CEO’s statement

Dear Shareholders,

It gives me great pleasure to report that Algeta continued to make great progress across all its business activities during 2010, building on the tremendous successes of 2009. The Company is now well positioned to deliver on its vision of becoming a world-class cancer company developing and commercializing novel therapies.

Algeta’s strategy to build value for its shareholders and other stakeholders is based on the following key elements:

- Bring our lead product Alpharadin® to market for the treatment of bone metastases in cancer patients as quickly as possible, working closely with our partner Bayer Schering Pharma (Bayer) to complete the clinical development program and to determine the optimal development, manufacturing and commercialization strategy for this exciting new product (pending positive ALSYMPCA phase III results and relevant marketing authorizations)

- Secure the manufacturing capacity necessary to meet the expected commercial demand for Alpharadin® worldwide on launch, by expanding our commercial manufacturing facility at the Institute of Energy Technology (IFE) in Oslo Norway

- Build a successful US commercial operation ahead of the launch of Alpharadin® so that Algeta can share directly in Alpharadin®’s potential success in the world’s largest pharmaceutical market

- Develop the Thorium platform with the aim of building additional product opportunities based on its alpha-pharmaceutical platform and its targeted therapeutic approach for the treatment of cancer

We believe the Company is well positioned to execute this strategy based on the strong clinical and scientific evidence that alpha-pharmaceuticals offer the potential benefits of potent and highly localized destruction of cancer cells with a favorable safety profile. Algeta is a world leader in alpha-pharmaceutical technologies and has established a management and development team with significant experience in developing this new generation of cancer therapeutics.

The company is also on a sound financial footing, with NOK 479m in the bank at 2010 year end, Bayer funding the majority of costs for the clinical development program with Alpharadin®, and the potential of significant further payments on achieving key regulatory, sales and clinical milestones with Alpharadin®.

PHASE III ALSYMPCA TRIAL COMPLETES RECRUITMENT

Perhaps the most important achievement for Algeta in 2010 was to complete enrolment of the targeted 900 patients into its ALSYMPCA phase III clinical study on schedule. This milestone was met during the first week of January 2011, which is a fantastic achievement by our clinical and development teams, and the investigators and our partners.

ALSYMPCA is a global phase III clinical trial evaluating Alpharadin®, our lead alpha-pharmaceutical candidate, as a potential new treatment for bone metastases in patients with castration-resistant prostate cancer (CRPC). The primary efficacy endpoint is overall survival.

Top-line results from this trial are eagerly anticipated during 2012 and these, if positive, could allow our partner Bayer to make the first regulatory filing for Alpharadin® in this indication in 2012.

In September 2009, Algeta and Bayer entered into a USD 800m development and global commercialization agreement for Alpharadin®, which provides Algeta with an option to co-promote Alpharadin® in the USA. It is the Company’s intention, pending positive results in ALSYMPCA, to exercise this option and establish a fully operational US marketing and sales
force for the launch of Alpharadin®, milestone payments from Bayer, based on the successful development of Alpharadin®, will fund Algeta’s growth in the USA.

THE WIDER POTENTIAL OF ALPHARADIN®

Algeta and Bayer see major clinical and commercial opportunities for Alpharadin® and have been positioning it as a first-choice treatment specifically for bone metastases in cancer patients. This positioning sets Alpharadin® apart from other cancer therapies currently on the market or in late-stage development, the majority of which focus earlier in the disease.

Bone metastases occur frequently in the later stages of certain major cancers. They are a serious development for many cancer patients and are associated with a dramatic decline in health and quality of life, ultimately leading to death. Effective treatment of bone metastases is a major unmet medical need.

Algeta’s initial focus is on treating bone metastases in CRPC patients. Up to 90% of prostate cancer patients will develop painful bone metastases as their disease progresses, while other major cancers, such as breast, lung and kidney, also spread to the bone with lower but still significant incidence. Algeta intends to target multiple bone metastases markets as each represents a large sales opportunity.

During 2010, we have initiated two new clinical studies designed to validate potential label extensions for Alpharadin®. In addition, a phase I/IIa trial evaluating the potential for Alpharadin®, to be used in combination with docetaxel chemotherapy in CRPC patients with bone metastases began mid year. This trial is designed initially to generate important safety data for use in our initial regulatory filing for Alpharadin®, anticipated in the second half of 2012.

MANUFACTURING CAPABILITY

During 2010 we signed manufacturing agreements with Bayer and IFE which triggered a EUR 5 m payment from Bayer. Algeta has responsibility for the exclusive worldwide supply of Alpharadin®, and with our partner IFE we have begun building a new state-of-the-art commercial manufacturing facility, which will be completed during 2012.

NEW OPPORTUNITIES FOR ALPHA-PHARMACEUTICALS

An important long-term objective for Algeta is to develop a pipeline of new, targeted cancer treatments behind Alpharadin®. As part of this objective we intend to leverage our world-leading expertise and intellectual property around alpha-pharmaceuticals, and we see our Thorium platform as an increasingly exciting area.

Current top-selling cancer drugs are based on ‘naked’ monoclonal antibodies; however, there is an emerging trend that next-generation products will require cancer-killing payloads to maximize the effectiveness of therapy. We believe that by applying our Thorium platform to link the alpha-emitter thorium-227 to tumor-targeting molecules, we can develop a new class of highly targeted alpha-pharmaceuticals that potentially offer unique clinical benefits such as potent and localized tumor cell killing, minimal toxicity and the potential to evade drug-resistance mechanisms.

This work is at an early preclinical feasibility stage, however, in 2010 we made good progress in enabling our Thorium platform. We are very pleased to have entered into an exclusive option agreement with the US-based firm Lumiphore Inc. to evaluate the potential of its Lumi4® chelator technology. We are also delighted to welcome Dr. Lars Abrahmsén to the Company in the new role of Senior Vice President, Protein Therapeutics, with responsibility to advance the development of our Thorium platform.

LOOKING FORWARD

2011 promises to be another important year for Algeta, during which we will be focused on delivering multiple corporate and development milestones to create further shareholder value. We strongly believe that Algeta can become a successful world-class cancer company based on its novel, targeted alpha-pharmaceuticals, and we believe we are well positioned to achieve this.

I would like to acknowledge the contributions of the staff whose skills, experience, commitment and dedication have enabled us to deliver these important milestones.

I would also like to thank our clinical investigators across 19 countries and the patients who have participated in Algeta’s clinical trials. Finally, I should like to take the opportunity to thank our loyal shareholders for their ongoing support and encouragement.

Andrew Kay
President & Chief Executive Officer