers have not received remuneration or financial benefits from other companies within the same group of companies other than as stated above. No additional remuneration has been given for special services over and above the normal functions of a manager.

No loans have been given or guarantees provided for members of the senior management team, board of directors, employees or other members of elected corporate bodies.

Senior managers' shareholdings in PCI Biotech Holding ASA are listed in the note regarding equity. Allocation and exercise of subscription rights for shares and holding of subscription rights for senior managers are shown in the table below:

Subscription rights for senior managers 2008	**Allocated subscription rights***	**Lapsed subscrip-tion rights**	**Exercised subscrip-tion rights**	**Holding of subscription rights as per 31.12.08**	**Average exercise price**	**Conditional allocated subscrip-tion rights**
Per Walday, managing director from April 08	120 000	-	-	120 000	20,00	-
Anders Høgset, research and development director from April 08	90 000	-	-	90 000	20,00	-
Total	**210 000**	**-**	**-**	**210 000**		**-**

Related parties:

Norwegian Radium Hospital Research Foundation:
PCI Biotech AS has agreements with the Norwegian Radium Hospital Research Fund that give the company access to new technology for the absorption of drugs in cells which is developed at Norwegian Radium Hospital HF (DNR), in return for the company's participation in the financing of research and development. The agreement runs until 31 December 2010.

PCI Biotech AS has an ongoing agreement with the Norwegian Radium Hospital Research Foundation regarding development services in the siRNA project and other macromolecules.

In March 2007 PCI Biotech entered into an agreement regarding the transfer of technology with the Norwegian Radium Hospital Research Foundation which covered 2 patent applications for the PNA-PCI and SiRNA-PCI products.

PCI Biotech AS has paid NOK 2.1 million to DNR/Norwegian Radium Hospital Research Foundation on market terms and conditions for the provision of R&D services connected with the agreements mentioned. As of 31.12.2008 the company had made a provision of NOK 526 000 for accrued services.

PCI Biotech AS:
The company has carried out transactions and entered into agreements with the parent company PCI Biotech Holding ASA. All transactions have been carried out at market prices.
Operating guarantees are listed in 20.

From June 2008 PCI Biotech AS has had partial financing by means of short-term interest-bearing debt to
PCI Biotech Holding ASA. This debt was NOK 6.3 million as per 31.12.2008.

The company leases premises in Hoffsveien 48 in Oslo together with PCI Biotech Holding ASA.
The rent is currently NOK 250 000 per year including the share of joint costs.

The company has charged a share of personnel costs and a share of business development costs to PCI Biotech Holding ASA amounting to NOK 1.2 million in 2008.
The account receivable from the parent company is NOK 1.2 million as per 31.12.2008.

Photocure ASA:
The PCI companies have purchased services from and made disbursements to Photocure ASA totalling NOK 1 575 000 in 2008 compared with NOK 586 000 in 2007. No services were sold to Photocure ASA in 2007 or 2008.

Statsautoriserte revisorer
Ernst & Young AS
Christian Frederiks pl. 6, NO-0154 Oslo
Oslo Atrium, P.O.Box 20, NO-0051 Oslo
Foretaksregisteret: NO 976 389 387 MVA
Tlf.: +47 24 00 24 00
Fax: +47 24 00 24 01
www.ey.no
Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of
PCI Biotech Holding ASA

Auditor's report for 2008

We have audited the annual financial statements of PCI Biotech Holding ASA as of 31 December 2008, showing a loss of NOK 45 448 000 for the Parent Company and a loss of NOK 11 375 000 for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. The financial statements of the Group comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. IFRSs as adopted by the EU have been applied in the preparation of the financial statements of the Parent Company and the Group. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including the auditing standards adopted by the Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements of the Parent Company and the Group are prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2008, and the results of its operations and cash flows and the changes in equity for the year then ended, in accordance with IFRSs as adopted by the EU
- the Company's management has fulfilled its duty to properly record and document the Company's accounting information as required by law and bookkeeping practice generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and complies with law and regulations.

Oslo, 26 February 2009
ERNST & YOUNG AS
Tommy Romskaug
State Authorised Public Accountant (Norway)
(sign.)
Note: The translation to English has been prepared for information purposes only.

PCI Biotech Holding ASA is committed to good corporate governance

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

PCI Biotech Holding ASA ("PCI Biotech" or "the Company") complies with the Norwegian Code of Practice for corporate governance of 4 December 2007. This code is a "comply or explain" guideline and the company's governance structure is according to the guidelines, except for the following; The Board of PCI Biotech does not have a deputy chairman or board committees. The reason for this is that the Company is small and transparent with a basic governance structure.

The most important parts of PCI Biotech's corporate governance policy are described below:

1. Implementation and reporting on corporate governance

PCI Biotech has implemented a sound corporate governance policy, which is presented in the company's annual report and on the company's web site. The company's values are described on the company's website.

2. Business

PCI Biotech's business is clearly defined in the articles of association. The company's goals and strategies can be found in the annual report and latest prospectus.

3. Equity and dividends

PCI Biotech's equity is at a level appropriate to its objectives, strategy and risk profile. The company has established a clear dividend policy, and the mandates to increase the company's share capital are well defined and limited in time.

4. Equal treatment of shareholders and transactions with close associates

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

5. Freely negotiable shares

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

6. General meetings

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

7. Nomination committee

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

8. Composition and- independence of the board of directors

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

9. The work of the board of directors

The board of directors produces an annual plan for its work that includes a strategy review. The board evaluates its performance and expertise annually.

10. Risk management and internal control

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

11. Remuneration of the board of directors

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

12. Remuneration of the executive management

Guidelines for the remuneration of the members of the executive management have been established by the board of directors and are communicated to the general assembly. Performance related remuneration of the executive management is linked to the value creation for shareholders and is based on quantifiable factors over which the employee can influence.

13. Information and communications

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

14. Take-overs

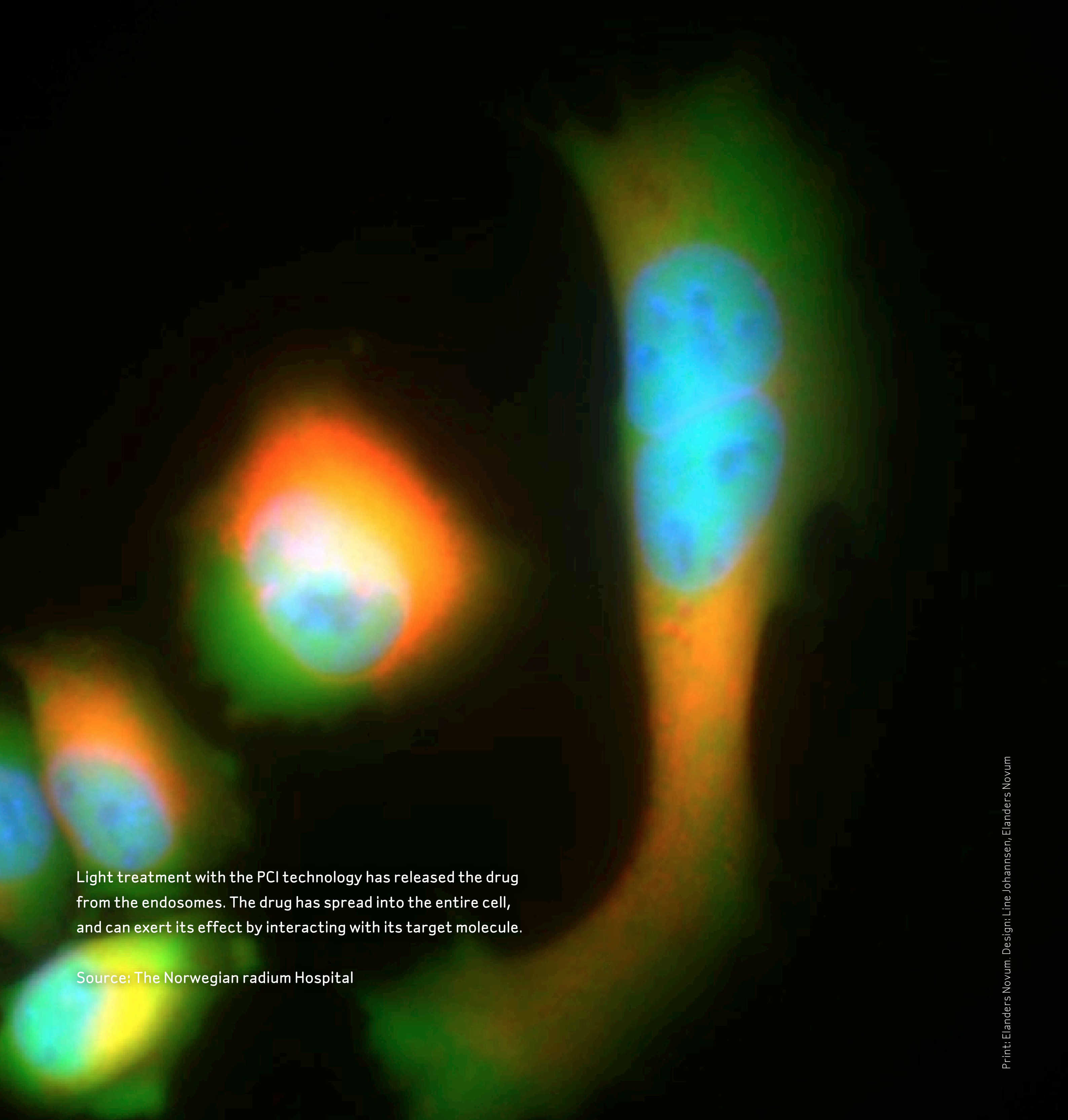
Any transaction that is in effect a disposal of the company's activities is to be decided by a general meeting.

15. Auditor

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

PCI Biotech Holding ASA, Hoffsveien 48, NO-0377 Oslo, Norway.
Tlf.: +47 23 25 40 02. Fax: +47 23 25 40 01.
post@pcibiotech.no

www.pcibiotech.com



Light treatment with the PCI technology has released the drug from the endosomes. The drug has spread into the entire cell, and can exert its effect by interacting with its target molecule.

Source: The Norwegian radium Hospital

Print: Elanders Novum. Design: Line Johannsen, Elanders Novum