Third Quarter Report 2010

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This report includes an operational review and financial results for the third quarter and nine months ending 30 September 2010.

Algeta continued to make good progress across all its business activities during the third quarter of 2010:

- Recruitment of the enlarged ALSYMPCA[1] phase III trial with Alpharadin for the treatment of symptomatic bone metastases arising from castration-resistant prostate cancer (CRPC) exceeded 830 patients at the end of October 2010 and remains on track to complete enrolment of the planned 900 patients by the end of the year
- The first patient was dosed in a phase I/IIa clinical study evaluating Alpharadin in combination with docetaxel chemotherapy in CRPC patients with bone metastases. A positive outcome of this study should open up future development opportunities and highlights the potential use of Alpharadin for patients with bone metastases who are receiving chemotherapy
- Alpharadin manufacturing and supply agreements were signed with Bayer Schering Pharma AG ("Bayer") and with Institute for Energy Technology (IFE, located outside Oslo) triggering a NOK 40m (EUR 5m) milestone payment from Bayer to Algeta. In parallel, Algeta agreed with IFE to build a state-of-the-art manufacturing facility, to secure the commercial supply of Alpharadin
- The Group's income statement shows a net profit of NOK 37m for the third quarter 2010 owing to payments from Bayer including a portion of the deferred 2009 agreement signing fee, cost-sharing revenue for Alpharadin clinical trials and the supply agreement milestone

Post-period highlights:

- Further supportive clinical data for Alpharadin were presented at major conferences such as ESMO and ASTRO this year. Greater exposure at medical conferences is building increased awareness of Alpharadin amongst cancer specialists
- Activities to progress the development of Algeta's Thorium platform continued and resulted in the signing of an option agreement with Lumiphore to evaluate its novel Lumi4® chelation technology in tumor-targeted thorium-227-based alpha-pharma-ceuticals
- Dr Lars Abrahmsén joined the management team of Algeta as Senior Vice President, Protein Therapeutics to advance the development of Algeta's Thorium platform

Alpharadin and bone metastases

Alpharadin (radium-223 chloride) is being further progressed under the terms of a development and commercialization agreement with Bayer. It is a first-in-class alpha-pharmaceutical that demonstrated a potent, targeted antitumor effect on bone metastases combined with a highly favorable side-effect profile in earlier clinical studies.

Alpharadin is currently in three clinical trials:

- Global phase III clinical trial (ALSYMPCA) to treat bone metastases resulting from CRPC
- Phase II clinical trial for breast cancer patients who have bone metastases and are endocrine-refractory
- Phase I/IIa trial in combination with docetaxel chemotherapy (Taxotere) to treat bone metastases resulting from CRPC

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

In Phase II trials in patients with bone metastases from CRPC, Alpharadin showed a clinically and 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 occur 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]. Current therapies are poor, and effective treatment of bone metastases is a major unmet medical need.

ALSYMPCA phase III trial – Recruitment expected to complete on schedule

The ALSYMPCA study is a double-blind randomized, placebo-controlled phase III clinical trial enrolling 900 patients with CRPC that has spread to the bones. The primary efficacy endpoint is overall survival. The trial also monitors and evaluates both the safety profile of Alpharadin treatment and its impact on quality of life. The

[1] ALpharadin in SYMptomatic Prostate CAncer

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

trial began in June 2008 and is currently recruiting across more than 125 clinical centers worldwide, including 12 in the USA.

Over 830 patients were recruited into the trial by the end of October 2010 and Algeta and Bayer anticipate that ALSYMPCA will be fully enrolled as planned by the end of 2010. Results of the trial are anticipated in 2012 and these, if positive, could allow a regulatory filing in 2012.

A pre-planned interim efficacy analysis is expected to take place during H1 2011, after approximately 50% of the 640 required events (deaths) have occurred. This analysis will assess the effect of Alpharadin on overall survival, with the intent to stop the study on ethical grounds if there is evidence of overwhelming treatment benefit. Algeta does not expect the study to be stopped because of the high statistical hurdle to be applied in this interim analysis.

Alpharadin-docetaxel chemotherapy study initiated in USA

A new, open-label, randomized phase I/IIa study (BC1-10) was initiated at the end of June 2010 to investigate whether Alpharadin and docetaxel chemotherapy can be safely used together to treat CRPC patients with bone metastases. The first patient was dosed in August at the Memorial Sloan-Kettering Cancer Center (MSKCC) in New York; the trial will be conducted there and in up to nine other centers across the USA.

Safety data from the dose escalation part of the study is expected in 1H 2012 and bone marker data is expected during 2012.

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.

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.

Alpharadin in breast cancer patients with bone metastases

In late 2009, Algeta and Bayer initiated an open label phase II clinical trial (BC1-09) in patients with bone metastases resulting from breast cancer that no longer respond to endocrine therapy. The trial is designed to investigate if multiple intravenous injections of Alpharadin have a clinically relevant effect on bone markers (i.e. indicative of a positive therapeutic response) in breast cancer patients with bone-dominant metastatic disease. The safety of Alpharadin treatment in these patients will also be monitored in this trial

This study is being conducted at four cancer centers; in Oslo (Norway), Sheffield (UK), Brussels and Liege (Belgium). The Coordinating Investigators for the trial is Prof. Robert L. Coleman MD and Prof. Martine Piccard MD. A positive outcome of this study will indicate potential future label-broadening opportunities for Alpharadin. The trial results are expected to be reported during 1H 2011.

Increasing Alpharadin awareness among cancer specialists

Since Algeta and Bayer began their collaboration in September 2009, there has been increased awareness of Alpharadin among cancer specialists through increased exposure at major conferences.

During 2010, the companies presented a number of studies and analyses of overall safety data and clinical experiences from the Alpharadin phase I and II clinical programs at several high profile international conferences. Most recently, data have been presented at ESMO (European Society of Medical Oncology; October) and ASTRO (American Society for Therapeutic Radiology and Oncology; October/November), and earlier in the year, at ASCO (American Society for Clinical Oncology; June) and ASCO's Genitourinary Cancers Symposium (March).

Findings from the presentations, made by leading cancer specialists involved in the Alpharadin clinical programs, support the specific targeting of Alpharadin to bone metastases and its highly favorable safety profile. Furthermore, the presentation made at ASTRO, concluded that it is easy to use by clinicians and oncology nurses who administer treatment, requires no specific equipment and is convenient for patients.

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 5m 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 secures and extends Algeta's collaboration with 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 consultation 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 worldwide commercial demand following approval and launch.

Development of the Thorium platform

An important objective for Algeta is to develop and implement a strategy to broaden the potential of its alpha-pharmaceutical technology beyond Alpharadin.

Algeta believes that alpha-emitters have the potential to offer a number of unique advantages over cytotoxic drugs as the payloads in targeted cancer therapies. These include potency and their ability to overcome drug-resistance by virtue of their direct tumor-killing mechanism of action. Algeta believes that these important advantages may lead to an enhanced clinical effect from targeted thorium-based alpha-pharmaceuticals.

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.

There is increasing focus in the market by drug companies on the development of next-generation targeted cancer therapeutics where cancer-killing payloads are attached to 'naked' tumor-targeting antibodies in an attempt to maximize the effectiveness of therapy.

In October, the Company entered into an option agreement with the US-based firm Lumiphore that provides Algeta access to Lumiphore's proprietary Lumi4® chelator technology. Algeta will evaluate the ability of this technology to chelate thorium-227 and to conjugate with tumor-targeting molecules.

Under the option agreement, Algeta will assess whether the Lumi4® technology offers advantages that could produce enhanced conjugates when compared to those successfully employed in the previous thorium-227 feasibility studies. Key benefits may include more rapid, efficient and cost-effective chelation and conjugation processes, and increased conjugate stability.

New appointment to focus on Thorium platform

In a further move to advance its Thorium platform, Algeta appointed Dr. Lars Abrahmsén as Senior Vice President, Protein Therapeutics. Dr. Abrahmsén was previously CSO of Affibody AB, a Swedish company developing proprietary tumor-targeting molecules for therapeutic and diagnostic purposes. He has a wealth of experience in protein engineering, including monoclonal antibody production and conjugation, gained at Affibody, Genentech and at Pharmacia. Over the past 20 years, working primarily in oncology, Dr. Abrahmsén has led several projects from discovery through preclinical development and into the clinic, building expertise in technologies for conjugation of therapeutic payloads to monoclonal antibodies and other targeting molecules.

Success at the Scrip Awards 2010

Algeta was delighted to be awarded "Best Biotech of the Year" at the recent pharmaceutical industry Scrip awards in London.

Financial Review

- Profit and loss

Revenue for the third quarter 2010 amounted to NOK 96m versus NOK 7m in the third quarter 2009. Third quarter revenues comprised NOK 20m of the deferred Bayer signing fee, NOK 35m from the Alpharadin cost-sharing revenue and the NOK 40m (EUR 5m) milestone from Bayer triggered by the supply agreement with IFE, signed in July.

The Group's operating expenses for the third quarter 2010 amounted to NOK 60m versus NOK 51m in the third quarter 2009. R&D costs continue to be driven by patient recruitment and treatment rates in the ALSYMPCA phase III study which will peak in the second half of 2010. For the first nine months of the year, 64% of Algeta's operating expenses was related to R&D, the majority of which was due to the ALSYMPCA trial.

The Group's income statement shows a net profit of NOK 37m for the third quarter 2010 compared with a net loss of NOK 51m for the same period in 2009.

- Cash flow and balance sheet

In the third quarter there was a net decline in cash of NOK 31m versus an increase of NOK 271m in the third quarter 2009 when a large part of the Bayer signing fee for Alpharadin was received. The NOK 40m (EUR 5m) milestone from the Alpharadin supply agreement was received in the fourth quarter and is therefore not included in the end September 2010 cash figure.

As of 30 September 2010, Algeta had liquid funds in total of NOK 414m. These are invested in bank deposits and money market funds. This compares with NOK 514m at the end of 2009 and NOK 558m at the end of September 2009. The Group had no interest-bearing debt.

The total number of outstanding shares as of 30 September 2010 was 39.5 million. The total number of outstanding share options as of 30 September was 2.0 million (vested and unvested).

- *Financial Calendar 2011*

Algeta plans to present quarterly results on the following dates in 2011:

- 10 February
- 12 May
- 11 August
- 10 November

The annual general meeting is planned for 14 April 2011.

Outlook

Algeta is working towards multiple milestones and aims to:

- Complete recruitment of 900 CRPC patients with bone metastases into the phase III ALSYMPCA study by the end of 2010
- Complete enrolment of endocrine-refractory breast cancer patients with bone metastases into a phase II clinical trial (BC1-09) with the intention of reporting the results from this study in 1H 2011
- 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) with the intention of reporting safety results in 1H 2012
- Prepare for the planned commercialization of Alpharadin with Bayer by optimizing its future market positioning and educating relevant cancer specialists
- Progress the internal development of its Thorium platform, including continuing to identify and evaluate in-licensing opportunities designed to enhance this technology
- Continue to build a state-of-the-art manufacturing facility at IFE to secure the commercial supply of Alpharadin

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

With the ALSYMPCA phase III trial and BC1-09 and BC1-10 trials ongoing, Algeta's operational costs for the full year 2010 are expected to be approx. NOK 240m +/-5%.

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.

Oslo, 11 November 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

Algeta Group –Accounts for third quarter report 2010

Condensed consolidated income statement

(Amounts in NOK thousands except per share data)	Note	3rd quarter 2010	3rd quarter 2009	January-September 2010	January-September 2009	Full year 2009
Revenue	2	95 996	6 951	214 528	7 031	30 671
Total operating revenue		95 996	6 951	214 528	7 031	30 671
R&D expenses	3	35 325	31 127	114 560	89 397	127 499
Payroll and related costs		19 184	13 646	46 347	33 168	46 312
Depreciation	5	840	542	2 273	1 531	2 161
Other expenses		4 959	5 446	14 840	12 435	17 622
Total operating expenses		60 308	50 761	178 020	136 531	193 593
Operating profit/(loss)		35 688	(43 810)	36 509	(129 500)	(162 923)
Financial income		1 731	1 879	4 194	7 218	9 478
Financial expenses		133	9 379	13 279	9 818	16 654
Net financial income/(loss) [1)]		1 598	(7 500)	(9 085)	(2 600)	(7 176)
Loss before income tax		37 286	(51 310)	27 424	(132 100)	(170 098)
Income tax		-	-	-	-	-
Loss for the period		37 286	(51 310)	27 424	(132 100)	(170 098)
Profit attributable to:						
Equity holders of the company		37 286	(51 310)	27 424	(132 100)	(170 098)
Earnings per share						
- basic NOK		0,94	(1,30)	0,70	(4,01)	(4,92)
- diluted NOK		0,92	(1,30)	0,68	(4,01)	(4,92)

1) Of net financial income/ (loss) in third quarter and nine-month period 2010 TNOK 112 and TNOK 13 116 was due to currency losses, compared to TNOK 9 413 and TNOK 9 633 for the same period in 2009 and TNOK 15 708 for the year 2009.

Condensed consolidated statement of comprehensive income

(Amounts in NOK thousands)	3rd quarter 2010	3rd quarter 2009	January-September 2010	January-September 2009	Full year 2009
Loss for the period	37 286	(51 310)	27 424	(132 100)	(170 098)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	37 286	(51 310)	27 424	(132 100)	(170 098)

Condensed consolidated statement of financial position

(Amounts in NOK thousands)	Note	30 Sep. 2010	30 Sep. 2009	31. Dec. 2009
ASSETS				
Property, plant and equipment	5	16 460	7 632	9 319
Total non-current assets		16 460	7 632	9 319
Receivables [1)]		141 132	64 291	65 832
Cash & cash equivalents		414 085	557 689	514 206
Total current assets		555 217	621 980	580 038
TOTAL ASSETS		571 677	629 612	589 357
EQUITY AND LIABILITIES				
Equity				
Share capital	6	19 741	19 676	19 689
Additional paid-in-capital		706 451	694 358	696 948
Accumulated losses		(523 227)	(512 652)	(550 651)
Total equity		202 965	201 382	165 986
Non-current liabilities				
Deferred income - up-front payment [2)]	2	198 113	280 091	259 596
Total non-current liabilities		198 113	280 091	259 596
Current liabilities				
Trade and other payables		88 621	66 161	81 798
Deferred income - up-front payment [2)]	2	81 978	81 978	81 978
Total current liabilities		170 599	148 139	163 776
Total liabilities		368 712	428 230	423 372
TOTAL EQUITY AND LIABILITIES		571 677	629 612	589 357

1) TNOK 129 960 of other receivables as at 30 September 2010 is due to the Bayer agreement, related to cost sharing. TNOK 58 378 and TNOK 58 974 of other receivables as at 30 September 2009 and 31 December 2009 is due to the Bayer agreement, related to cost sharing and withholding tax on up-front payments, received January 2010.

2) Non-current and current deferred income of TNOK 280 091 in 2010 is deferred up-front payment from the Bayer agreement, representing 41 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	(380 552)	95 142
Total comprehensive loss for the period				(132 100)	(132 100)
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		58	1 572		1 630
Share-based compensation			3 433		3 433
Balance at 30 September 2009		19 676	694 358	(512 652)	201 382
Balance at 1 January 2010		19 689	696 948	(550 651)	165 986
Total comprehensive loss for the period				27 424	27 424
Share issuance, employees	6	53	2 220		2 273
Share-based compensation	6		7 283		7 283
Balance at 30 September 2010		19 741	706 451	(523 227)	202 965

Condensed consolidated statement of cash flow

		3rd quarter		January-September		Full year
(Amounts in NOK thousands)	Note	2010	2009	2010	2009	2009
Profit/(loss) before income tax		37 286	(51 310)	27 424	(132 100)	(170 098)
Depreciation		840	542	2 273	1 531	2 161
Share-based compensation		3 512	1 618	7 283	3 433	5 824
Net financial (income)/loss		(1 598)	7 500	9 085	2 600	7 176
Changes in working capital:						
Receivables [1)]		(46 895)	(58 369)	(72 558)	(53 437)	(63 027)
Deferred income - up-front payment [2)]	2	(20 494)	362 069	(61 483)	362 069	341 574
Trade and other payables		3 822	10 032	7 101	14 889	30 785
Net cash from/(used) in operating activities		(23 527)	272 082	(80 876)	198 985	154 395
Purchases of property, plant and equipment (PPE)	5	(7 690)	(1 627)	(9 414)	(2 645)	(4 962)
Interest received		175	33	460	144	8 761
Net cash received in investing activities		(7 515)	(1 593)	(8 954)	(2 501)	3 800
Proceeds from issuance of shares	6	-	-	-	233 277	233 026
Proceeds from exercise of options	4	352	420	2 273	1 630	2 092
Net cash generated from financing activities		352	420	2 273	234 907	235 118
Net increase/(decrease) in cash and cash equivalents		(30 690)	270 908	(87 557)	431 391	393 313
Exchange gain/(loss) on cash and cash equivalents		(616)	(6 414)	(12 565)	(6 634)	(12 038)
Cash and cash equivalents at beginning of period		445 392	293 194	514 206	132 932	132 932
Cash and cash equivalents at end of period		414 085	557 689	414 085	557 689	514 206

1) The changes in receivables are mainly due to the Bayer agreement.

2) TNOK 362 069 and TNOK 341 574 of the changes in deferred income during the nine-months period and full year 2009 is due to deferred up-front payment from the Bayer agreement, representing 53 and 50 of 54 months income not yet recognized in P&L. See note 2–Revenue. The change in deferred income third quarter and nine-month period 2010 represents 3 and 9 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 42.5m 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 is also entitled to cost sharing for R&D services and manufacturing and sales milestones.

Algeta concluded two agreements for the manufacture and supply of Alpharadin for future commercial sale in July. The signing of these agreements triggered a NOK 40 (EUR 5m) milestone payment from Bayer Schering Pharma.

	3rd quarter		January-September		Full year
(Amounts in NOK thousands)	2010	2009	2010	2009	2009
Up-front payment [1)]	20 494	6 831	61 483	6 831	27 326
Cost sharing/R&D services	35 352	-	112 594	-	3 050
Manufacturing milestone	39 875	-	39 875	-	-
Other revenue	274	120	576	200	294
Total operating revenue	95 996	6 951	214 528	7 031	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 September 2010 NOK 280 m.

Note 3 – RESEARCH AND DEVELOPMENT EXPENSES

	3rd quarter		January-September		Full year
(Amounts in NOK thousands)	2010	2009	2010	2009	2009
Clinical R&D	29 922	24 544	91 899	73 345	104 659
Cost of goods	4 769	4 589	14 459	9 723	13 775
Laboratory and Preclinical R&D	1 611	376	2 680	2 782	3 492
Production and quality	2 467	415	2 880	1 141	2 103
Other	(2 544)	1 779	5 340	4 128	6 640
Goverment grants	(899)	(575)	(2 697)	(1 722)	(3 170)
Total R&D expenses	35 325	31 127	114 560	89 397	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 nine-months period ended 30 September 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)]	373 862	78,17
Terminated during the period	7 216	17,35
Exercised during the period [2)]	(105 826)	25,43
Expired during the period	-	-
Outstanding at 30 September	2 004 411	32,71

1) Granted options for shares to key management and Board of directors of the Group during the nine-month period ended 30 September 2010:

Key Management:

Name	Title	Granted Jan-Sep 2010	Outstanding 30.09.2010
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 Jan-Sep 2010	Outstanding 30.09.2010
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 third quarter and nine-months period ended 30 September 2010 the Group invested NOK 7.7m and NOK 9.4m in property, plant and equipment, primarily manufacturing plant and equipment for research purposes.

Note 6 – SHARE CAPITAL

The following table shows the changes in number of outstanding shares in the nine-month period ended 30 September 2010:

	2010 Ordinary shares
Total authorized ordinary shares at 1 January	39 377 132
Share issuance - employees	105 240
Total authorized ordinary shares at 30 September	39 482 372