

Report for Third Quarter 2009

This report includes an operational review and financial results for the three-month period ending 30 September 2009.

Transformational deal signed with Bayer for Alpharadin

The third quarter saw the successful culmination of business development activity for Alpharadin. In signing its USD 800 million¹ global agreement with Bayer for the development and commercialization of Alpharadin to treat bone metastases in cancer patients, the Company has established and delivered what the Board considers to be the best possible commercialization strategy for this novel product. In addition to tiered double digit royalties on worldwide sales Algeta keeps the option to retain up to 50% of the US market. This option represents an opportunity to share directly in Alpharadin's blockbuster potential in the US by establishing a commercial organisation in this substantial market. This deal will enable Algeta to transform into a cancer-focused specialty pharmaceutical company, developing new targeted cancer therapies based on its alpha-pharmaceutical platform, which has the potential to deliver significant value for shareholders.

In short, the deal provides Algeta with financial resources to bring Alpharadin to market with a world-class partner that has global oncology sales and marketing expertise and infrastructure that will help maximize sales of Alpharadin around the world.

The deal also allows Algeta to accelerate its strategy to become a cancer-focused speciality pharmaceutical company. Also made possible with this agreement, is the opportunity to build a commercial organization in the US ahead of the launch of Alpharadin so that it can share directly in Alpharadin's blockbuster sales potential in the US and from royalties on sales in the rest of the world.

Alpharadin is the first in a new class of targeted alpha-emitting pharmaceuticals ('alpha-pharmaceutical') and is based on radium-223. Alpharadin is in a global phase III clinical trial (ALSYMPCA) designed to confirm its efficacy and safety as a targeted treatment for bone metastases in patients with hormone-refractory (castration-resistant) prostate cancer (HRPC). Alpharadin is administered as a simple intravenous injection and has a unique mode of action whereby it targets bone metastases specifically and exerts a highly localized effect on tumor cells while minimizing damage to normal surrounding tissues. In phase II studies, Alpharadin demonstrated strong evidence that it can prolong patient survival, improve quality of life and offer a benign safety profile.

Highlights of the Bayer deal include:

- Potential deal value of USD 800 million (EUR 560m) milestones plus tiered double-digit royalties.
- USD 61 million (EUR 42.5m) cash upfront, followed by manufacturing, development and sales milestones.
- Algeta has a non-cost option for up to 50% co-promotion with Bayer in the US under a profit-share arrangement.
- Algeta and Bayer will jointly develop Alpharadin, with Bayer contributing a substantial majority of future development costs for Alpharadin as a treatment for bone metastases resulting from prostate and other cancer indications.
- Algeta will be responsible for manufacturing and supply of the commercial product.

¹ USD 800 million refers to EUR 560 million in upfront and potential milestone payments of the licence deal with Bayer. USD amounts provided in this release have been translated at 1 Euro: USD1.43 – the translation rate as at signing of the agreement on 3 September 2009.

Algeta's Board is extremely pleased to have attracted a partner of Bayer's high caliber for the development and commercialization of Alpharadin. Bayer has a strong franchise in oncology and a strategic focus on growing this part of its business. Bayer is a world-class oncology company with a proven global track record of launching major cancer products and has had recent success with the launch of Nexavar® (sorafenib), which is approved in over 70 countries to treat liver and kidney cancer. Bayer is committed to its global oncology franchise and has made significant progress in building a comprehensive pipeline of promising compounds that may provide innovative therapies to cancer patients in need of treatment.

Teams from Algeta and Bayer have begun working closely together on the development, manufacturing, commercialization strategy and on medical congress activity for Alpharadin.

Clinical development with Alpharadin progresses on track

With a world-class development and commercialization partner secured for Alpharadin, Algeta's primary near-term objective is to recruit patients as quickly as possible into its phase III ALSYMPCA trial. More than 100 clinical centers around the world are actively engaged in screening and enrolling suitable patients. The first center in the US is screening patients and poised to enrol its first patient in 2009. Additional US centers are expected to be active within the next few months.

Recruitment for the trial remains on schedule. The targeted 750 men with bone metastases as a result of HRPC are all expected to be included by the second half of 2010.

The ALSYMPCA study is a double-blind, randomized, controlled phase III clinical trial that enrolls HRPC patients whose cancer has spread to the bones, who will be randomized to receive Alpharadin plus best standard of care or placebo plus best standard of care. As is common practise in cancer trials, an independent safety monitoring committee is in place to assess and confirm the on-going safety profile of Alpharadin. To date, no safety issues with the trial have been reported and its continuation has been recommended by the committee.

The primary efficacy endpoint of the trial is overall survival. Secondary endpoints include time to occurrence of specified disease-related events, and time to progression of certain key biomarkers indicative of disease status. In addition, the trial monitors and evaluates both safety profile of Alpharadin treatment as well as its impact on quality of life.

New clinical data reinforces key clinical benefits of Alpharadin treatment

New clinical data from three phase II clinical trials with Alpharadin were presented at the joint 15th Congress of the European Cancer Organisation (ECCO) and 34th Congress of the European Society for Medical Oncology (ESMO) held in Berlin, Germany in September 2009.

The Alpharadin phase II efficacy and safety program comprised three trials (BC1-02, BC1-03 and BC1-04) and involved 286 individuals. It was designed to provide detailed information on the safety and therapeutic efficacy of different doses of Alpharadin in HRPC patients, as well as evaluating its ability to relieve pain caused by bone metastases in symptomatic patients.

In all three phase II trials completed, primary efficacy endpoints were met while providing compelling evidence of the benign safety profile of Alpharadin. These new data confirm the key clinical benefits of Alpharadin treatment and continue to provide confidence in the potential of Alpharadin to become a first choice treatment for bone metastases in cancer patients.

Clinical development with Alpharadin in other cancer indications to commence

With Bayer committed to funding future clinical trials with Alpharadin to treat bone metastases, Algeta has advanced its preparations for additional clinical trials that aim to validate both potential label extensions for Alpharadin in metastatic prostate cancer and its use in treating bone metastases in breast cancer patients.

Phase I safety data, already collected from women with bone metastases from breast cancer, as part of the wider Alpharadin clinical program, was consistent with safety findings in men that Alpharadin has a benign side-effect profile. As a result, Algeta is planning to initiate a phase II study involving 20 breast cancer patients with bone metastases before the end of 2009.

In addition, Algeta is planning to initiate a phase I/II clinical trial with Alpharadin in combination with docetaxel chemotherapy in the first half of 2010.

Success in these new trials will extend the commercial potential of Alpharadin in bone metastases.

People

Dr. Gillies O'Bryan-Tear was appointed Chief Medical Officer on 24 July bringing more than 20 years' experience in senior roles managing and advising on the clinical development and registration of new drugs and vaccines. He has extensive development and clinical knowledge in oncology and has developed and successfully launched major oncology products. He has worked both as an independent consultant to and in-house for a number of leading biotechnology and pharmaceutical companies. He is the former Vice President of Global Clinical R&D at GlaxoSmithKline Biologicals, spent two years as Interim Medical Director for Genzyme UK, and was previously medical director in the UK and Northern Europe for Bristol-Myers Squibb.

Dr. O'Bryan-Tear had been Acting CMO for Algeta since March 2009 and has been a consultant to the Company on the clinical development of Alpharadin since 2004. He is a UK-trained physician who earned his M.D. at the Universities of Cambridge and London, and has an MBA from Cranfield School of Management.

At 30 September 2009, Algeta had 38 employees compared to 34 employees at the end of 2008.

Financial review

Profit and loss

The Group's operating expenses for the third quarter 2009 amounted to NOK 51 million and NOK 137 million for the first nine months of the year, compared with NOK 39 million in the third quarter 2008 and NOK 133 million for first nine months of 2008. R&D costs continue to be driven by patient recruitment and treatment in the ALSYMPCA phase III study. A large share of operating cost relate to the ALSYMPCA trial.

A substantial majority of Algeta's costs related to clinical trials will be paid by Bayer from 2010. A share of costs relating to chemistry, manufacturing and control (CMC) will also be covered by Bayer, starting in 2009.

Although the majority of the signing fee was received in the third quarter², the income will be deferred over 54 months, starting September 2009. Consequently income for the third quarter amounted to NOK 7 million, the majority of which representing the recognized share of the signing fee from Bayer.

Algeta's financial strategy encompasses currency matching. Most of the funds received as upfront payments in the third quarter will be kept as Euros to match future payments in that currency. Primarily due to currency fluctuations and unrealized change in the fair value of Euros held as cash and cash equivalents, net financial items was NOK -7 million in the third quarter.

The Group's income statement shows a net loss of NOK 51 million for the third quarter 2009 compared with a net loss of NOK 37 million for the same period in 2008.

Cash flow and balance sheet

Net cash flow from operations totalled NOK 266 million in the third quarter 2009 versus NOK -56 million in the third quarter 2008. The cash flow from operations was NOK 192 million in the first nine months of 2009, compared to NOK -125 million the same period in 2008. Net change in cash totalled NOK 264 million in the third quarter 2009 and NOK 425 million in the first nine months of 2009 compared to NOK -56 in the third quarter and NOK -127 million in the first nine months of 2008.

As of 30 September 2009, the Group had liquid funds in total of NOK 558 million, which are invested in bank deposits and money market funds. The Group had no debt.

The total number of outstanding shares as of 30 September 2009 was 39 351 082. The total number of granted share options as of 30 September was 1 736 459 (vested and unvested).

Financial Calendar 2010

Algeta plans to present quarterly results on the following dates in 2010:

- 19 February (fourth quarter 2009)
- 7 May (first quarter 2010)
- 13 August (second quarter 2010)
- 12 November (third quarter 2010)

The annual general meeting is planned for 22 April 2010.

² EUR 6.7 withholding tax will be received in 4Q09 or 1Q10.

Future prospects

The board is excited about the partnership with Bayer and the opportunity to expand the Alparadin clinical trial program to broader indications for the treatment of bone metastases.

The Company's strengthened financial resources from the Bayer deal and the successful fundraising earlier in 2009 together with reduced future costs for the development of Alparadin, will enable Algeta to accelerate development of its exciting alpha platform. Through selective investment in Thorium assets, for which the Company retains full ownership, Algeta will pursue the goal of bringing to market further targeted and potent alpha pharmaceuticals.

With the ongoing ALSYMPCA phase III program, it is expected that Algeta's costs level for 2009 will be higher than that of 2008.

Oslo, 12 November 2009

The Board of Directors and Chief Executive Officer
Algeta ASA

Stein H. Annexstad
Chairman of the Board

John Berriman
Deputy Chairman

Shahzad Malik
Board Member

Joe Anderson
Board Member

Inga M. Ulstein Loen
Board Member

Per Samuelsson
Board Member

Hilde H. Steineger
Board Member

Ingrid Wiik
Board Member

Andrew Kay
President and CEO

Algeta Group - Third quarter report 2009

Preliminary and unaudited

Condensed consolidated income statement

<i>(Amounts in NOK thousands except per share data)</i>	Notes	3rd quarter 2009	3rd quarter 2008	January-September 2009	2008	Full year 2008
Income	2	6,951	-	7,031	-	63
Total operating income		6,951	-	7,031	-	63
Payroll and related costs		13,646	9,183	33,168	25,454	32,809
Ordinary depreciation		542	456	1,531	1,375	1,851
Other expenses		36,573	29,618	101,832	106,239	150,916
Total operating expenses		50,762	39,257	136,531	133,067	185,576
Operating profit/(loss)		(43,810)	(39,257)	(129,500)	(133,067)	(185,513)
Financial income		1,978	2,099	7,218	8,687	12,229
Financial expenses		9,477	-	9,818	120	266
Net financial income/(loss)		(7,499)	2,099	(2,600)	8,567	11,963
Loss before income tax		(51,309)	(37,158)	(132,100)	(124,501)	(173,550)
Income tax expense		-	-	-	-	-
Loss for the period		(51,309)	(37,158)	(132,100)	(124,501)	(173,550)
Earnings per share						
- basic and diluted NOK		(1.30)	(2.25)	(4.01)	(7.54)	(10.51)

Condensed consolidated statement of comprehensive income¹⁾

<i>(Amounts in NOK thousands)</i>	3rd quarter 2009	3rd quarter 2008	January-September 2009	2008	Full year 2008
Loss for the period	(51,309)	(37,158)	(132,100)	(124,501)	(173,550)
Comprehensive loss for the period	(51,309)	(37,158)	(132,100)	(124,501)	(173,550)

1) In accordance with the revised IAS 1 as from 1 January 2009. See note 1 Accounting principles.

Condensed consolidated statement of financial position

	30 Sept. 2009	30 Sept. 2008	31 Dec. 2008
<i>(Amounts in NOK thousands)</i>			
ASSETS			
Non-current assets			
Property, plant and equipment	7,632	6,989	6,518
Total non-current assets	7,632	6,989	6,518
Current assets			
Other receivables	64,291	19,632	7,174
Cash & cash equivalents	557,689	153,899	132,932
Total current assets	621,980	173,531	140,106
TOTAL ASSETS	629,612	180,520	146,624
EQUITY AND LIABILITIES			
Equity			
Share capital	19,676	8,256	8,256
Additional paid-in-capital	694,359	467,988	467,439
Accumulated losses	(512,653)	(331,504)	(380,553)
Total equity	201,382	144,740	95,142
Liabilities			
Current liabilities			
Trade and other payables	428,230	35,780	51,482
Total current liabilities	428,230	35,780	51,482
TOTAL EQUITY AND LIABILITIES	629,612	180,520	146,624

Condensed consolidated statement of changes in equity

<i>(Amounts in NOK thousands)</i>	Share capital – ordinary shares	Additional paid in capital	Retained losses	Total
<u>At 31 December 2007</u>	8,253	464,620	(207,003)	265,870
Comprehensive loss for the period			(124,501)	(124,501)
Share-based compensation		3,283		3,283
Share issuance, employees	3	85		88
<u>At 30 September 2008</u>	8,256	467,988	(331,504)	144,740
<u>At 31 December 2008</u>	8,256	467,439	(380,553)	95,142
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/repair offering		(16,683)		(16,683)
Share issuance, employees	58	1,572		1,630
Share-based compensation		3,433		3,433
<u>At 30 September 2009</u>	19,676	694,359	(512,653)	201,382

Condensed consolidated statement of cash flow

Condensed consolidated statement of cash flow

<i>(Amounts in NOK thousands)</i>	3rd quarter 2009	3rd quarter 2008	January-September		Full year 2008
			2009	2008	
Profit/(loss) before income tax	(51,309)	(37,158)	(132,100)	(124,501)	(173,550)
Depreciation	542	456	1,531	1,375	1,851
Share-based compensation	1,618	1,109	3,433	3,283	2,734
Interest income	(1,978)	(1,860)	(7,218)	(8,557)	(11,986)
<i>Changes in assets and liabilities:</i>					
Other receivables ¹⁾	(56,845)	(4,423)	(50,043)	(6,243)	(2,102)
Trade and other payables ²⁾	373,640	(14,079)	376,748	9,220	24,921
Net cash used in operating activities	265,667	(55,955)	192,350	(125,424)	(158,132)
Cash flow from investing activities					
Purchases of property, plant and equipment (PPE)	(1,627)	(368)	(2,645)	(2,260)	(2,265)
Interest received	33	(92)	144	240	11,986
Net cash received in investing activities	(1,594)	(460)	(2,501)	(2,020)	9,721
Cash flow from financing activities					
Proceeds from issuance of shares	(0)	-	233,277	-	-
Proceeds from exercise of options	420	(0)	1,630	88	88
Net cash generated from financing activities	420	(0)	234,907	88	88
Net increase/(decrease) in cash and cash equivalents	264,495	(56,415)	424,757	(127,356)	(148,323)
Cash and cash equivalents at beginning of period	293,194	210,314	132,932	281,255	281,255
Cash and cash equivalents at end of period	557,689	153,899	557,689	153,899	132,932

1) TNOK 56,899 due to Bayer, related to withholding tax on upfront payments, not received in Q3

2) TNOK 362,069 due to deferred up-front payment from the Bayer agreement, representing 53 of 54 months income not yet recognized in P&L. See note 2 - Income

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 2008 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 2009 are described below. IAS 1 - Presentation of Financial Statements (revised) The Group has applied the revised IAS 1 with effect from 1 January 2009. According to the revised standard, the statement of changes in equity shall only show details on transactions with owners. Other transactions recognized directly in equity should be presented on a separate line in the statement of changes in equity. In the income statement, these transactions should be shown in a statement of comprehensive income according to IAS 1 under the income statement. Algeta Group has no changes in equity beside transactions with owners hence no transactions to show in the Comprehensive Income Statement.

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, which excludes value added tax, represents the fair value of consideration receivable in respect of goods and services supplied.

The Group's business strategy includes entering into collaborative license and development agreements with biotechnology and pharmaceutical companies for the development and commercialization of the Group's product candidates. The term of the Group'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 Group 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 Group is involved in a steering committee as part of a multiple element arrangement, the Group 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 Group 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 Group 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 Group 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 Group, and when the specific conditions stipulated in the license agreements have been satisfied.

Royalty revenue is to be recognized upon the sale of the related products, provided that the royalty amounts are reliably measurable; it is probable the benefits will be received, and the Group has no remaining obligations under the arrangement.

Note 2 - INCOME

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 million 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.

Amounts in NOK thousands	2009
	Jan-Sept
Signing and milestone income ¹⁾	6,831
Services	200
Total operating income	7,031

1) The total up-front payment of EUR 42.5 million is split into 4,5 years starting from September 2009. Deferred income at 30 September 2009 amounts to NOK 362 million

Note 3 - SHARE-BASED COMPENSATION

At the Annual General meeting in May 2009 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 2009:

	2009	
	Number of options	Weighted average exercise price (in NOK)
Outstanding on 1 January	1,353,222	19.33
Granted during the period ¹⁾	676,250	28.25
Terminated during the period	137,510	33.70
Exercised during the period ²⁾	115,791	17.95
Expired during the period	39,712	28.46
Outstanding at 30 September	1,736,459	21.81

1) Granted options for shares to key management of the Group during January-September 2009:

Name	Title	Granted Jan-Sep 2009	Outstanding 30.09.2009
Thomas Ramdahl	CTO	80,000	150,200
Øystein Soug	CFO	50,000	110,000
Roger C. Harrison	CBO	40,000	110,000
Ragnhild M. Løberg	VP Quality & Reg.	50,000	80,000
Kari Dyvik	VP Operations	50,000	65,003
Gillies O'Bryan-Tear	Chief Medical Officer (CMO)	300,000	300,000
Total		570,000	815,203

2) Thomas Ramdahl, CTO and a primary insider of Algeta ASA, has exercised 89,800 options in the company, corresponding to 89,800 shares at the strike price of NOK 12.50. Kari Grønås Dyvik, VP Operations and a primary insider of Algeta ASA, has exercised 14,997 options in the company, corresponding to 14,997 shares at the strike price of NOK 20.

Note 4 – PROPERTY, PLANT AND EQUIPMENT

During the nine-month period ended 30 September 2009; the Group invested NOK 2,6 million in property, plant and equipment, primarily equipment for research purposes.

Note 5 – SHARE CAPITAL

The following table shows the changes in number of outstanding shares in the nine-month period ended 30 September 2009:

	2009 Ordinary shares
Ordinary shares at 1 January	16 511 608
Share issuance - private placement	22 300 000
Share issuance - repair offering	423 683
Share issuance - employees	115 791
Ordinary shares at 30 September	39 351 082

In February 2009 Algeta had a highly successful Private Placement. The Private Placement took place through a book-building process and was managed by ABG Sundal Collier and DnB NOR Markets. The Private Placement was directed towards existing shareholders as well as selected new institutional and professional investors, and was led by Abingworth LLP, an international investment group dedicated exclusively to the life sciences and healthcare sectors.

The fundraising raised NOK 245 million for Algeta through the private placement of 22.3 million new shares at a price of NOK 11 per share. The Private Placement was approved by shareholders at EGM on 4 March 2009.

A subsequent repair offering to existing shareholders who did not participate in the private placement was open until 24 March. The fundraising raised NOK 4,7 million for Algeta through the repair offering of 423 683 new shares at a price of NOK 11 per share. The repair offering was approved by shareholders at EGM on 4 March 2009.