TAKING THE STEP FROM RESEARCH TO COMMERCIALISATION

Dr. Erik Christensen (50), DiaGenic’s Chief Executive Officer, has a very important task: to establish relationships between DiaGenic and industrial partners and get the company’s products for the diagnosis of breast cancer and Alzheimer’s disease into the market. “My vision is for DiaGenic to become a company in the forefront of diagnostics. Our patents provide a basis for a number of products,” explains Christensen, who took up the position on 1 January 2007.

STRUCTURE THE COMPANY
Christensen qualified as a doctor at Odense University in Denmark, and worked from 1983 to 1996 in Norwegian hospitals. After completing a PhD in 1991 he was approved by the Norwegian Medical Association as a specialist in clinical chemistry. He continued his academic career until 1996 culminating in the position of head of the Clinical Chemistry department at Lillebø University Hospital in Oslo. After this he began to work for Abbott Norge, and in 2001 became head of the American company’s Norwegian diagnostics business.

“I joined from a company where the infrastructure was in place. In DiaGenic much of it has to be set up. I was also used to working with an established customer base. Here it has to be developed.

“At the same time it is important to point out that the existing staff has carried out an extensive amount of research in the company’s nine-year history, and DiaGenic now has validated product prototypes for Alzheimer’s disease and breast cancer. This provides the basis for commercialisation.”

PRODUCT LAUNCH
The shareholders in DiaGenic are now waiting for news of product launches, the form they will take and possible partners. Christensen explains that the company is working along several axes and is pragmatic: CE-marking is to be obtained in Europe and, subsequently, approval from the American Food and Drug Administration (FDA) as well.

“We are working towards a launch in the first half of 2008. It will probably be in a market that is less regulated than the USA and Europe, but of course we will not lower our quality standards for this reason. We are working in parallel with both products and evaluating several alternative routes to the market.”

Christensen believes it should be possible to obtain approval for the European market in the second half of 2008. CE marking will then provide the foundation for subsequent FDA approval.

Previously there was considerable uncertainty over how the FDA viewed a diagnostic product with technology similar to DiaGenic’s. As the FDA has recently approved MammaPrint® from the Dutch company Agendia the uncertainty has now been reduced, and shows both potential partners and small biotech companies that it is possible to obtain the authorities’ approval. Agendia obtained CE-marking about 18 months before the FDA approval, and this is an approach that suits our strategy,” comments Christensen.

LIMITATIONS IN EXISTING TESTS
20 million people have Alzheimer’s disease today and according to the Alzheimer’s Association the figure is expected to double by 2030 due to the world’s ageing population. Effective treatment of the disease requires early diagnosis, which is currently resource demanding. Patients must be followed up periodically with neuropsychological tests and MRI-scans.

“The result is that many people are given medicines without a diagnosis. Some may also be given medicines without having the disease. Another challenge is that it is important to reach a diagnosis as early as possible because current medicines cannot reverse the process, only stabilise. There are now 14 new medicines in the final stages of trials that are expected to be followed by increased marketing and awareness of the disease. The effectiveness of the new medicines will be dependent on an early diagnosis.

With breast cancer the issue is a little different, says Christensen.

“Here DiaGenic’s test will serve two roles. First it will increase the accuracy of mammography, as there will be fewer incorrect diagnoses, both false negatives and false positives. Secondly, for various reasons, the number of women attending mammography checks is falling in the US. A blood sample test taken at the doctors is much simpler and would provide an early diagnosis for women who do not have a mammography.

“A common feature of both our tests is that they give, in a simple manner, an early and correct diagnosis, which permits the right treatment of the right patients. This is also more cost-efficient and reduces the overall cost for the health service. It also gives larger numbers of people and patients a better quality of life,” concludes DiaGenic’s Chief Executive.

“Both the pharmaceuticals and diagnostics sectors are suffering from a shortage of new products. Due to complex quality and internal processes it is very expensive to develop products. They can always acquire the fundamental technology but they are dependent on external analyses and patents.

In simple terms the majors have the hardware but lack the software. At the same time the small companies are completely dependent on the large ones to obtain broad market access. This functions as a symbiosis.”

INTERVIEW WITH ERIK CHRISTENSEN

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DEVELOPMENT OF DIAGNOSTIC PRODUCTS
DiaGenic seeks to work together with industrial companies on the development of tests for different diseases. There are a number of phases in product development, from exploratory research (the discovery phase) through to the final approved products for sale. DiaGenic will still focus on its core expertise, which is in the early stage of the value chain, while certain regulatory matters and sales and marketing can advantageously be provided in cooperation with partners.

DiaGenic will in any case further develop the prototypes with a view to a limited launch in selected countries, together with the preparation of the necessary documentation for launch in Europe. This strategy will build value in the firm and accelerate the commercialisation of the products.

DiaGenic also sees opportunities for a differentiated strategy for different product candidates within various geographic areas, which will involve a high degree of flexibility with regard to the choice of partners. The patent portfolio is being further developed with a view to obtaining the best possible commercial value for the intangible rights, based on the studies and development work taking place in DiaGenic.

TECHNOLOGY
DiaGenic's technology is based on the knowledge that a localised disease that is located in one part of the body will also give secondary characteristic responses in other parts of the body. These responses can be measured in normal blood samples where the blood cells form a disease-specific gene signature. At a very early stage DiaGenic showed through studies that this was possible and patented the concept as early as 1997. DiaGenic since then has been one of the innovators in the use of gene expression for diagnostic purposes, while the established industry, represented by the IVD companies, has been slow in taking such methods into use. During the last two years a large number of articles have been published which confirm the concept. This acceptance of the concept has now contributed to DiaGenic recently attracting considerable interest from several partner candidates with a view to cooperation.

Changes in gene activity in selected genes are measured using gene expression technology. Several major international companies have devoted considerable resources to the development of technologies for measuring changes in gene activity. For DiaGenic this means that the company has been able to move from development work at its own laboratory to using commercially available, quality assured and robust platforms that other companies have developed. DiaGenic has thereby concentrated its efforts on identifying genes and gene expression patterns that are characteristic for defined diseases.

Further development of the relevant platforms to obtain the industrial properties that are necessary for commercial diagnostic use on a large scale will also be carried out by the international platform suppliers. This means that DiaGenic will have limited costs on product development compared with companies that also develop hardware.

FUGE
DiaGenic has now been awarded funds on two occasions from the FUGE programme of the Norwegian Research Council for development projects within breast cancer and Alzheimer's disease. A total of NOK 19 million has been approved for the period 2004 - 2008. The criteria that have been used by the expert panel include project quality, degree of innovation, research content, and economic and socio-economic value.

BREAST CANCER
A total of NOK 9.2 million was awarded in 2003 for the period 2004-2007. The project’s goal is to develop a stable and robust method for the early identification of breast cancer using gene expression technology and peripheral blood as sample material. This is being carried out by identifying the most suitable gene expression platform and developing and integrating the most appropriate statistical methods. The Norwegian Radium Hospital and the Norwegian University of Life Sciences ("UMB") are the main partners. The Norwegian Radium Hospital through its Department for Genetics, led by Professor Anne-Lise Børresen-Dale, contributes to the testing of different platforms, as well as the biological analysis of sample material. UMB, through the Institute for Chemistry, Biotechnology and Food Science, headed by Professor Are Aastveit, contributes the university’s extensive experience in connection with the development and application of statistical methods for measuring gene activity.

This project was awarded NOK 9.8 million in 2006 for the project period 2006 - 2008. The objective is to develop a blood-based gene expression test for Alzheimer’s disease. The partners are UMB on statistics and bio-informatics together with several Norwegian hospitals.

The hospitals will contribute to the collection of sample material and provide medical guidance. Patients and controls are now included in the project.

PATENTS
DiaGenic has an active patent strategy and is seeking to build up a patent portfolio which provides good protection of products within diagnostics using gene expression analysis from blood samples. Patents generally have a lifetime of 20 years from the date of application. DiaGenic today has three patent families, where the first has priority from 1997 (Europe) and 1998 (USA). The first applications in patent family no. 1 have been approved in Europe and the USA. In 2006 the first application in patent family no. 2 was approved. DiaGenic has several applications pending with the patent authorities in the most important markets for the company's future products. The latest patent applications are from 2005, and in 2007 patent applications will be submitted to protect the validated prototypes. The portfolio of patents is being presented to relevant partner candidates and is expected to make DiaGenic an attractive partner for a long period since commercial agreements are typically entered into for the lifetime of the patents.

Applied for and granted patents provide a good basis for protection of future revenues, not only for the two ongoing development projects, but also other possible areas of application. The patent portfolio, together with validated prototypes and other research results that have been obtained, are used in marketing towards possible industrial partners with a view to entering into commercial agreements.
ANNUAL REPORT

ABOUT DIAGENIC

MARKET
DiaGenic's method is general and can be further developed for use in the diagnosis of many serious diseases. Based on commercial potential and medical need, DiaGenic’s main focus has been on the development of products for the diagnosis of breast cancer and Alzheimer’s disease.

ALZHEIMER’S DISEASE
Alzheimer’s disease is a chronic neurological disease of the brain. In most instances the disease occurs in people above the age of 50. It is estimated that between five and seven per cent of all those over 65 have the disease or another form of dementia. Alzheimer’s disease is the most common form of dementia. Society devotes considerable sums to these patients who are unable to care for themselves. As an example, around 16% of the USA’s health budget, or USD 113 billion, is devoted to the care and medication of this patient group. Due to the substantial growth in this age group, expenditure on Alzheimer’s disease will increase considerably in the coming years. There is a large number of new drugs under development, and new treatment methods are expected to be approved within 1-2 years. Early diagnosis of the disease will be essential for the effect of new drugs, and could significantly reduce the costs for society. For the individual patient early and correct treatment could provide considerable benefits in the form of several years of normal life and continued cognitive capacity.

Today, diagnosis of the disease is very difficult and complicated and cannot be confirmed with certainty until after the patient has died with a biopsy. Diagnostic methods such as questionnaires, neuro-psychiatric tests, pictures of the brain and samples of spinal fluid are used. With most of these methods the results must be interpreted by a specialist, and the diagnosis is thus expensive. Even with current specialist investigations, diagnostic accuracy is significantly lower than desired and particularly in early phases of the disease when the treatment gain is the greatest. Already today clinicians have a great need for better and simpler methods of diagnosis in order to be able to prescribe relevant medicines and practical arrangements for the patient. DiaGenic therefore believes there is large market potential for a diagnostic product for Alzheimer’s disease.

REGULATORY
In the main markets (Europe and the USA) in vitro diagnostic (IVD) products require the approval of the authorities to be sold. In accordance with the company’s strategy, DiaGenic will prepare the documentation that is necessary for registration in the individual markets, as well as undertake parts of the registration process in cooperation with a partner. A process has commenced with a view to approval of the first products in Europe through CE marking. This documentation is expected to provide a good foundation for applications for FDA approvals in the USA as well.

BOARD AND MANAGEMENT
DiaGenic has an efficient organisation with fourteen employees with expertise within the areas medicine, medical diagnostics, biochemistry, molecular biology, bioinformatics and patents, as well as marketing and finance. In addition to the employees, several specialists have been engaged through partly government financed projects (FUGE).

The company has established cooperation arrangements with leading international expertise in medicine, diagnostics, clinical trials and administrative areas. During 2006 Scientific Advisory Boards have been established for both Alzheimer’s disease and breast cancer.

The company’s Board contributes to further strengthening DiaGenic’s total know-how through its considerable experience and expertise. Areas which are covered by the Board include industrial diagnostic business, biotechnology and the pharmaceutical industry, laboratory operations and finance.

FINANCIAL POSITION
DiaGenic is listed on the Oslo Stock Exchange and the shareholders includes Nordic institutional investors. The financing of DiaGenic’s operations has been in the form of equity and government funding. The company has not yet achieved sufficient revenues to cover costs and thus generate a positive cash flow from operations. Therefore DiaGenic has been committed to develop the company as an attractive investment for both Norwegian and international investors so that financial freedom of manoeuvre can be secured. The list of shareholders now has a substantial number of Nordic institutional investors.

Since the stocklisting (2004) the company has performed three private placements of shares, providing a total of NOK 80 mill in a new equity. The latest share issues NOK 25 mill took place on May 2nd 2007.

ABOUT DIAGENIC

BREAST CANCER
Around 1 million cases of breast cancer are diagnosed worldwide each year. Breast cancer is the most commonly found form of cancer among women. The disease is most widespread in Western countries which devote considerable sums of money to screening healthy women and the treatment and care of breast cancer patients.

The need to carry out breast cancer diagnosis is present in all stages of the disease. The diagnostic methods that are used vary, but all have clear limitations. Mammography which is used in mass screening and diagnosis has serious weaknesses, including identifying small tumours, distinguishing between malignant and benign tumours, and being poorly suited to detect breast cancer among younger women. A large proportion of the women who are diagnosed with a suspect finding in the mammogram do not have cancer, but are nevertheless called in for further investigation because the mammogram does not give a clear answer. It has been shown in the Norwegian mass screening programme that only 16 out of 100 women who have been notified of a suspect mammogram actually had cancer. The method DiaGenic is developing uses blood as a sample material and has the potential to identify cancer early and to distinguish between benign tumours and cancer. The method is first being launched as a supplement to mammography in order to secure correct diagnosis and thus more patient-friendly and cost-efficient follow-up.

In the longer term mass screening represents a very interesting market since the diagnosis of breast cancer using a blood sample makes the method potentially suitable for screening. Approval of the method for such use will however require several years of documentation from diagnostic use.
HIGHLIGHTS OF 2006

JANUARY
Award of NOK 9.76 million FUGE grant by the Norwegian Research Council, for the Alzheimer’s disease project.

FEBRUARY
DiaGenic ASA presented at the conference ‘Sweden Bio’ in Stockholm.

MARCH
Share offering of NOK 33 million completed with DnB NOR Markets and ABG Sundal Collier as managers.

Presentation of research results at the American Association for Cancer Research (AACR) conference in Washington, DC. The poster was chosen by AACR as one of four especially relevant in the early diagnosis of cancer.

APRIL
Presentation at the International Conference on Alzheimer’s Disease and Related Disorders (ICAD) in Madrid, Spain. Completion of the discovery phase for the first product candidate. Gene signature can be transferred from a microarray to a Real Time PCR-based platform TaqMan®.

Presentation at the International Conference on Alzheimer’s Disease and Related Disorders (ICAD) in Madrid, Spain. Completion of the discovery phase for the first product candidate. Gene signature can be transferred from a microarray to a Real Time PCR-based platform TaqMan®.

MAY
Presentation of research results at the American Association for Cancer Research (AACR) conference in Washington, DC. The poster was chosen by AACR as one of four especially relevant in the early diagnosis of cancer.

JULY
Dr. Erik Christensen, head of the diagnostic division in Abbott Norway, appointed as Chief Executive Officer from 1 January 2007.

Presentation at the European Association for Cancer Research (EACR) conference in Lisbon, Portugal.

Presentation of poster at IPA (International Psychogeriatric Association) Conference in Budapest, Hungary.

Presentation at the European Association for Cancer Research (EACR) conference in Lisbon, Portugal.

Presentation at the International Conference on Alzheimer’s Disease and Related Disorders (ICAD) in Madrid, Spain. Completion of the discovery phase for the first product candidate. Gene signature can be transferred from a microarray to a Real Time PCR-based platform TaqMan®.

SEPTEMBER
Completion of the discovery phase for the product candidate for the diagnosis of breast cancer.

International experts on breast cancer to Scientific Advisory Board.

NOVEMBER
International experts on breast cancer to Scientific Advisory Board.

Presentation of research results at the American Association for Cancer Research (AACR) conference in Washington, DC. The poster was chosen by AACR as one of four especially relevant in the early diagnosis of cancer.

DECEMBER
Studies for validation of prototypes for Alzheimer’s disease and breast cancer completed on TaqMan® in the company’s own laboratory and on CodeLink Custom Bioarrays® at Scienion AG in Berlin, Germany.
The company is communicating the results obtained with regard to accuracy and quality to both the scientific community and relevant industrial partner candidates. The company is one of the leaders in the use of gene expression profiling for the diagnosis of disease using easily available blood samples. The strategy is to combine modern array based technology and the easy accessibility of blood samples to establish a central position in the market for molecular diagnostics. DiaGenic has received the 2007 Entrepreneurial Company of the Year Award from the analytical company Frost & Sullivan, a prize that documents the company’s ground-breaking work in this field. The prize represents recognition of the ongoing work on product development and confirms that the diagnostic applications under development represent considerable market potential.

With validated customized arrays for the diagnosis of breast cancer and Alzheimer’s disease, the company has reached the main targets with regard to product development that were communicated in the annual reports for 2004 and 2005. The customized arrays have been developed on both a Real Time PCR based platform - TaqMan® from Applied Biosystems and the micro array platform Codelink Custom Bioarrays® from GE Healthcare. Good accuracy has been obtained for both product candidates. The goal of using a maximum of 96 genes for the Real Time PCR based platform, has also been met for both prototypes.

Development of customized arrays for the diagnosis of breast cancer and Alzheimer’s disease represent important milestones. Future product development from prototypes to CE marking and furthermore clinical studies is expected to lead to a considerable increase in the number of cases of dementia in the coming years. In the case of breast cancer it has been shown that there are large market segments where limitation of mammography are opening opportunities for new products. In this case the use of blood samples can complement mammography.

Based on the increasing greater interest in the development of early diagnosis, it is now possible to be more specific with regard to market sizes and estimate the annual demand in the respective segments. Calculations presented in connection with the company’s report for the fourth quarter of 2006 show that the likely number of annual tests within the selected segments represents attractive market sizes.

The existing IVD market within molecular biological tests is characterised by products for the diagnosis of infectious diseases and inherited genetic conditions. Analysts expect that the growing market for molecular diagnosis will include products for, among others, the diagnosis of cancer. The much discussed trends “Personalized medicine” (tailored medical treatment) and “Theranostics” (the combination of treatment and diagnosis) have progressed further during 2006 and confirm the central position of molecular diagnostics in the modern treatment regime. Molecular biological diagnostics is one of the fastest growing areas within the In Vitro Diagnostics (IVD) market, and it will be essential for maintaining strong growth that good diagnostic tests are developed and commercialised.

DiaGenic’s applications will be well suited to meet the challenges in this market.
An analysis of the markets for the first two product candidates. Alzheimer’s disease and breast cancer has identified alternative routes for launching products in different geographic regions. DiaGenic is planning to build further on the first products for the research market, “Research use only,” in order to develop a product that can be sold in selected geographic areas. At the same time, work will continue with documentation in the form of clinical studies that are necessary in several countries for approval by the authorities. The first geographic area for such approval will be Europe through a CE marking of the products. CE marking will also form a basis for approval in other regions. The company will handle the documentation for such approval in Europe without support from commercial partners. With the approval by the FDA of Mammprint® it has been demonstrated that a future FDA approval can be based on documentation for the European approval. With such a phased strategy, the company will be able to build values internally in 2007, at the same time as work on establishing partner agreements can be continued with increased effort.

DiaGenic’s commercial strategy is based on the company’s own patent rights. DiaGenic is in the process of building up an attractive portfolio of international patents for the diagnosis of diseases using gene expression patterns. The concept of using samples from peripheral blood and not tissue samples taken directly from the site of the disease occupies a central position in the company’s patenting strategy. The active patent strategy is continuing with extensions of patents and new patent applications. In 2007 the company is planning, among other things, patent applications on the basis of the two validated product prototypes.

In 2006 such cooperation was formalised through the establishment of Scientific Advisory Boards for both Alzheimer’s disease and breast cancer. In addition, several scientific advisors and bioinformatic specialists have been engaged through the partners in the two FUGE projects.

The company does not pollute the external environment.

The company has used shares to a certain extent to incentivise and retain staff and Board members. All such incentive schemes are based on exercise prices not being lower than the market price at the time of the award.

In connection with the appointment of the Chief Executive, the company’s General Meeting approved a placing under which Erik Christensen subscribed for 80,000 shares at the market price of NOK 6.22, which was the closing price on the date of his appointment. In addition, Christensen was awarded a total of 0.5 million options (approximately 1.25% of the outstanding shares in the company). The option rights will be established over a period of four years.

In the autumn of 2006 the General Meeting also approved an incentive programme for other employees in the form of up to 840,000 options reserved for all employees in the company with the exception of the two founders and the Chairman of the Board. The award of options is made by the Board. It has been decided to award each employee in DiaGenic ASA options to subscribe up to 40,000 shares. Options above this figure have been awarded to the Marketing Director with a total of up to 200,000 options and four project/department heads with up to 100,000 options each, and may be further awarded by the Board on terms set by it.

Shares were subscribed in 2006 under the company’s previous option programme which, together with the share subscription by the CEO, raised a total of approximately NOK 1.8 million in new equity for the company.

The company’s General Meeting has also approved an option scheme for Board members, and in this connection the Board has the right to subscribe up to a total of 850,000 shares at a price of NOK 8 per share.

CORPORATE GOVERNANCE

The core of the company’s corporate governance policy is equal treatment of all shareholders. The company has only one class of shares and all shareholders have equal rights. The company’s shares are listed and freely transferable. The company is listed and will thus meet the requirements for equal treatment, openness and reporting of both financial and other information.

DiaGenic has not appointed an election committee due to the company’s size and the relatively transparent shareholder structure. The company is considering on an ongoing basis the introduction of an election committee and will, when appropriate, propose that the Articles are amended to establish such an arrangement.

DiaGenic does not have a corporate assembly due to the limited size of the company and the small number of employees. The functions of the corporate assembly have been transferred to the General Meeting and Board.

The Board is elected by the General Meeting and has been composed with a view to covering as well as possible the interests of all shareholders and the company’s need for expertise and capacity. The Board members have backgrounds within the professional areas of finance, molecular biology, chemistry and physiology, as well as experience from listed companies and the commercialisation of products in the health sector, and within diagnostics, biotechnology and pharmaceuticals. The Board is elected for only one year at a time and Board members may be re-elected. The Chief Executive is not a member of the Board.

The Board has six members, with an equal number of women and men. The Board is composed of individuals who have both the commitment and capacity to work together. Four of the six Board members are considered to be independent of the company’s management, important commercial relationships and the company’s main shareholders. A high proportion of independent Board members ensure that the Board does not act as individual representatives of certain shareholders or other interest groups. The Board is able to evaluate the management and important agreements entered into by the company on an independent basis.

ORGANISATION, STAFF AND MANAGEMENT

In the autumn of 2006 DiaGenic moved to new, modern premises at Helsfyr in Oslo. The premises include both offices and a laboratory and are flexible with regard to adapting to future requirements.

During 2006 major changes have taken place in the organisation. The company has now completed the discovery phase for the first two product candidates and has entered the product development phase. In this connection it has sought individual interactions with industrial experience to manage the company in this new phase.

In the autumn of 2006 DiaGenic announced that, MD PhD Erik Christensen had been appointed Chief Executive Officer. He joined from the position of Country Manager for the Diagnostics Division of Abbott Norway and took up his position at the year-end. During 2006 project managers with broad industrial experience were appointed to head the development of the products for Alzheimer’s disease and breast cancer, respectively.

The company’s founders still have leading positions in the company.

Five of the company’s fourteen employees are women, and one of these is a project manager. Three of the six Board members are women.

DiaGenic has a policy of providing equal opportunities to women and men. The company considers that variety in terms of education, experience, gender and nationality/ethnic background is positive for the development of a creative environment.

The working environment in the company is considered to be good. There were no accidents or injuries recorded in 2006. Sick leave in 2006 was 1.4 % of hours worked.

In addition to the staff employed in the company, several consultants have been engaged and services within finance, accounting, law and patenting are purchased from external advisors.

The company has established cooperation arrangements with several internationally renowned scientific advisors.
The Board is considered to have sufficient qualifications to take care of the interests of all shareholders by undertaking independent assessments of management’s conduct of the company’s business and to ensure that management does not become too dominant in relation to other shareholders. The Board considers that the Deputy Chairman may act when the Chairman is unable or it is not appropriate for him to chair the Board’s work. This is particularly relevant since the Chairman of the Board participates in the management of the company.

The Board has not made use of formal board committees but has used a group of the Board’s experts, for example in connection with strategic assessments and the evaluation of company-critical agreements. Financial reporting and remuneration of senior management has been subject to thorough and independent consideration without the use of board committees, so that cases are considered by the whole Board.

An annual plan has been established for the Board’s work. The Board has adopted instructions for its work, as well as for senior management. The instructions contain a breakdown of responsibilities and functions in important business areas. The Board ensures that the business is organised in a proper manner and that plans and budgets are prepared for the company’s work.

DiaGenic has developed procedures for internal control for the entire business. As the business has changed over time from previously undertaking pure research to product development and more market-oriented activities, the need for procedures and guidelines has increased. Now with the transition to product development, the requirements for risk management and internal controls will be evaluated by management and the Board with a view to preparing a new set of appropriate systems. The Board receives monthly status reports from the Chief Executive Officer.

The company purchases services for financial reporting from external suppliers.

As a listed company, there is a special responsibility in connection with the requirements imposed regarding insider rules, the flow of information and share trading. DiaGenic has guidelines that ensure that Board members, senior management and other insiders follow the relevant laws and rules with regard to insider trading in the company’s shares.

See further the section on Corporate Governance in this annual report.

SHARE CAPITAL AND SHAREHOLDERS

In 2004 DiaGenic merged with the listed company Mefjorden ASA. The company applied for and obtained approval to the maintenance of the listing for the merged company. The company’s shares were first listed on the Oslo Stock Exchange on 27 August 2004. At the end of 2006 the company had 1,543 shareholders, which is more than double the number at the time of listing in 2004. On 16 March 2006 the company made a share placing, managed by DnB NORD Markets and ABG Sundal Collier. 3.5 million new shares were issued at a price of NOK 9.50, which gave gross issue proceeds of NOK 33.25 million.

Trading in the company’s shares from listing until March 2005 was limited. During 2005 the share was one of the most liquid health sector shares on the Oslo Stock Exchange. During 2006 liquidity has fluctuated more. The company has signed a market-making agreement with a broking firm and has thereby secured listing on the Oslo Stock Exchange’s second most liquid list “OB Match”.

The company gives priority to further work on investor relations and is endeavouring to increase familiarity with the share in both Norway and abroad. The shareholder list has significant representation from Nordic institutional investors.

With the company’s current cost levels, it is financed for a period of less than one year. Against this background, the Board has obtained an authorisation from the General Meeting to undertake an issue to strengthen the company’s equity capital. Detailed work is under way on such an issue.

The Board confirms on this basis that the going concern assumption has been satisfied and that the annual accounts have been presented on this basis.

FINANCE

DiaGenic had NOK 60,000 in operating income in 2006 against NOK 105,000 in 2005. Government grants are posted net in the accounts. In 2006 government grants totalled NOK 6,337,000 against NOK 3,552,000 in 2005. In 2006 government grants consisted of NOK 3,454,000 in Skattefunn funds and NOK 4,883,000 from the Research Council’s FUGE funds.

Net operating costs in 2006 were NOK 23,373,000 against NOK 24,655,000 in 2005. The change in costs is affected by option costs that in 2005 amounted to NOK 6,422,000. Corresponding option costs in 2006 were NOK 284,000. Adjusted for option costs, operating costs increased by 27 % from 2005 to 2006. Correspondingly, salaries and personnel costs increased by 13 % in the period.

“Other operating costs” were 35 % higher in 2006 than in 2005. Considerable costs have been incurred in the development of the prototypes in the second half of 2006. Consumables for running on the TaqMan® based technology platform, runs at external laboratories, as well as other laboratory costs amounted to NOK 3.9 million in 2006, against NOK 2.5 million in 2005. In addition, substantial resources have been used in obtaining agreements with hospitals and CROs (“Contract Research Organisations”) in Norway and other countries in order to secure the necessary samples. This, together with greater activity towards partners, has led to an increase in marketing and travel costs.

Good liquidity has led to a more than doubling in net financial income, from NOK 257,000 in 2005 to NOK 612,000 in 2006.

Short-term debt at 31 December 2006 was NOK 6,193,000 against NOK 3,223,000 at 31 December 2005. The company has leased two robots with an aggregate value of approximately NOK 1.7 million. The leasing agreements have been classified as leasing and have thus been capitalised and will be depreciated on a straight-line basis over their expected lifetime. The leasing liability has been entered under long-term debt in the balance in an amount of NOK 1,670,000.

Liquid assets are placed with banks and amounted at 31 December 2006 to NOK 25,568,000 against NOK 13,428,000 at the corresponding date one year earlier.

Equity capital as at 31 December 2006 stood at NOK 24,268,000 against NOK 13,615,000 as at 31 December 2005. The placing carried out in March raised net proceeds of NOK 33.3 million. In addition, the subscription of shares in connection with the employee programme has raised equity of NOK 1.8 million.

The company had no free equity as at 31.12.2006. It is proposed that the loss for the year of NOK 22,701,000 is covered by a transfer from paid-in other equity and from the share premium reserve.

In the opinion of the Board, the annual accounts provide an accurate picture of the company’s assets and liabilities, financial position and results.

No events have occurred other than those described in this report that are material to an assessment of the company’s financial position.
2007: A YEAR SEEKING PARTNERS AND PREPARING DOCUMENTATION FOR SUBSEQUENT REGULATORY APPROVALS.

OUTLOOK

In 2007 DiaGenic will carry out both major clinical studies and technical documentation of the prototypes necessary for obtaining later approval from the authorities.

DiaGenic also plans during 2007 to develop at least one research product. Such products are based on prototypes that have already been developed and will form the basis for independent clinical studies, for example in the case of pharmaceutical trials. These studies will further reinforce the documentation of our products.

Studies will also be carried out with a view to the first product launch in selected markets. Such a product launch is also expected to be able to provide important documentation for use in connection with approval from the authorities in Europe and the USA at a later stage.

The groundbreaking results that have been obtained in the development of the prototypes will be presented to relevant partner candidates with increased efforts. The Board expects that the positive results from the company’s own product development and the results from other companies, particularly the FDA approval for Mammaprint®, will increase interest in the patent protected applications that DiaGenic offers.

As the first prototypes have now been validated, the greatest risk factors for the company relates to further development, regulatory approvals, agreements for marketing and the sale of products. The scope of such agreements, from pure distribution agreements to extensive partner agreements with milestone payments and licence income, as well as the time from signature of the agreements to an income stream will be important risk factors.

Oslo, 22 March 2007
### FINANCIAL STATEMENTS

**DIAGENIC ASA**

**PROFIT AND LOSS ACCOUNT**

<table>
<thead>
<tr>
<th>NOTE</th>
<th>OPERATING INCOME AND OPERATING EXPENSES</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Operating income</td>
<td>60 000</td>
<td>104 583</td>
<td>55 000</td>
</tr>
<tr>
<td></td>
<td>Depreciation and amortisation</td>
<td>508 047</td>
<td>530 200</td>
<td>592 929</td>
</tr>
<tr>
<td></td>
<td>Write down of fixed assets</td>
<td>455 784</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3.8,9</td>
<td>Salaries and personnel expenses</td>
<td>9 725 626</td>
<td>14 745 306</td>
<td>4 832 846</td>
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<tr>
<td>4.5,6</td>
<td>Finances</td>
<td>12 683 932</td>
<td>9 379 916</td>
<td>5 311 873</td>
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<td>5</td>
<td>Other operating expenses</td>
<td>23 373 389</td>
<td>24 455 422</td>
<td>10 737 647</td>
</tr>
<tr>
<td></td>
<td>TOTAL OPERATING EXPENSES</td>
<td>-23 313 389</td>
<td>-24 550 839</td>
<td>-10 682 647</td>
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<tr>
<td></td>
<td>OPERATING LOSS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>FINANCIAL INCOME AND FINANCIAL EXPENSES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest income</td>
<td>657 239</td>
<td>280 351</td>
<td>246 494</td>
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<tr>
<td></td>
<td>Other financial income</td>
<td>12 056</td>
<td>41 923</td>
<td>3 387</td>
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<td></td>
<td>Interest expense</td>
<td>25 119</td>
<td>3 768</td>
<td>3 006</td>
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<td></td>
<td>Other financial expenses</td>
<td>31 903</td>
<td>61 156</td>
<td>19 424</td>
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<tr>
<td></td>
<td>NET FINANCIAL ITEMS</td>
<td>612 257</td>
<td>257 351</td>
<td>227 452</td>
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<tr>
<td></td>
<td>LOSS FOR THE YEAR</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>10</td>
<td>Tax for the year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>NET LOSS</td>
<td>-22 701 132</td>
<td>-24 293 489</td>
<td>-10 455 195</td>
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<tr>
<td></td>
<td>NET LOSS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>TRANSFER AND ALLOCATIONS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transferred from share premium reserve</td>
<td>-22 417 324</td>
<td>-18 259 093</td>
<td>-10 455 195</td>
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<tr>
<td></td>
<td>Transferred from other reserves</td>
<td>-283 808</td>
<td>-6 034 396</td>
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<td></td>
<td>TOTAL TRANSFER AND ALLOCATIONS</td>
<td>-22 701 132</td>
<td>-24 293 489</td>
<td>-10 455 195</td>
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<tr>
<td>15</td>
<td>EARNINGS PER SHARE</td>
<td>-0,59</td>
<td>-0,70</td>
<td>-0,46</td>
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<tr>
<td>15</td>
<td>DILUTED EARNINGS PER SHARE</td>
<td>-0,59</td>
<td>-0,70</td>
<td>-0,46</td>
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</tbody>
</table>

### DIAGENIC ASA

**BALANCE SHEET AS OF 31. DECEMBER**

<table>
<thead>
<tr>
<th>NOTE</th>
<th>ASSETS</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FIXED ASSETS</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>INTANGIBLE ASSETS</td>
<td></td>
<td></td>
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<tr>
<td>4</td>
<td>Goodwill</td>
<td>572 437</td>
<td>572 437</td>
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<tr>
<td></td>
<td>TOTAL INTANGIBLE ASSETS</td>
<td>572 437</td>
<td>572 437</td>
</tr>
<tr>
<td></td>
<td>TAGIBLE ASSETS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5,6</td>
<td>Machinery, equipment, fixtures and fittings etc.</td>
<td>3 114 978</td>
<td>1 643 773</td>
</tr>
<tr>
<td></td>
<td>TOTAL TANGIBLE ASSETS</td>
<td>3 114 978</td>
<td>1 643 773</td>
</tr>
<tr>
<td></td>
<td>TOTAL FIXED ASSETS</td>
<td>3 687 415</td>
<td>2 216 210</td>
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<tr>
<td></td>
<td>TOTAL ASSETS</td>
<td>104 583</td>
<td>55 000</td>
</tr>
<tr>
<td>10</td>
<td>EARNINGS PER SHARE</td>
<td>-0,46</td>
<td>-0,46</td>
</tr>
<tr>
<td>15</td>
<td>DILUTED EARNINGS PER SHARE</td>
<td>-0,46</td>
<td>-0,46</td>
</tr>
</tbody>
</table>
### DIAGENIC ASA

#### BALANCE SHEET AS OF 31. DECEMBER

<table>
<thead>
<tr>
<th>NOTE</th>
<th>EQUITY AND LIABILITIES</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQUITY</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PAID IN CAPITAL</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>1,988,336</td>
<td>1,786,826</td>
<td></td>
</tr>
<tr>
<td>Share premium reserve</td>
<td>22,279,143</td>
<td>11,828,618</td>
<td></td>
</tr>
<tr>
<td>TOTAL PAID IN CAPITAL</td>
<td>24,267,469</td>
<td>13,615,444</td>
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<tr>
<td>TOTAL EQUITY</td>
<td>24,267,469</td>
<td>13,615,444</td>
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</tr>
<tr>
<td>LIABILITIES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PROVISIONS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension liabilities</td>
<td>1,371,297</td>
<td>1,119,949</td>
<td></td>
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<tr>
<td>TOTAL PROVISIONS</td>
<td>1,371,297</td>
<td>1,119,949</td>
<td></td>
</tr>
<tr>
<td>LONG TERM DEBT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other long term dept</td>
<td>1,670,271</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>TOTAL LONG TERM DEBT</td>
<td>1,670,271</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>CURRENT LIABILITIES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>4,235,782</td>
<td>460,749</td>
<td></td>
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<tr>
<td>Public duties payable</td>
<td>787,358</td>
<td>411,425</td>
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<tr>
<td>Other current liabilities</td>
<td>1,569,659</td>
<td>2,300,681</td>
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<tr>
<td>TOTAL CURRENT LIABILITIES</td>
<td>6,592,799</td>
<td>3,222,855</td>
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<tr>
<td>TOTAL LIABILITIES</td>
<td>9,494,867</td>
<td>4,942,544</td>
<td></td>
</tr>
<tr>
<td>TOTAL EQUITY AND LIABILITIES</td>
<td>33,901,356</td>
<td>17,958,267</td>
<td></td>
</tr>
</tbody>
</table>

#### CASH FLOWS FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss before tax</td>
<td>-22,701,192</td>
<td>-24,293,489</td>
</tr>
<tr>
<td>Taxes paid</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>508,047</td>
<td>530,200</td>
</tr>
<tr>
<td>Write-downs of tangible fixed assets</td>
<td>435,784</td>
<td>0</td>
</tr>
<tr>
<td>Loss from sale of tangible fixed assets</td>
<td>328,892</td>
<td>0</td>
</tr>
<tr>
<td>Fair value granted option rights</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difference between pension expenses and payments to the pension plan</td>
<td>251,928</td>
<td>294,230</td>
</tr>
<tr>
<td>Change in trade payable</td>
<td>3,775,039</td>
<td>-144,129</td>
</tr>
<tr>
<td>Changes in other current assets and other liabilities</td>
<td>-2,707,063</td>
<td>492,820</td>
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<tr>
<td>NET CASH FLOW FROM OPERATING ACTIVITIES</td>
<td>19,810,303</td>
<td>-17,087,972</td>
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#### CASH FLOWS FROM INVESTMENT ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sale of tangible fixed assets</td>
<td>178,984</td>
<td>0</td>
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<tr>
<td>Investment in tangible fixed assets</td>
<td>-1,234,417</td>
<td>-84,230</td>
</tr>
<tr>
<td>NET CASH FLOW FROM INVESTMENT ACTIVITIES</td>
<td>-1,055,433</td>
<td>-84,230</td>
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#### CASH FLOWS FROM FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash flow from share issue</td>
<td>33,049,350</td>
<td>19,152,028</td>
</tr>
<tr>
<td>Payment of long term dept</td>
<td>-63,609</td>
<td>0</td>
</tr>
<tr>
<td>NET CASH FLOW FROM FINANCING ACTIVITIES</td>
<td>33,085,741</td>
<td>19,152,028</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net change in cash and cash equivalents</td>
<td>12,140,066</td>
<td>1,977,825</td>
</tr>
<tr>
<td>Cash balance as of 1 January</td>
<td>13,427,608</td>
<td>11,447,783</td>
</tr>
<tr>
<td>CASH BALANCE AS OF 31. DECEMBER</td>
<td>25,567,614</td>
<td>13,427,608</td>
</tr>
</tbody>
</table>

Oslo, 22. March 2007

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**Håkon Sæterøy**
Chairman

**Anna Malm Bernsten**
Board member

**Ingrid Alfheim**
Board member

**Gustav Ingemar Kihlsröm**
Deputy Chairman

**Praveen Sharma**
Board member

**Marie Skarbøvik Buchmann**
Board member

**Håkon Sandberg**
Chairman

**Greig Affern**
Deputy Chairman

**Erik Christerman**
Managing Director

**Wina Malm Bernsten**
Board member

**Vibeke Løvstad**
Board member
## FINANCIAL STATEMENTS

### NOTE 1

#### COMPANY INFORMATION
DiaGenic ASA (org. no 979 938 799) is a Norwegian public limited company listed on the Oslo Stock Exchange. It was formed in 1998. The company’s head office is in Grenseveien 92, NO-0663 Oslo, Norway.

DiaGenic ASA develops diagnostic tests for the early detection of breast cancer and Alzheimer’s disease based on gene expression signatures in blood samples.

#### NOTE 2

#### ACCOUNTING PRINCIPLES AND ESTIMATES

##### BASIS FOR THE PREPARATION OF THE ANNUAL ACCOUNTS
The company’s annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS). EU has approved that all listed companies within EU are required to report consolidated annual accounts according to IFRS for accounting years starting 1 January 2005 or later. Due to the EEC-agreement this will also be required for Norwegian listed companies.

The accounts have been prepared on a historical cost basis.

DiaGenic ASA’s sole subsidiary has no ordinary business activities and is in the process of being liquidated. It is expected to be liquidated during the first six months of 2007. The subsidiary is thus not considered to have a bearing on the group’s position or financial performance. The accounts have therefore not been consolidated.

The annual accounts are presented in NOK unless otherwise specified.

The annual accounts were approved by the Board of Directors on 22 March 2007.

##### THE USE OF ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make assessments and to prepare estimates and assumptions that influence amounts recognised in the accounts for assets and obligations, revenues and expenses. Estimates and related assumptions are based on the best of the management’s knowledge of historical and relevant events, experience and other factors that seem reasonable in the circumstances. The actual results may deviate from such assumptions. Estimates and underlying assumptions are subject to continuous assessment. Critical accounting estimates for DiaGenic are as follows:

#### PENSIONS

The present value of the pension obligation depends on the actuarial and financial assumptions. All changes in the assumptions will influence the calculated pension obligation and the future costs. DiaGenic’s management stipulates the discount rate at the end of every year. When stipulating the discount rate, the company bases itself on a rate based on the interest rate for government bonds with a term to maturity as near as possible to the pension obligation. Other assumptions for calculating the pension obligation are based on market values and best estimates.

### CHANGES IN EQUITY

#### EQUITY AS OF 1 JANUARY 2005

- **Number of shares**: 32,567,140
- **Share capital**: 1,629,357
- **Share premium reserve**: 11,093,152
- **Other reserve**: 0
- **Other equity**: 0
- **Total equity**: 12,722,509

- **Share issue - April 2005**: 3,129,380, 156,469
- **Exercise of options - July 2005**: 10,000, 500
- **Exercise of options - August 2005**: 10,000, 500
- **Fair value granted options**: 0, 0, -6,034,396
- **Net loss 2005**: 0
- **Allocation of net loss 2005**: 0

#### EQUITY AS OF 31 DECEMBER 2005

- **Number of shares**: 35,786,520
- **Share capital**: 1,786,826
- **Share premium reserve**: 11,828,617
- **Other reserve**: 0
- **Other equity**: 0
- **Total equity**: 13,415,443

- **Share issue - March 2006**: 3,500,000, 175,000
- **Exercise of options - September 2006**: 45,000, 2,250
- **Share issue - November 2006**: 80,000, 4,000
- **Exercise of options - November 2006**: 405,000, 20,250
- **Fair value granted options**: 0, 0, 283,808
- **Net loss 2006**: 0
- **Allocation of net loss 2006**: 0

#### EQUITY AS OF 31 DECEMBER 2006

- **Number of shares**: 39,766,520
- **Share capital**: 1,988,326
- **Share premium reserve**: 22,279,143
- **Other reserve**: 0
- **Other equity**: 0
- **Total equity**: 22,279,143

Costs related to share issue in April 2005 are booked as a reduction of share premium reserve at the amount of NOK 1,248,969.

Costs related to share issue in March 2006 are booked as a reduction of share premium reserve at the amount of NOK 2,028,250.
24 ANNUAL REPORT
25 ANNUAL REPORT

SALES REVENUES
Operating revenues from the sale of goods are recognised in the profit and loss account when the material risk and benefits of ownership have passed to the purchaser. Operating revenues from performed services are recognised in the profit and loss account in proportion to the degree of completion of the transaction on the balance sheet date. The degree of completion is assessed by reviewing completed work. Contract revenues are recognised in the profit and loss account in proportion to the degree of completion.

GOODWILL
The company offers its employees pensions that are defined as a defined benefit pension scheme. The pension scheme is calculated annually by an actuary. The pension obligations and pension expenses are calculated using a straight-line earnings model which calculates the cost for the year of the employees’ pension entitlements earned during the period.

The pension obligation is calculated as the present value of the defined benefit obligation on the balance sheet date minus the fair value of the scheme’s assets, adjusted for any gains or losses and costs relating to previous periods’ pension earnings. The defined benefit obligation is calculated by an independent actuary and is measured as the present value of the estimated pension payments. Providing the pension benefits is charged to income so that the regular costs are spread over the employees’ expected period of service.

The discount rate, expected return on pension assets, wage adjustments, regulation of the National Insurance basic amount and personnel turnover are stipulated on the balance sheet date.

The company has changed accounting principle regarding accounting for actuarial gains and losses from 1 January 2006. This change in accounting principle imply that accumulated impact of actuarial gains and losses and changes in presumtions below 10% of the largest of pension liabilities and pension assets will not be accounted for in the Profit and Loss Account. When the accumulated impact exceeds 10% it will be accounted for in the Profit ans Loss Account over the employees’ expected average remaining period of service.

Net pension expense is classified as Salaries and personnel expenses.

NOTE 2 CONTINUE
Capitalised development costs are recognised at cost price after the deduction of accumulated depreciation and write-downs. The capitalised value is amortised over the period of expected future earnings from the related project.

Gains and losses that arise on the sale of an intangible asset are measured as the difference between the net proceeds of the sale and the book value on the transaction date.

GOODWILL
Acquisitions of businesses are recognised at fair value. Goodwill is the excess value of the difference between the acquisition cost on acquisition and the fair value of the net identifiable assets relating to the acquisition, including intangible assets and obligations that arise as a result of the transaction. Goodwill is recognised in the balance sheet at acquisition cost less any accumulated losses resulting from a fall in value. Goodwill is allocated to cash generating unit and is not depreciated, but tested annually for impairment.

GOVERNMENT GRANTS
Government grants have on a systematic basis been recognised as cost reduction over the periods necessary to match them with the related costs which they are intended to compensate.

PENSIONS
The company offers its employees pensions that are defined as a defined benefit pension scheme. The pension scheme is calculated annually by an actuary. The pension obligations and pension expenses are calculated using a straight-line earnings model which calculates the cost for the year of the employees’ pension entitlements earned during the period.

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Net pension expense is classified as Salaries and personnel expenses.
TAX

The tax expense in the profit and loss account comprises the tax payable for the period and the change in deferred tax. Deferred tax is calculated at a rate of 28% on the basis of temporary differences that exist between accounting and tax values, as well as any tax loss carryforward at the end of the financial year.

The deferred tax asset is recognised if it is probable that the company will have a sufficient tax profit to be able to utilise the tax asset. On each balance sheet date, the company will review any deferred tax asset not recognised in the profit and loss account. The company recognises deferred tax assets not previously recognised in the accounts insofar as it has become probable that the company can utilise the deferred tax asset. Similarly, the company will reduce the deferred tax asset insofar as it can no longer utilise it.

Deferred tax and the deferred tax asset are calculated on the basis of future tax rates if temporary differences have arisen.

Deferred tax and the deferred tax asset are recognised at their nominal value and are classified as financial fixed assets or long-term liabilities in the balance sheet.

Unused loss carryforwards from before a business was acquired are recognised as deferred tax assets when it is expected that the loss can be utilised. Subsequent recognition in the balance sheet will entail a reduction in identified goodwill.

Unused loss carryforwards from before a business was acquired are recognised as deferred tax assets when it is expected that the loss can be utilised. Subsequent recognition in the balance sheet will entail a reduction in identified goodwill.

TAX

Deferred tax and the deferred tax asset are recognised at their nominal value and are classified as financial fixed assets or long-term liabilities in the balance sheet.

Unused loss carryforwards from before a business was acquired are recognised as deferred tax assets when it is expected that the loss can be utilised. Subsequent recognition in the balance sheet will entail a reduction in identified goodwill.

TANGIBLE ASSETS

Tangible assets are recognised at cost price after deduction for accumulated depreciation and any write-downs. The assets are depreciated using the straight-line method over the expected useful life of the asset. Costs of direct maintenance on the operating assets are expensed as they are incurred under Operating expenses, while additional spending or improvements are added to the asset’s cost price and depreciated in step with depreciation of the asset.

The depreciation period and method are assessed annually to ensure that the method and period used are in accordance with the economic realities of the asset. The same applies correspondingly to the residual value.

SUBSIDIARIES

Subsidiaries under liquidation are not consolidated. Investments in subsidiaries under liquidation are measured at fair value.

RECEIVABLES

Receivables are recognised at amortised cost. The interest element is ignored if it is insignificant.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are classified as current assets.

IMPAIRMENT OF ASSETS

Financial assets valued at amortised cost are written down if it is probable that the company will not recover on all amounts, depending on contractual conditions for loans and receivables. The amount of impairment loss will be recognised in the profit and loss account. The reversal of previous impairment loss is recognised when a reduced need for a write-down can be related to an event after the impairment loss has been recognised. An increase in the carrying amount is only recognised insofar as it does not exceed what the amortised cost would have been if the write-down had not been made.

Cash and cash equivalents are classified as current assets.

An assessment of impairment loss on other assets is made when there is an indication of fall in value. Independent on whether there are indications of a fall in value, goodwill shall be tested annually against the recoverable amount. If an asset’s carrying amount is greater than the recoverable amount, an impairment loss will be recognised in the profit and loss account. The recoverable amount is the greater of the net sales price and the discounted cash flow from continued use. The net sales price is the amount that can be obtained on sale to an independent third party minus sales costs. The recoverable amount is stipulated separately for all assets, but if this is not possible, together with the unit to which the asset belongs.

With the exception of goodwill, impairment loss recognised in the profit and loss account in previous periods will be reversed when information exists to indicate that the write-down is no longer necessary or that the need is no longer as great. The reversal is taken to income or recognised as an increase in other reserves. Write-downs as a result of falls in value are only reversed insofar as the carrying amount of the asset does not exceed the carrying amount that would have been stipulated net after depreciation or amortisation if no loss as a result of a fall in value had been recognised previously.

FOREIGN CURRENCY

Transactions in foreign currency are translated at the rate at the time of the transaction. Exchange rate gains/losses that arise as a result of exchange rate fluctuations between the exchange rate on the transaction date and the payment date are recognised in the profit and loss account. Monetary items in foreign currency are valued at the exchange rate at the end of the financial year.

EARNINGS PER SHARE

Earnings per share are calculated by dividing the profit/loss for the year by the corresponding weighted average of the number of outstanding shares during the reporting period.

The key figure ‘diluted earnings per share’ is based on the same calculation as for earnings per share, but it also takes into account all potential shares that have been outstanding during the period, and which will have a diluting effect. Potential shares relate to agreements that confer the right to issue shares in future. When the company reports a negative result, the effect of potential shares is disregarded so that the calculation is the same as for earnings per share.

CONDITIONAL OBLIGATIONS AND SHARE

By conditional obligations is meant:

I. possible obligations as a result of previous events where the existence of the obligation depends on future events.
II. obligations not recognised in the accounts because it is not probable that they will lead to an outflow of resources.
III. obligations that cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the annual accounts with the exception of contingent liabilities taken over in a business acquisition. Information is provided about material contingent liabilities with the exception of contingent liabilities for which the probability is low.

A conditional asset is not recognised in the annual accounts, but information is provided about it if there is a certain possibility that an advantage will accrue to the company.

A provision is recognised in the accounts when, and only when, the company has a valid obligation (legal or assumed) as a result of events that have occurred and it can be substantiated (more probable than not) that a financial settlement will take place as a result of the obligation and that the size of the amount can be reliably measured. Provisions are reviewed on every balance sheet date and their level reflects the best estimate of the obligation. When the time effect is immaterial, the provision will be equal to the size of the payment required to fulfill the commitment. When the time effect is material, the provision will be equal to the present value of future disbursements required to fulfill the commitment. Any increase in the provision as a result of the time factor will be presented as an interest expense.
EVENTS AFTER THE BALANCE SHEET DATE

New information about the company’s positions on the balance sheet date is taken into account in the annual accounts. Information is provided about events after the balance sheet date that do not affect the company’s position on the balance sheet date, but which will affect the company’s future position if this is material information.

SEGMENT REPORTING

The company has not defined segments since the company is in an early phase of its development. As the company enters a phase with clearly defined development projects, expedient segment reporting will be defined.

SHARED-BASED REMUNERATION

Option rights granted to employees are calculated at fair value on the grant date. The fair value of option rights is recognised in the profit and loss account over the period from their issue until the first possible exercise date. Provisions for social security tax related to the intrinsic value of the options are calculated on the basis of the listed share price on the balance sheet date. Employer’s National Insurance contributions are accrued over the period from issue issue until the first possible exercise date. Estimated provision for social security tax is updated at each reporting date.

Fair value is calculated using Black & Scholes option pricing model. The valuation is based on assumptions about the volatility of the DiaGenic share, expectations of future exercising of the option and risk-free interest. Volatility is estimated by observing historical fluctuations in the share price.

When assessing the future useful life of the options, it has been assumed that the board members will exercise their options late.

LEASING

Leasing contracts are classified as financial or operational following a separate review of each individual contract. Operational leasing contracts are expensed using the straight-line method over the contract period. Operating assets financed by financial leasing are capitalised and depreciated using the straight-line method over their expected useful life. The leasing debt is deemed to be a long-term liability and the liability is reduced through repayment of the leasing contract.

RECENTLY PUBLISHED ACCOUNTING STANDARDS AND STATEMENT

IFRS is constantly developing and recently published accounting standards and statements have been reviewed and assessed. They are not expected to have a significant effect on the company’s annual accounts in the implementation period.

CASH FLOW STATEMENT

The company uses the indirect method for the presentation of the cash flow statement.

CHANGES IN ACCOUNTING PRINCIPLES AND COMPARATIVE FIGURES

With effect from 1 January 2005 the company has applied accounting principles in accordance with International Financial Reporting Standards (IFRS). Comparative figures for 2004 have been reworked in accordance with IFRS.

NOTE 3  SALARIES AND PERSONNEL EXPENSES, NUMBER OF EMPLOYEES, REMUNERATION

<table>
<thead>
<tr>
<th>SALARIES AND PERSONNEL EXPENSES</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>7 291 566</td>
<td>6 323 570</td>
</tr>
<tr>
<td>Grants, cf. note 12</td>
<td>-363 905</td>
<td>-313 000</td>
</tr>
<tr>
<td>Accrued social security tax</td>
<td>1 015 594</td>
<td>1 459 358</td>
</tr>
<tr>
<td>Pension expense</td>
<td>991 249</td>
<td>1 213 505</td>
</tr>
<tr>
<td>Fair value of granted options</td>
<td>283 808</td>
<td>6 094 396</td>
</tr>
<tr>
<td>Other payroll expenses</td>
<td>506 954</td>
<td>141 077</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>9 725 626</td>
<td>14 858 906</td>
</tr>
</tbody>
</table>

Average number of employees

<table>
<thead>
<tr>
<th>Year</th>
<th>Average number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>11</td>
</tr>
<tr>
<td>2006</td>
<td>12</td>
</tr>
</tbody>
</table>

REVENUE OF LEADING PERSONNEL 2005

Management team:

Anders Lönneborg, Managing Director

Dag Christian Christiansen, Marketing Director

Praveen Sharma, Director, Technology & Product Development

Håkon Sæterøy, IR-Director **

Håkon Sæterøy, Chairman

Gustav Ingemar Kihlstrøm ***

Ingrid Alfheim ****

Anna Malm Bernstein *****

Marie Skarbøvik Buchmann

The Board:

Håkon Sæterøy

Gustav Ingemar Kihlstrøm

Ingrid Alfheim

Anna Malm Bernstein

Praveen Sharma

Marie Skarbøvik Buchmann

Other payments to Technology International Exchange AS, repr. by Ingrid Alfheim, are payments for consultancy services.

NOTE 2 CONTINUE
GUIDELINES FOR REMUNERATION OF THE MANAGING DIRECTOR AND THE COMPANY’S MANAGEMENT TEAM

Leading employees is in this regard defined as the DiaGenic Management Team. From 1 January 2007 Erik Christensen took over the position as CEO after Anders Lönneborg.

The aim with the remuneration system for leading employees is to stimulate to a goal focused culture, and thereby fair share values. Total remuneration for leading employees consists of a market based fixed salary, a few standard fringe benefits and subscription rights to all leaders with the exception of Håkon Sæterøy and the two founders Praveen Sharma and Anders Lönneborg. Except for the subscription rights there is no other variable remuneration based on personal or common achievements.

In Extraordinary General Meeting 16 November 2006 an incentive scheme for all employees was approved. This incentive scheme includes all employees, except Praveen Sharma, Anders Lönneborg and Håkon Sæterøy. The scheme is a subscription rights scheme, whereof 500,000 subscription rights have been allocated to the CEO.

The Managing Director and the other leading employees participate in the pension scheme which cover all employees.

All leading employees, including the CEO, have a notice period of 3 months. The CEO has the right to one year salary after the end of the notice period if Diagenic terminate the employment. The other leading employees do not have right to such compensation.
### NOTE 4  INTANGIBLE ASSETS

<table>
<thead>
<tr>
<th></th>
<th>GOODWILL</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition cost 01.01.2005</td>
<td>572,437</td>
<td>572,437</td>
</tr>
<tr>
<td>Additions</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Disposals</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Acquisition cost 31.12.2005</td>
<td>572,437</td>
<td>572,437</td>
</tr>
<tr>
<td>Additions</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Disposals</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Acquisition cost 31.12.2006</td>
<td>572,437</td>
<td>572,437</td>
</tr>
<tr>
<td>ACCUMULATED DEPRECIATION AT 01.01.2005</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>The year's write-downs</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>ACCUMULATED WRITE-DOWNS AT 31.12.2005</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>THE YEAR'S WRITE-DEP.</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>ACCUMULATED WRITE-DOWNS AT 31.12.2006</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>CARRYING AMOUNT AT 31.12.2006</td>
<td>572,437</td>
<td>572,437</td>
</tr>
</tbody>
</table>

The goodwill recognised in the balance sheet relates to the merger between DiaGenic ASA and Mefjorden ASA in 2004. On the merger date, goodwill after the valuation of intangible assets amounted to NOK 572,437. At 31 December 2006 the book value of goodwill was assessed and there are no indications of a fall in value.

Impairment test of the value of goodwill is based on its value in use and it was done using discounted cash flows based on the budget and future expectations. The value of the cash flow-generating entity is stipulated as the recoverable amount which is the higher of net sales value and utility value.

Estimates and pertaining assumptions are made to the best of the management’s knowledge of historical and current events, experience and other factors that are deemed reasonable in the circumstances.

### NOTE 5  TANGIBLE FIXED ASSETS

<table>
<thead>
<tr>
<th></th>
<th>OTHER EQUIPMENT</th>
<th>LAB EQUIPMENT</th>
<th>OFFICE MACHINES</th>
<th>FIXT. &amp; FITTINGS</th>
<th>COMPUTERS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition cost at 01.01.2005</td>
<td>108,582</td>
<td>3,115,306</td>
<td>0</td>
<td>126,725</td>
<td>376,819</td>
<td>3,727,382</td>
</tr>
<tr>
<td>Additions</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Disposals</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Acquisition cost at 31.12.2005</td>
<td>108,582</td>
<td>3,115,306</td>
<td>0</td>
<td>126,725</td>
<td>461,049</td>
<td>3,811,412</td>
</tr>
<tr>
<td>Additions</td>
<td>28,384</td>
<td>53,345</td>
<td>87,163</td>
<td>856,787</td>
<td>208,738</td>
<td>1,294,417</td>
</tr>
<tr>
<td>Disposals</td>
<td>0</td>
<td>-64,935</td>
<td>0</td>
<td>-533,262</td>
<td>0</td>
<td>-598,197</td>
</tr>
<tr>
<td>Acquisition cost at 31.12.2006</td>
<td>136,916</td>
<td>2,700,324</td>
<td>87,163</td>
<td>918,577</td>
<td>669,787</td>
<td>4,512,767</td>
</tr>
<tr>
<td>Accumulated depreciation at 01.01.2005</td>
<td>-77,810</td>
<td>-1,188,562</td>
<td>0</td>
<td>-37,883</td>
<td>-339,384</td>
<td>-1,637,639</td>
</tr>
<tr>
<td>Depreciation for the year</td>
<td>-13,168</td>
<td>-445,442</td>
<td>0</td>
<td>-12,472</td>
<td>-58,918</td>
<td>-590,200</td>
</tr>
<tr>
<td>Loss due to fall in value</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Reversal of loss due to fall in value</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation for the year</td>
<td>-19,191</td>
<td>-351,684</td>
<td>-4,358</td>
<td>-29,388</td>
<td>-54,287</td>
<td>-455,276</td>
</tr>
<tr>
<td>Write-down</td>
<td>0</td>
<td>-455,784</td>
<td>0</td>
<td>0</td>
<td>-455,784</td>
<td>0</td>
</tr>
<tr>
<td>Loss due to fall in value</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Reversal of loss due to fall in value</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>CARRYING AMOUNT AT 31.12.2006</td>
<td>26,019</td>
<td>258,852</td>
<td>82,805</td>
<td>838,634</td>
<td>223,258</td>
<td>1,429,568</td>
</tr>
</tbody>
</table>

Useful life

<table>
<thead>
<tr>
<th>Depreciation plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 ÅR STRAIGHT-LINE</td>
</tr>
<tr>
<td>3-8 ÅR STRAIGHT-LINE</td>
</tr>
<tr>
<td>5 ÅR STRAIGHT-LINE</td>
</tr>
<tr>
<td>10 ÅR STRAIGHT-LINE</td>
</tr>
<tr>
<td>3 ÅR STRAIGHT-LINE</td>
</tr>
</tbody>
</table>
### NOTE 6  FINANCIAL LEASING

<table>
<thead>
<tr>
<th></th>
<th>LAB</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ACQUISITION COST AT 01.01.2006</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Disposals</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>ACQUISITION COST AT 31.12.2006</strong></td>
<td>1 733 880</td>
<td>1 733 880</td>
</tr>
<tr>
<td><strong>Accumulated depreciation at 01.01.2006</strong></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation for the year</td>
<td>-48 471</td>
<td>-48 471</td>
</tr>
<tr>
<td>Loss due to fall in value</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Reversal of loss due to fall in value</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>CARRYING AMOUNT AT 31.12.2006</strong></td>
<td>1 685 409</td>
<td>1 685 409</td>
</tr>
<tr>
<td><strong>Useful life</strong></td>
<td>4-5 YEAR</td>
<td></td>
</tr>
<tr>
<td><strong>Depreciation plan</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET PRESENT VALUE OF REMAINING LEASE PAYMENTS BY DUE DATE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due date 2007</td>
<td>479 232</td>
<td></td>
</tr>
<tr>
<td>Due date 2008 - 2011</td>
<td>1 649 024</td>
<td>2 128 256</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>2 128 256</td>
<td></td>
</tr>
</tbody>
</table>

### NOTE 7  SUBSIDIARIES

**REGISTERED OFFICE**

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>HOLDING</th>
<th>PROPORTION OF VOTES</th>
<th>BOOK VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unique UK Ltd.</td>
<td>100 %</td>
<td>100 %</td>
<td>0</td>
</tr>
</tbody>
</table>

**CARRYING AMOUNT AT 31.12.2006**

Unique UK Ltd. is not consolidated since the company is being wound up. The winding up is expected to be finally completed in the first half of 2007.

### NOTE 8  SHARE CAPITAL AND SHAREHOLDERS

At 31.12.2006 the company’s share capital was NOK 1,988,326 divided between 39,766,520 shares each with a nominal value of NOK 0.05. The company has only one share class and no special regulations relating to the shares. One share thus confers one vote.

**OWNERSHIP STRUCTURE AT 31.12.2006**

<table>
<thead>
<tr>
<th>NUMBER OF SHARES</th>
<th>HOLDING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Praveen Sharma</td>
<td>3,225 000</td>
</tr>
<tr>
<td>Anders Lönneborg</td>
<td>2,925 000</td>
</tr>
<tr>
<td>Verdipapirfondet NOR v/Nordea Fondene AS</td>
<td>2,628 135</td>
</tr>
<tr>
<td>The Northern Trust C USL Treaty Account</td>
<td>1,915 000</td>
</tr>
<tr>
<td>A/S Skarv</td>
<td>1,914 000</td>
</tr>
<tr>
<td>JPMBSA Nordea Lux Lending</td>
<td>1,240 000</td>
</tr>
<tr>
<td>Holberg Norden v/Holberg Fondsforvaltning</td>
<td>1,015 070</td>
</tr>
<tr>
<td>Livsforsikringelskapet Strateigisk</td>
<td>1,008 100</td>
</tr>
<tr>
<td>Investor Corporate AS</td>
<td>908 933</td>
</tr>
<tr>
<td>Verdipapirfondet NOR v/Nordea Fondene AS</td>
<td>769 300</td>
</tr>
<tr>
<td>Holberg Norden v/Holberg Fondsforvaltning</td>
<td>734 237</td>
</tr>
<tr>
<td>Amfibien AS</td>
<td>642 680</td>
</tr>
<tr>
<td>Handelsbanken Market Market-making derivates</td>
<td>565 000</td>
</tr>
<tr>
<td>Skagen Vekst</td>
<td>550 000</td>
</tr>
<tr>
<td>Nordea Bank Sweden A C17</td>
<td>518 000</td>
</tr>
<tr>
<td>Sanden A/S</td>
<td>474 100</td>
</tr>
<tr>
<td>Håkon Sæterøy</td>
<td>374 943</td>
</tr>
<tr>
<td>Tom Adolfson</td>
<td>352 314</td>
</tr>
<tr>
<td>Ivar Steine</td>
<td>310 000</td>
</tr>
<tr>
<td>Kikut AS</td>
<td>310 000</td>
</tr>
<tr>
<td><strong>TOTAL, 20 LARGEST SHAREHOLDERS</strong></td>
<td>22,378 414</td>
</tr>
<tr>
<td><strong>Total others</strong></td>
<td>17,388 106</td>
</tr>
<tr>
<td><strong>TOTAL NUMBER OF SHARES</strong></td>
<td>39,766 520</td>
</tr>
</tbody>
</table>

**SHARES AND OPTIONS OWNED BY BOARD MEMBERS AND THE MANAGING DIRECTOR:**

<table>
<thead>
<tr>
<th>OFFICE</th>
<th>OPTIONS</th>
<th>NUMBER OF SHARES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chair of Board</td>
<td>350 000</td>
<td>1 283 478</td>
</tr>
<tr>
<td>Board member</td>
<td>150 000</td>
<td>25 000</td>
</tr>
<tr>
<td>Board member</td>
<td>150 000</td>
<td>6 545</td>
</tr>
<tr>
<td>Board member</td>
<td>100 000</td>
<td>0</td>
</tr>
<tr>
<td>Board member</td>
<td>100 000</td>
<td>0</td>
</tr>
<tr>
<td>Board member</td>
<td>3 225 000</td>
<td>2 925 000</td>
</tr>
</tbody>
</table>

*) The shares are owned directly and indirectly through Investor Corporate AS (100%).

The company’s option schemes are described in more detail in Note 12.
NOTE 9 PENSION COSTS, ASSETS AND OBLIGATIONS

The company has pension schemes that cover a total of 12 persons. The schemes confer a right to defined future benefits. They are largely dependent on the number of years of service, salary level on reaching retirement age and the size of benefits from the National Insurance scheme. The obligations are covered through Nordea Liv.

ECONOMIC ASSUMPTIONS:

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital cost of previously earned pensions</td>
<td>112 721</td>
<td>85 191</td>
</tr>
<tr>
<td>Accrued social security tax</td>
<td>132 806</td>
<td>149 960</td>
</tr>
<tr>
<td>PENSION EXPENSE FOR THE YEAR</td>
<td>1 074 493</td>
<td>1 218 505</td>
</tr>
</tbody>
</table>

THE YEAR’S CHANGE IN THE FAIR VALUE OF PENSION ASSETS:

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of pensions earned during the period</td>
<td>855 811</td>
<td>714 528</td>
</tr>
<tr>
<td>Capital cost of previously earned pensions</td>
<td>112 720</td>
<td>85 191</td>
</tr>
<tr>
<td>Expected return on pension assets</td>
<td>-105 585</td>
<td>-69 059</td>
</tr>
<tr>
<td>Administration costs</td>
<td>78 941</td>
<td>45 351</td>
</tr>
<tr>
<td>Actuarial gains and losses</td>
<td>0</td>
<td>287 534</td>
</tr>
<tr>
<td>Accrued social security tax</td>
<td>132 806</td>
<td>149 960</td>
</tr>
<tr>
<td>PENSION EXPENSE FOR THE YEAR</td>
<td>1 074 493</td>
<td>1 218 505</td>
</tr>
</tbody>
</table>

THE YEAR’S CHANGE IN THE NET PENSION OBLIGATION IS CALCULATED AS FOLLOWS:

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension obligation at 01.01</td>
<td>1 119 949</td>
<td>825 739</td>
</tr>
<tr>
<td>The year’s premium paid, incl. accrued social security tax</td>
<td>-829 365</td>
<td>-919 276</td>
</tr>
<tr>
<td>Pension expense for the year</td>
<td>1 074 493</td>
<td>1 218 505</td>
</tr>
<tr>
<td>NET PENSION OBLIGATION AT 31.12</td>
<td>1 171 297</td>
<td>1 119 968</td>
</tr>
</tbody>
</table>

THE YEAR’S NET PENSION EXPENSE IS CALCULATED AS FOLLOWS:

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of the pension obligation at 01.01</td>
<td>2 692 856</td>
<td>1 651 577</td>
</tr>
<tr>
<td>Present value of pensions earned during the period</td>
<td>855 811</td>
<td>714 528</td>
</tr>
<tr>
<td>Actuarial gains and losses</td>
<td>-105 585</td>
<td>-69 059</td>
</tr>
<tr>
<td>Capital cost of previously earned pensions</td>
<td>112 720</td>
<td>85 191</td>
</tr>
<tr>
<td>PRESENT VALUE OF PENSION OBLIGATIONS AT 31.12</td>
<td>3 559 790</td>
<td>2 692 856</td>
</tr>
</tbody>
</table>

THE COMPANY HAS CHANGED PRINCIPLE FOR ACCOUNTING FOR ACTUARIAL GAINS AND LOSSES FROM 1 JANUARY 2006. IN 2005 ACTUARIAL GAINS AND LOSSES AMOUNTED TO AN EXPENSE OF NOK 287 534. THE CHANGE IN ACCOUNTING PRINCIPLES IS NOT MATERIAL FOR THE ACCOUNTS, AND COMPARABLE NUMBERS FOR 2005 IN THE BALANCE SHEET OR THIS SPECIFICATION HAVE NOT BEEN REROWED.

Premium payments are estimated to be NOK 990 372.

The expected return on pension assets is NOK 105,585.

NOTE 10 TAX EXPENSE

THE COMPANY HAS CHANGED PRINCIPLE FOR ACCOUNTING FOR ACTUARIAL GAINS AND LOSSES FROM 1 JANUARY 2006. IN 2005 ACTUARIAL GAINS AND LOSSES AMOUNTED TO AN EXPENSE OF NOK 287 534. THE CHANGE IN ACCOUNTING PRINCIPLES IS NOT MATERIAL FOR THE ACCOUNTS, AND COMPARABLE NUMBERS FOR 2005 IN THE BALANCE SHEET OR THIS SPECIFICATION HAVE NOT BEEN REROWED.

Premium payments are estimated to be NOK 990 372.

The expected return on pension assets is NOK 105,585.

THE COMPANY HAS CHANGED PRINCIPLE FOR ACCOUNTING FOR ACTUARIAL GAINS AND LOSSES FROM 1 JANUARY 2006. IN 2005 ACTUARIAL GAINS AND LOSSES AMOUNTED TO AN EXPENSE OF NOK 287 534. THE CHANGE IN ACCOUNTING PRINCIPLES IS NOT MATERIAL FOR THE ACCOUNTS, AND COMPARABLE NUMBERS FOR 2005 IN THE BALANCE SHEET OR THIS SPECIFICATION HAVE NOT BEEN REROWED.

Premium payments are estimated to be NOK 990 372.

The expected return on pension assets is NOK 105,585.
NOTE 11 PUBLIC GRANTS

Public grants are recognised net in the accounts as a deduction from operating expenses. The FUGE grant is recognised as a reduction in other operating expenses. 25% of the Skattefunn grant is recognised as reduced salary expenses and 75% as reduced operating expenses.

<table>
<thead>
<tr>
<th>Grants</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>FUGE plan</td>
<td>4,883,300</td>
<td>2,900,000</td>
</tr>
<tr>
<td>Skattefunn scheme</td>
<td>1,454,019</td>
<td>1,252,000</td>
</tr>
<tr>
<td><strong>TOTAL PUBLIC GRANTS</strong></td>
<td><strong>6,337,319</strong></td>
<td><strong>4,152,000</strong></td>
</tr>
</tbody>
</table>

NOTE 12 OPTIONS HELD BY EMPLOYEES AND BOARD MEMBERS

The company's option schemes cover the company's employees and board members. The option scheme entitles holders to subscribe for shares at a fixed price in the exercise period. One option confers a right to subscribe for one share. To exercise options the employee is required to be employed in at least a 50% position. To exercise options board members must be board members on the exercise date, or employed by the company in at least a 20% position.

Pursuant to IFRS the fair value is calculated on the grant date and accrued in accordance with the exercise date. Black & Scholes' option pricing model is used for the valuation of the options.

The following parameters have been used in the valuation of employee options:

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant date 10.08.2005</td>
<td></td>
</tr>
<tr>
<td>Volatility of the share</td>
<td>0.99</td>
</tr>
<tr>
<td>Risk-free interest rate</td>
<td>3.68%</td>
</tr>
<tr>
<td>Share price on the grant date</td>
<td>9.98</td>
</tr>
</tbody>
</table>

The share's volatility is based on daily historic final prices, and the calculated volatility value is annualised. For the grant date 10.08.2005, the period from 01.01.2005 until the grant date is used in the calculation.

The 10-year government bond rate on the grant date is used as the risk-free interest rate.

The Board has issued 500,000 subscription rights to the Managing Director based on authorisation from an Extraordinary General Meeting. The Board also has approval to issue 840,000 subscription rights to employees.

NOTE 13 FINANCIAL MARKET RISK

FINANCIAL RISK:
The company does not use financial instruments in connection with the management of financial risk.

CURRENCY RISK:
The company's transactions mainly take place in NOK. A modest number of transactions take place in SEK, EUR, GBP and USD. No contracts have been entered into in order to hedge currency because of the modest extent of transactions in foreign currencies.

INTEREST RATE RISK:
The company has no interest-bearing loans, but have entered into financial lease agreements, which imply future payments of interest and installments. The company has not entered into any fixed interest rate agreement. See note 6.

CREDIT RISK:
Credit checks are carried out on new customers before contracts are signed.

LIQUIDITY RISK:
At an Extraordinary General Meeting 20 March 2007 the Board of Directors was given authorisation to issue up to 4 million new shares. This is necessary to secure the company financially until it records a positive cash flow from its operations. See note 20.

The option cost relating to the above granting of options had a negative effect on the result in the amount of NOK 283,808 in 2006. However, the cost has no effect on equity since the option cost and allocation of profit do not have an overall effect on equity. Nor did the year's calculated option cost have any liquidity effect for the company in 2006.
In April 2005 the company carried out a share issue for the gross amount of NOK 20,340,996. In that connection 3,129,384 new shares were issued each with a nominal value of NOK 0.05, corresponding to an increase in the company’s share capital of NOK 156,469. The remainder of the issue amount was added to the company’s share premium reserve.

In March 2006 the company carried out a share issue for the gross amount of NOK 33,250,000: In that connection 3,500,000 shares were issued each with a nominal value of NOK 0.05, corresponding to an increase in the company’s share capital of NOK 175,000. The remainder of the issue amount was added to the company’s share premium reserve.

The key figure ‘diluted earnings per share’ is based on the same calculation as for earnings per share, but it also takes account of all potential shares that have been outstanding in the period, and which will have a diluting effect. Potential shares are related to agreements that confer entitlements to issue shares in the future. When the company reports negative earnings, the effect of potential shares is disregarded so that the calculation is the same as for earnings per share.

Of the company’s cash and cash equivalents, NOK 1,503,739 is restricted in the form of tax withholdings.

The company has entered into the following lease agreements of significance:

- Grenseveien 92, 0663 Oslo
  - Annual rent: 2,248,350

The rent is index-adjusted on 1 January every year. The first adjustment will take place in 2008.

The rent for 2006 amounted to NOK 910,277.

Of the above amount, NOK 5,283,110 concerns payroll expenses and NOK 6,700,750 relates to operation of the company’s laboratory, fees paid to external research institutions and patent costs. In the profit and loss account these expenses are presented as payroll expenses and other operating expenses, respectively.

The above amount does not include R&D overheads relating to rent for the laboratory and depreciation of lab equipment.

For 2006, expenses relating to development have not been capitalised in the balance sheet.

New Managing Director started 1 January, 2007. He has been allocated 500,000 subscription rights with an exercise price at NOK 6.22. The subscription rights can be exercised with 40% at the earliest 16 November 2007. The remaining subscription rights vest in equal parts one, two and three years thereafter.

In Extraordinary General Meeting 16 November 2006, the Board of Directors was given authorisation to issue up to 840,000 subscription rights to employees. No subscription rights have been issued and allocated to employees as of 31 December 2006.

In Extraordinary General Meeting on 20 March 2007, the Board of Directors was given authorisation to issue up to 4 million shares with a par value at NOK 0.05. The authorisation remain in force for 2 years from the date of resolution.
NOTE 21 SPECIFICATION OF ACCOUNTING ITEMS

SPECIFICATION OF OTHER OPERATING EXPENSES:

<table>
<thead>
<tr>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office premises etc.</td>
<td>1 071 616</td>
</tr>
<tr>
<td>Administrative costs</td>
<td>2 710 184</td>
</tr>
<tr>
<td>Fees</td>
<td>4 692 501</td>
</tr>
<tr>
<td>Patent costs</td>
<td>4 99 237</td>
</tr>
<tr>
<td>Travel expenses</td>
<td>1 666 872</td>
</tr>
<tr>
<td>Laboratory costs and net FUGE costs</td>
<td>2 051 522</td>
</tr>
<tr>
<td>TOTAL OTHER OPERATING EXPENSES</td>
<td>12 683 932</td>
</tr>
</tbody>
</table>

SPECIFICATION OF OTHER RECEIVABLES:

<table>
<thead>
<tr>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skattefunn scheme</td>
<td>1 454 019</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>2 204 783</td>
</tr>
<tr>
<td>Miscellaneous receivables</td>
<td>988 005</td>
</tr>
<tr>
<td>TOTAL OTHER RECEIVABLES</td>
<td>4 646 807</td>
</tr>
</tbody>
</table>

SPECIFICATION OF OTHER CURRENT LIABILITIES:

<table>
<thead>
<tr>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for employer’s National Insurance contributions on granted options</td>
<td>0</td>
</tr>
<tr>
<td>Provision for costs</td>
<td>588 196</td>
</tr>
<tr>
<td>Provision for holiday pay and remuneration of the Board of Directors</td>
<td>1 031 463</td>
</tr>
<tr>
<td>TOTAL OTHER CURRENT LIABILITIES</td>
<td>1 569 659</td>
</tr>
</tbody>
</table>

SPECIFICATION OF OTHER LONG-TERM DEBT:

<table>
<thead>
<tr>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial leasing</td>
<td>1 670 271</td>
</tr>
<tr>
<td>TOTAL OTHER LONG-TERM DEBT</td>
<td>1 670 271</td>
</tr>
</tbody>
</table>

NOTE 22 NEW ACCOUNTING STANDARDS

The company has decided not to implement new accounting standards and interpretations of such standards as long as the standards have not yet been made effective by 31 December 2006.

The following accounting standards and interpretations of accounting standards, which might be relevant for the company, have been published during 2006:

NEW STANDARDS
- IFRS 7 Financial Instruments: Disclosures
- IFRS 8 Operating Segments

NEW INTERPRETATIONS OF STANDARDS
- IFRIC 8 Scope of IFRS 2 (Share-based compensation)
- IFRIC 10 Interim Financial Reporting and Impairment

The company has chosen not to implement the standards and interpretations mentioned above before they are made effective.

NOTE 22 ANNUAL REPORT

Ernst & Young

Auditor’s report for 2006

We have audited the annual financial statements of Diagenic ASA as of 31 December 2006, showing a loss of NOK 7 701 132. We have also audited the information in the Directors’ report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the balance sheet, the statements of income and cash flows, the statement of equity and the accompanying notes. IFRSs as adopted by the EU have been applied in the preparation of the financial statements. These financial statements and the Directors’ report are the responsibility of the Company’s Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including the auditing standards adopted by the Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the Company’s financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,
- the financial statements are prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as of 31 December 2006, and the results of its operations and cash flows and the changes in equity for the year then ended, in accordance with IFRSs as adopted by the EU
- the Company’s management has fulfilled its duty to properly record and document the Company’s accounting information as required by law and bookkeeping practice generally accepted in Norway
- the information in the Directors’ report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and complies with law and regulations.

Oslo, 7 May 2007
Ernst & Young AS

Anders Gabel
State Authorized Public Accountant (Norway)

Note: The translation to English has been prepared for information purposes only.
CORPORATE GOVERNANCE

1. REPORT ON CORPORATE GOVERNANCE
The Norwegian recommendations on good corporate governance are intended to strengthen confidence in the Board of Directors and the company by contributing to the best possible value creation over time - to the benefit of shareholders, employees and other stakeholders. Observance of the recommendations is based on the principle “comply or explain”. Set out below are comments on DiaGenic’s compliance with the principles.

DiaGenic’s Board and management are concerned to maintain a high standard of ethics, as well as good corporate governance. DiaGenic has started a process to demonstrate the company’s value base. The work will be continued in 2007 and in this connection ethical guidelines will be prepared.

2. BUSINESS
The objects clause in the Articles of Association provides: “The company’s business is to develop, patent and sell products, technology and expertise for the diagnosis of ailments and diseases in people, animals and plants. The company’s goal is the development and commercialisation of diagnostic products, with a view to maximising shareholder value.”

3. CAPITAL AND DIVIDENDS
DiaGenic has not yet generated a positive cash flow from its operations. The business is financed through equity and government grants. Particular emphasis is placed on securing financing through the stockmarket until the company generates a positive cash flow from operations. The company’s shareholders will not receive a dividend before the financial situation permits.

The Board will be authorised during periods by the General Meeting to issue shares to ensure the necessary financing of the future operation of the company. Board authorisations are normally given for a period of up to 2 years.

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CONNECTED PARTIES
The core of the company’s corporate governance is equal treatment of all shareholders. All shares in DiaGenic carry one vote and the shares are freely transferable. The company has only one share class and all shareholders have equal rights.

The Board will report in the Annual Report any transactions with close associates.

5. FREE TRANSFERABILITY
The company’s shares are listed and freely transferable.

6. GENERAL MEETING
The shareholders can exercise their rights in the General Meeting and the company wishes that the General Meeting should be a place for shareholders and the company’s Board to meet.

Meeting documents will be sufficiently detailed and sent to shareholders at least two weeks before the General Meeting. The company endeavours to ensure that meeting documents are sufficiently detailed to enable shareholders to take a view on all matters to be considered. The deadline for notice of attendance at General Meetings is set as close to the meeting as possible. Shareholders who are unable themselves to participate may vote by proxy.

The company will encourage the Board members to attend General Meetings, but in 2006 it has only been the Chairman of the Board who has attended General Meetings.

The minutes of the General Meeting are published through a notice to the stock exchange and are also made available on the company’s website.

7. ELECTION COMMITTEE
DiaGenic has not chosen to have an election committee due to the company’s size and the relatively transparent shareholder structure. The company is assessing on an ongoing basis the introduction of an election committee and, when appropriate, propose to establish such an arrangement in its Articles.

8. CORPORATE ASSEMBLY AND BOARD, COMPOSITION AND INDEPENDENCE
DiaGenic has chosen not to have a corporate assembly due to the limited size of the company and the small number of employees. The functions of the corporate assembly have been transferred to the General Meeting and Board.

The Board is elected by the General Meeting and is composed with a view to covering in the best possible manner the interests of all shareholders and the company’s need for expertise and capacity. Board members have backgrounds within finance, molecular biology, chemistry and physiology, as well as experience from listed companies and commercialisation of products in the health sector, within diagnostics, biotechnology and pharmaceuticals. Information illustrating the Board members’ expertise is set out in the Annual Report.

The Board is elected for only one year at a time and Board members may stand for re-election. The Chief Executive is not a member of the Board.

The Board has six members, with an equal number of women and men. The Board’s members proceed on the basis that they will not take on more board appointments than would prevent them from giving sufficient time to undertaking their board work in DiaGenic in a proper manner. The Board is composed of individuals who have the willingness and ability to work together.

The Board members Ingemar Kihlström, Anna Malm Bernsten, Ingrid Alfheim and Marie Skarbakk Buchmann are considered to be independent from the company’s management, important business connections and the company’s main shareholders. These Board members are considered to be independent in spite of the fact that each of them to a limited extent has carried out extended board work (which has been remunerated on market terms), and in spite of the fact that together they hold 500,000 share options in the company at a price of NOK 8 per share (see the notes to the Accounts).

4 of the 6 Board members are considered to be independent, which ensures that the Board does not act as individual representatives for certain shareholders or other interest groups. The Board may evaluate the management and important agreements signed by the company on an independent basis. The Board is also considered to have sufficient qualifications to take care of the interests of all shareholders by undertaking independent assessments of the management’s case handling and the company’s business, and to ensure that the senior management is not too dominant in relation to shareholders as a whole.

The Board has adopted board instructions for its work and for the company’s management. The instructions include an allocation of responsibilities and tasks in important areas. The Board ensures that the business is organised in a proper manner and plans and budgets are prepared for the company’s business. The board plan and instructions ensure that the Board is kept informed about the company’s financial position and that the business, asset management and accounts are subject to control.

The Chairman ensures that the Board functions well and fulfils its obligations. The Chairman leads Board meetings and prepares board cases in cooperation with the Chief Executive Officer. The Chairman maintains minutes from Board meetings and the minutes are approved and signed by all Board members. The Board recommends appointments and other updates relevant to the company’s business at strategy meetings and at the ordinary Board meetings.
The Board appoints a Deputy Chairman who can act when the Chairman either cannot or should not lead the Board’s deliberations. This is particularly relevant as the Chairman participates in the management of the company.

The Board has not used formal board committees but groups of experts from the Board, for example, work on strategic assessments and evaluation of company-critical agreements. Financial reporting and remuneration to senior management is subject to thorough and independent consideration without the use of board committees, as cases are considered by the whole Board, where 4 of the 6 members are considered independent of the management.

The Board evaluates the Board’s composition and Board work at least once a year. The evaluation also covers the manner in which the Board functions, both individually and as a group in relation to the objectives that have been set for its work.

10. Risk Management and Internal Control
DiaGenic has developed procedures for internal control for the entire business. As the business has changed over time from previously undertaking pure research to now product development and more market-related activities, the need has increased for procedures and guidelines. Now with the transition to product development and commercial operation, the requirements of risk management and internal controls will be evaluated by the management and Board with a view to preparing a new set of appropriate systems. In this connection, emphasis will also be placed on ensuring that the company operates within its ethical guidelines and values, including guidelines on how employees may communicate matters relating to illegal or unethical behaviour from the company’s side to the Board.

The Board receives monthly status reports from the Chief Executive.

The company purchases services for financial reporting from external suppliers.

As a listed company, there is a special responsibility in connection with the requirements imposed on insider trading rules, the provision of information and share trading. DiaGenic has guidelines that ensure that Board members, senior employees and other insiders follow relevant legislation and rules with regard to insider trading in the company’s shares. The rules have been updated during 2006.

11. Remuneration to the Board
Remuneration to the Board reflects the Board’s responsibility, expertise, time spent and the business’ complexity and the fact that it is a listed company. Remuneration to the Board is not dependent on results obtained, but the Board’s members have together 850,000 options, which are set out in detail in the Annual Report.

Certain Board members in DiaGenic may, in addition to their normal Board duties, carry out work of a minor financial significance at the request of the Chairman. The Board is aware of the diligence requirements this involves in relation to information to the General Meeting and any agreements between the company and the company’s Board members are approved by the whole Board.

Reference is made in this connection also to the evaluation of independent Board members under point 8 above. Information on all remuneration to each Board member is included in the Annual Report.

12. Remuneration of Senior Employees
The Board sets guidelines and has evaluated the remuneration of the senior employees in the company.

The Board sets the salary and other remuneration of the Chief Executive in its Board meeting.

The terms of incentive schemes for employees are set out in the notice of General Meeting and the Annual Report. Guidelines and elements of the remuneration of the Chief Executive and other senior employees are also set out in the Annual Report.

At the company’s Extraordinary General Meeting on 16 November 2006 an incentive scheme was approved which includes all employees with the exception of Praveen Sharma, Anders Lönneberg and Håkon Sæterøy. The incentive scheme has been presented in detail to the General Meeting for approval. The scheme involves options, split between 505,000 options to the Chief Executive and a total of 840,000 options to other employees. The incentive scheme represents approximately 3.45% of outstanding shares in the company.

The Board considers that the remuneration of senior employees is at market levels and without elements of unreasonable character, such as in connection with resignation or the completion of the employment relationship. The incentive scheme for employees has been drawn up with a view to retaining people in the company on a long-term basis and establishing a community of interest with shareholders, and so as not to lead to short-term dispositions that may be harmful to the company.

13. Information and Communication
The company is listed and will therefore fulfil the requirements on equal treatment, openness and reporting of both financial and other information. The listing also involves that the company’s financial calendar is published on an annual basis.

The company uses its website actively for updates and the ability to give information about the company will only be given to persons other than primary insiders in cases where the company considers it necessary, and then on the basis of insider declarations and the listing of insiders. The insider lists are maintained by the Chief Executive Officer.

The company endeavours to ensure that information on the company should be available in both Norwegian and English, but so far has not prepared all communications in both languages.
Håkon Sæterøy (1958), Chairman, holds an MBA from the Norwegian School of Business, Bergen, 1981. He has been responsible for equity financing of DiaGenic since 2000. He has 20 years’ experience from investment businesses and corporate finance, most recently specializing within life science. Since the listing of DiaGenic in 2004 Sæterøy has also been responsible for DiaGenic’s investor relations. Håkon Sæterøy is a board member in Oslo Cancer Cluster. Furthermore he is chairman of the board in CancerCare AS and Kezzler AS.

Praveen Sharma (1964), co-founder of DiaGenic. He holds a doctorate in molecular toxicology from NTH, 1995. Sharma has held several research positions, most recently at the Norwegian Institute for Forest Research. He joined DiaGenic in 2000.

Marie Skarpbyvik Buchmann (1992), holds a doctorate in medical biochemistry and pharmacology, with her main education from the Norwegian National Hospital. She is today Medical Director at Forust Medical Laboratory. She has previously been head of medicine in Assi Biochemicals ASA (now Assi Shield) and senior Medical Advisor in Nymcomed Imaging AS.

Anders Åfrid Alfheim (1994), holds a civil engineering degree from NTH, 1989, and a doctorate in environmental toxicology from Oslo University, 1984. Alfheim is currently Managing Director in Biomedusvik Innovasjon AS and previously was Research Director in Assi-Shield ASA. Previously he managed her own firm within international technology broking and was also employed in both the Norwegian Research Council and the Norwegian Centre for Industrial Research. Alfheim has been a board member in several biotechnology companies.

Bengt Winblad has been Professor of Geriatric Medicine at the Karolinska Institute and Chief Physician at the Karolinska University Hospital. He is the Director of the Karolinska Institute’s Alzheimer’s Disease Research Center and the programme Swedish Brain Power. Professor Winblad has authored more than 800 original publications in gerontology, geriatrics, and dementia research, and is a member of the editorial boards of 10 international scientific journals. He is a member of the Nobel Assembly for the Prize of Medicine and Physiology at the Karolinska Institute since 1988 and was elected Chairman of the Medical Scientific Advisory Panel of the Alzheimer’s Disease International (ADI) in 1995.

Dag Aarsland is Professor of Geriatric Psychiatry, University of Bergen, School of Medicine, Institute of Psychiatry and Head of the Centre for Neuropsychiatric Research, Stavanger. In 2001 Professor Aarsland received the Leen Janner prize for his research on Alzheimer’s disease. Professor Aarsland is also member of the editorial board of International Psychogeriatrics.

DiaGenic’s technology and results obtained has attracted a great deal of attention and the company has been able to recruit leading international experts as scientific advisors.

ALZHEIMER’S DISEASE

Samuel Gandy Gandy is Professor of neurology, biochemistry and molecular biology. Jefferson Medical College and Director, Farber Institute for Neurosciences, Thomas Jefferson University. He also acts as Chair, National & Scientific Advisory Council, Alzheimer’s Association, and Director, Molecular Neurology and Neuropathology, Cold Spring Harbor Labs and the Wellcome Trust.

Khalid Iqbal is Professor and Chairman, Department of Neurochemistry, at the New York State Institute for Basic Research in Staten Island, New York and, along with Winblad, a founder of the biennial International Conferences on Alzheimer’s Disease & Related Disorders, (ICAD). Dr. Iqbal has authored over 200 scientific papers in prestigious American and international scientific journals and edited eight books on research advances in Alzheimer’s Disease.

Dr Alan Hollingsworth is Medical Director of Mercy Women’s Center and Mercy Cancer Center in Oklahoma City. He has a longstanding interest in breast cancer risk assessment. Today, Dr. Hollingsworth’s high-risk surveillance practice - one of the largest in the US - concentrates on breast cancer risk assessment and breast cancer (BRCA) genetic testing, while using multi-modality imaging for screening.

Dr Martine Piccart is Professor of Oncology at the Université Libre de Bruxelles and Head of the Department of Medicine at the Jules Bordet Institute. She is currently President of the European Organization for Research and Treatment of Cancer (EORTC). In 1996, Piccart founded the Breast International Group (BIG), of which she is chair. Piccart is a member of the American Society of Clinical Oncology (ASCO) board.

Dr Christos Sotiriou is Assistant Professor at the Medical Oncology Unit and also Head of the Functional Genomics & Translational Research Unit at the Jules Bordet Institute in the Université Libre de Bruxelles. His research focuses on genomics and molecular biology in breast cancer and he is also a member of the TRANSBIG, a “sister” network of the Breast International Group which seeks to link dedicated multinational translational research to prospective clinical trials.

BREAST CANCER

Anne-Lise Børresen-Dale is Professor and Head of the Department of Genetics at the Norwegian Radium Hospital in Oslo and a board member of the Norwegian FUGE Functional Genomics Programme. Internationally, she sits on the steering Committee of the European Breast Cancer Linkage consortium and is a Member of The Board of Directors, American Association for Cancer Research (AACR). Her research centres on breast and ovarian cancer and the identification of genotypes and gene expression profiles contributing to elevated cancer risk, breast cancer aggressiveness and therapy resistance.

It is a key mission of CancerCare AS to help patients with cancer and their families access timely and high-quality cancer treatments. The company aims to improve patients’ access to innovative cancer treatments and to provide better prediction of cancer outcomes. Today CancerCare AS is the first European company with a liquid biopsy test that can predict patients’ response to specific drugs, which is a major breakthrough in cancer treatment.

Scientific Advisory Board

Professor Anne-Lise Børresen-Dale and her team at the Norwegian Radium Hospital.
2007 Entrepreneurial Company Award Recipient: DiaGenic ASA

**Award Description**
The Frost & Sullivan Award for Entrepreneurial Company of the Year is presented each year to the small company that demonstrated superior entrepreneurial ability in its industry during the research period. This Award signifies the company's identification of a unique and revolutionary product solution with significant market potential. Additionally, the Award certifies that the company's marketing strategy is sound and poised for success.

**Research Methodology**
Entrepreneurial ability is assessed using mainly primary research with top manufacturers and end-users in the industry. Frost & Sullivan’s analysts perform extensive interviews with the company in question to evaluate its business, products, and marketing plan. In addition, primary research with leading manufacturers is performed by conducting benchmarking surveys and growth against established players' strategies. Also considered are elements such as strategic alliances, expected time to market, and the senior management team. Primary research with end-users is also conducted to evaluate and compare the value of the Award recipient's product solution.

**Measurement Criteria**
In addition to the methodology described above, there are specific criteria used to ascertain final competitor ranking in this industry. The recipient has excelled by substantially increasing one or more of the following criteria:

- Earnings: The company must have fewer than 200 employees.
- Technology: The company must have established a brand new and completely unique product solution.
- Productivity: The product solution must have significant market potential, and a high probability of reaching its potential in the next 2-5 years.
- Financial: Adequate financial basis to ensure a large probability of success. Financial resources include backing from VCs, IPOs, and funding from venture capital firms.
- Competitors: Protection from competitors - patents, large product development lead-time, strategic alliances with key companies, etc.
- Strategic Alliances: Strong points for marketing - strategic alliances for distribution, relationships with key customers, and informal partners in the industry.

DiaGenic

**2007 Entrepreneurial Company Award Recipient: DiaGenic ASA**

**Market Overview: Key Challenges**
The timely and precise diagnosis of a disease forms the keystone of modern medical practice. For a long period of time, clinicians have relied on chemical and immunological assays to identify and characterize disease processes. However, the development and application of molecular techniques have initiated a revolution in the field of diagnostics.

Molecular diagnostics is an emerging field with numerous innovations happening in the past decade. The market has seen several novel technologies and platforms creating new dimensions in the field of diagnostics. In the coming years, molecular diagnostics is expected to continue to be of critical importance in the healthcare industry and commercialization of diagnostics tests for diseases based on gene expression patterns drawn from peripheral blood. With two diagnostics tests currently under development, the company is currently looking for commercial partners to market these potential products.

**Efficient Technology Providers**
DiaGenic ASA is one of the innovative technology providers in the field of molecular diagnostics with well planned and structured business plans. Its core strength lies in the identification of technology i.e. early disease detection using a non-invasive technique.

DiaGenic ASA is a pioneer in this field in studying the gene expression patterns for various diseases and applying the scientific knowledge in developing tests which are of higher specificity and sensitivity. This is core strength of the company and a valuable differentiating factor from other emerging companies in the market. With clinical trials expected in 2007 with large pool samples, these diagnostics tests are going to add significant value in identification of diseases like Alzheimer’s at early stages which is still a challenge in this field.

**Technology being the major driving factor in the business**
DiaGenic ASA has a good partner strategy in place. With just one major competitor in this niche technological area, DiaGenic ASA is looking forward to emerge as a technologically driven competitor providing applications in various diseases and also leverage its strengths to other companies through royalties. The company already owns US and European patents which showcases their strength and also focus in the research and hence the business.

**Growth Backed with Strong Resources**
With a pool of experienced people, DiaGenic ASA has very solid base to progress in to the challenging markets. The company has already earned projects for the Norwegian government and likely to make more inroads in this area. Being a stock listed company, the company is backed by the Frost & Sullivan analysis shows that the ongoing trend to develop and commercialize novel biomarkers and diagnostic tests will be the major reason behind the growth in the market.

**Company Overview**
DiaGenic ASA was founded in 1999 and is headquartered in Oslo, Norway. The organization has 15 employees and focuses on the development of new applications in the field of diagnostics. DiaGenic ASA is expected to be very high in the market. The identification of product areas like Alzheimer and breast cancer to develop diagnostic products shows their eagerness to target bigger markets with huge future growths. Secondly, besides strategic planning the company has developed the technology and diagnostic tests with superior specificity and sensitivity which explains their work plan besides boardroom thinking.

Currently it has verified the prototypes in several new independent studies and proved good clinical accuracy using various technical platforms.

**Success through Partnership**
Backed with strong technology and product developments, DiaGenic ASA is looking for commercial partners for marketing their products. As they are trying to sustain their core strengths as technology enablers, DiaGenic ASA is looking to strengthen its core competency by leveraging its strength through marketing partners. With an exciting product pipeline the company is looking to be partnered with a leading diagnostic company in near future.

**Conclusion**
DiaGenic ASA with its innovative technology platform has certainly made a mark for itself in the molecular diagnostics market. By tying clear product roadmap as how it intends to move forward in enabling further innovation in this fast growing market, DiaGenic ASA depicts its intention to be the technology leader catering breast cancer and neuro-degenerative diseases.

With a clear market vision combined with strong breakthrough technology and strategic marketing capabilities, DiaGenic ASA is a deserving candidate for the 2007 Frost & Sullivan Entrepreneurial Company Award in the European Molecular Diagnostics Market.
SIN: Simple version of governmental approval (FDA) in the USA. Awarded to most normal blood sample-based diagnostic tests and involves the simplest and quickest case handling.

ACQUISITION: Combination of specificity and sensitivity.

ARRAY: Matrix of genes on a supporting material.

BIOMETRICS: The study of the site of the disease from living organisms.

CELL: The fundamental structural building block in all living organisms.

CE MARKING: Governmental approval in Europe based on the EU’s In Vitro Diagnostic Directive 98/79/EC.

COMMERCIAL AGREEMENTS: Agreements with market players/industrial partners that cover marketing of products and involve payments.

CUSTOMIZED ARRAY: An array designed based on customer’s needs.

DNA (DEOXY-RIBO NUCLEIC ACID): The cell’s stable gene material which is translated to RNA on use. The human genome consists of 3 billion DNA molecules that constitute 30,000 different genes.

DIAGNOSTIC SENSITIVITY: The likelihood that a test gives a positive result in the presence of disease.

DIAGNOSTIC SPECIFICITY: The likelihood that a test gives a negative result in the absence of disease.

FUGE: (Functional Genome research) A government administered by Norges Forskningsråd (Norwegian Research Council).

GENE EXPRESSION: A measure of how active various genes are. See also “mRNA.”

GENE EXPRESSION PATTERN: A pattern of activity from several genes measured as the quantity of mRNA for these.

GENE SIGNATURE: A gene expression pattern characteristic for a specific disease.

HIGH DENSITY ARRAY: An array that contains a relatively large number of gene representatives—normally between a thousand and several tens of thousands. Often called whole genome array (cf. microarray).

IVD (IN VITRO DIAGNOSTICS): Identification of diseases using samples that are analysed outside the body such as, for example, blood samples.

LABORATORY MARKET: Products that are not government approved but can be used by laboratories for their own use.

LOW DENSITY ARRAY: An array that contains a relatively limited number of gene representatives—normally between fifty and a couple of thousand (cf. microarray).

MICROARRAY: A large number of genes placed on a very small surface. A microarray is normally between 1 to 4 cm² in size, and contains between a couple of hundred and thousands of gene representatives. Genes on an array are normally represented by a short oligonucleotide or cDNA. Milestones interg in order on the way to finished products ready for sale in the market.

MOLECULAR BIOLOGY: The study of biological phenomena at a molecular level.

MULTIVARIATE ANALYSES: Analyses using more than one variable, for example a set of genes in contrast to a single marker (gene or protein).

NAT (NUCLEIC ACID AMPLIFICATION TEST): A term that covers gene technological analyses using a measurement sequence and amplification of the signal on optical amplification or hybridisation.

NEURODEGENERATIVE DISEASES: Diseases characterised by degeneration of the nerves. Examples of neurodegenerative diseases include Parkinson’s disease, Huntington’s disease, Multiple Sclerosis (MS) and dementia diseases such as Alzheimer’s disease.

PATENT PROTECTION: Patents granted and patents pending. Patents cover the commercial use of the product that the finished product will have.

PRODUCT CANDIDATES: Development projects/product prototypes that are intended for different market segments.

PROTEIN: One of the most important components in all cells. Many proteins are enzymes, and are those that do most of the work in a cell. Other proteins are receptors for signal transmission in the body and there are others that constitute parts of the body’s defence mechanisms. Each gene contains information on which proteins can be made and these proteins are transferred in the form of mRNA molecules to the machinery in the cell that makes proteins.

RESEARCH PRODUCT: A product that has not received government approval for clinical diagnostic use, but which can be sold for research and development use. RNA (RIBO NUCLEIC ACID): There are at least 4 different types of RNA in a cell. There is mRNA, rRNA, tRNA and snRNA, which have different functions in the cell but are made from the same type of building block, RNA. The functions of mRNA (see mRNA), rRNA and tRNA are important components in the machinery that makes protein, while snRNA has an important gene regulating function.

SERVICE LABORATORIES: Laboratories that undertake assignments on commercial terms.

WHOLE GENOME ARRAY: A microarray that contains gene representatives for the most of the genes that are active in an organism such as, for example, a person or a mouse.

Glossary

Development of Diagnostic Products Based on the Analysis of Gene Expression

Introduction

It is known that disease changes the expression of many genes and measurement of expression from selected genes will give valuable information on the disease. Disease also affects other cells in the body in a specific way and, by measuring gene expression, it is possible to identify a gene activity’s pattern or signature that is entirely specific for this disease. This signature can subsequently be used to identify patients with the relevant disease. In the products that DiaGenic is developing not only one gene’s expression is measured but expression from many genes that together make a gene expression pattern that is itself characteristic for the disease.

The sample analysed is a blood sample not a biopsy sample. Today several technologies are available for measuring this gene activity and in recent years micro-array technology has developed rapidly, so that today all of a person’s genes can be measured on a micro-array that is no larger than 1 square centimeter.

DiaGenic’s unique concept for the diagnosis of disease is based on the analysis of gene expression in sample material taken at a distance from the site of the disease such as, blood. Most competitors that are developing products based on gene expression use of sample material taken from the site of the disease, for example tissue samples obtained by biopsy. The traditional approach has clear limitations. There has to be a suspicion of the disease, which is not required with DiaGenic’s concept. DiaGenic also has a significant advantage in cases where it is impossible to take samples from the site of the disease itself. This is particularly important with neuro-degenerative diseases, such as Alzheimer’s disease, and various forms of cancers, diseases where today we lack simple, reliable and cost-efficient diagnostic tools. Against this background DiaGenic has chosen to focus on the two diseases, breast cancer and Alzheimer’s disease.

It is also desirable that patients with similar diseases are included in the study, and with conditions that biologically can be thought to affect gene expression in the same manner as the disease. It is also necessary that there a sufficient number of samples within each of the various patient and control groups. To estimate the number that is needed to obtain statistically valid results is considerably more complicated with this type of analysis where one operates with several thousand variable genes. There are several suppliers today of whole genome arrays and the results obtained vary considerably between arrays from different suppliers. This makes it desirable to use several types of platform in the discovery phase in order to ensure one finds the greatest possible number of gene candidates that can be used later in the development of the product.

There is a considerable amount of work in analysing the results from studies in the discovery phase, and bio-informatics related to the analysis of micro-array data is now a specialist field in itself.

Discovery Phase

The extremely rapid development we have seen in micro-arrays has made this technology most appropriate for use in the discovery phase and now permits the analysis of gene activity among all the thousands of genes in a person (the whole genome array). The purpose of the discovery phase is to identify the genes that are expressed differently in the case of disease compared with healthy control persons. The supply of patient material with intact RNA is necessary for all studies that are based on the analysis of gene expression, whether tissue or blood samples are analysed. Special test tubes have been developed today that are very well suited to the analysis of gene expression in blood (PAXgene tubes).

A successful discovery phase requires a well designed trial. This requires clear and well-defined documentation on the patients’ clinical condition and of the control group included in the study.

Diagnostic Products

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Biologically important information is not limited to how great a difference there is in gene expression (RNA), but also in the extent to which there are correlations between expression from different genes. A successful discovery phase will have identified a set of informative genes that are specific to the relevant disease. Further studies must be carried out subsequently in order to establish how good the signature is and whether it satisfies the requirements specified for this type of product. In this phase, a check is made as to whether the informative genes identified from the discovery phase actually maintain the pattern on a platform that is suited to product development.

There are several possible technologies suitable for the development of a product prototype for the analysis of gene expression. Micro-array is a relevant technology. PCR (polymer chain reaction) is another. The number of informative genes identified in the discovery phase for most diseases range from between 20 to several hundred, irrespective of whether tissue or blood samples are used in the study. This is a considerably lower number than is used in the discovery phase and permits the use of a “low density array” that is more cost efficient. Typically a low-density array contains from several 10s up to 1000 genes. Most of the leading platform suppliers, such as Affymetrix and Agilent, offer this type of product where the customer can itself decide which genes are to be included on the array. There are also today a number of other firms that offer diagnostic systems based on low-density arrays. Another technology is Real Time PCR where many partner candidates. DiaGenic has therefore itself invested in the latest analytical equipment from Applied Biosystems and automation equipment for the isolation of RNA from blood samples for use in further product development.

Irrespective of which technology is chosen for the prototype, the next phase in product development will be verification. This involves documenting that the gene signature applied on the prototype satisfies all the requirements that have been set for the product. The list of requirements for a diagnostic product is often called product design. There are requirements as to accuracy (specificity and sensitivity), sample handling and sample quantity. Product design also includes requirements on the extent to which other closely related diseases and conditions can be diagnosed by the product, and also for some products to what extent gender, age and the use of medicines affect the result. This can only be documented through clinical studies where predefined requirements are set for the collection of patient material, both with regard to the number of samples, but not least to the clinical documentation linked to each sample, since this study should prove that the product actually fulfills the requirements that have been set.

Verification is comprehensive and resource demanding and often takes some time to complete, but it is necessary in order subsequently to be able to achieve approval for the product from the authorities.

Successful verification will result in a near-finished product with a finally determined gene signature.

The purpose of user validation is to test the finished prototype at a small number of laboratories and blood samples from patient groups for which the test has been developed. This study should document that the test is reliable and appropriate for its purpose. The product is therefore tested in a real use situation.

The number of locations that are included in such a study will vary from a few to several tens and is, among other things, dependent on the type of use for which the test has been developed. It is important to cover as broad a range of patients as possible. The number of patients is typically smaller than required in the verification phase. All documentation from the studies that have been carried out from the discovery phase through to validation will then form the basis for the specific documentation that must be sent to the regulatory authorities for approval prior to launch in the market.

Before a test can be launched, an application must be made to the authorities for approval in most of the markets where the test will be marketed and sold. This applies to all commercial in vitro diagnostic tests that are to be used in the diagnosis or monitoring of disease in people. An exception is made for research products where such a comprehensive approval by the authorities is not required, but rather a requirement for marking of the product so that it is clear that it is not to be used for clinical diagnosis of disease in people. The requirement on documentation depends on what a test is to be used for and who is to use it. The strictest requirements with regard to documentation are imposed on tests that are typically to be used on the diagnosis of serious and fatal diseases. There are also strict requirements on tests that are to be used by non-qualified people, typically tests intended to be carried out by the patients themselves.

The system for approval by the authorities differs somewhat between the USA and Europe, even though harmonisation is taking place. In Europe, CE marking of a diagnostic product is required before it can be launched in the market, in accordance with Directive 98/79/EC. This so-called IVD (in vitro diagnostic) Directive specifies the requirements a product for diagnostic use of disease among people must satisfy. The requirements will vary depending on the type of use and the seriousness of the disease. For most diagnostic products, CE approval will be based on a self declaration, where the manufacturer confirms in writing to the authorities that its documentation satisfies the requirements specified for this type of product. In the case of diagnosis of certain serious diseases an actual approval by the authorities is required, and such diseases include several infectious diseases (e.g. HIV and hepatitis), certain types of cancer (prostate cancer) and blood sugar measuring instruments for diabetics.
During the course of development of the final product one will, as a supplier, have different opportunities to market and sell the products. In general diagnostic products are not subject to the same limitations on marketing as pharmaceutical products. This permits early communication to potential customer groups regarding the product’s characteristics.

Innovative customer groups often wish to carry out research with new diagnostic products, which means that products being launched for research use as Research Use Only ("RUO") before final approval by the authorities will generate further technical documentation. This documentation will be useful in subsequent marketing of the finished product to potential partners.

Potential partners are to be found amongst the larger diagnostic companies, larger laboratory chains and important distributors.

The signing of such agreements will typically give rise to significant financial payments on signature of the agreement, on reaching milestones and percentage royalties on the sale of the finished product.

There is currently an extensive restructuring taking place amongst the largest diagnostic companies with, as a result, an intensified focus on new products, economic growth and financial bottom lines. Since product development for most of these companies does not support this strategy sufficiently well, demand is increasing for new innovative products from smaller and more dynamic suppliers. DiaGenic regards itself as an ideal candidate for such supplier cooperation.