

Third Quarter Report 2007

OPERATIONAL REVIEW

Alpharadin treatment more than doubles survival rate in prostate cancer patients

During the third quarter of 2007, Algeta presented two-year survival data from its Phase II clinical trial with Alpharadin (radium-223) as a treatment for hormone refractory prostate cancer (HRPC).

The clinical data from the Phase II trial involving 64 HRPC patients shows that more than twice as many patients receiving Alpharadin were alive (30%) two years following treatment compared to those that received placebo (13%).

Previous data from the trial, presented earlier this year at ASCO and in the *Lancet Oncology*¹, has also shown that Alpharadin significantly reduces levels of prostate-specific antigen (PSA), a widely recognized biomarker for progression of prostate cancer, and other relevant biomarkers. The treatment regime of four injections of Alpharadin was well tolerated during the 12-week treatment period, and an extended treatment period may further delay disease progression.

The clinical data was presented for the first time in Europe in a poster entitled "*Placebo-Controlled, Randomized, Phase II study of Radium-223 in Metastatic Hormone Refractory Prostate Cancer (HRPC)*" at the 14th European Cancer Conference ("ECCO 14": 23–27 September 2007, Barcelona, Spain).

In addition, further data on Alpharadin and radium-223 was presented at the Annual Congress of the European Association of Nuclear Medicine (EANM) in Copenhagen, Denmark (13-17 October 2007), by Dr. Darrell R. Fisher of Pacific Northwest National Laboratory (Richland, WA, USA). Dr. Fisher is a member of Algeta's Scientific Advisory Board and his presentation, entitled "*Biokinetics and Dosimetry of Radium-223 in the Cancer Patient*," was based on work conducted by the scientific founders and certain employees of Algeta. In addition, Colin Biggin, Algeta's Radiation Protection Officer, presented a poster entitled "*Radiation Protection with alpha emitters - The Alpharadin experience*" at the same meeting.

Clinical development of Alpharadin progressing as planned

Recruitment into the two ongoing Phase II clinical trials with Alpharadin is progressing with the aim of complete recruitment at the end of the year. These studies are designed to provide further supporting clinical and efficacy data for Alpharadin.

As earlier communicated, Algeta plans to start a Phase III clinical trial with Alpharadin in 2008 based on the very promising Phase II data. Several preparatory activities are on-going in order to reach this important milestone for Algeta.

¹ Bone-targeted radium-223 in symptomatic, hormone-refractory prostate cancer: a randomised, multicentre, placebo-controlled phase II study - *Lancet Oncology* 2007; 8: 587-594

Human resources strengthened - New Chief Medical Officer (CMO) Appointed

Algeta continues to strengthen the organisation as part of its preparations for the phase III program for Alpharadin. By the end of the third quarter, Algeta had 26 employees compared to 19 employees at the end of 2006.

Dr. Peter Harris was appointed as Algeta's new CMO in September 2007 with the key responsibility of directing the clinical development program for Alpharadin. In addition, he will also oversee the clinical development of our innovative pipeline of oncology products.

Dr. Harris is an accomplished and highly respected pharmaceutical physician with over 25 years' experience leading clinical development programs for global pharmaceutical companies. Most recently Dr. Harris was Chief Medical Officer at Oxigene Inc., a NASDAQ-listed company, where he oversaw the design and initiation of the pivotal registration study of its lead clinical product in thyroid cancer.

Prior to this, Dr. Harris spent five years as Development Director at UK biotechnology company KuDos Pharmaceuticals (now a wholly-owned subsidiary of AstraZeneca) where he directed preclinical and clinical development, advancing several oncology drug candidates from discovery to efficacy studies in the clinic. During his career, Dr. Harris has held senior medical positions at Amgen, Roche, Revlon Healthcare, Cobra Therapeutics and ICI Pharmaceuticals.

Dr. Harris replaces Dr. Johan Harmenberg, who has been appointed CEO of Axelar AB, a Karolinska Development (KD I) portfolio company in Stockholm, Sweden.

Algeta has initiated the process to recruit a new CFO following the resignation, in September, of Geir Christian Melen, the Company's current CFO. Mr Melen has accepted the position of CEO of Clavis Pharma ASA and as a result he will relinquish his duties as CFO of Algeta at the latest on the expiry of his six-month notice period.

Financial Review

Third quarter financial statements review

Operating expenses amounted to NOK 20.7 million in the third quarter of 2007 compared with NOK 10.8 million in the third quarter of 2006. The increase in expenses is due mainly to increase in clinical and payroll costs. The clinical costs are related to ongoing clinical trials for Alpharadin. Payroll expenses have increased as the in-house R&D team has been strengthened in order to manage and conduct the increased clinical and other R&D activities. Net loss amounted to NOK 17.5 million in the third quarter of 2007, compared to a net loss of NOK 10.4 million in the third quarter 2006.

Total equity amounted to NOK 290.4 million as of 30 September 2007, compared to NOK 80.3 million as of 31 December 2006. Liquid funds amounted to NOK 296.0 million as of 30 September 2007, compared to NOK 84.6 million as of 31 December 2006. The improvement in both equity and liquid funds is mainly due to the completion of the IPO of NOK 250 million in March 2007.

The total number of outstanding shares as of 30 September 2007 was 16,506,608, all ordinary shares. The total number of granted share options as of 30 September 2007 was 625,500 (vested and unvested).

Oslo, 8 November 2007

The Board of Directors of Algeta ASA

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CONDENSED CONSOLIDATED INCOME STATEMENT

(All amounts in NOK 1,000 except per share data)

| 2007 | 2006 | | 2007 | 2006 | 2006 |
|----------------|----------------|---------------------------------|----------------|----------------|----------------|
| 01.07 - 30.09 | 01.07 - 30.09 | | 01.01 - 30.09 | 01.01 - 30.09 | 01.01 - 31.12 |
| 0 | 27 | Other income | 0 | 84 | 94 |
| 6 856 | 3 157 | Payroll and related costs | 18 061 | 8 626 | 15 112 |
| 353 | 163 | Ordinary depreciation | 894 | 435 | 632 |
| 13 460 | 7 479 | Other expenses | 40 353 | 21 887 | 33 011 |
| -20 669 | -10 771 | Operating profit/loss(-) | -59 307 | -30 864 | -48 661 |
| 3 211 | 331 | Finance income | 7 577 | 868 | 1 627 |
| 1 | -4 | Finance costs | 1 | -4 | -4 |
| -17 457 | -10 444 | Loss before taxes | -51 730 | -30 000 | -47 038 |
| - | - | Income tax expense | 0 | 0 | 0 |
| -17 457 | -10 444 | Loss for the period | -51 730 | -30 000 | -47 038 |
| -1,06 | -3,33 | Basic earnings per share | -5,81 | -9,47 | -14,87 |
| -1,06 | -3,33 | Diluted earnings per share | -5,81 | -9,47 | -14,87 |

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CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts in NOK 1,000)

| | 2007 | 2006 | 2006 |
|-------------------------------------|----------------|----------------|---------------|
| | 30.09 | 30.09 | 31.12 |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 5 187 | 1 796 | 2 062 |
| Total non-current assets | 5 187 | 1 796 | 2 062 |
| Current assets | | | |
| Other receivables | 4 633 | 2 023 | 3 880 |
| Cash & cash equivalents | 296 048 | 99 708 | 84 604 |
| Total current assets | 300 681 | 101 730 | 88 484 |
| TOTAL ASSETS | 305 867 | 103 526 | 90 546 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 8 253 | 5 072 | 5 072 |
| Additional paid-in-capital | 463 677 | 203 925 | 205 006 |
| Accumulated losses | -181 501 | -112 733 | -129 771 |
| Shareholders' equity | 290 429 | 96 263 | 80 307 |
| Current liabilities | | | |
| Trade and other payables | 15 439 | 7 263 | 10 239 |
| Total current liabilities | 15 439 | 7 263 | 10 239 |
| TOTAL EQUITY AND LIABILITIES | 305 867 | 103 526 | 90 546 |

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in NOK 1,000)

| 2007 | 2006 | | 2007 | 2006 | 2006 |
|----------------|---------------|--------------------------------------|----------------|---------------|---------------|
| 01.07 - 30.09 | 01.07 - 30.09 | | 01.01 - 30.09 | 01.01 - 30.09 | 01.01 - 31.12 |
| 308 844 | 33 254 | Equity at beginning of period | 80 307 | 51 926 | 51 926 |
| 0 | 75 000 | Share issuance preference shares | 25 000 | 75 000 | 75 000 |
| 0 | 0 | Share issuance, incentive scheme | 818 | 317 | 316 |
| 0 | 0 | Share issuance, public offering | 250 000 | 0 | 0 |
| 0 | 0 | Share price stabilisation profit | 1 617 | 0 | 0 |
| -842 | -1 546 | Offering costs | -17 607 | -1 546 | -1 546 |
| -117 | 0 | Share-based compensation | 2 024 | 566 | 1 648 |
| -17 457 | -10 444 | Net profit/loss(-) for the period | -51 730 | -30 000 | -47 038 |
| 290 429 | 96 264 | Equity at end of period | 290 429 | 96 264 | 80 307 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(All amounts in NOK 1,000)

| 2007 | 2006 | | 2007 | 2006 | 2006 |
|----------------|---------------|---|----------------|----------------|----------------|
| 01.07 - 30.09 | 01.07 - 30.09 | | 01.01 - 30.09 | 01.01 - 30.09 | 01.01 - 31.12 |
| -17 457 | -10 444 | Profit/loss(-) before tax | -51 729 | -30 000 | -47 038 |
| 0 | 0 | Interest paid | 0 | 0 | 0 |
| 150 | 2 961 | Other operational items | 7 365 | 3 353 | 5 750 |
| -17 307 | -7 483 | Net cash flow from operations | -44 364 | -26 647 | -41 289 |
| -1 807 | -190 | Cash flow from investments | -4 018 | -918 | -1 381 |
| -842 | 73 454 | Cash flow from capital transactions | 259 827 | 73 772 | 73 772 |
| -19 955 | 65 781 | Net change in cash during the period | 211 444 | 46 206 | 31 102 |
| 316 003 | 33 927 | Cash & cash equivalents at beginning of period | 84 604 | 53 502 | 53 502 |
| 296 048 | 99 708 | Cash & cash equivalents at end of period | 296 048 | 99 708 | 84 604 |

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Notes to the Interim Financial Statements ending at 30 of September 2007.

Note 1 - Basis of Presentation

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 2006 prepared in accordance with International Financial Reporting Standards (“IFRS”).

The accounting policies used are consistent with those used in the Annual Financial Statements. The presentation of the Interim Financial Statements is consistent with the Annual Financial Statements. Where necessary, the comparatives have been reclassified or extended to take into account any presentational changes made in these Interim Financial Statements.

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 judgement 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.

Note 2 – Segments

The Group’s activities are focused on the development of drugs for the treatment of cancers. The research and development of compounds are focused on the various applications of a few base compounds. The Group’s research and development activities are primarily directed from Norway. Furthermore, all of the Group’s fixed assets are located in Norway. None of the Company’s products have obtained regulatory approval; therefore, the Group does not yet recognize significant operating revenue. For management purposes, the Company is organized as one business unit and the internal reporting is structured thereafter. The Company is currently organized as one operating segment.

Note 3 – Listing of Algeta ASA on Oslo Børs

The shares of Algeta ASA were listed on the Oslo Stock Exchange on 27 March 2007 (ticker: ALGETA). In connection with the Company’s listing in Oslo, the Company raised gross proceeds of approximately NOK 250 million (\$41 million) in a public offering.

Note 4 – Share capital

| | Ordinary Shares | Preference A Shares |
|--|--------------------|------------------------|
| Ordinary shares at 1 January 2007 | 3 744 160 | 6 400 000 |
| Share issuance | - | 1 000 000 |
| Share issuance, public offering | 5 319 148 | |
| Conversion of preference shares to ordinary shares | 7 400 000 | -7 400 000 |
| Share issuance, incentive scheme | 43 300 | |
| At 30 September 2007 | 16 506 608 | - |

During the first quarter, the Company split its shares into 20 new shares for each old share, thus reducing the par value of the shares to NOK 0.50. The table above reflects the stock split on the opening balance of number of shares.

In February 2007, an additional 1,000,000 Preference A shares were issued (50,000 shares on a pre-split basis) for gross proceeds of NOK 25 million. The share issuance was the third (and final) tranche of an agreement the Group entered into with a group of investors in 2005.

The Preference A shares automatically converted to ordinary shares as a result of the listing on Oslo Stock Exchange. The shareholders' agreement regulating Preference A shareholders' rights and obligations is thereby void.

As of March 24, 2007, all the preference shares were converted to ordinary shares. At the end of the period the numbers of outstanding ordinary shares are 16,506,608.

Note 5 – Earnings per share

(All amounts in NOK 1,000 except per share data)

| 2007 01.07 - 30.09 | 2006 01.07 - 30.09 | | 2007 01.01 - 30.09 | 2006 01.01 - 30.09 | 2006 01.01 - 31.12 |
|-----------------------|-----------------------|--|-----------------------|-----------------------|-----------------------|
| -17 457 | -10 444 | Loss for the period | -51 730 | -30 000 | -47 038 |
| 0 | -1 700 | Less: 8% dividend on preference shares | 0 | -5 425 | -8 625 |
| | | Loss for the period attributable to ordinary equity holders of the Company | | | |
| -17 457 | -12 144 | | -51 730 | -35 425 | -55 663 |
| -1,06 | -3,33 | Earnings per share, basic | -5,81 | -9,47 | -14,87 |
| -1,06 | -3,33 | Earnings per share, diluted | -5,81 | -9,47 | -14,87 |
| | | Weighted average number of ordinary shares outstanding | | | |
| 16 482 552 | 3 744 160 | | 12 649 872 | 3 741 680 | 3 742 325 |

Earnings per share figures are adjusted for share split as of February 15, 2007. The dividend on preference shares calculated in the table above is a non-cash item. All preference shares were converted to ordinary shares as of March 24, 2007.

1 Note 6 – Share options

| | Number of options | Weighted average exercise price (in NOK) |
|--------------------------------------|-------------------|--|
| Outstanding on 1 January 2007 | 482 300 | 17.80 |
| Granted first quarter | 159 500 | 47.00 |
| Granted second quarter | 98 000 | 43.00 |
| Exercised during second quarter | -43 300 | 18.90 |
| Expired during the period | -71 000 | 24.13 |
| Outstanding at 30 September 2007 | 625 500 | 28.40 |

The weighted average fair value of options granted in 2007 was NOK 25.30. The weighted average assumptions used to determine the grant date fair value under the Black Scholes model were:

| Weighted-average inputs | 2007 |
|--------------------------|-------|
| Volatility | 75% |
| Expected life (in years) | 3.6 |
| Risk free interest rate | 4.7% |
| Share price (NOK) | 45.10 |
| Exercise price (NOK) | 45.48 |