First Half and Second Quarter Report 2010

First Half and Second Quarter Report 2010

This report includes an operational review and financial results for the second quarter and first-half period ending 30 June 2010.

Algeta made good progress across its business activities during the first half of 2010:

- Enlarged ALSYMPCA[1] phase III trial to 900 patients to increase statistical power. Recruitment passed 700 patients during June 2010 and remains on track to be completed by the end of the year
- Expanded clinical program with Alpharadin for treating bone metastases in endocrine refractory breast cancer patients and also in castration-resistant prostate cancer (CRPC) patients with bone metastases in combination with docetaxel chemotherapy
- Continued initiatives with Bayer Schering Pharma AG ("Bayer") to build awareness of Alpharadin among relevant cancer specialists through increased exposure at major conferences with trial results at ASCO and ASCO GU
- Signed an agreement with IFE to build our state-of-the-art manufacturing facility securing commercial supply of Alpharadin, triggering a EUR 5 m milestone from Bayer. In parallel an Alpharadin supply agreement was signed with Bayer
- Appointed new board members adding significant US regulatory experience and experience of developing novel tumor-targeted drugs
- Initiated Thorium platform programs, internally in technology development and externally for technology search and acquisition

In addition, the Company hosted two Capital Markets Days in Oslo and London during May 2010, which were very well attended and well received by members of the financial community and media.

The events featured presentations from Professor Sten Nilsson, the Principal Investigator of Algeta's phase II BC1-02 clinical trial, and Dr Chris Parker, the Principal Investigator of Algeta's phase III ALSYMPCA clinical trial. Both presenters provided attendees with valuable insights into the field of bone metastases and prostate cancer therapy, and the need for new therapies.

Furthermore, Algeta's senior management team gave detailed briefings on the Company, on Alpharadin as a potential new treatment for bone metastases in cancer patients, plans for the commercial manufacturing facility and the opportunities presented by thorium alpha-pharmaceuticals to form the basis of a pipeline of new targeted cancer therapeutics. A replay of the webcasts can be found at the following link: www.algeta.com/webcast

[1] ALsympca in SYMptomatic Prostate CAncer

Alpharadin and bone metastases

Alpharadin (radium-223 chloride) is being developed by Algeta and Bayer. It is a first-in-class alpha-pharmaceutical that has a potent and targeted antitumor effect on bone metastases combined with a highly favorable side-effect profile.

Alpharadin is currently in three clinical trials: a global phase III clinical trial (ALSYMPCA) to treat bone metastases resulting from CRPC; a phase II clinical trial for breast cancer patients who have bone metastases and are endocrine-refractory; and a phase I/IIa trial in combination with docetaxel chemotherapy in CRPC patients with bone metastases.

In Phase II trials studying bone metastases in patients with CRPC, Alpharadin showed a statistically significant improvement in overall survival compared to placebo and a highly tolerable side effect profile with minimal toxicity.

Bone metastases are a serious development for many cancer patients as they are associated with a dramatic decline in health and quality of life, ultimately leading to death. Bone metastases represent a major unmet medical need, occurring frequently in the later stages of certain major cancers, including prostate, breast, kidney and lung cancer. Approximately 90% of men with CRPC have bone metastases and as many as 75% of breast cancer patients with metastatic disease will have metastases in the bone[2].

ALSYMPCA phase III trial – size increased and on track

The ALSYMPCA study is a double-blind, randomized, placebo-controlled phase III clinical trial enrolling patients with CRPC cancer that has spread to the bones. The primary efficacy endpoint of the trial is overall survival. In addition, the trial monitors and evaluates both the safety profile of Alpharadin treatment as well as its impact on quality of life.

The trial began in June 2008 and is currently recruiting at more than 125 trial centers worldwide. Currently seven clinical trial centers in the USA are recruiting patients and another seven are expected to be initiated shortly.

In May 2010, Algeta and Bayer decided to increase recruitment for ALSYMPCA from 750 to 900 patients. This will increase the power of the trial to 90% thereby further improving the statistical likelihood of proving the efficacy

[2] Harvey, H.A. and Cream, L.R. (2007) *Clin. Breast Cancer.* Jul;7 Suppl 1:S7-S13

of Alpharadin. It will also allow the study to involve a greater number of US trial centers, and allow US clinical oncologists to gain experience with the use of Alpharadin.

Importantly, owing to rapid enrolment into this pivotal study, Algeta and Bayer anticipate that the enrolment of ALSYMPCA will still be completed in the second half of 2010 with results of the trial anticipated in 2012. Algeta expects to submit regulatory filings in 2012 as planned. Furthermore, with Bayer funding the majority of ALSYMPCA clinical development costs, the financial impact of increasing the size of the study on Algeta will be limited.

A pre-planned interim efficacy analysis will take place after approximately 50% of the 640 required events (deaths) have occurred. This analysis will assess the efficacy of Alpharadin on overall survival, with the intent to stop the study on ethical grounds only if there is evidence of overwhelming treatment benefit. Because of the high statistical hurdle to be applied in this interim analysis, Algeta does not expect the study to be stopped.

New Alpharadin trial initiated in second tumor type

In late 2009, Algeta and Bayer initiated a new phase II clinical trial in patients with bone metastases resulting from breast cancer that no longer respond to endocrine therapy. The first patient to be enrolled into this new trial (BC1-09) received her first dose of Alpharadin in Q1 2010. The trial is designed to investigate if multiple intravenous injections of Alpharadin have a clinically relevant effect on bone markers (i.e. an effect indicative of a positive therapeutic response) in breast cancer patients with bone-dominant metastatic disease.

This 20-patient study is being conducted at cancer centers in Oslo (Norway), Brussels (Belgium) and Sheffield (UK), with results expected during the first half of 2011. The Principal Investigator for the trial is Professor Robert Coleman, a cancer and bone metastasis specialist at the Weston Park Hospital in Sheffield.

The BC1-09 trial will also monitor the safety of Alpharadin treatment in these patients. In an earlier Phase I study, safety data were collected from women with bone metastases from breast cancer as part of the wider Alpharadin clinical program. The results showed that Alpharadin has a benign side-effect profile in these patients, consistent with the safety findings in men with CRPC.

Alpharadin-docetaxel chemotherapy study initiated in USA

At the end of June 2010, a new phase I/IIa study (BC1-10) was initiated to investigate whether Alpharadin and docetaxel chemotherapy can be safely used together to treat CRPC patients with bone metastases. The first patient was dosed on 10 August.

BC1-10 is an open-label, randomized phase I/IIa study conducted at the Memorial Sloan-Kettering Cancer Center (MSKCC) in New York and up to nine other centers across the USA. The Principal Investigator for the trial is Michael J. Morris MD, a medical oncologist and internationally recognised expert who specializes in treating men with prostate cancer, particularly those who have or who are at high risk of developing metastatic disease.

The objective of the study is to establish a recommended dose of Alpharadin to be used in combination with docetaxel in patients with bone metastases from CRPC, to investigate safety and to explore efficacy of the recommended combination dose. A positive outcome with this study will indicate potential future label expansion opportunities for Alpharadin and highlight the potential benefits of prescribing Alpharadin as a standard add-on therapy when bone metastases are first detected.

Bayer is committed to funding the majority of the costs of these trials as well as future trials to treat bone metastases.

New analyses continue to support key clinical benefits of Alpharadin

Since Algeta and Bayer began their partnership in September 2009, the two companies have been working closely together to increase awareness of Alpharadin among relevant cancer specialists through increased exposure at major conferences.

In 2010, the companies presented a number of studies and analyses of overall safety data from the Alpharadin phase I and II clinical programs at two high profile international conferences: the 2010 Genitourinary Cancers Symposium (ASCO GU) in San Francisco, CA, in March and the 46th Annual Meeting of the American Society for Clinical Oncology (ASCO) in June 2010.

The presentations were made by leading cancer specialists involved in the programs. They were well attended and discussed by key opinion leaders. The material supports earlier published findings that Alpharadin is specifically targeted to bone metastases and has a highly tolerable safety profile.

Further presentations are expected to be made at the 36th annual congress of the European Society of Medical Oncology (ESMO) in Milan, Italy (8-12 October 2010) and at the 52nd annual meeting of the American Society for Therapeutic Radiology and Oncology (ASTRO) in San Diego, USA (31 October – 4 November 2010).

Securing the commercial manufacture and supply of Alpharadin

In July, Algeta concluded two agreements for the manufacture and supply of Alpharadin to secure future commercial sale, triggering a EUR 5 m milestone payment from Bayer.

The first agreement, with Bayer, provides that Algeta will be the exclusive supplier of Alpharadin for future commercial sale.

The second agreement sees Algeta extend its collaboration with Norway's Institute for Energy Technology (IFE), which currently manufactures Alpharadin for the ongoing ALSYMPCA Phase III study and clinical trials in other cancer indications.

Under the terms of this agreement, IFE, in conjunction with Algeta, will commence an expansion of the existing Alpharadin production facility at IFE. The upgrade, which will be paid for by Algeta, will create a state-of-the-art production facility to supply the expected commercial demand around the world following approval and launch. This agreement supersedes the agreement signed between Algeta and IFE in January 2010.

New board appointments bring significant US experience

Dr. Judith Hemberger and Dr. Kapil Dhingra were elected to Algeta's board of directors at the annual general meeting (AGM) in April 2010. Between them, these new non-executive directors bring a wealth of experience in the US and global pharma industry and particularly in the clinical and regulatory development of oncology products including innovative tumor-targeted cancer therapies.

It is expected that both will make valuable contributions to the successful continued development of Alpharadin, the building of Algeta's US presence and operations, and its longer-term ambitions to develop the business via its Thorium technology.

At the AGM, Shahzad Malik, Inga Loen and Jens Petter Falck, stepped down from the board, with thanks for their efforts and input over their respective periods with the Company.

Thorium technology programs initiated

An important objective for Algeta is to develop and implement a strategy to capitalize on the broader potential of its alpha-pharmaceutical technology. In particular, Algeta intends to leverage its world-leading expertise and intellectual property in this area to build a pipeline of unique, tumor-targeted alpha-pharmaceuticals based on targeted thorium-227 conjugates.

Thorium-227 is a radionuclide, similar to radium 223 (which forms the basis of Alpharadin) that emits high-energy alpha particles. Such elements are of considerable interest in the treatment of cancer as they are potent at killing tumor cells and have a highly localized effect as a result of the very short range of the alpha particle (2-10 cell diameters).

Whereas radium-223 (Alpharadin) is self-targeting to bone metastases by virtue of its properties as a calcium-mimic, thorium-227 must be linked to tumor-targeting molecules, such as monoclonal antibodies, to reach its target. Algeta has already demonstrated feasibility for thorium-227-conjugated monoclonal antibodies to shrink cancer in pre-clinical models. The results of these studies highlight the potential of this approach to create a pipeline of new generation alpha-pharmaceuticals that specifically seek and destroy cancers while minimizing damage to surrounding healthy tissues.

Importantly, the direct tumor cell killing action of alpha-pharmaceuticals has been shown to overcome common chemo-resistance and radiotherapy resistance mechanisms in cancer cells. In addition, a localized 'bystander effect' may be a benefit whereby tumor cells adjacent to those bound by the alpha-pharmaceutical are also destroyed even if they do not bind the conjugate themselves. The combination of these properties suggests that thorium-based alpha-pharmaceuticals may potentially have advantages over existing targeted therapies leading to enhanced clinical effects.

Algeta's Thorium strategy is focused on enhancing the Company's alpha-pharmaceutical pipeline by developing the platform and intellectual property. In particular, during the first half of 2010, Algeta has initiated new internal technology programs looking to improve the way thorium-227 conjugates to the targeting molecule using chemical structures called 'chelators'.

The Company is also evaluating multiple in-licensing opportunities, both for the chelation technology and for tumor-targeting molecules.

Financial Review

- Profit and loss

Revenue for the second quarter 2010 amounted to NOK 54m versus NOK 64m in the previous quarter and NOK 119m for the first half year. This compares with zero in both the second quarter and the first half year of 2009. Revenue for the second quarter comprised NOK 20m as we recognised part of the deferred signing fee from Bayer and NOK 34m in cost-sharing revenue from Bayer as it contributed towards the costs incurred for the agreed development and manufacturing programs for Alpharadin.

The Group's operating expenses for the second quarter 2010 amounted to NOK 54m and totalled NOK 118m for the first half of the year. This compares with NOK 45m in the second quarter 2009 and NOK 86m for the first half year of

2009. R&D costs continue to be driven by patient recruitment and treatment rates in the ALSYMPCA phase III study. For the first half of the year, 67% of Algeta's operating expenses were related to R&D, the majority of which was due to the ALSYMPCA trial.

The Group's income statement shows a net loss of NOK 0,4m for the second quarter 2010 compared with a net loss of NOK 41m for the same period in 2009. The Group's net loss for the first half year was NOK 10m, versus a net loss of NOK 81m in the first half of last year.

- *Cash flow and balance sheet*

Algeta received the final NOK 55m of the NOK 369m Alpharadin agreement signing fee from Bayer in January. Net change in cash totalled NOK -57m in the second quarter and NOK -57m in the first half of 2010 versus NOK -34m in the second quarter 2009 and NOK 160m in the first half of 2009. In the first quarter of 2009 Algeta raised NOK 250m in a private placement.

As of 30 June 2010, the Group had liquid funds in total of NOK 445m, which are invested in bank deposits and money market funds. This compares with NOK 514m at the end of 2009 and NOK 293m at the end of June 2009. The Group had no long term debt. In July 2010 Algeta signed an Alpharadin supply agreement with IFE. This signing triggered a milestone payment of EUR 5m from Bayer, which will be booked as income in the third quarter and received in the fourth quarter.

The total number of outstanding shares as of 30 June 2010 was 39 464 376. The total number of outstanding share options as of 30 June was 1 974 381 (vested and unvested).

- *Risk and uncertainty*[3]

The development of pharmaceuticals carries significant risk. Failure may occur at any stage during development due to safety or clinical efficacy issues. It cannot be predicted with certainty if or when Algeta will be able to submit an application to the regulatory authorities in the relevant markets. It can further not be assured that Algeta will receive marketing and regulatory approvals necessary to commercialize nor produce the final products. Regulatory approvals may be denied, delayed or limited.

To manage the risk inherent in the industry, and to comply with international and national regulations, Algeta has implemented an annual process to identify, analyze and tackle the main risk factors facing the Group.

Algeta's income, the majority of cash and the majority of payments are denominated in EUR. Algeta consequently possesses a natural hedge containing currency risk.

Algeta does not have any significant changes in the uncertainties and risks compared to the descriptions in the Annual Report for 2009.

- *Significant related party transactions*

During the first half of 2010, there were no related party transactions with significant impact on the group's financial position or results for the period.

In April 2010 the AGM authorized the Board of Algeta to issue up to 3 m shares to board members and employees under the Employee Option Program. A total of 258 862 options were distributed to board members and management. See note 4 for detailed information.

Outlook

The Company is working towards multiple milestones during 2010 and aims to:

- Recruit 900 CRPC patients with bone metastases into the phase III ALSYMPCA study by the end of 2010
- Advance enrolment of endocrine-refractory breast cancer patients with bone metastases into a phase II clinical trial (BC1-09)
- Advance enrolment into its phase I/IIa clinical trial to study Alpharadin in combination with docetaxel chemotherapy for CRPC patients with bone metastases (BC1-10)
- Prepare for commercialization with Bayer by optimizing the future market positioning of Alpharadin and educating relevant cancer specialists
- Initiate further technology programs designed to enhance its proprietary position around its Thorium platform, leading to a pipeline of alpha-pharmaceutical candidates based on this technology

In addition, the Company will continue with its program of investor activities during 2010 with the aim of broadening and strengthening its shareholder base.

With the ongoing ALSYMPCA phase III trial and newly initiated BC1-09 and BC1-10 trials, Algeta's cost level for 2010 will be higher than in 2009.

Algeta remains focused on advancing its strategy for creating further shareholder value from the development and commercialization of novel targeted cancer therapeutics based on its alpha-pharmaceutical technology.

[3] *Pursuant to Section 5-6 of the Securities Trading Act*

Oslo, 12 August 2010
The Board of Directors of Algeta ASA

……..	……
Stein H. Annexstad Chairman of the Board	John E. Berriman Deputy Chairman
……..	…….
Kapil Dhingra Board Member	Joseph Anderson Board Member
…….	……..
Judith Hemberger Board Member	Per Samuelsson Board Member
……..	…….
Hilde H. Steineger Board Member	Ingrid Wiik Board Member

……..
Andrew Kay
President and CEO

Algeta Group –Accounts for second quarter and first half 2010

Condensed consolidated income statement

(Amounts in NOK thousands except per share data)	Note	2nd quarter 2010	2nd quarter 2009	1st half 2010	1st half 2009	Full year 2009
Revenue	2	54 426	22	118 532	80	30 671
Total operating revenue		54 426	22	118 532	80	30 671
R&D expenses	3	32 545	30 737	79 235	58 270	127 499
Payroll and related costs		15 112	10 119	27 162	19 522	46 312
Depreciation	5	724	495	1 433	989	2 161
Other expenses		5 381	3 374	9 881	6 989	17 622
Total operating expenses		53 762	44 725	117 712	85 770	193 593
Operating profit/(loss)		664	(44 703)	821	(85 690)	(162 923)
Financial income		1 190	3 781	2 462	5 339	9 478
Financial expenses		2 221	238	13 145	439	16 654
Net financial income/(loss) [1)]		(1 031)	3 543	(10 683)	4 900	(7 176)
Loss before income tax		(367)	(41 160)	(9 862)	(80 790)	(170 098)
Income tax		-	-	-	-	-
Loss for the year		(367)	(41 160)	(9 862)	(80 790)	(170 098)
Profit attributable to:						
Equity holders of the company		(367)	(41 160)	(9 862)	(80 790)	(170 098)
Earnings per share						
- basic and diluted NOK		(0,01)	(1,05)	(0,25)	(2,72)	(4,92)

1) Of net financial loss in second quarter and first-half period 2010 NOK 2,144 thousand and NOK 13,022 thousands was due to unrealized currency losses, compared to NOK 121 thousands and NOK 220 thousand for the same period in 2009 and NOK 15,708 for the year 2009.

Condensed consolidated statement of comprehensive income

(Amounts in NOK thousands)	2nd quarter 2010	2nd quarter 2009	1st half 2010	1st half 2009	Full year 2009
Loss for the year	(367)	(41 160)	(9 862)	(80 790)	(170 098)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	(367)	(41 160)	(9 862)	(80 790)	(170 098)

Condensed consolidated statement of financial position

(Amounts in NOK thousands)	Note	30 June 2010	30 June 2009	31. Dec. 2009
ASSETS				
Property, plant and equipment	5	9 610	6 547	9 319
Total non-current assets		9 610	6 547	9 319
Receivables [1)]		92 680	7 371	65 832
Cash & cash equivalents		445 392	293 194	514 206
Total current assets		538 072	300 565	580 038
TOTAL ASSETS		547 682	307 112	589 357
EQUITY AND LIABILITIES				
Equity				
Share capital	6	19 732	19 665	19 689
Additional paid-in-capital		702 596	692 331	696 948
Accumulated losses		(560 514)	(461 343)	(550 651)
Total equity		161 815	250 654	165 986
Non-current liabilities				
Deferred income - up-front payment [2)]	2	218 607	-	259 596
Total non-current liabilities		218 607	-	259 596
Current liabilities				
Trade and other payables		85 282	56 459	81 798
Deferred income - up-front payment [2)]	2	81 978	-	81 978
Total current liabilities		167 260	56 459	163 776
Total liabilities		385 867	56 459	423 372
TOTAL EQUITY AND LIABILITIES		547 682	307 112	589 357

1) NOK 80,370 thousands of other receivables as at 30 June 2010 is due to the Bayer agreement, related to cost sharing. NOK 55,924 thousands of other receivables as at 31 December 2009 is due to the Bayer agreement, related to withholding tax on up-front payments, received January 2010.

2) Non-current and current deferred income of NOK 300,585 thousands in 2010 is deferred up-front payment from the Bayer agreement, representing 44 months income not yet recognized in P&L. See note 2 – Income.

Condensed consolidated statement of changes in equity

(Amounts in NOK thousands)	Note	Share capital – ordinary shares	Additional paid in capital	Accumulated losses	Total
Balance at 1 January 2009		8 256	467 439	(380 553)	95 142
Total comprehensive loss for the year				(80 790)	(80 790)
Share issuance - private placement		11 150	234 150		245 300
Share issuance - repair offering		212	4 449		4 661
Transaction cost - private placement			(16 684)		(16 684)
Share issuance, employees		47	1 163		1 210
Share-based compensation			1 815		1 815
Balance at 30 June 2009		19 665	692 331	(461 343)	250 654
Balance at 1 January 2010		19 689	696 948	(550 651)	165 986
Total comprehensive loss for the year				(9 862)	(9 862)
Share issuance, employees	6	44	1 878		1 921
Share-based compensation	6		3 770		3 770
Balance at 30 June 2010		19 732	702 596	(560 514)	161 815

Condensed consolidated statement of cash flow

		2nd quarter		1st half		Full year
(Amounts in NOK thousands)	Note	2010	2009	2010	2009	2009
Profit/(loss) before income tax		(367)	(41 160)	(9 862)	(80 790)	(170 098)
Depreciation		724	495	1 433	989	2 161
Share-based compensation		2 118	1 115	3 770	1 815	5 824
Net financial (income)/loss		1 031	(3 543)	10 683	(4 900)	7 176
Changes in working capital:						
Receivables [1)]		(29 821)	3 933	(25 663)	4 932	(63 027)
Deferred income - up-front payment [2)]	2	(20 494)	-	(40 989)	-	341 574
Trade and other payables		(10 681)	63	3 279	4 857	30 785
Net cash from/(used) in operating activities		(57 491)	(39 097)	(57 349)	(73 097)	154 395
Purchases of property, plant and equipment (PPE)	5	(577)	(245)	(1 724)	(1 018)	(4 962)
Interest received		122	48	285	111	8 761
Net cash received in investing activities		(455)	(198)	(1 439)	(907)	3 800
Proceeds from issuance of shares	6	-	4 579	-	233 277	233 026
Proceeds from exercise of options	4	903	1 210	1 921	1 210	2 092
Net cash generated from financing activities		903	5 789	1 921	234 487	235 118
Net increase/(decrease) in cash and cash equivalents		(57 043)	(33 506)	(56 866)	160 483	393 313
Exchange gain/(loss) on cash and cash equivalents		(1 952)	(79)	(11 948)	(220)	(12 038)
Cash and cash equivalents at beginning of year		504 387	326 779	514 206	132 932	132 932
Cash and cash equivalents at end of year		445 392	293 194	445 392	293 194	514 206

1) NOK 55,924 thousands of the changes in receivables during the year 2009 is due to the Bayer agreement, related to withholding tax on upfront payments, received January 2010.

2) NOK 341,574 thousands of the changes in deferred income during the year 2009 is due to deferred up-front payment from the Bayer agreement, representing 50 of 54 months income not yet recognized in P&L. See note 2–Income. The change in deferred income second quarter and first-half period 2010 represents 3 and 6 months income recognized.

Note 1 - ACCOUNTING PRINCIPLES

The financial information is prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). This financial information should be read together with the financial statements for the year ended 31 December 2009 prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

New or amended standards which have an impact on the accounts of the Algeta Group as from 1 January 2010 are described below. The amendments to IFRS 3 and IAS 27 did not affect the consolidated accounts for the first-half period of 2010, as no acquisitions were made and no holdings in subsidiaries bought or sold.

IFRS 3 – Business Combinations (revised)
Compared with the prevailing IFRS 3, the revised standard introduces certain changes and specifications with respect to the use of the acquisition method (the purchase method). Amendments relate to goodwill in step acquisitions, minority interests and contingent considerations. Acquisition costs in excess of issue and borrowing costs shall be expensed as they occur. The revised standard shall be applied from the first annual accounting period beginning on or after 1 July 2009. IFRS 3 (R) cannot be applied retrospectively. The Group introduced IFRS 3 (R) as from 1 January 2010. The revised standard will affect the Group's recording of future acquisitions.

IAS 27 – Consolidated and Separate Financial Statements (revised)
Compared with the prevailing IAS 27, the revised standard gives more guidance regarding the accounting treatment of changes in ownership interests in subsidiaries. The introduction of the revised standard implies that upon loss of control of a subsidiary, any residual holding in the former subsidiary must be measured at fair value and the gain or loss on the disposal recognised in profit or loss. In addition, current rules relating to the distribution of losses between the majority and the minority have been changed, whereby losses are to be charged to the non-controlling interests (minority interests), even if the balance sheet value of the minority interest will thus be negative. The revised standard shall be applied from the first annual accounting period beginning on or after 1 July 2009. The Group introduced IAS 27 (R) as from 1 January 2010. The revised standard will affect the Group's recording of future acquisitions and any sale/purchase of residual holdings in subsidiaries.

The preparation of the Interim Financial Statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent liabilities at the date of the Interim Financial Statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the Interim Financial Statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.
The Company's products are still in the research and development phase; correspondingly, the Company does not have revenues from the sale of pharmaceuticals.

The Company's business strategy includes entering into collaborative license and development agreements with biotechnology and pharmaceutical companies for the development and commercialization of the Company's product candidates. The term of the Company's first license agreement with Bayer Schering Pharma AG includes a non-refundable signing fee, funding of R&D, payments based on the achievement of development, manufacturing and sales milestones, and royalties on product sales. Revenue arising from collaborative agreements consisting of multiple elements is allocated to those elements in accordance with contractual terms, which are indicative of the fair values of the individual elements. Significant management judgment is required in determining whether, in substance, elements of such contracts operate independently of other elements and whether they should therefore be accounted for separately. Revenue in respect of each separable element (or, where no elements are separable, in respect of the contract as a whole) is spread over the period over which the Company is expected to complete its service obligations under an arrangement.

Up-front milestones and fees are recognized on a straight-line basis over the performance period. In particular, if the Company is involved in a steering committee as part of a multiple element arrangement, the Company assesses whether its involvement constitutes an obligation or a right to participate. Steering committee services that are considered significant obligations are combined with other research service obligations required under an arrangement, if any, in determining the level of effort required in an arrangement and the period over which the Company expects to complete its obligations.

Amounts received or receivable under R&D contracts and collaborative research agreements are recognized as revenue in the period in which the related costs are incurred or services are provided. These contributions towards costs incurred are received where the Company is the principal in the transaction, and as such these amounts have been recorded gross as revenue and not netted against costs incurred. As revenue represents contributions towards costs incurred, no amounts have been allocated to cost of sales; instead all costs relating to these development programs are recorded as R&D expenditure.

Non-refundable license fees and payments on the achievement of milestones are recognized as revenue when the Company has a contractual right to receive such payment, the amount can be measured reliably, it is probable that the economic benefits associated will flow to the Company, and when the specific conditions stipulated in the license agreements have been satisfied.

Operating expenses by nature
Research and development expenses relates to external incurred costs. Internal costs to research and development are together with administrative expenses included in payroll and related costs, depreciation and other expenses.

Note 2 - REVENUE

In September 2009 Algeta Group signed a license and development agreement with Bayer Schering Pharma AG. Algeta Group received a signing fee of EUR 42.5 m and this revenue is spread over the period of 4,5 years which is the time the Group expects to complete its service obligations under this arrangement, i.e. to launch. According to the Bayer agreement the Group are also entitled to cost sharing for R&D services.

	2nd quarter		1st half		Full year
(Amounts in NOK thousands)	2010	2009	2010	2009	2009
Up-front payment [1)]	20 494	-	40 989	-	27 326
Cost sharing/R&D services	33 731	-	77 242	-	3 050
Other revenue	200	22	301	80	294
Total operating revenue	54 426	22	118 532	80	30 671

1) The total up-front payment of EUR 42.5 m is split into 4.5 years starting from September 2009. Deferred income at 31 December 2009 amounts to NOK 342 m and at 30 June 2010 NOK 301 m.

Note 3 – RESEARCH AND DEVELOPMENT EXPENSES

	2nd quarter		1st half		Full year
(Amounts in NOK thousands)	2010	2009	2010	2009	2009
Clinical R&D	22 810	26 510	61 977	48 801	104 659
Cost of goods	4 811	2 283	9 691	5 134	13 775
Laboratory and Preclinical R&D	301	707	1 069	2 406	3 492
Production and quality	-583	122	413	726	2 103
Other	6 105	1 686	7 883	2 349	6 640
Goverment grants	-899	-572	(1 798)	(1 147)	(3 170)
Total R&D expenses	32 545	30 737	79 235	58 270	127 499

Note 4 - SHARE-BASED COMPENSATION

At the Annual General Meeting in April 2010 the board of Algeta was authorized to issue up to 3,000,000 share options to employees, board members, and consultants. The options generally vest over a period from 1 to 4 years and expire 7 years after the grant date. In general, the exercise price for the options is set at the fair value of the shares at grant date.

The following table shows the changes in outstanding options in the half-year period ended 30 June 2010:

	2010	
	Number of options	Weighted average exercise price (in NOK)
Outstanding on 1 January	1 729 159	22,29
Granted during the period [1)]	333 862	77,46
Terminated during the period	(1 396)	33,70
Exercised during the period [2)]	(87 244)	26,49
Expired during the period	-	-
Outstanding at 30 June	1 974 381	31,61

1) Granted options for shares to key management and Board of directors of the Group during the half-year period ended 30 June 2010:

Key Management:

Name	Title	Granted 1st half 2010	Outstanding 30.06.2010
Andrew Kay	President & CEO	75 000	675 000
Gillies O'Bryan-Tear	Chief Medical Officer (CMO)	25 000	325 000
Kari Dyvik	SVP Operations	30 000	95 003
Roger C. Harrison	CBO	35 000	145 000
Ragnhild M. Løberg	SVP Quality & Reg.	30 000	83 335
Thomas Ramdahl	EVP &CTO	25 000	175 200
Øystein Soug	CFO	30 000	140 000
Total		250 000	1 638 538

Board of directors:

Name	Title	Granted 1st half 2010	Outstanding 30.06.2010
Hilde H. Steineger	Board member	1 611	1 611
Ingrid Wiik	Board member	1 611	1 611
Joseph Anderson	Board member	1 611	1 611
Judith Hemberger	Board member	806	806
Stein H. Annexstad	Chairman of the Board	3 223	3 223
Total		8 862	8 862

2) John E. Berriman, Deputy chairman of the Board, and a primary insider of Algeta ASA, has exercised 40,000 options in the company, corresponding to 40,000 shares at the strike price of NOK 20. Ragnhild Løberg, Senior Vice president of Quality and Regulatory Affairs and a primary insider of Algeta ASA, has exercised 11,665 shares at the strike price of NOK 47.

Note 5 – PROPERTY, PLANT AND EQUIPMENT

During the second quarter and half-year period ended 30 June 2010; the Group invested NOK 0.6 m and NOK 1.7 m in property, plant and equipment, primarily equipment for research purposes.

Note 6 – SHARE CAPITAL

The following table shows the changes in number of outstanding shares in the half-year period ended 30 June 2010:

(Amounts in NOK thousands)	2010 Ordinary shares
Total authorized ordinary shares at 1 January	39 377 132
Share issuance - employees	87 244
Total authorized ordinary shares at 30 June	39 464 376

Statement

pursuant to Section 5-5 of the Securities Trading Act

We hereby confirm that the half-yearly financial statements for the Group and the company for the period 1 January through 30 June 2010 to the best of our knowledge have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the company taken as a whole.

To the best of our knowledge, the half-yearly report gives a true and fair:

- overview of important events that occurred during the accounting period and their impact on the half-yearly financial statements
- description of the principal risks and uncertainties facing the Group over the next accounting period
- description of major transactions with related parties.

Oslo, 12 August 2010
The Board of Directors of Algeta ASA

……..	…….
Stein H. Annexstad	John E. Berriman
Chairman of the Board	Deputy Chairman
……..	…….
Kapil Dhingra	Joseph Anderson
Board Member	Board Member
…….	……..
Judith Hemberger	Per Samuelsson
Board Member	Board Member
……..	…….
Hilde H. Steineger	Ingrid Wiik
Board Member	Board Member

……..
Andrew Kay
President and CEO