

ANNUAL REPORT 2013

PHOTOCURE GROUP



www.photocure.com



The before and after effect

Hexvix® Confidence at first sight.



BOARD OF DIRECTOR'S REPORT 2013

BACKGROUND

Photocure ASA ("Photocure" or "the Group") is a specialty pharmaceutical company listed on the Oslo Stock Exchange. The Group's proprietary technology platform is focused in the field of photodynamic diagnosis and treatment and provides the opportunity to meet high unmet medical needs in the areas of dermatology and cancer.

Photocure has one marketed product that is commercialized through its own commercial operation in the Nordic region under the brand name Hexvix® and in the US under the brand name Cysview®. Photocure has a strategic partnership with Ipsen for the commercialization of Hexvix in Europe, excluding the Nordic region. Ipsen is a global specialty-driven biopharma-ceutical company focused in uro-oncology.

In addition to Hexvix/Cysview, Photocure has three pharmaceutical products in clinical development, all targeted at various indications with significant medical need and market potential.

STRATEGIC DIRECTION – EVOLUTION INTO A SPECIALTY PHARMACEUTICAL COMPANY

Photocure's strategy is to transform the company from a research and development based organization into a specialty pharmaceutical company on the basis of the company's innovative photodynamic technology platform. The technology has been validated across several therapeutic areas; however, Photocure focuses on two main therapeutic areas: dermatology and cancer.

The company leverages its proven expertise to develop, register and commercialize new products in cancer and dermatology. Furthermore Photocure partners with Industry leaders, such as Ipsen and Salix, to accelerate and maximize the value of new innovative products, while retaining rights in selective strategic markets to expand its own commercial presence.

OUR PRODUCTS

HEXVIX®/CYSVIEW®

– THE INNOVATIVE PRODUCT FOR IMPROVED DETECTION AND MANAGEMENT OF BLADDER CANCER

Hexvix/Cysview is the first significant advance for the improved detection and management of bladder cancer. It is designed to induce specific fluorescence in the malignant cells in the bladder during a cystoscopic procedure, making it easier for the urologist to detect and treat bladder cancer. Hexvix, initially approved in Sweden in 2004, was approved across Europe by 2005 and as Cysview in the US in 2010. Hexvix was initially approved in the EU based on strong clinical data showing improved detection of bladder cancer. More recently, new clinical data has shown that improved detection using Hexvix/Cysview makes local surgery more complete and leads to improved patient management and a significant increase in the time to recurrence of bladder cancer. Based on this, Hexvix/Cysview has the potential to transform the diagnosis and management of bladder cancer and significantly improve patient outcomes.

Following regulatory approval of the broader indication of use of Hexvix by European authorities in 2013, the European Association of Urology guidelines on non-muscle invasive bladder cancer have been updated and have strengthened the recommendation on the use of Hexvix photodynamic diagnosis. The broader indication of use and updated guidelines both recognize the positive impact of Hexvix on reducing recurrence rate and improving time to recurrence of bladder cancer.

Photocure markets and sells Hexvix in the Nordic region and the US through its own commercial operation. In the US the product is marketed under the brand name Cysview. For markets outside of Nordic region and the US Photocure has entered into a strategic collaboration with Ipsen, a global specialty-driven biopharmaceutical company focused in uro-oncology.

VISONAC® – TREATMENT OF MODERATE TO SEVERE ACNE

Photocure has been developing a new product for treating patients with moderate to severe acne, and Visonac has the potential to satisfy a high unmet medical need.

Acne is the single most common skin disease worldwide, and affects up to 85% of all 12-24 year olds. There is a high unmet medical need for patients with moderate to severe acne, where the current mainstay of treatment is oral antibiotics and/or retinoids. Visonac is being developed as the first photodynamic therapeutic option for this large patient population, which can easily and conveniently be administered in dermatology offices. By avoiding the risks of increased antibiotic resistance from long term exposure, and providing a highly tolerable alternative to antibiotics and isotretinoin, Visonac has the potential to provide medical benefit to a large patient population

In a phase 2b study finished in 2012 Visonac showed a statistically significant reduction in inflammatory lesions and overall improvement in acne severity. Based on these significant clinical benefits as well as overall product and preclinical documentation Photocure started the regulatory and clinical preparations for phase 3 studies in EU and US. During 2013 Photocure obtained alignment with FDA on the phase 3 clinical development program through the Special Protocol Assessment (SPA) process. Furthermore Photocure reached an agreement with Galderma S.A. during the year giving Photocure freedom to explore potential partnerships at a significantly earlier stage. At the end of last year Photocure initiated its work to identify a partner for Visonac before commencing the phase 3 program.

CEVIRA® – TREATMENT OF HPV AND PRECANCEROUS LESIONS OF THE CERVIX

Cevira is a unique, non-invasive photodynamic therapy under development for the treatment of oncogenic human papilloma virus (HPV) infection and pre-cancerous cervical abnormalities.

In January 2012, Photocure completed patient enrolment in a phase 2b dose-finding study for Cevira - the first trial to evaluate the optimal dose, safety and efficacy of the novel integrated intravaginal drug-delivery device. The study was a randomized, double blind placebo controlled trial in patients with low to moderate grade cervical intraepithelial neoplasia (CIN1-2).

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The initial three month results were announced in December 2012 and demonstrated statistically significant efficacy in eradication of oncogenic HPV infections and precancerous lesions in CIN2 patients. Results after the six-nine month assessment were presented in April 2013 and confirmed the initial results.

Based on positive discussions with the FDA's Office of Oncology and Hematology Products on the need for new treatments for CIN2, Photocure submitted its application for Fast Track Designation for Cevira to the US FDA in October 2013. Fast Track designation allows for improved access to FDA for feedback and alignment as the clinical development program is conducted. The new review division at FDA, Division of Reproductive, Urology and Bone Diseases, was not able to grant Fast Track Designation at this time. The decision was based on the recently published consensus recommendation for diagnosis of pre-cancerous lesions of the cervix. In this new diagnostic classification system, severity of disease is divided as either low grade or high grade, in place of previous categorization by grade of lesion severity (CIN1, CIN2 and CIN3).

Based on discussions with FDA, Photocure will continue to work with FDA to secure the optimal development of Cevira and will evaluate the existing clinical data in accordance with the new consensus classification system for continued discussion and alignment with the FDA. In addition, Photocure will continue the discussion with FDA on classification of severity as recent clinical management guidelines recommend distinct treatment options for women with CIN2 and CIN3, particularly for the large group of women of child bearing potential. This is to avoid overtreatment of women with CIN 2 due to potential morbidities caused by invasive treatments offered to treat higher grade lesions.

Cervical HPV and precancerous lesions of the cervix are highly prevalent diseases affecting an estimated 260 million women across the globe, currently with no therapeutic treatment options available. Cevira is being developed as the first novel therapeutic option for this large and growing patient population. Cevira can be easily administered by gynecologists, obviating the potential morbidities associated with

surgery. Photocure's studies have demonstrated an excellent safety profile and no patient down time. Cevira has generated significant interest among potential partners, and Photocure continues to work to identify a partner for Cevira before commencing the phase 3 program.

LUMACAN® – IMPROVED DETECTION AND TREATMENT OF COLORECTAL CANCER

Lumacan is being developed to improve identification of cancer of the colon through fluorescence diagnosis. Colorectal cancer is conventionally detected via colonoscopy (visual examination) using white light. The market for colonoscopy is increasing as a result of comprehensive programs for screening patients in Europe and the United States.

In 2010, Photocure signed a global agreement concerning the development and commercialization of Lumacan with the US based company Salix Pharmaceuticals, Inc. ("Salix"). The agreement involves granting Salix an exclusive global license for Lumacan. Photocure received an upfront payment of USD 4 million and a further USD 4.5 million December 2012 and is entitled to additional milestone payments totaling USD 122 million. These milestones are linked to the development of Lumacan and regulatory events, as well as to specific sales achievement milestones. In addition to the milestone payments, Photocure will also receive a double digit royalty on sales in the US, as well as a significant share of all income from licensing agreements that Salix concludes outside the US. Salix has global responsibility for the continued development, registration and commercialization of Lumacan.

Photocure has retained the rights to market and sell Lumacan in the Nordic region. In addition to the development of Lumacan for colorectal cancer, Salix has the exclusive rights to develop other indications within the field of use. Compensation for such new indications is to be further discussed between the parties.

Photocure and Salix believe that the early diagnosis of colorectal cancer will lead to a more targeted treatment and improved survival rates for patients with colorectal cancer.

An exploratory study to evaluate Lumacan following administration of an enema formulation is underway. Following successful completion of the enema formulation, Salix intends to proceed to explore orally administered test formulations. To be able to strengthen the development of Lumacan plans are proceeding to open an Investigational New Drug application (IND) in the US.

PATENTS

Photocure continues to expand and strengthen its patent portfolio, which now consist of 25 patent families. New patent applications were filed in 2013 which predominantly cover Cevira core aspects. In October 2013, Photocure's acne patent was granted in USA. Patents of this patent family have been granted earlier in other major markets including Europe, China, and Japan. The patent family protects the use of Visonac for the treatment of acne until 2025.

Photocure's unique patented technology – Photocure Technology™ – forms a solid basis for the company's development projects.

FINANCIAL POSITION

The Photocure annual accounts have been prepared in accordance with IFRS requirements.

Sales revenues amounted to NOK 79.3 million in 2013, an increase of 6% from NOK 75.1 million in 2012. Sales revenues comprise own sales of Hexvix in the Nordic region and Cysview in USA, income from product sales and royalties from Photocure's license partners on sales of Hexvix to hospitals and pharmacies, and sale of active ingredient.

Signing and milestone revenues totaled NOK 4.3 million in 2013 compared to NOK 58.7 million in 2012. The revenues include deferred revenue from the sale of Metvix/Aktelite. In 2012 the revenues furthermore included milestones from Ipsen and Salix. In connection with the sale of Metvix/Aktelite to Galderma in 2009, payment of EUR 7 million of milestone revenues was contractually agreed to be deferred, of which EUR 3 million was paid December 2012 and EUR 4 million is to be paid no later than December 2016. The revenues from these payments are ac-

counted for as incurred from the time of agreement.

Operating expenses, after deductions for other operating revenues, decreased from NOK 163.7 million in 2012 to NOK 148.6 million in 2013. A significant contributor to the expense reduction is headcount reductions and organizational changes implemented. During the year a total of 10 employees left the Group. The organizational changes reflect the strategy for partnering and out-licensing the product pipeline as well as a streamlining of the marketing and administrative support organizations. Photocure incurred restructuring costs totaling NOK 3.7 million related to these changes.

Photocure's operating result totaled NOK -75.5 million in 2013, compared to an operating result of NOK -39.2 million in 2012. The change in the operating result is primarily attributable to the decline in sale of active ingredient and reduced milestone revenues partly offset by increased Hexvix/Cysview revenues and cost reductions.

Net financial items totaled NOK 8.7 million in 2013, compared to NOK 8.2 million in 2012.

The Group has recognized a tax asset of NOK 8.2 million in 2013 in addition to NOK 40.8 million from previous years. The reason for recognition is that it is more likely than not that the deferred tax asset will be realized.

Photocure made the decision on 1 October 2012 to discontinue operations related to Allumera. Losses from discontinued operations were NOK 0.3 million in 2013 and NOK 17.8 million in 2012.

The Group's net result after tax and discontinued operations is NOK -59.0 million compared to NOK -47.9 in 2012.

Photocure owns 19.35% of the shares in PCI Biotech Holding ASA, a company listed on the Oslo Stock Exchange. The market value of the shares in PCI Biotech Holding ASA decreased by NOK 14.1 million in 2013 to NOK 32.6 million as of 31 December, 2013.

Photocure follows a prudent investment strategy for its liquid funds. The return on the liquid funds depends on the rate of in-

terest in the money markets and will therefore vary over time. Liquid funds amounted to NOK 167.3 million at 31 December 2013, down from NOK 302.8 million at 31 December 2012.

Net cash flow from operating activities was NOK -99.7 million in 2013, compared to NOK -54.9 million in 2012. Included in net cash flow from operating activities is negative cash flow from working capital of NOK 25.2 million in 2013 and NOK 16.5 million in 2012. Photocure paid a dividend of NOK 42.5 million in the second quarter of 2013.

Shareholder equity was NOK 269.1 million at 31 December 2013, an equity ratio of 89%. At the end of 2012, shareholder equity was NOK 380.3 million (88%).

Photocure ASA (parent company) had in 2013 a loss after tax of NOK 27.0 million, compared with a loss after tax of NOK 5.0 million in 2012. The Board of Directors of Photocure ASA proposes that the loss for the year is covered by a transfer from other equity. Following this, the equity in Photocure ASA totals NOK 382.2 million at 31 December 2013. The equity ratio of the parent company is 93%.

At 31 December 2013, 21,393,301 shares were registered in Photocure. At the Ordinary General Meeting 22 May 2013, the Board of Directors was granted authorization to purchase up to 10% of its own shares. At 31 December 2013, Photocure held 72,976 own shares, which is equivalent to 0.2% of the outstanding shares in the Group.

Photocure has expensed all research and development costs in 2013 as in 2012.

Pursuant to § 3.3 (a) of the Norwegian Accounting Act, it is confirmed that the conditions for assuming that the Group is a going concern are present, and that the financial statements have been prepared on the basis of this assumption. No events have occurred since the end of 2013, except those which are stated in this report that are of major significance for the assessment of the company's financial position and results.

FINANCIAL RISK

Photocure has an international business

operation and is exposed to currency risk, interest rate risk, commodity price risk, liquidity risk and credit risk. During the accounting period, the company has not utilized any derivatives or other financial instruments to reduce these risks.

Responsibility for managing financial risk is placed with the management of the company. Financial risk is also monitored by the Board of directors.

Interest rate risk

Photocure does not have any interest-bearing debt, and the company's interest rate risk is mainly associated with the company's holdings of cash and cash equivalents. The main strategy is to diversify the risk and invest in money market funds and bond funds with low risk, high liquidity and short duration. More than 90% of the investments are denominated in NOK and are not hedged.

Liquidity risk

The Company monitors the cash flows from both long and short-term perspectives through planning and reporting. Photocure does not have any loan agreements that involve covenants or other financial requirements. Photocure uses a multi-currency consolidated accounts system that provides flexibility in relation to drawing on multiple currencies.

Credit risk

Photocure is primarily exposed to credit risk associated with accounts receivable and other short-term receivables. Photocure's sales are mainly to license partners, pharmaceutical wholesalers in the Nordic region and hospitals in USA. The credit risk is limited as the counterparties are mainly large companies that are not related to each other. Photocure's credit risk is considered moderate and the Company does not use credit insurance.

Currency risk

As NOK is the Company's presentation currency, Photocure is exposed to translation risk associated with the company's net exposure in foreign currency. Photocure's revenues and costs are accrued in different currencies and the Company is therefore exposed to exchange rate fluctuations. The Company ongoing monitors the need for hedging of large transactions. Photo-

cure does not have outstanding hedging of future transactions at 31 December 2013.

ORGANIZATION

The Group's senior management team at year-end consists of Kjetil Hestdal, President and CEO; Erik Dahl, Chief Financial Officer; Kathleen Deardorff, Chief Operating Officer; Grete Hogstad, Vice President Strategic Marketing; Inger Ferner Heglund, Vice President Research and Development; Gry Stensrud, Vice President Technical Development and Operations; Ambaw Bellete, Head, US Cancer Commercial Operations and Espen Njåstein, Head, Nordic Cancer Commercial Operations.

The members of the Board of directors was at the end of 2013 Åse Aulie Michelet (Chairman), Jon Hindar, Mats Pettersson, Eva Steiness and Xavier Yon. Ingrid Wiik, a member of the Board of directors since 2011, sadly passed away in 2013.

Photocure ASA has offices in Oslo, Norway. The Group has entered into a 5-year rental contract for Hoffsvien 4 from March 2011. In addition, Photocure Inc has entered into a rental contract from April 2011 through March 2017 in Princeton, New Jersey, USA.

CORPORATE SOCIAL RESPONSIBILITY

Photocure is the world leader in photodynamic technology. We develop and commercialize highly selective and effective solutions in several disease areas such as bladder cancer, colorectal cancer, HPV and precancerous lesions of the cervix and acne. Our technology is uniquely selective, targeting affected areas without impact to non-affected areas. This allows for non-invasive procedures that improve quality of life.

We believe that creating value for patients, customers and society strengthens our business and provides value for shareholders, and that our commitment to corporate social responsibility will enhance this by building strong relationships with our stakeholders.

Our commitment to corporate social responsibility is driven by our values - integrity, respect and care, courage and passion - and is reflected in our focus

on four priority areas: Patients access to health and quality of life, human resources, environment, and governance and ethics.

Patients access to health and quality of life

Photocure's mission is to improve patient care and quality of life by making solutions based on photodynamic technology accessible to patients worldwide.

This mission encompasses all activities from developing products, gaining approval by relevant authorities, working with patient organizations and hospitals and finally getting the products to the market either by Photocure's own sales organization or by partners.

Photocure has had several positive developments in 2013, including final positive results from the phase 2b study in treatment of CIN2 and HPV with Cevira. Additionally, Photocure obtained SPA agreement with the FDA on the Visonac phase 3 program and through a new agreement with Galderma obtained freedom to enter partnership for Visonac without additional approval from Galderma. For the Hexvix/Cysview product more patients benefitted from this unique technology by increasing total unit sales 11% in the year to a total of 46,000 units with an increase in total in market value of 18% to NOK 150 million.

Human resources

At the end of 2013, the company employed 50 people. The company makes use of external suppliers for production and development, as well as for regulatory work. The work environment within the company is considered to be good. No accidents or injuries resulting in absence were registered in 2013. Absence due to illness in the company totaled 187 working days in 2013, which corresponds to 1.4% of total hours.

Photocure aims to be a workplace with equal opportunities for women and men in all areas. The company has traditionally recruited from environments where the number of women and men is relatively equally represented. In terms of gender equality within the company, 40% of board members are women, as are 50% of the senior management team. Working time arrangements at the company are independent of gender.

Photocure's policy is to promote equal rights and opportunities and prevent discrimination on account of gender, ethnicity, nationality, ancestry, color or religion. Photocure is working actively to promote the anti-discrimination act in our business. The activities include recruitment, salary and working conditions, promotion, professional development and protection against harassment.

Photocure aims to be a workplace where there is no discrimination on the basis of disability. Photocure works actively to design and facilitate the physical environment so that the company's various functions can be used by as many as possible.

Environment

The company does not pollute the external environment to a greater extent than is normal for this industry. All production and distribution is outsourced. In selection of suppliers ethical and responsible business conduct including environment, health and safety policy of the supplier is evaluated.

Governance and ethics

Ensuring good governance practices involves all people in Photocure. This includes governance as documented in our guidelines for corporate governance, ethical conduct and anti-corruption based on the Photocure Values and respect for human rights. Photocure's supplier requirements in terms of adherence to our practices, guidelines and values are an integral part of all stages of the procurement process including selection and auditing.

Our values set out our expectation for everyone to behave ethically in everything they do. Our values are integrity, respect and care, courage and passion. The annual performance appraisal for our employees and management includes an assessment of the performance in relation to the Photocure Values.

Photocure considers solid corporate governance as a prerequisite to creating value for shareholders and gaining the confidence of investors. Photocure will strive to comply with the generally accepted principles of good corporate governance through its internal controls and management structure. Photocure believes that its current guidelines for corporate governance are in line with the latest version of the Nor-

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wegian Code of Practice for Corporate Governance, and a description of this is given at the end of the Annual report. A complete description of the recommendation is available at the Norwegian Corporate Governance Board (NCGB) web pages (www.nues.no).

OUTLOOK

Photocure's strategy is to develop the company from a purely research and development based organization into a specialty pharmaceutical company. This is achieved by strengthening the commercial

activities of the company. In this connection significant investments are done in the US market through the establishment of a sales and marketing organization for Cysview. Moreover, the company works closely with Ipsen to increase its Hexvix market share in European countries. In the Nordics, Photocure is well established with a market share of approximately 38% of all transurethral resections of the bladder (TURB).

Within development, the main tasks are to conduct necessary studies and to ensure progress in the development of pharmaceu-

ticals and treatment procedures within the company's core areas.

To optimize the value of Photocure's products, the company is working to identify partners for Cevira and Visonac and to continue a close working relationship with Salix for the development and commercialization of Lumacan.

Oslo, 26 February 2014
The Board of Directors of Photocure ASA

Åse Aulie Michelet, Chairman of the Board

Jon Hindar, Director

Mats Pettersson, Director

Eva Steiness, Director

Xavier Yon, Director

Kjetil Hestdal, President and CEO

CONFIRMATION FROM THE BOARD OF DIRECTORS AND CEO 2013

We confirm that, to the best of our knowledge, that the financial statements for the period from 1 January to 31 December 2013 have been prepared in accordance with IFRS adopted by EU and gives a true and fair view of the Group and the Company's consolidated assets, liabilities, financial position and results of operations, and that the Report of the Board of Directors provides a true and fair view of the development and performance of the business and the position of the Group and the Company together with a description of the key risks and uncertainty factors that the company is facing.

Oslo, 26 February 2014
The Board of Directors of Photocure ASA

Åse Aulie Michelet, Chairman of the Board

Jon Hindar, Director

Mats Pettersson, Director

Eva Steiness, Director

Xavier Yon, Director

Kjetil Hestdal, President and CEO

CORPORATE GOVERNANCE

PHOTOCURE IS COMMITTED TO GOOD CORPORATE GOVERNANCE

The Norwegian Code of Practice for Corporate Governance is intended to support listed companies by facilitating regulation of the division of roles between shareholders, the board of directors and the management more comprehensively than is required by the relevant legislation.

Observance of the recommendations is based on the “comply or explain” principle. Photocure’s board of directors and management has resolved as a main principle to follow the recommendations of the Norwegian Corporate Governance Code of 23 October 2012 to the extent not considered unreasonable due to the company size and stage of development. Explanations are provided of non-conformance to the code if not fully implemented.

Photocure’s compliance with the Code is detailed in this report and section numbers refer to the Code’s chapters.

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

Photocure intends to comply with the Norwegian Code of Practice for Corporate Governance. This statement of compliance with the code is presented in the company’s annual report and on the company website.

Photocure’s value base constitutes a key premise for the company’s corporate governance.

Non-conformance with the recommendation: None

2. BUSINESS

Photocure’s business is clearly defined in the company’s articles of association. The company’s goals and strategies are presented in the annual report.

Non-conformance with the recommendation: None

3. EQUITY AND DIVIDENDS

Photocure’s equity is appropriate to the company’s goals, strategy and risk profile. The company’s mandate to increase the capital and to purchase own shares is tied to defined purposes and limited in time to the next General Meeting.

Non-conformance with the recommenda-

tion: Photocure is focusing its resources on building a specialty pharma company and the board of directors will recommend payment of dividends in line with the company’s results, financial position and outlook. The company has, due to its level of development, uneven revenue streams and net cash flows, and does not expect to pay recurring dividends until justified by recurring cash flows.

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH RELATED PARTIES

Photocure has only one class of shares. If the board of directors proposes that the existing shareholders’ pre-emptive rights be waived in the case of share capital increases, the waiver will be based on the common interests of the company and the shareholders. The reasons will be made public in a stock exchange disclosure in connection with the capital increase.

All material transactions between the company and shareholders, members of the board of directors, key employees or parties closely associated with same are to be assessed by an independent third party. Members of the board of directors and the management are obliged to notify the board of directors if they have any material interest – directly or indirectly – in any agreement entered into by the company. The board of directors will report in the annual report any transactions with related parties.

Non-conformance with the recommendation: None

5. FREELY NEGOTIABLE SHARES

All shares are freely negotiable with no form of restriction on negotiability.

Non-conformance with the recommendation: None

6. GENERAL MEETINGS

It is the responsibility of the board of directors to ensure that as many shareholders as possible have the opportunity to exercise their rights by participating in the General Meetings of the company, and that the General Meetings are an effective forum for both shareholders and the board of directors.

The chairperson of the board of directors, the CEO and CFO are present at the Annual General Meeting, along with the chairperson of the nomination committee and the company auditor. Shareholders who are unable to participate themselves may vote by proxy and a person can also be appointed to vote for the shareholders as a proxy.

Notice of the meeting and relevant documents, including the proposal of the nomination committee, are made available on the company website three weeks in advance of the meeting. Notice of the meeting is sent to all shareholders individually, or to their depository banks, three weeks in advance of the meeting. The notice of meeting includes information regarding shareholders’ rights, guidelines for registering and voting at the meeting. The company provides information on the procedure for representation at the meeting through proxy, nominates a person to vote on behalf of the shareholders and to the extent possible prepares a form which allows separate voting instructions for each matter.

Non-conformance with the recommendation: Photocure being a small company and with directors living in different countries has encouraged directors to attend, but has for both cost and convenience reasons so far not required all directors to attend the General Meeting.

7. NOMINATION COMMITTEE

As stipulated in its articles of association, the company has a nomination committee that consists of three members. The nomination committee is elected annually by the General Meeting and is to be composed in such a way as to ensure broad representation of shareholder interests.

The nomination committee’s duties are to propose candidates for election to the board of directors and to propose fees to be paid to the board members. The Nomination Committee is required to justify their recommendations.

Non-conformance with the recommendation: None

8. COMPOSITION AND INDEPENDENCE OF THE BOARD OF DIRECTORS

The board of directors consists of five members. The composition of the board of directors of Photocure is designed to ensure that it can attend to the common interests of all shareholders, and that it meets the company's requirements for expertise, capacity and diversity, and function as an effective collegial body.

The members of the board of directors are elected for one year terms and presented on the company website. The Chairman and the members of the board of directors are elected by the General Meeting. All board members are considered to be independent from the company's day-to-day management, main shareholders and material business connections.

Non-conformance with the recommendation: None

9. THE WORK OF THE BOARD OF DIRECTORS

The board of directors prepares an annual plan for its work, which comprises goals, strategy and implementation. The board of directors performs an annual review of its work and required competences.

The board of directors has established an audit committee and a remuneration committee for the thorough and independent handling of cases involving financial reporting and remuneration to key employees. The board of directors has established instructions for the committees and the President & CEO.

In matters where the chairman of the board of directors is or has been actively involved, another board member will chair the meeting.

Non-conformance with the recommendation: None

10. RISK MANAGEMENT AND INTERNAL CONTROLS

It is the responsibility of the board of directors to ensure that the company has sound internal controls and systems for risk management that are appropriate in relation to the extent and nature of the company's activities. Significant risks include strategic risks, financial risks, liquidity risks and operational risks including risks related to

development of products. The company's significant risks are assessed on an on-going basis and at least once a year by the board.

The company's finance function is responsible for the preparation of the financial statements and to ensure that these are prepared and reported according to applicable laws and regulations and in accordance with IFRS. The Audit Committee performs reviews of the quarterly and annual financial statements with special focus on transaction types which includes judgments, estimates or issues with major impact on the financial statement. In addition to the quarterly and annual reporting, the board of directors receives monthly financial updates. Management controls are performed at a senior level in the company.

The board of directors performs an annual review of the company's internal control systems and risk areas.

Non-conformance with the recommendation: None

11. REMUNERATION OF THE BOARD OF DIRECTORS

The remuneration of the board of directors is to reflect the board's responsibility, expertise and time commitment, as well as the complexity of the company's activities. The remuneration of the board of directors is not linked to the company's profits, and share options are not granted to members of the board.

Non-conformance with the recommendation: None

12. REMUNERATION OF EXECUTIVE PERSONNEL

The board of directors has established guidelines for remuneration of the key employees of the company, and said guidelines are presented to the General Meeting. Performance-related remuneration is linked to value creation for the shareholders over time, and is based on quantifiable factors which the employees in question can influence.

Non-conformance with the recommendation: The share option scheme is currently not combined with direct ownership of the underlying shares as the option programs so far has given limited pay-outs.

13. INFORMATION AND COMMUNICATIONS

The company's reporting of financial and other information is based on openness and takes into account requirements for equal treatment of all investors. The company publishes a financial calendar on an annual basis, including dates of release of interim reports and dates for general meetings. All press releases and stock exchange notifications are posted on the company's website at the same time as it is sent to the shareholders.

The chairperson of the board and the CEO are authorized to speak on behalf of the company, and delegate such authority as is appropriate in relevant cases.

Non-conformance with the recommendation: None

14. COMPANY TAKE-OVERS

The board of directors will not attempt to influence, hinder or complicate the submission of bids for the acquisition of the company's operations or shares, or prevent the execution thereof. The board of directors will help ensure that shareholders are treated equally. If a take-over offer is made, the board of directors will obtain a valuation from an independent expert and issue a recommendation as to whether shareholders should accept the offer.

Non-conformance with the recommendation: None

15. AUDITOR

On an annual basis, the auditor presents to the audit committee the main features of the plan for the performance of the audit work. The auditor also participates in meetings of the board of directors that deal with the annual financial statements and, at least once a year, carries out a review of the company's procedures for internal control in collaboration with the audit committee. In addition, the external auditor meets with the board of directors, without Photocure management being present, at least once per year.

Non-conformance with the recommendation: None

INCOME STATEMENT

Photocure ASA <i>(Amounts in NOK 1 000)</i>					
Parent		Group			
2013	2012		2013	2012	
		Notes			
64 224	85 410	Sales revenues	1,2,3	79 307	75 082
4 309	58 741	Signing fees and milestone revenues	1,2,3	4 309	58 741
68 533	144 151	Total revenues		83 616	133 823
-5 875	-10 069	Cost of goods sold	6	-6 829	-9 405
62 658	134 082	Gross profit		76 787	124 418
2 203	2 586	Other income	5	1 591	2 242
-7 751	-12 337	Indirect manufacturing expenses	7	-7 751	-12 337
-33 976	-50 083	Research and development expenses	7, 8	-33 976	-50 083
-34 329	-47 361	Marketing and sales expenses	7	-68 418	-70 188
-37 303	-27 798	Other operating expenses	7	-40 079	-33 300
-111 156	-134 993	Total other income and expenses		-148 633	-163 666
-48 498	-911	Operating profit/loss(-) recurring		-71 846	-39 248
-3 694	0	Restructure costs	7	-3 694	0
-52 192	-911	Operating profit/loss(-) incl non-recurring		-75 540	-39 248
18 318	12 766	Financial income	12	10 119	12 766
-1 431	-9 218	Financial expenses	12	-1 431	-4 530
16 887	3 548	Net financial profit/loss(-)		8 688	8 236
-35 305	2 637	Profit/loss(-) before tax		-66 852	-31 012
8 269	890	Tax expense	13	8 204	890
-27 036	3 527	Net profit/loss(-) for continued operations		-58 648	-30 122
	-8 508	Profit/loss(-) from discontinued operations	4	-302	-17 779
-27 036	-4 981	Net profit/loss(-) for the year		-58 950	-47 901
-14 092	-10 828	Market value adjustment shares		-14 092	-10 828
		Currency translation		76	-527
		Total other comprehensive income items			
-14 092	-10 828	that may be reclassified to profit & loss		-14 016	-11 355
-41 128	-15 809	Comprehensive income		-72 966	-59 256
		Earnings per share (Amounts in NOK):	14		
		Basic		-2.78	-2.25
		Diluted		-2.77	-2.24
		Earnings per share continued operations	14		
		Basic		-2.76	-1.42
		Diluted		-2.75	-1.41

BALANCE SHEET

AS OF 31 DECEMBER

Photocure ASA
(Amounts in NOK 1 000)

Parent		Group			
2013	2012			2013	2012
ASSETS					
3 209	3 531	Machinery and equipment	15	3 681	4 111
110 277	81 468	Loan to group company	28		
54 380	62 107	Other investments	16	51 969	59 951
49 109	40 840	Deferred tax asset	13	49 109	40 840
216 975	187 946	Total non-current assets		104 759	104 902
12 561	8 724	Inventories	17	12 624	9 826
8 687	6 438	Accounts receivable	18, 20	9 432	7 116
7 168	7 611	Other receivables	18, 20	7 653	8 316
166 351	301 822	Cash and short term deposits	18, 21	167 258	302 818
194 767	324 596	Total current assets		196 967	328 076
411 742	512 542	Total assets		301 726	432 978
EQUITY AND LIABILITIES					
10 697	10 697	Share capital	22	10 697	10 697
34 777	72 961	Other paid-in capital		34 777	72 961
336 687	377 814	Retained earnings		223 649	296 610
382 161	461 472	Total equity		269 123	380 268
2 296	1 621	Pension liabilities	10	2 296	1 621
2 296	1 621	Total non-current liabilities		2 296	1 621
6 654	9 040	Accounts payable	24	7 281	9 035
3 310	2 125	Employee withholding taxes and social security tax		3 324	2 167
17 321	38 283	Other current liabilities	24	19 702	39 888
27 285	49 448	Total current liabilities		30 307	51 089
29 581	51 070	Total liabilities		32 603	52 710
411 742	512 542	Total equity and liabilities		301 726	432 978

Oslo, 26 February 2014

The Board of Directors of Photocure ASA

Åse Aulie Michelet, Chairman of the Board Eva Steiness, Board Member

Jon Hindar, Board Member Mats Pettersson, Board Member

Kjetil Hestdal, President and CEO Xavier Yon, Board Member

STATEMENT OF CHANGES IN EQUITY

Photocure ASA

(Amounts in NOK 1 000)

Parent company

	Issued capital	Treasury shares	Other paid-in equity	Fair value reserve	Trans-lation reserve	Retained earnings	Total equity
Equity as of 31 December 2011	10 697	-2 524	75 296	19 180	0	374 435	477 084
Comprehensive income:							
Net profit for the year						-4 981	-4 981
Other comprehensive income that may be reclassified to p&l				-10 828			-10 828
Total comprehensive income	0	0	0	-10 828	0	-4 981	-15 809
Transaction with owners:							
Capital reduction							0
Buy back own shares		-9 165					-9 165
Sale own shares		2 827					2 827
Employees' options			6 527				6 527
Other items						10	10
Total transaction with owners	0	-6 338	6 527	0	0	10	199
Equity as of 31 December 2012	10 697	-8 862	81 823	8 352	0	369 464	461 473
Comprehensive income:							
Net profit for the year						-27 036	-27 036
Other comprehensive income that may be reclassified to p&l				-14 092			-14 092
Total comprehensive income	0	0	0	-14 092	0	-27 036	-41 128
Transaction with owners:							
Capital repayment			-42 481				-42 481
Buy back own shares		-3 830					-3 830
Sale own shares		5 955					5 955
Employees' options			2 172				2 172
Other items							0
Total transaction with owners	0	2 125	-40 309	0	0	0	-38 184
Equity as of 31 December 2013	10 697	-6 737	41 514	-5 740	0	342 428	382 161

Group

	10 697	-2 524	75 296	19 180	138	336 550	439 337
Comprehensive income:							
Net profit for the year						-47 901	-47 901
Other comprehensive income that may be reclassified to p&l				-10 828	-527		-11 355
Total comprehensive income	0	0	0	-10 828	-527	-47 901	-59 256
Transaction with owners:							
Capital reduction							0
Buy back own shares		-9 165					-9 165
Sale own shares		2 827					2 827
Employees' options			6 527				6 527
Other items							0
Total transaction with owners	0	-6 338	6 527	0	0	0	189
Equity as of 31 December 2012	10 697	-8 862	81 823	8 352	-389	288 649	380 270
Comprehensive income:							
Net profit for the year						-58 950	-58 950
Other comprehensive income that may be reclassified to p&l				-14 092	76		-14 016
Total comprehensive income	0	0	0	-14 092	76	-58 950	-72 966
Transaction with owners:							
Capital repayment			-42 481				-42 481
Buy back own shares		-3 830					-3 830
Sale own shares		5 955					5 955
Employees' options			2 172				2 172
Other items							0
Total transaction with owners	0	2 125	-40 309	0	0	0	-38 184
Equity as of 31 December 2013	10 697	-6 737	41 514	-5 740	-311	229 699	269 122

CASH FLOW STATEMENT

Parent			Group	
2013	2012		2013	2012
-35 305	-5 871	Profit/loss(-) before tax	-67 154	-48 791
1 224	1 358	Ordinary depreciation & amortisation	1 460	1 610
-4	0	Gain(-)/Loss on sale of non-current assets	26	0
-4 309	11 060	Deferred income sale of Metvix & Aktelite	-4 309	11 060
1 915	5 718	Share-based payments expense	2 176	6 527
675	588	Pension costs	675	588
-5 530	-10 380	Interest income	-5 530	-10 380
-8 199	4 687	Unrealized currency gain(-)/loss loan subsidiary	-	-
-2 430	1 497	Other items	-1 833	970
-3 837	2 717	Change in inventory	-2 798	1 964
-1 806	191	Change in receivables	-1 653	-915
-1 201	-2 578	Change in other short term liability	-597	-2 425
0	-11 621	Prepayment from customer	0	-11 621
-20 287	-3 202	Change in other accruals	-20 185	-3 515
-79 094	-5 837	Net cash flow from operating activities	-99 722	-54 928
-20 609	-50 406	Loan to subsidiary	-	-
-1 085	-906	Investments in machinery and equipment	-1 155	-1 309
143	0	Sale of fixed assets (sales price)	143	0
5 530	10 380	Interest received	5 530	10 380
-16 021	-40 932	Net cash flow from investing activities	4 518	9 071
-42 481	0	Repayment of capital	-42 481	0
-3 830	-9 165	Buy back own shares	-3 830	-9 165
5 955	2 827	Sale own shares	5 955	2 827
0	-162	Payment of debt	0	-162
-40 356	-6 500	Net cash flow from financing activities	-40 356	-6 500
-135 471	-53 269	Net change in cash during the year	-135 560	-52 357
301 822	355 091	Cash and cash equivalents as of 1 January	302 818	355 175
166 351	301 822	Cash and cash equivalents as of 31 December	167 258	302 818

ACCOUNTING PRINCIPLES

1. GENERAL INFORMATION

The annual accounts for 2013 for Photocure ASA (the Company) and its subsidiary (together the Group or Photocure) were approved for publication by the Board of Directors on 26 February 2014.

Photocure ASA is a public limited company domiciled in Norway. The business of the Group is associated with research, development, production, distribution, marketing and sales of pharmaceutical products and related technical medical equipment. The Company's shares are listed on the Oslo Stock Exchange. The Company's registered office is Hoffsveien 4, NO-0275 Oslo, Norway.

2. BASIS FOR PREPARATION OF THE ANNUAL ACCOUNTS

The annual accounts for the Group and the Company have been prepared on the basis of historical cost, with the exception of investments in other shares and in money market funds, which are valued at fair value.

The Group and the Company's annual accounts are prepared in accordance with International Financial Reporting Standards (IFRS) as specified by the International Accounting Standards Board and implemented by the EU as per 31 December 2013.

Photocure has NOK (Norwegian kroner) as its functional currency and presentation currency. In the absence of any statement to the contrary, all financial information is reported in whole thousands. As a result of rounding adjustments, the figures in the financial statements may not add up to the totals.

Photocure performs the sales and distribution of Hexvix in the Nordic market. As of January 2012, Photocure has commercialized the product Cysview (US trade name) through its own commercial operations in the US. Hexvix is licensed to Ipsen Pharma SAS in the rest of Europe outside the Nordic region. Photocure decided 1st of October 2012 to exit the Allumera business in the US and this is presented as a discontinued operation in the financial statement for 2013.

In the annual accounts for 2013, Photocure has presented the consolidated accounts including the wholly owned subsidiary Photocure Inc.

3. CHANGES IN ACCOUNTING POLICIES

Photocure has not chosen an early implementation of any new or amended IFRS's or IFRIC interpretations. Photocure does not expect that implementation of new/amended standards and interpretations with future application dates will have any significant effect on the annual accounts at the time of implementation.

4. IMPORTANT ACCOUNTING VALUATIONS, ESTIMATES AND ASSUMPTIONS

Preparation of the annual accounts in accordance with IFRS requires the use of judgment, estimates and assumptions that have consequences for recognition in the balance sheet of assets and liabilities, the estimation of contingent liabilities and recorded revenues and expenses.

The use of estimates and assumptions is based on the best discretionary judgment of the Group management.

In the process of applying the principles of accounting, the Group management has made the following judgments and estimates that are of significance for recognized values in the annual accounts for 2013:

- As part of the Metvix divestment in 2009, Galderma received, as part of the agreement, the first right of refusal for Visonac after Photocure had completed the first phase 3 study. Photocure and Galderma agreed to terminate this agreement in October 2013 and the payment of USD 1.5 million was expensed when the agreement was entered.
- Received, non-refundable up-front payments for licensing of the Hexvix product to Ipsen have been treated as payments associated with the transfer of rights for the product and manufacturing transition milestones achieved by Photocure. Amounts received are not subject to netting, and in the view of the Group no conditions or future obligations are associated with these payments. Received payments are therefore recognized as income when the conditions are achieved.
- As part of the agreement with Ipsen, Photocure co-invested with Ipsen in marketing and sales programs of Hexvix in 2012 and 2013, conditional on Ipsen's own marketing and sales activities. This contribution was expensed evenly over the period of January 2012 through June 2013.
- Based on an agreement concerning licensing of the pipeline product Lumacan to Salix Pharmaceuticals Inc. ("Salix"), Photocure has received license- and milestone payments. According to the agreement, these payments are not subject to any conditions and are recognized in the period they are received.
- The agreement with Salix commits Photocure to refund up to USD 3 million of Salix's development costs for formulation. Salix owns the rights to the development work, and it will not generate direct income for Photocure. This is a contractual, unconditional obligation and will not give increased value or income for Photocure. The amount was thus expensed in 2010 and paid in full during 2013.
- In the opinion of the Group, shares in PCI Biotech Holding ASA (PCI Biotech) are to be considered as shares available for sale in accordance with IAS 39. Our view is that with 19.35% of the shares, Photocure does not have significant influence in PCI Biotech. There are no shareholder agreements or similar arrangement between Photocure and the other owners of PCI Biotech. Photocure is not represented on the Board of PCI Biotech.
- Based on Norwegian company tax rules, the Group has recognized a tax asset of NOK 49.1 million in the balance sheet as of 31 December 2013 of Photocure ASA. The basis for recognition is that temporary differences for the coming years will be reversed and expected future revenues.
- Development of pharmaceuticals and medical equipment: The Group cannot render probable future earnings large enough to justify recognizing development costs in the balance sheet before marketing approval has been obtained. Own development costs are therefore recognized as an expense as incurred until national market approval for the product and indication has been obtained. Any further development of the

product after marketing approval has been obtained and market launch completed will be recognized in the balance sheet to the extent that this involves significant changes to the product, which is considered likely to generate future financial benefits, cf. 5d.

- Development of other products: The Group cannot render probable future earnings on own-developed products that are large enough to justify recognizing development costs in the balance sheet before such products have been commercially launched in a market, and before it is likely that the products will generate profits in the long term. Any further development of the product after such a market launch is completed will be recognized in the balance sheet to the extent that this involves significant changes to the product, which is considered likely to generate future financial benefits.
- The fair value of employee options is calculated according to the Black-Scholes method. This method involves the use of estimates and discretionary judgment, as described in more detail in note 9. The allocation of options to employees of subsidiary is made directly from the parent company and the financial presentation is correspondingly reported in the subsidiary.
- Accounts receivable have been valued in relation to the likelihood that customers will meet their payment obligations. Accounts receivable are primarily from our license partners, pharmaceutical wholesalers in the Nordic region and hospitals in the US, and the risk for bad debts is minor.

5. SUMMARY OF IMPORTANT GUIDELINES FOR ACCOUNTING FOR THE GROUP

a. Classification

Assets/liabilities are classified as current assets/current liabilities when they meet one of the following criteria:

- They are expected to be realized in the Group's ordinary operating cycle or are kept for sale or consumption;
- They are expected to be realized within 12 months of the balance sheet date; or
- They are in the form of cash or a cash equivalent.

All other assets/liabilities are classified as fixed assets/long-term liabilities.

b. Currency

Monetary items in foreign currencies are converted at closing rate of exchange. In the absence of any statement to the contrary, realized and unrealized exchange rate gains and losses are included in financial income or expenses. Transactions in foreign currencies are recorded at the exchange rate on the date of transaction.

Assets and liabilities in foreign currencies are translated into NOK at the exchange rate applicable on the balance sheet date. Income and expenditure in foreign currencies are translated into NOK at the exchange rate applicable on the transaction date. Income and expenses in foreign subsidiaries are translated into NOK at the average exchange rate for the financial statement period.

Deferred revenue from the sale of Metvix/Aktelite to Galderma

is recognized evenly over the maximum period, and translated to NOK based on an average currency rate during the year.

c. Property, plant and equipment

Tangible fixed assets are recognized at cost less deductions for accumulated depreciation and write-downs. Tangible fixed assets are depreciated over the expected useful life of the assets taking any residual value into consideration. Costs accrued for major replacements and upgrades of tangible fixed assets are added to cost if it is probable that the costs will generate future economic benefits for the Group and if the costs can be reliably measured. Ordinary maintenance is expensed as incurred.

Tangible fixed assets are depreciated on a straight-line basis over the estimated useful life of the asset as follows:

- Production and test equipment	5 years
- Furniture and equipment	3-5 years

Intangible assets are amortized on a straight-line basis over the estimated useful life from the time they are available for use as follows:

- Software	5 years
------------	---------

Tangible fixed assets recognized in the balance sheet that are depreciated are tested for impairment if there are indications of a permanent loss in value. If the book value of a fixed asset is higher than the recoverable value of the asset, the loss in value is recognized in profit and loss. The recoverable value is the highest of net sales value and the value in use of the fixed asset. Tangible fixed assets are grouped and measured at the lowest level for determining loss in value.

Previous write-downs are reversed to the extent that the basis for these write-downs no longer exists. Reversals are limited to book value after deduction for accumulated depreciation calculated as if the write-down had not taken place.

Profits from the sale of tangible fixed assets and intangible assets are recognized in "Other operating revenues", while losses are recognized in "Other operating expenses".

d. Research and development costs

Research costs are expensed as incurred. Development costs are recognized in the balance sheet as intangible assets only if there is an identifiable asset that is expected to generate future financial benefits, and when the costs of such an asset can be reliably measured. Development costs are recognized in the balance sheet as intangible assets if all the following criteria are fulfilled:

- It is technically possible to complete the asset so that it can be available for use or for sale;
- The purpose is to complete the asset for use or for sale;
- The Group is able to use or sell the asset;
- The asset will provide future financial benefits, a market exists for the asset or the output of the asset or that the asset is useful if it is to be used internally.
- Sufficient technical, financial or other resources are available to carry out the development and to use or sell it, and
- The opportunity exists to reliably measure costs associated with the intangible asset.

ACCOUNTING PRINCIPLES

When all the criteria listed above have been met, costs related to development are to be recognized in the balance sheet. Development costs that have been expensed in previous accounting periods cannot be recognized in the balance sheet at a later date. Cost-sharing of research and development expenses with license partners is booked as a reduction in costs.

e. Investment in subsidiary companies

Shares and investments with the aim of long-term ownership are booked in the balance sheet as long-term investments and are valued at the lower of cost and fair value. Write-downs for permanent declines in value are made on the basis of individual evaluations. Any realized and unrealized profits/losses and any write-downs related to these investments will be booked in the income statement as financial items.

f. Inventories

Raw materials are valued at the lower of cost and net sales value in accordance with the first-in, first-out principle (FIFO). Semi-finished and finished goods are valued at production cost including a mark-up for their share of the indirect production costs based on the FIFO principle.

g. Financial assets and liabilities

Financial assets and liabilities are recognized in the balance sheet when the Group enters into a binding agreement in regard to the item.

g.1 Trade accounts receivable and other receivables are recorded at amortized cost.

g.2 Cash and cash equivalents include, in addition to bank and cash balances, money market funds with securities that have an average life of three months or less.

g.3 Investments in other shares and securities valued as financial assets are booked at fair value. According to IAS 39, changes in the value of shares is to be booked directly against equity, but a permanent and significant fall in the value of shares is to be booked against profits. Any subsequent increase in the value of shares is to be booked against equity.

g.4 Interest-bearing liabilities are recognized at fair value at the time of recognition. In subsequent periods, interest-bearing liabilities are booked at amortized cost according to the effective interest method.

g.5 Trade accounts payable are booked at amortized cost.

g.6 Financial income consists of interest income on bank balances and money market fund as well as exchange rate gains from currency items. Financial expense consists of interest expense on borrowing and exchange rate losses from currency items.

h. Revenue recognition

Revenue is booked when it is probable that resources will generate future economic benefits that will accrue to the Group, and the amount of the revenue can be reliably estimated.

Payments for the sale of products are recorded on the date of

delivery, that is to say when both control and risk essentially have been transferred to the buyer. The return of goods is booked as a reduction of revenue.

Signing payments received in connection with entering into license agreements are booked as revenue according to the content of the agreement in question. Receipt of payments that are non-refundable and where there are no obligations on Photocure associated with the payments, will be considered to be a sale and booked as revenue immediately.

Payments in connection with milestone achievements associated with regulatory approvals, launches etc. are booked as revenue when the milestones are achieved.

Licence agreements that give the right to a guaranteed minimum royalty are booked as revenue at the time the prerequisite is fulfilled. Royalty revenue is booked as Sales revenue in line with the licensee's sale of licensed products.

i. Government grants

Government grants are booked at the value of the grant on the date of transaction. Operating grants are booked at the same time as the income that it shall generate or the cost that it shall reduce. Grants are first booked as income when the conditions for the grant in question have been met and the grant is to be paid out. Grants are classified as Other income in the income statement.

j. License costs

The Group has entered into agreements with external parties concerning access to technology in the form of license agreements and agreements that allow the use of patented technology. Royalty-based payments on products are booked as an expense in line with the sale of the licensed products, and booked in the income statement as "Cost of goods sold". License payments associated with signing fees and milestone payments concerning regulatory approval and product launches are booked as an expense when they occur and are reported as "Other operating expenses" in the income statement.

k. Pensions

Photocure ASA has an agreement with a life assurance company concerning contribution-based pensions for Photocure's employees. Contributions, ranging from 5% to 8% of the employee's ordinary salary up to 12 times the basic amount (G) of the Norwegian National Insurance scheme, are paid into the employee's contribution account with the life assurance company. The Company's payment of contributions is expensed in the period it is accrued. Any prepayments made to the contribution fund are recognized in the balance sheet.

Salary to employees above $12 \times G$ is subject to agreements concerning operational coverage of pensions for salary above this level in the form of contribution-based pensions. The calculated contribution constitutes 16% of the employee's salary above $12 \times G$. The calculated pension obligation pursuant to this scheme is interest-bearing.

Photocure Inc. matches its employee's contribution to the 401(k) plan dollar for dollar. Photocure's contribution is limited to 4% of the salary.

l. Share-based remuneration

Employees are offered subscription rights to the Company's shares as an element of the Group's employee incentive policy. If the Group has a sufficient amount of own shares, the Group will allot own shares instead of issuing new shares. All subscription rights as of 2013 are offered at strike prices that reflect the market price of the shares at the time of allotment of the rights.

The fair value is expensed over the subscription rights' vesting period and the Company's equity is increased correspondingly. The fair value of subscription rights is calculated according to the Black-Scholes model. Each program is calculated separately with the actual strike price and duration of the program. The subscription rights cease to be valid immediately on termination of the employee's employment relationship with the Company.

Employer's social security contributions on outstanding subscription rights are accrued as personnel costs over the vesting period based on the intrinsic value of the rights.

m. Tax

The tax expense in the income statement includes both the income tax payable for the period and changes in deferred tax. Deferred tax is calculated at 27% on the basis of the temporary differences that exist between the tax value of the assets and liabilities, and their book value.

Liabilities for deferred tax are included for all temporary differences that increase tax, except when the asset in connection with deferred tax arises as a result of the first-time inclusion of an asset or liability in a transaction that is not in a business combination and affects neither the accounting nor the taxable profit or loss at the time of the transaction.

Assets in connection with deferred tax are included for all tax-reducing temporary differences, carry forward of tax deductions and tax losses in the extent that there is objective proof that there will be sufficient taxable profits against which to offset tax-reducing temporary differences, and carry forward of unused tax deductions and tax losses.

The book value of assets in connection with deferred tax is reviewed on every balance sheet date and is reduced to the degree that there is no longer any objective proof that there will be sufficient taxable profits to utilize all or parts of assets in connection with deferred tax. Non-recognized assets in connection with deferred tax are reviewed every balance sheet date and are included to the degree that it is probable that future taxable profits will allow the recovery of assets in connection with deferred tax.

n. Earnings per share

Earnings per share is calculated on the basis of the profits for the period after tax but before "Other comprehensive income", divided by a weighted average number of outstanding shares in the period and adjusted for the treasury shares.

The diluted earnings per share are calculated by adjusting the denominator for amounts outstanding on option programs. Antidilution effects are not taken into consideration.

o. Provisions

Provisions are booked when the Group has a liability associated with an event, when it is probable that the liability will have to be settled and when the liability can be measured or estimated.

When the Group expects that all or parts of the liability can be charged on to another party, this recharge will be recorded as an account receivable if there is reasonable certainty that the other party will pay. The cost associated with a provision will be recorded net in the income statement after deduction for the recharge.

p. Contingent liabilities and assets

Contingent liabilities are defined as:

- Possible liabilities as a result of earlier events where their existence depends on future events;
- Liabilities that are not included because it is not probable that they will lead to an outflow of resources from the Group;
- Liabilities that cannot be measured with sufficient reliability.

Contingent liabilities are not included in the annual accounts. Notes on significant contingent liabilities are provided, with the exception of contingent liabilities with little probability of occurring.

Contingent assets are not included in the annual accounts, but are reported in cases in which there is a certain likelihood of their resulting in a benefit to the Group.

q. Events after the balance sheet date

New information regarding the Group's financial position on the balance sheet date has been taken into account in the annual accounts. Events after the balance sheet date that do not affect the Group's financial position on the balance sheet date, but which will affect the Group's financial position in the future, are reported if they are significant.

r. Cash flow statement

The cash flow statement has been prepared in accordance with the indirect method. Cash and cash equivalents consists of cash, bank deposits and other current investments like money market funds.

s. Equity

Amounts that are distributed to or contributed by shareholders are included directly in the equity. The Group's equity is increased in direct relation to the cost of share-based remuneration for employees.

s.1 The nominal value of treasury shares is presented in the balance sheet as a negative equity element. The net purchase price is entered as a reduction of other paid-in equity. Profits or losses on transactions in treasury shares are not included in the income statement.

s.2 Transaction charges in connection with equity transactions are included directly in equity after deduction for tax. Only transaction charges that are directly attributable to the equity transaction are included directly in equity.

ACCOUNTING PRINCIPLES

t. Lease agreements

The decision as to whether an agreement is, or contains, a lease is based on underlying conditions in the transaction and requires an assessment of whether fulfillment of the agreement is dependent on the use of a specific asset and whether this entails a right to use the asset.

The rental sum in operational lease contracts is charged against income on a straight-line basis over the period of the lease. The lease sum is separated from payment for other elements in the agreement, and the amounts are recorded separately.

u. Segment reporting

Segments are reported similarly as the internal reporting to the Group's senior decision makers. Senior decision makers are defined as the Group's management group.

NOTES TO THE FINANCIAL STATEMENTS FOR 2013

1 - OWN SALES AND LICENSING OF HEXVIX TO IPSEN PHARMA

In 2011 Photocure entered into an agreement with Ipsen Pharma SAS (Ipsen) for marketing, sales and distribution of Hexvix in Europe and rest of the world excluding the US and Nordic region. Ipsen has a strong and well established uro-oncology franchise and commercialises Hexvix through its dedicated urology sales force. In order to capitalize on the untapped US market opportunity, Photocure established its own commercial operations in its subsidiary Photocure Inc in 2012. The product is approved as Cysview in the US.

Photocure has co-invested a total of EUR 3 million in 2012 and 2013 with Ipsen in marketing and sales programs to increase sales of Hexvix.

2 - SIGNING FEES AND MILESTONE REVENUES

Photocure has in 2011 and 2012 received total signing fees and milestone revenue EUR 3.5 million from Ipsen.

Photocure signed in 2010 a partnership agreement with Salix Pharmaceuticals, Inc. that involves carrying out and covering the costs for the development, registration and commercialisation of Lumacan for the diagnosis of colorectal cancer. Photocure has received total signing fee and milestone revenues of USD 8.5 million from Salix. Additional milestone payments, up to a total of USD 122 million, are related to clinical development and regulatory events, but are also linked to sales. Photocure will in addition receive royalty for product revenues.

Photocure entered in 2009 into an agreement with Galderma S.A. concerning the sale of rights associated with Metvix. According to this agreement Photocure will receive deferred revenue of EUR 7 million. Photocure received part payment of EUR 3 million in 2012. Payment of the remaining EUR 4 million will be made latest December 2016. The total of EUR 7 million is recognised as revenue over the period up to the time of the last payment. Other payments from Galderma are recognised as revenue when earned.

3 - OPERATING SEGMENTS

The operating segments follow the business model for Photocure which consists of two segments: Cancer and Dermatology. The two segments are broken down into commercial products and R&D pipeline projects. Sales revenue from own sales in Cancer segment consists of Hexvix sales to pharmaceutical wholesalers in Nordic markets and sales of Cysview to urologies and hospitals in the US. Sales through partners comprise sales of Hexvix to Ipsen outside the Nordic region and USA, and royalties from sales by partners to end users. Milestone revenue within Cancer in 2012 includes production transfer payments for Hexvix from Ipsen and milestone payment from Salix for the development of Lumacan.

Sales revenue from Partner in the Dermatology segment consists of the sale of the active substance MAL. Milestone revenue is the deferred recognition of Metvix revenue from Galderma. The Al-lumera business was exited in 2012 and is not included in the table.

Operating costs are charged directly to the respective segment involved, or allocated by principles reviewed by corporate management. Government research grants are recognised as other income and are offset against operating expenses. Corporate management review the profitability of the segments on a regular basis and use this information to analyse and manage resource allocations. The operating segments are reviewed based on profitability and measured consistently over time.

Group - Segment information

1.1 - 31.12.2013 (Amounts in NOK 1 000)

	Cancer				Dermatology			Total
	Own	Partner	R&D	Total	Partner	R&D	Total	
Sales revenues	38 134	40 430		78 564	743	0	743	79 307
Milestone revenues		0		0	4 309		4 309	4 309
Cost of goods sold	-2 040	-4 789		-6 829	0	0	0	-6 829
Gross profit	36 094	35 641	0	71 735	5 052	0	5 052	76 787
Gross profit of sales %	95%	88%		91%	100%		100%	91%
Operating expenses	-62 097	-25 735	-39 325	-127 157	-10 628	-10 848	-21 476	-148 633
Operating profit/loss (-)	-26 003	9 906	-39 325	-55 422	-5 576	-10 848	-16 424	-71 846

1.1 - 31.12.2012 (Amounts in NOK 1 000)

	Cancer				Dermatology			Total
	Own	Partner	R&D	Total	Partner	R&D	Total	
Sales revenues	29 525	38 305		67 830	7 252	0	7 252	75 082
Milestone revenues		47 710		47 710	11 031		11 031	58 741
Cost of goods sold	-3 006	-6 385		-9 391	-14	0	-14	-9 405
Gross profit	26 519	79 630	0	106 150	18 269	0	18 269	124 418
Gross profit of sales %	90%	83%		86%	100%		100%	87%
Operating expenses	-54 689	-35 328	-39 225	-129 243	-204	-34 219	-34 423	-163 666
Operating profit/loss (-)	-28 169	44 302	-39 225	-23 093	18 065	-34 219	-16 155	-39 248

4 - DISCONTINUED OPERATION

With effect from 30 September 2012 Photocure decided to exit its activities related to the Allumera business. The marketing organization was terminated during 2012.

The statement of comprehensive income has been restated according to IFRS 5 in order to present discontinued operations separately from continuing operations.

	Group		Parent	
	2013	2012	2013	2012
Results of discontinued operation				
Sales revenues	625	3 239	0	-5 917
Expenses including restructuring	-927	-21 018	0	-2 591
Operating result	-302	-17 779	0	-8 508
Tax cost	0	0	0	0
Loss for the year	-302	-17 779	0	-8 508
Earnings per share		-0.84		
Earnings per share, diluted		-0.83		
Cash flow used in discontinued operations	2013	2012		
Net cash flow from operating activities	-302	-17 343		
Net cash flow from investment activities	0	0		
Net cash flow from financing activities	0	0		
Net cash flow for the year	-302	-17 343		
Costs incurred to exit business	2013	2012		
Direct restructuring actions		3 100		
Legal and other advice		250		
Total	0	3 350		

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5 - OTHER INCOME

(Amounts in NOK 1 000)

	Group		Parent	
	2013	2012	2013	2012
Norwegian R&D tax credit	1 591	2 200	1 591	2 200
Intercompany services			612	344
Miscellaneous income	0	42	0	42
Total	1 591	2 242	2 203	2 586

6 - COST OF GOODS SOLD

Total cost of goods sold in 2013 of NOK 6.8 million, includes royalties for inlicensing of technology and rights from other parties. Paid royalties for licensed technology related to the Hexvix product amounted to NOK 1.0 million in 2013 and NOK 0.8 million in 2012.

NOTES TO THE FINANCIAL STATEMENTS FOR 2013

7 - INCOME STATEMENT CLASSIFIED BY NATURE

(Amounts in NOK 1 000)

		Group		Parent	
	Note	2013	2012	2013	2012
Sales revenues	2	79 307	75 082	64 224	85 410
Signing fees and milestone revenues	2	4 309	58 741	4 309	58 741
Cost of goods sold	6	-6 829	-9 405	-5 875	-10 069
Gross profit		76 787	124 418	62 658	134 082
Other income	5	1 591	2 242	2 203	2 586
Payroll expenses	9	-73 388	-76 520	-51 292	-59 893
R&D costs excluding payroll expenses/other operating expenses	8	-15 729	-23 782	-15 729	-23 782
Ordinary depreciation and amortisation	15	-1 460	-1 545	-1 224	-1 358
Other operating expenses		-59 647	-64 061	-45 114	-52 546
Total operating revenue and operating expenses		-148 633	-163 666	-111 156	-134 993
Operating profit continued operations before non-recurring items		-71 846	-39 248	-48 498	-911
Restructuring		-3 694	0	-3 694	0
Operating profit continued operations including non-recurring items		-75 540	-39 248	-52 192	-911
Specification of Other operating expenses:					
Marketing expenses		15 117	23 505	10 787	19 419
Payment for Visonac commercial rights		8 866	-	8 866	-
Travel expenses		8 620	7 714	3 943	5 196
Patent costs, legal and other fees		13 152	14 559	9 560	11 833
Other expenses		13 892	18 283	11 958	16 098
Total other operating expenses		59 647	64 061	45 114	52 546
Specification of Restructure expenses:					
Payroll expenses		3 298		3 298	
Fees and other expenses		396		396	
Total restructuring expenses		3 694	0	3 694	0

Restructuring costs have been incurred with NOK 3.7 million in 2013 and relates to implemented headcount reductions and organizational changes. Since beginning of 2013 in total 10 employees have left the company. The changes are made possible by plans to out-license Cevira and Visonac before phase 3 clinical studies as well as a streamlining of the marketing support organization and administrative support.

The costs incurred in this process are reported as non-recurring restructuring costs from 2nd quarter of 2013.

8 - R&D OBLIGATION FOR LUMACAN

As mentioned in note 2, Photocure has entered into an agreement with Salix Pharmaceuticals, Inc. concerning the licensing of Lumacan. The agreement grants Salix all rights to patented product and own development involving the use of the active substance hexylaminolevulinate (HAL) for the diagnosis of colorectal cancer. Photocure has committed to refund Salix up to USD 3 million for its development work associated with formulation. Photocure has no rights to this development of Lumacan, and it generates no direct revenues for the company. The commitment of USD 3 million was recognised as R&D costs in 2010. The remaining part of the commitment has been paid to Salix during 2013.

Salix will carry out and cover the costs of the development, regulatory work and commercialisation of Lumacan. Photocure will follow up on the development through participation in committees in accordance with the Salix agreements.

9 - PERSONNEL EXPENSES

(Amounts in NOK 1 000)

	Note	Group		Parent	
		2013	2012	2013	2012
Salaries		62 818	54 252	43 579	41 744
Employer's social security contributions on salaries, etc.		7 237	7 450	6 013	6 520
Option costs		2 176	6 528	1 915	5 718
Employer's social security contributions on options		-345	-106	-345	-106
Pension costs	10	3 858	3 956	3 321	3 430
Other benefits		942	4 440	106	2 587
Total payroll expenses		76 686	76 520	54 589	59 893
Restructuring	7	-3 298		-3 298	
Net payroll expenses		73 388	76 520	51 291	59 893
No. of full-time equivalent positions		50.0	57.8	31.0	44.8

Share-based remuneration

As part of the company's incentive policy, employees are offered subscription rights to the company's shares (the term 'options' is also used). Allocated subscription rights are vested over three years, one third each year. The rights are no longer valid after five years or immediately on resignation of the employee. No subscription rights are allocated to members of the Board of directors.

For 2013, NOK 2.2 million of share-based payments has been expensed, of which NOK 0.3 million applies to Photocure Inc. The corresponding figure for Photocure in 2012 was NOK 6.5 million of which NOK 0.8 million applied to Photocure Inc.

The number of employee options and average exercise prices for Photocure, and developments during the year:

		2013		2012
	Number	Average exercise price (NOK)	Number	Average exercise price (NOK)
Outstanding at start of year	1 050 792	41.27	975 094	36.23
Allocated during the year	346 649	38.50	351 219	49.87
Become invalid during the year	178 525	42.09	155 812	42.70
Exercised during the year	205 279	29.01	119 709	23.62
Expired during the year	-	-	-	-
Outstanding at end of year	1 013 637	41.14	1 050 792	41.27
Exercisable options as per 31 December	680 175	40.81	672 491	37.44

The average weighted life of outstanding share options was 2.9 years at 31 December 2013 and 3.0 years at 31 December 2012. The average weighted market value of options issued in 2012 was NOK 14.82. No new share option programs were started in 2013.

NOTES TO THE FINANCIAL STATEMENTS FOR 2013

The exercise prices and the average life of outstanding share options as per 31 December 2013 were as follows:

Average remaining life	No. of options	Exercise price NOK
1 year	78 750	18.30
2 year	273 425	42.00
3 year	322 569	48.75
3 year	338 893	38.50
Total	1 013 637	

Calculation method for market value of subscription rights / employee share options:

The market value of subscription rights is calculated according to the Black-Scholes method. Volatility is calculated on the basis of the development in the historical share price over the last 12-month period. This assumes that historical volatility indicates future volatility, which is not necessarily the case. Subscription prices are set as the listed price at the time of allocation. Risk-free interest is based on the interest for Norwegian government bonds. Each option programme is calculated separately with the actual exercise price and duration of the programme. The exercise date for the options is calculated on the basis of historical experience in the company and differentiated between senior management and other employees. For option allocations that are conditional upon the achievement of certain business goals, a factor is included for the likelihood that these goals will be achieved. The interest advantage is insignificant and has not been included in the accounts. The table below shows the values that have been used in the model.

	2012	2011	2010 - I	2010 - II	2009
Dividends (NOK)	0.00	0.00	0.00	0.00	0.00
Expected volatility (%)	45.74	46.85	41.06	41.06	44.35
Historical volatility (%)	45.74	46.85	41.06	41.06	44.35
Risk-free interest (%)	1.98	1.57	3.08	2.57	3.11
Expected life of options (years)	3.75	3.65	3.65	3.50	3.66

10 - PENSION COSTS

The Parent Company has a contribution-based pension scheme. This pension scheme complies with the requirements in regard to compulsory occupational pensions in Norway. As of 31 December 2013 and 31 December 2012, the company had immaterial deposits on the premium/contribution fund. The Company has entered into pension agreements with employees in the form of contribution-based pensions for salaries exceeding coverage by insurance. This contribution-based pension liability is interest-bearing in the amount of 4.5% per annum.

Photocure Inc matches its employee's contribution to the 401(k) plan dollar for dollar. Photocure's contribution is limited to 4% of the salary.

The pension cost for the year is calculated as follows:

(Amounts in NOK 1 000)	Group		Parent	
	2013	2012	2013	2012
Total pension costs, contribution scheme in life assurance	3 183	3 511	2 646	2 985
Total pension costs, company contribution scheme	675	445	675	445
Total	3 858	3 956	3 321	3 430

11 - AUDITING FEES

(Amounts in NOK 1 000 ex VAT)

	Group and parent	
	2013	2012
Statutory auditing	246	220
Other attestation services	40	20
Other services excluding auditing	0	0
Tax advice	51	62
Total	337	302

12 - FINANCIAL INCOME AND EXPENSE

(Amounts in NOK 1 000)

	Group		Parent	
	2013	2012	2013	2012
Interest income	5 552	10 397	5 552	10 397
Foreign exchange gains	4 567	2 369	12 766	2 369
Total financial income	10 119	12 766	18 318	12 766
Interest expense	10	5	10	5
Foreign exchange losses	1 273	4 397	1 273	9 084
Other financial expense	148	128	148	129
Total financial expense	1 431	4 530	1 431	9 218

13 - TAX

(Amounts in NOK 1 000)

	Group		Parent	
	2013	2012	2013	2012
Income tax expense				
Tax payable	65			
Changes in deferred tax	-8 269	-890	-8 269	-890
Total income tax expense	-8 204	-890	-8 269	-890
Tax base calculation				
Profit before income tax	-67 154	-48 791	-35 305	-5 871
Permanent differences *)	-1 922	3 860	1 199	2 691
Temporary differences	24 947	29 288	24 386	29 445
Utilisation of tax loss carried forward, not previously incorporated	-	-26 265	-	-26 265
Increase tax loss carried forward	44 129	41 908	9 720	-
Tax base	0	0	0	0

NOTES TO THE FINANCIAL STATEMENTS FOR 2013

Temporary differences:

Receivables	-	-	-	-
Inventories	1 790	1 921	1 790	1 921
Non current assets	-1 385	-1 132	-1 385	-1 321
Provisions	-1 982	-7962	-1 538	-7 962
Pensions	-2 159	-1 621	-2 159	-1 621
Gains and losses	120 019	150 024	120 019	150 024
Total	116 283	141 230	116 727	141 041
Tax loss carried forward	-407 217	-354 454	-298 627	-286 898
Net temporary differences	-290 934	-213 224	-181 900	-145 857
Write down of deferred tax asset	109 034	67 367	-	-
Deferred tax benefit recognised in balance sheet	-181 900	-145 857	-181 900	-145 857
Deferred tax liability (asset)	-49 109	-40 840	-49 109	-40 840

	Group		Parent	
	2013	2012	2013	2012
Effective tax rate				
Expected income taxes at statutory tax rate 28%	-18 803	-13 661	-9 885	-1644
Permanent differences	-538	1 081	336	753
Effect change permanent differences previous years	-538	-	-538	-
Effect new taxrate deferred tax Norway	1819	-	1819	-
Not recognised deferred tax benefit of tax loss US	11 250	12 141	-	-
Effect foreign currency	-1 212	-253	-	-
Effect different rate income tax US	-182	-197	-	-
Income tax expense	-8 204	-890	-8 269	-890
Effective tax rate in % **)	12.2 %	1.8 %	23.4 %	15.2 %

*) Permanent differences consist of non deductible costs, non taxable income and deduction for development cost through the SkatteFunn concept.

**) Tax expense related to profit before tax.

The Company has recognised a deferred tax asset regarding net temporary differences in Norway as of 31 December 2013 by NOK 8.3 million and as of 31 December 2012 by NOK 0.9 million. The basis for the recognition is the assessment that it is more-likely-than-not that the deferred tax benefit will be utilised. There is no expiry on losses to be carried forward in Norway while it expires after 20 years in US.

14 - EARNINGS PER SHARE

Earnings per share are calculated on the basis of the profit/loss for the year after tax but excluding other comprehensive items. The result is divided by a weighted average number of outstanding shares over the year, reduced by acquisition of treasury shares. The diluted earnings per share is calculated by adjusting the average number of outstanding shares by the number of employee options that can be exercised. Antidilution effects are not taken into consideration.

	2013	2012			
No. of shares					
Ordinary shares 1 January	21 393 301	21 393 301			
Effect of treasury shares	-152 619	-133 510			
Effect of share options exercised	0	0			
Weighted average number of shares, 31 December	21 240 682	21 259 791			
Effect of outstanding share options	61 074	89 884			
Weighted average number of diluted shares, 31 December	21 301 756	21 349 675			
Earnings per share					
	2013	2012			
	Contin- ued op- erations	Discon- tinued operations	Contin- ued op- erations	Discon- tinued operations	Totalt
Weighted average number of shares	21 240 682	21 240 682	21 240 682	21 259 791	21 259 791
Dilution effect	61 074	61 074	61 074	89 884	89 884
Weighted average number of shares diluted	21 301 756	21 301 756	21 301 756	21 349 675	21 349 675
Annual earnings per share in NOK	-2.76	-0.01	-2.78	-1.42	-0.84
Annual earnings per share in NOK diluted	-2.75	-0.01	-2.77	-1.41	-0.83
					-2.25
					-2.24

NOTES TO THE FINANCIAL STATEMENTS FOR 2013

15 - MACHINERY AND EQUIPMENT

(Amounts in NOK 1 000)

Group	Software	Plant equipment and furniture		Total
		Production Equipment	Furniture & Equipment	
Accumulated cost at 1 January 2012	1 419	1 327	2 718	5 464
Additions	11	363	936	1 310
Disposals and scrapping	-890	-118	-35	-1 043
Accumulated cost at 31 December 2012	540	1 572	3 619	5 731
Additions	0	620	540	1 160
Disposals and scrapping	-31	0	-1 012	-1 043
Accumulated cost at 31 December 2013	509	2 192	3 147	5 848
Accumulated depreciation at 1 January 2012	953	642	1 941	3 536
Ordinary depreciation	108	519	982	1 609
Disposals and scrapping	-890	-117	-33	-1 040
Accumulated depreciation at 31 December 2012	171	1 044	2 890	4 105
Ordinary depreciation	91	361	1 009	1 461
Disposals and scrapping	-30	0	-883	-913
Accumulated depreciation at 31 December 2013	232	1 405	3 016	4 653
Book value at 31 December 2012	209	1 273	2 630	4 112
Book value at 31 December 2013	117	1 532	2 032	3 681

The equipment note for parent company has unmaterial differences to the group and is not disclosed of this reason.

	Group		Parent	
	2013	2012	2013	2012
Rental costs				
Rental of office premises	4 076	4 264	3 460	3 695
Rental of equipment	379	370	358	370
Total rental costs	4 455	4 634	3 818	4 065

The Company has entered into a rental agreement for premises at Hoffsveien 4 in Oslo. The agreement is running from 1 March 2011 through 30 August 2016, without any right to terminate. Photocure has an option to extend the agreement with an additional period of 5 years. Rent including shared expenses amounts to NOK 3.8 million for the period 1 January 2014 through 31 December 2014. The rent for the remaining period until the expiry of the agreement on 30 August 2016 amounts to NOK 6.5 million. Annual regulation of the rent corresponds to the change in the consumer price index.

Photocure Inc rents office premises at Carnegie Center, Princeton, New Jersey from 1 April 2011 through 31 March 2017. Photocure Inc has utilised the option to extend the rent agreement for 3 years. The rent commitment for the period 1 January 2014 to 31 December 2014 is NOK 0.6 million while the rent for the remaining period until the expiry of the agreement amounts to NOK 1.2 million.

Rental of equipment comprises medical treatment equipment located at hospitals and office equipment. All rental agreements for equipment are short-term.

16 - OTHER INVESTMENTS

Group shares	Location	Year of incorporation	Share capital	Share-holding	Book value	Equity at 31 December 2013	Result 2013
PCI Biotech Holding ASA	Oslo, Norway	2007	16 249	19.35%	32 633	43 396	-27 608

Shares in PCI Biotech Holding ASA are valued at last traded price on Oslo Axess in 2013 at NOK 22.00 per share. In the balance sheet of parent company 100% of shares in the subsidiary Photocure Inc are included with book value NOK 2.4 million as of 31 December 2013 and NOK 2.2 million as of 31 December 2012.

Other non-current financial assets	Group and parent	
	31-Dec-13	31-Dec-12
Incurred part of final settlement from sale of Metvix/Aktelite, cf. description in note 2	19 335	13 226

17 - INVENTORIES

(Amounts in NOK 1 000)

	Group		Parent	
	31-Dec-13	31-Dec-12	31-Dec-13	31-Dec-12
Raw materials	1 532	930	1 532	930
Components	2 719	2 379	2 719	2 379
Semi-finished and finished goods	8 373	6 517	8 310	5 415
Total inventories	12 624	9 826	12 561	8 724

The raw materials inventory consists of active substances for the pharmaceutical products. Raw materials are valued at cost. Finished and semi-finished goods are valued at full manufacturing cost. Consumption is carried out in accordance with the FIFO principle. Obsolete goods are written down to fair value. Provisions and write-downs of inventories are included in cost of goods sold in the income statement. Stocks of components comprises products that are to be used in the production of technical medical equipment.

NOTES TO THE FINANCIAL STATEMENTS FOR 2013

18 - FINANCIAL RISK

The note describes the company's various financial risks and the management of same. In addition, numerical presentations of risk associated with financial risks are included.

(I) Organisation of financial risk management

Photocure has an international business operation and is exposed to currency risk, interest rate risk, commodity price risk, liquidity risk and credit risk. During the accounting period, the company has not utilised any derivatives or other financial instruments to reduce these risks.

Responsibility for managing financial risk is placed with the management of the company, including financing, interest rate and currency management as well as risk within the business areas and the risk associated with the company's business processes. Financial risk is also monitored by the Board of Directors.

Centralised risk management

Photocure has a centralised finance department. This department is to ensure the company's financial freedom to act both long and short term, and to monitor and manage financial risk in collaboration with the individual business units within the company. The finance department maintains communication with the company's bank connections, and carries out hedging transactions regarding interests and currency. Required authorisations for borrowing and entering into derivative agreements are to be granted by the Board of Directors. All transactions involving financial instruments are backed by an underlying commercial hedging requirement.

Commercial operations – production, sales and marketing

Photocure manufactures, markets and sells the company's products through own sales organization in the Nordic region and US and through license partners in other countries. Revenues from license partners consist of three elements: sales of products to license partners, royalties from license partners' sales to end users, and milestone revenues. Photocure manufactures the company's products by renowned contract manufacturers in Italy, Spain, Sweden and Norway. Prices of raw materials are a risk factor. Currency risk is mainly related to milestone revenues, sale to partner and royalties which mainly is nominated in EUR and USD. Also Photocure's commercial operations in the US expose Photocure for currency risk against USD as both revenues and expenses are in USD. Currency risks are partly naturally hedged by purchasing goods and services in EUR and USD.

Research and development activities

Photocure conducts research and development of new innovative medical products based on the company's patented technology. Currency risk in research and development is connected to the purchase of goods and services for drug formulation and development of new medical devices, and to the purchase of services related to the conducting of clinical studies in Europe and the United States. The currency risk is primarily in the currencies EUR, USD and GBP. Currency exposure associated with research and development is normally not hedged.

(II) Classes of financial risk

Interest rate risk

Photocure does not have any interest-bearing debt, and the company's interest rate risk is mainly associated with the company's holdings of cash and cash equivalents. The main strategy is to diversify the risk and invest in money market funds and bond funds with low risk, high liquidity and short duration. More than 90% of the investments are denominated in NOK and are not hedged.

Liquidity risk

A main objective of Photocure's financial policy is to ensure that the company has the financial freedom to act both short and long term to achieve strategic and operational goals. Photocure is to have sufficient funds to cover known capital requirements during the forthcoming 12 months in addition to a strategic reserve. The Company monitors the cash flows on long and short term through planning and reporting. Photocure does not have any loan agreements that involve covenants or other financial requirements.

Photocure uses a multi-currency consolidated accounts system that provides flexibility in relation to drawing on multiple currencies.

The following table presents an overview of the maturity structure of the company's financial obligations, based on non-discounted contractual payments:

(Amounts in NOK 1 000)	Remaining period				Total
	Less than 1 month	1–3 months	3–12 months	1–5 years	
31-Dec-13					
Accounts payable	7 027	171	83	0	7 281
Other current liabilities	3 802	6 500	8 900	500	19 702
31-Dec-12					
Accounts payable	8 035	1 000	0	0	9 035
Other current liabilities	2 500	26 388	10 000	1 000	39 888

Credit risk

Management of credit risk associated with accounts receivable and other operational receivables is dealt with as a part of the commercial risk and is followed up continuously as a part of normal operations. Photocure is primarily exposed to credit risk associated with accounts receivable and other short-term receivables. Photocure's sales are made to license partners, pharmaceutical wholesalers in the Nordic region and hospitals in USA. The credit risk is limited as the counterparties are large companies that are not related to each other. Photocure's credit risk is considered moderate and the Company does not use credit insurance.

Currency risk

As NOK is the Company's presentation currency, Photocure is exposed to translation risk associated with the company's foreign net exposure.

Photocure's revenues and costs are incurred in different currencies, primarily EUR, USD, GBP, SEK and DKK. Photocure is therefore exposed to exchange rate fluctuations. The company monitors ongoing the need for hedging of large transactions. Bank accounts in foreign currencies are used actively to reduce exposure to all the main currencies, and currency risk is to some degree naturally hedged in EUR, USD, SEK and DKK by having both revenues and costs in the same currency. Photocure does not have outstanding hedging of future transactions at 31 December 2013.

The following table shows the Company's sensitivity for potential changes in the NOK exchange rate with all other factors constant. The calculation is based on the same change in relation to all relevant currencies. The effect in the income statement comes from changes in the value of monetary items.

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<i>(Amounts in NOK 1 000)</i>	Change in the NOK exchange rate	Effect on operating profit/loss
2013	+ 10 %	218
2013	- 10 %	-218
2012	+ 10 %	-3 677
2012	- 10 %	3 677

NOTES TO THE FINANCIAL STATEMENTS FOR 2013

19 - FAIR VALUE

The table below analyses financial assets recognised in the balance sheet at fair value according to the valuation method.

The different levels have been defined as follows:

Level 1	Noted prices in active markets for corresponding assets or liabilities
Level 2	Available value measurements other than the noted prices classified as Level 1, either directly observable in the form of agreed prices or indirectly as derived from the price of equivalent.
Level 3	Value measurements of assets or liabilities that are not based on observed market values

(Amounts in NOK 1 000)

Market value hierarchy	Level 1	Level 2	Level 3	Total
Financial assets available for sale:				
- Shares in PCI Biotech Holding ASA	32 633			32 633
- Money market funds	148 543			148 543
Total	181 176	0	0	181 176

20 - RECEIVABLES

Maximum credit risk

The company's maximum credit risk associated with financial instruments corresponds to gross receivables. In a hypothetical situations, where no receivables are actually paid, this would correspond to:

<i>(Amounts in NOK 1 000)</i>	Group		Parent	
	31-Dec-13	31-Dec-12	31-Dec-13	31-Dec-12
Accounts receivable	9 432	7 116	8 377	5 931
Accounts receivable intercompany			310	507
Total	9 432	7 116	8 687	6 438
Royalty	3 655	3 132	3 655	3 132
Other receivables	3 998	5 184	3 513	4 479
Total other receivables	7 653	8 316	7 168	7 611

Loan to the subsidiary is disclosed in note 26.

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Age breakdown of group accounts receivable	Not yet due	0–30 days	30–60 days	60–90 days	Over 90 days	Total
31 December 2013	8 708	477	47	47	153	9 432
31 December 2012	6 088	455	402	79	92	7 116

Bad debt loss in 2013 has been unmaterial while a provision for bad debts of NOK 0.3 million was made as of 31 December 2012. Credit risk and foreign exchange risk in regard to trade accounts receivable are dealt with in more detail in Note 18.

21 - CASH AND SHORT TERM DEPOSITS

(Amounts in NOK 1 000)

	Group		Parent	
	31-Dec-13	31-Dec-12	31-Dec-13	31-Dec-12
Cash and cash equivalents, restricted (1)	4 029	4 243	4 029	4 243
Cash and cash equivalents, non-restricted	14 686	60 864	13 779	59 868
Money market funds, non-restricted	148 543	237 711	148 543	237 711
Total	167 258	302 818	166 351	301 822

(1) Restricted cash and cash equivalents at 31 December 2013 include security for employees' withholding tax in the amount of NOK 1.6 million, while the remaining amount refers to deposit for rent of office.

22 - SHARE CAPITAL

Registered share capital in Photocure ASA amounted to:

	No. of shares	Nominal value per share NOK	Share capital in NOK
Share capital at 31 December 2012	21 393 301	0.50	10 696 651
Share capital at 31 December 2013	21 393 301	0.50	10 696 651
Treasury shares:			
Holdings of treasury shares at 31 December 2011	52 314		26 157
Buy-back of treasury shares	245 650	0.50	122 825
Sale of treasury shares	-119 709	0.50	-59 855
Holdings of treasury shares at 31 December 2012	178 255		89 128
Buy-back of treasury shares	100 000	0.50	50 000
Share option exercise	-205 279	0.50	-102 640
Holdings of treasury shares at 31 December 2013	72 976		36 488

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All shares have the same voting rights and otherwise the same rights in the Company. Ordinary shares are classified as equity. Expenses that are directly attributable to the issue of ordinary shares are included as a reduction of equity.

At the General Meeting 22 May 2013, the Board of Directors of Photocure ASA was granted authorisation to issue up to 2.9 million shares. Of this authorisation, (a) 2.1 million shares are linked to financing of the Company's development, while (b) 0.8 million shares are associated with the issue of shares to the Company's employees. Subscription of shares under the incentive program shall be subscribed at the market price with an addition of 10% at the time of allocation of the employee share options. At the General Meeting the Board of Directors was granted authorisation to purchase treasury shares to a total nominal value of up to 10% of the applicable share capital. The basis for this authorisation to purchase treasury shares is the desire by the Board of Directors to increase the liquidity of the Company's shares and in connection with the incentive schemes.

All authorisations are valid up until the Ordinary General Meeting in 2014. Previously issued authorisations have expired.

NOTES TO THE FINANCIAL STATEMENTS FOR 2013

The table below indicates the status of authorisations at 31 December 2013:

	Purchase, treasury shares	Ordinary share issue	Employee share issues
<i>(Figures indicate the number of shares)</i>			
Authorisation issued at the General Meeting on 22 May 2013	2 139 330	2 139 330	800 000
Share issues after the General Meeting on 22 May 2013		0	0
Purchase of treasury shares after the General Meeting 22 May 2013	0		
Remaining under authorisations at 31 December 2013	2 139 330	2 139 330	800 000

1 013 637 subscription rights have been allocated to employees 31 December 2013 (see note 9).

Ownership structure

The major shareholders in Photocure as of 31 December 2013 were:

	Shares	Share- holding
The Norwegian Radium Hospital Research Foundation	3 029 000	14.2 %
JP Morgan Chase Bank	1 957 334	9.1 %
Fondsfirman Spar	1 550 000	7.2 %
Gezina AS	1 193 571	5.6 %
KLP Aksje Norge VPF	930 000	4.3 %
Skagen vekst	920 401	4.3 %
Kommunal Landspensjonskasse	890 000	4.2 %
Odin Norge	679 037	3.2 %
MP Pensjon PK	500 000	2.3 %
Danske Invest Norske Instit. II.	430 203	2.0 %
VPF WarrenWicklund NO	406 517	1.9 %
Danske Invest Norske Aksjer	368 824	1.7 %
Vicama AS	345 384	1.6 %
Bergen Kommunale Pensjonskasse	300 000	1.4 %
VPF DNB SMB	290 000	1.4 %
Rul AS	274 131	1.3 %
VPF DNB Norge (IV)	265 162	1.2 %
Myna AS	262 000	1.2 %
HSBC Bank PLC	251 782	1.2 %
Total of shareholders with a shareholding of more than 1%	14 843 346	69.4 %
Treasury shares	72 976	0.3 %
Total other shareholders	6 476 979	30.3 %
Total number of shares	21 393 301	100.0 %

Shares owned, directly or indirectly, by members of the Board, the President and CEO and senior management and their closely related associates as of 31 December 2013:

Name	Position	No. of shares	No. of subscription rights*
Åse Aulie Michelet	Chairman	9 500	
Jon Hindar	Board member	8 000	
Mats Pettersson	Board member	5 000	
Eva Steiness	Board member	5 300	
			No. of subscription rights*
Kjetil Hestdal	President and CEO	66 373	138 500
Ambaw Bellete	Head, US Cancer Commercial Operations	-	15 300
Erik Dahl	Chief Financial Officer	-	30 000
Kathleen Deardorff	Chief Operating Officer	-	95 295
Inger Ferner Heglund	Vice President Research and Development	8 200	88 680
Grete Hogstad	Vice President Strategic Marketing	10 500	69 200
Espen Njåstad	Head, Nordic Cancer Commercial Operations	-	16 350
Gry Stensrud	Vice President Technical Development & Operations	6	68 350

* See note 9 for additional information about the subscription rights.

23 - CAPITAL STRUCTURE

The group is financed by equity and had no interest-bearing debt at 31 December 2013 and 31 December 2012 with exception for the pension liability according to Note 10.

24 - ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

(Amounts in NOK 1 000)

	Group		Parent	
	31-Dec-13	31-Dec-12	31-Dec-13	31-Dec-12
Accounts payable	7 281	9 035	6 334	8 146
Accounts payable, intercompany			320	895
Total	7 281	9 035	6 654	9 040
Provision for accrued external R&D costs	4 842	4 811	4 842	4 811
Provision for obligation under Lumacan license agreement	0	7 535	0	7 535
Accrued bonus, holiday pay, salaries	11 390	12 065	9 063	11 041
Accrued royalty liability	486	391	486	391
Miscellaneous other accrued costs	2 984	15 086	2 930	14 505
Total other current liabilities	19 702	39 888	17 321	38 283

Accrued royalty liability concerns agreements with external parties for the right to use patented technology. The liability is calculated as royalty on sales of products accrued in the last period and as a share of signing fees and milestone payments received.

NOTES TO THE FINANCIAL STATEMENTS FOR 2013

25 - TRANSACTIONS WITH RELATED PARTIES - MANAGEMENT AND BOARD OF DIRECTORS

<i>(Amounts in NOK 1 000)</i>	Directors' fees paid	Salaries paid	Bonuses paid	Benefits in kind	Pension cost	Total	
Senior management 2013							
President and CEO		2 247	351	117	290	3 005	
Chief Operating Officer		2 447	473	112	166	3 198	
VP Research and Development		1 263	169	96	111	1 639	
Chief Financial Officer		1 435	69	30	148	1 682	
VP Strategic Marketing		1 338	171	98	122	1 729	
VP Technical Development and Operations		1 134	150	17	82	1 383	
Head, US Cancer Commercial Operations		1 673	232	170	49	2 124	
Head, Nordic Cancer Commercial Operations		1 068	168	29	70	1 335	
Total senior management	12 605	1 783		670	1 038	16 095	
Board of Directors 2013							
Chairman of the Board		470				470	
Members of the Board		1 350				1 350	
Total remuneration	1 820	12 605	1 783		670	1 038	17 915

	Directors' fees paid	Salaries paid	Bonuses paid	Benefits in kind	Pension cost	Total	
Senior management 2012							
President and CEO		2 198	484	118	265	3 065	
Chief Operating Officer		2 296	304	74	135	2 809	
VP Research and Development		1 208	154	97	117	1 576	
Chief Financial Officer, from 15 August 2012		587		26	83	695	
VP Strategic Marketing		1 274	174	99	136	1 684	
VP Technical Development and Operations		1 085	168	16	100	1 369	
Head, US Cancer Commercial Operations		1 506	-	113	50	1 669	
Head, Nordic Cancer Commercial Operations		992	30	39	82	1 143	
Total senior management	11 145	1 315		583	966	14 009	
Board of Directors 2012							
Chairman of the Board		450				450	
Members of the Board		1 200				1 200	
Total remuneration	1 650	11 145	1 315		583	966	15 659

Photocure's policy in regard to determination of salaries and other remuneration for senior managers is to pay market rates and provide other benefits that are commensurate with such senior management positions. It is important to attract the required competence and experience so as to promote value generation in the company and to contribute to the mutual interests between owners and senior management. This profit-based remuneration is to be linked to value generation for shareholders or revenue developed for the company over time. Photocure has a compensation committee that administers this policy on behalf of the Board of Directors.

The main principles for the company's remuneration to senior management are as follows:

- Salaries are reviewed annually.
- Senior managers will normally be given the benefits in kind that are common market practice, i.e., telephone expenses, a laptop, free broadband connection and use, newspapers and car allowance. There are no special restrictions on the type of other benefits that can be agreed on.
- Bonuses are calculated on the basis of goals for the company laid down by the Board of Directors and achievement of personal goals. Personal goals for senior management are approved by the Board of Directors. The Chief Executive Officer (CEO) of the company has a bonus agreement of up to 40% of ordinary salary, while other members of the senior management have bonus agreements from 20% to 35% of their ordinary salary.
- Senior managers participate in the company's incentive programme with allocation of subscription rights for the company's shares. The criteria for awarding stock options to the CEO are the achievement of corporate goals set by the Board of Directors. The criteria for awarding stock options to other senior executives are a 50/50 distribution of the achievement of company goals and personal goals approved by the Board of Directors. The framework for the granting of stock options to senior executives is determined by the Board within the Board mandates adopted by the General Assembly. Stock options granted from and including 2013 shall have (i) an exercise price 10% above the stock price at the time of grant, and (ii) a cap on the size of remuneration which the stock option can bring, which shall equal seven times the stock price at the time of grant.
- Senior managers participate in the company's pension scheme, which is a contribution scheme that involves payment of between 5% and 8% of the employee's salary, up to a maximum of 12 times the basic amount (G) of the Norwegian National Social Security Scheme (Folketrygden). Photocure has established pension coverage for employees with salaries higher than 12 G. The scheme is a contribution-based operating pension with provisions corresponding to 16% of salary above 12 G. In the event of resignation, full pension rights are conditional upon at least five years' employment, while less than 3-years' employment carries no rights. The pension schemes also cover in the event of disability.
- In accordance with detailed regulations, the current CEO is entitled to continue to receive his salary for up to 24 months after the end of his period of notice. Should the CEO receive other income from employment in this period, any such income will be offset in full against his continued salary during the last 12 months of the period in which he continues to receive salary. Other senior management have a period of notice between 3 and 12 months.
- No senior managers have received any remuneration or financial benefits from other companies in the same group. No additional remuneration has been paid for special services outside the normal functions of a member of management.
- No loans have been granted, nor any security provided for members of the senior management team, the Board of directors, employees or other persons in elected corporate bodies.

Senior managers' holdings of shares in Photocure ASA are stated in the note concerning share capital. Allocation and exercise of subscription rights to shares and holdings of subscription rights for senior managers are presented in the following overview:

	Subscript- tion rights awarded*	Expir- ed sub- scription rights	Subscript- tion rights exercised	Holding of sub- scription rights at 31 December	Average exercise price	Condi- tionally awarded subscript- tion rights
Subscription rights for senior management 2013						2013
President and CEO	21 000	-	21 500	138 500	36.51	-
Chief Financial Officer	-	-	-	30 000	38.50	-
Chief Operating Officer	20 295	-	-	95 295	46.57	-
VP Strategic Marketing	19 800	-	26 850	69 200	39.68	-
VP Research and Development	20 280	-	16 400	88 680	35.67	-
VP Technical Development and Operations	20 550	-	13 396	68 350	41.00	-
Head, US Cancer Commercial Operations	15 300	-	-	15 300	38.50	-
Head, Nordic Cancer Commercial Operations	16 350	-	-	16 350	38.50	-
Total	133 575	-	78 146	521 675		-

* Exercise price NOK 38.50 expiry date 31 December 2017.

As per company policy there are no conditionally awarded subscription rights in 2013.

NOTES TO THE FINANCIAL STATEMENTS FOR 2013

	Subscription rights awarded*	Expired subscription rights	Subscription rights exercised	Holding of subscription rights at 31 December 2012	Average exercise price	Conditionally awarded subscription rights
Subscription rights for senior management 2012						
President and CEO	30 000	-	-	139 000	37.21	50 000
Chief Financial Officer, from 15 August 2012**	30 000	-	-	30 000	40.50	-
Chief Operating Officer	-	-	-	75 000	50.75	30 000
VP Strategic Marketing	17 250	-	-	76 250	37.24	30 000
VP Research and Development	19 500	-	-	84 800	35.90	30 000
VP Technical Development and Operations	22 500	-	-	61 196	40.24	30 000
Head, US Cancer Commercial Operations	-	-	-	-	-	30 000
Head, Nordic Cancer Commercial Operations	-	-	-	-	-	30 000
Total	119 250	-	-	466 246		230 000

* Exercise price NOK 48.75 expiry date 31 December 2016.

** Assigned 30 000 unconditional subscription rights with exercise price NOK 38.50 at appointment in 2012.

26 - RELATED PARTIES - COMPANIES

Subsidiary

Photocure has established a wholly owned subsidiary in the US, Photocure Inc, in order to carry out the marketing-, selling- and distribution activities for the Cysview product from 2012, see details in note 1. Photocure ASA has the ownership to the patent rights and the trade mark and is responsible in the group for development and manufacturing of the product. Photocure Inc purchases the completed product from the parent company and distributes in the United States. Photocure Inc has established its own marketing organization that is fully funded by its parent company. The transactions between Photocure and Photocure Inc are on terms at arm's length except for the funding that is interest free until further notice.

Photocure Inc was responsible for sale and distribution of the cosmetic dermatology product Allumera until 30 September 2012 when Photocure made a decision to exit its Allumera business in the US.

Transactions and intercompany balances Photocure Inc:

(Amounts in NOK 1 000)	2013	2012
Sales of products	-6 834	9 333
Sales of services	613	344
Total subsidiary	-6 221	9 677

	31-Dec-13	31-Dec-12
Accounts receivables	310	507
Long term loan given	110 277	81 468
Accounts payables	-304	-895
Total subsidiary	110 283	81 080

Guarantees to bank in favor of subsidiary for requested security	1 520	1 398
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These are for licenses with the States of Maryland and California to sell Cysview and for the office lease deposit

The Norwegian Radium Hospital Research Foundation

The Norwegian Radium Hospital Research Foundation (RF) is the largest single shareholder in Photocure ASA with 14.16% of the shares at 31 December 2013. RF originally founded Photocure ASA on the basis of photodynamic therapy developed at the Norwegian Radium Hospital HF (DNR). In 2010 Photocure ASA renewed its agreement with RF, which provides the company with access to new technology in the field of photodynamic therapy, as well as an option to acquire new technology in the field of photodynamic therapy developed by DNR. Photocure pays for these research and development services rendered by RF. The agreement was extended for three years and ran until 31 December 2013.

Photocure pays on commercial terms to RF/DNR for deliveries under the contract for R&D services as well as any other goods and services.

Transactions and balances Radium Hospital Research Foundation:

<i>(Amounts in NOK 1 000)</i>	2013	2012
Research and development services	500	500
	31-Dec-13	31-Dec-12
Accounts receivables	0	0
Accounts payables	0	0

27 - SUBSEQUENT EVENTS

There are no subsequent events after 31 December 2013 that give material impact to the group financial position as of the balance sheet date.



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To the Annual Shareholders' Meeting of Photocure ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Photocure ASA, which comprise the financial statements of the parent company Photocure ASA and the consolidated financial statements of Photocure ASA and its subsidiary. The parent company's and the consolidated financial statements comprise the balance sheet as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Offices in:

Oslo	Haugesund	Sandnessjøen
Alta	Knarvik	Stavanger
Arendal	Kristiansand	Stord
Bergen	Larvik	Straume
Bodø	Mo i Rana	Tromsø
Elverum	Molde	Trondheim
Finnset	Narvik	Tønsberg
Grimstad	Røros	Alesund
Hamar	Sandefjord	

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Photocure ASA and of Photocure ASA and its subsidiary as at 31 December 2013, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements*Opinion on the Board of Directors' report and Report on corporate governance*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and Report on corporate governance concerning the financial statements, the going concern assumption and coverage of the loss is consistent with the financial statements and complies with the law and regulations.

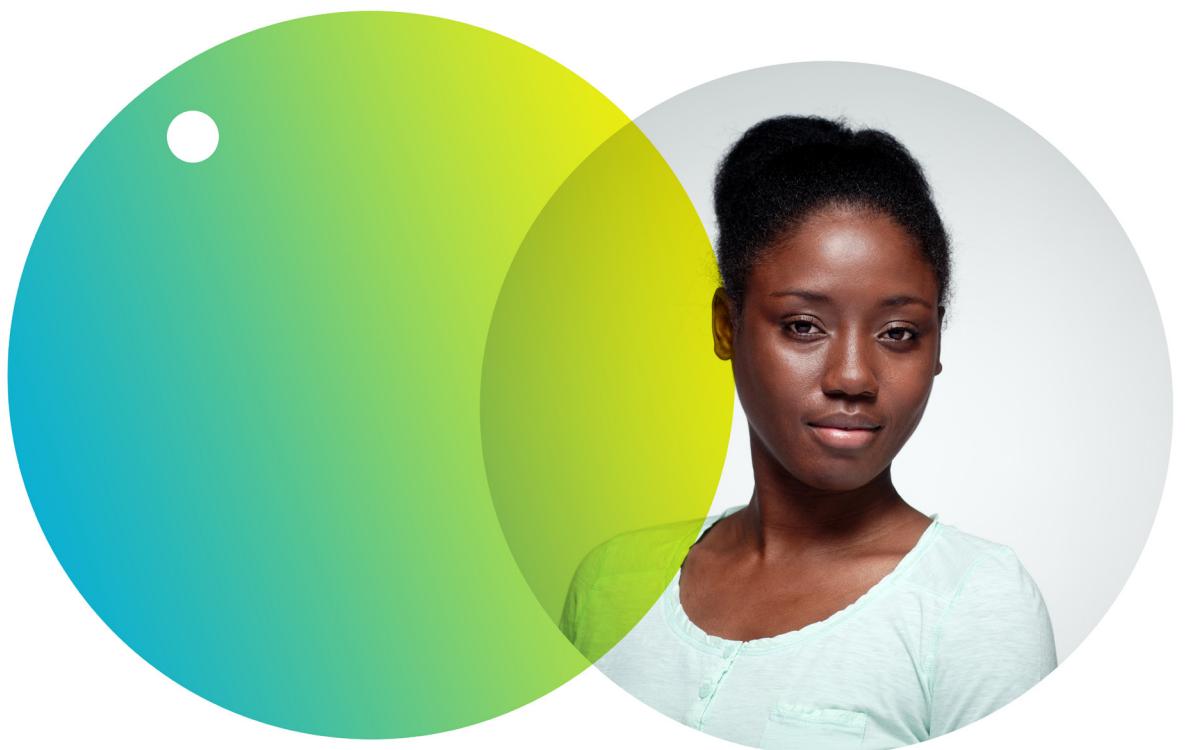
Opinion on Accounting Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 26 February 2014
KPMG AS

Lars Inge Pettersen
Stateauthorized public accountant

[Translation has been made for information purposes only]



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