



# ANNUAL REPORT 2014

PHOTOCURE GROUP



[www.photocure.com](http://www.photocure.com)



HEXVIX<sup>®</sup> / CYSVIEW<sup>®</sup>

C  CONFIDENCE

AT FIRST SIGHT

**HEXVIX<sup>®</sup>**  
Hexaminolevulinate 85mg

**CYSVIEW<sup>®</sup>**  
HEXAMINOLEVULINATE HCL



# BOARD OF DIRECTORS REPORT 2014

In 2014, Photocure made significant progress towards its strategic goal of creating a sustainable specialty pharma company. Sales revenues from Hexvix®/Cysview® increased 18% to NOK 92.0 million, primarily driven by strong volume growth and price increases in major countries. The Company also achieved a significant milestone in 2014 with Hexvix/Cysview franchise realizing an operating profit, reaching NOK 10.4 million for the full year 2014. The brand was further strengthened by new publications of new clinical data demonstrating Hexvix/Cysview provides long term benefit to bladder cancer patients.

Through 2014, Photocure also saw continued progress within the product pipeline. In particular, regulatory authorities in both EU and USA concluded that Cevira®, which is currently in development for the treatment of HPV related diseases of the cervix, is Phase 3 ready. This milestone lays a strong foundation for our ability to secure future partnerships for the development and commercialization of Cevira.

Financial performance was strong in 2014, with NOK 60.2 million increase in net results before tax. The Company ended the year with NOK 165 million in cash balance. This cash position will allow Photocure to continue our strategy of supporting the growth of Hexvix/Cysview franchise, and enter into clinical studies within the large bladder cancer surveillance market.

## PHOTOCURE GROUP

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 biopharmaceutical company focused in uro-oncology.

In addition to Hexvix/Cysview, Photocure has two pharmaceutical products in clinical development, both 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 as well as experience in cancer and dermatology.

The company leverages its expertise to develop, register and commercialize new products in cancer and dermatology. Photocure’s strategy is to partner with industry leaders to accelerate and maximize the commercial value of new innovative products, while retaining rights in selective strategic markets to expand its market 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 was approved in most European markets by 2005 and as Cysview in the US in 2010. Hexvix was initially approved based on strong clinical data showing improved detection of bladder cancer. New clinical data have 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 including reduced tumor recurrence and quality of life as well as disease free survival.

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. In 2014 expert recommendations on the clinical and cost effectiveness of Hexvix/Cysview have been published in European Urology and Nature Reviews Urology.

An expansion of the use of Hexvix/Cysview into the flexible surveillance patient segment will open a market segment which is estimated to be 2-3 times the size of the current TURB/OR segment. Following positive early clinical experience with flexible cystoscopes in 2014, Photocure will initiate a phase 3 clinical study with 360 patients for examining improved detection rates of Cysview blue light cystoscopy vs white light cystoscopy. The study design is in alignment with FDA to obtain label extension and fulfill the Cysview post marketing commitments. Patient recruitment is planned to start 3Q 2015, with final results expected in 2017 and possible approval in 2018. In addition to the registration study Photocure will generate additional clinical data by supporting Investigator Initiated Trials.

In January 2015 a study on the impact of Hexvix on survival in bladder cancer patients was published in the World Journal of Urology. The findings from this study demonstrate that Hexvix guided TURBT in bladder cancer patients, who later progressed to requiring radical cystectomy, significantly increased the three year overall survival and the median three year recurrence free survival.

### 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

# BOARD OF DIRECTORS REPORT 2014

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 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. Photocure's strategy is to establish a development and commercialization partnership for Visonac prior to initiation of the phase 3 clinical program. Photocure is in discussions with potential partners, where the priority is to secure an agreement demonstrating the full value of Visonac.

## 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.

A key objective in 2014 has been to secure the regulatory pathway on a late stage clinical development plan for Cevira prior to initiation of the phase 3 clinical development. Following a guidance meeting with FDA in December 2013, Photocure completed a re-analysis of the Phase 2b data. The re-analysis included a new panel read pathology assessment and applying new clinical success criteria in the end-point definition. The re-analysis demonstrated that Cevira provides improved treatment efficacy compared to placebo among patients with cervical high

grade lesions (HSIL). The results were discussed with FDA in an End of Phase 2 meeting in December 2014, and it was confirmed that the phase 2 data supports the proposed phase 3 program, and are sufficiently robust to continue the development of Cevira.

Following the positive outcome of the meeting with the FDA, Photocure plans to submit the proposed phase 3 protocol for a detailed Special Protocol Assessment Review (SPAR) to the FDA first half 2015.

The regulatory progress for Cevira in 2014 lays the foundation for continued progress to secure the value of Cevira through establishing partnership for the further development and commercialization of Cevira.

In Europe, discussions with Health Authorities in key markets have been completed during 2014 and support has been achieved to continue with the proposed phase 3 program, targeting women with high grade precancerous lesions of the cervix (HSIL (CIN2)) as the first indication.

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 initiating the phase 3 program.

## LUMACAN® – IMPROVED DETECTION AND TREATMENT OF COLO-RECTAL CANCER

Lumacan is an early stage product under phase 1/2 development 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 involved 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.

Following the proposed merger agreement between Salix and Cosmo Pharmaceuticals S.p.A announced in July 2014, Photocure and Salix agreed to terminate the licensing agreement for Lumacan. Photocure received a payment of USD 5 million from Salix in the third quarter 2014 and has regained the global rights, all technical data and all intellectual property to Lumacan.

Photocure has evaluated the clinical data, competitive landscape, pricing and reimbursement scenarios to determine the optimal way forward for Lumacan. Photocure has decided not to pursue additional clinical trials or efforts to out-license Lumacan at this time, but will continue to monitor market dynamics to potentially identify a future application for Lumacan.

## PATENTS

Photocure has in 2014 grown its patent portfolio and has filed three new patent applications. A Photocure patent family covering novel types of ALA-esters was published in February 2014 as international application. This family has the potential to protect new development candidates. For Cevira, patents have been granted that cover both the Cevira ointment and the Cevira device (utility patents and design patents).

Photocure's unique patented technology – Photocure Technology™ – forms a solid basis for the company's current development projects and for new exploratory research.

## FINANCIAL REVIEW

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

Sales revenues amounted to NOK 93.6



million in 2014, an increase of 18% from NOK 79.3 million in 2013. 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 totalled NOK 35.4 million in 2014 compared to NOK 4.3 million in 2013. In 2014 the revenues include a termination fee from Salix of USD 5.0 million in connection with the termination of the licencing agreement. Furthermore the revenues include deferred revenue from the sale of Metvix/Aktelite. 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 recognised as revenue incurred from the time of agreement over the period up to the time of the last payment.

Operating expenses, after deductions for other operating income, decreased from NOK 148.6 million in 2013 to NOK 127.6 million in 2014. Main contributors to the expense reduction is reduced sales and marketing expenses as well as reduced spending related to pipeline products. Photocure has expensed all research and development costs in 2014 as in 2013.

Photocure's operating result totalled NOK -5.6 million in 2014, compared to an operating result of NOK -75.5 million in 2013. The change in the operating result is primarily attributable to increased sales revenues and milestone revenues as well as cost reductions.

Net financial items excluding impairment loss on shares in PCI Biotech Holding totalled NOK 7.2 million in 2014, compared to NOK 8.7 million in 2013.

Profit before tax and impairment loss on shares in PCI Biotech Holding was NOK 1.5 million in 2014 compared to a loss of NOK 66.9 million in 2013. Adjusted for impairment loss result before tax was a loss of NOK 6.7 million in 2014 compared to loss of NOK 66.9 million in 2013.

Tax expenses of NOK 18.0 million in 2014 reflects reduction in deferred tax assets at the end of the year. The parent company had a profit before tax in 2014 of NOK 66.5 million to be utilized by the tax loss carried forward. In 2013 the Group recognized a tax asset of NOK 8.2 million in addition to NOK 40.8 million from previous years. The reason for recognition was 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.

The Group's net result after tax and discontinued operations is NOK -24.7 million in 2014 compared to NOK -59.0 in 2013.

Photocure owned 19.2% of the shares in PCI Biotech Holding ASA, a company listed on the Oslo Stock Exchange, at year end. The market value of the shares in PCI Biotech Holding ASA decreased by NOK 16.1 million in 2014 to NOK 16.6 million as of 31 December 2014.

Photocure follows a prudent investment strategy for its liquid funds. The return on the liquid funds depends on the rate of interest in the money markets and will therefore vary over time. Liquid funds amounted to NOK 165.2 million at 31 December 2014, down from NOK 167.3 million at 31 December 2013.

Net cash flow from operating activities was NOK -6.1 million in 2014, compared to NOK -99.7 million in 2013. Included in net cash flow from operating activities is negative cash flow from working capital of NOK 2.0 million in 2014 and NOK 25.2 million in 2013.

Shareholder equity was NOK 240.1 million at 31 December 2014, an equity ratio of 89%. At the end of 2013, shareholder equity was NOK 269.1 million (89%).

#### Dividend

Photocure paid an extraordinary dividend of NOK 42.5 million in the second quarter of 2013. The Board has not proposed a dividend payment for 2014.

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, product development plans and outlook. Photocure 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.

#### Parent company

Photocure ASA (parent company) had in 2014 a profit after tax of NOK 40.3 million, compared to a loss after tax of NOK 27.0 million in 2013. The equity in Photocure ASA totals NOK 417.5 million at 31 December 2014. The equity ratio of the parent company is 94%.

#### Share capital and Board mandates

At 31 December 2014, 21,393,301 shares were registered in Photocure. At the Ordinary General Meeting 27 May 2014, the Board of Directors was granted authorization to purchase up to 10% of its own shares. At 31 December 2014, Photocure held 35,476 own shares, which is equivalent to 0.2% of the outstanding shares in the Group.

#### Going concern

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 2014, except those which are stated in this report that are of major significance for the assessment of the company's financial position and results.

#### SUBSEQUENT EVENTS

The extraordinary general meeting in PCI Biotech Holding ASA held on 6 January 2015 resolved to conduct a rights issue of 7 million shares in the company at a subscription price of NOK 10.00 per offer share. As shareholder in PCI Biotech Holding ASA Photocure received 1,343,905 tradable subscription rights. These subscription rights were sold 21 January 2015 at a price NOK 1.00 per subscription right. After the issue of 7 million shares Photocure holds 10.07% of the shares in PCI Biotech Holding ASA.

# BOARD OF DIRECTORS REPORT 2014

## OPERATIONAL RISK

Photocure develops innovative products and markets and sells these products through its own commercial teams and in partnerships with other companies. These activities entail exposure to various risks. The Board and management monitor and analyse the operations and potential risk factors, and actively take risk reduction measures.

### Commercial risk

Photocure is commercializing Hexvix/Cysview directly in the US and the Nordic region, and has a strategic partnership with Ipsen for the commercialization of Hexvix in Europe, excluding the Nordic region. Any significant event that adversely affects revenues from Hexvix/Cysview could have a material and negative impact on Photocure's results and cash flows. Key commercial risks include:

- Partners ability to fulfil its obligations to support the brand in key markets.
- Reimbursement may be limited or unavailable in certain markets, which could make it more difficult to achieve profitability in these markets.

### Manufacturing risk

Delays or interruptions at the production facilities may impair Photocure's supply of clinical trial material for pipeline products and supply of Hexvix/Cysview to the market and hence revenues.

### Development and regulatory risk

Photocure has currently two products under development, Visonac and Cevira. Key development risks include:

- The further development of Photocure's near-term pipeline relies on out-licencing agreements with third parties.
- Photocure will need approval from regulatory authorities to market its pipeline products. Efficacy issues could arise and approval may be denied, delayed or limited.
- Successful launches and sales for pipeline products may not be achieved due to changes in market dynamics or competition, unsuccessful marketing, and pricing pressure due to limitations on healthcare budgets.
- The expiration or loss of patent protection may adversely affect Photocure's future results and cash

flows. Third parties may challenge or seek to invalidate or circumvent Photocure's patents and patent applications.

## 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 trans-

lation 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. Photocure does not have outstanding hedging of future transactions at 31 December 2014.

## 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 Board of Directors held 13 meetings in 2014. All members of the Board of directors are shareholder-elected. The members of the Board of Directors was at the end of 2014 Bente-Lill Romøren (Chairperson), Synne H. Røine, Mats Pettersson and Xavier Yon.

Photocure ASA has offices in Oslo, Norway.

## 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, 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 2014 and early 2015. For Hexvix/Cysview expert recommendations have been published in reputable journals; European Urology and Nature Reviews Urology. Furthermore, in January 2015 a study on the impact of Hexvix on survival in bladder cancer patients was published in the World Journal of Urology. Total in-market sales of Hexvix/Cysview increased 10% in 2014 to a total of 50,000 units with an increase in total in-market value of 19% to NOK 180 million. For Cevira Photocure completed a re-analysis of the phase 2b data and end of phase 2 status was achieved with FDA, and in Europe discussions with Health Authorities have secured support to continue with the proposed phase 3 program.

### **Human resources**

At the end of 2014, the company employed 47 people. The company has a policy to outsource non-core operations and highly specialised services. The work environment within the company is considered to be good. No accidents or injuries resulting in absence were registered in 2014. Absence due to illness in the company was 1.38% of total hours in 2014, considerably lower than industry standard.

Photocure aims to be a workplace with equal opportunities 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, 50% 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, colour 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 Norwegian 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](http://www.nues.no)).

# BOARD OF DIRECTORS REPORT 2014

## 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 to increase market share 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 39% of all transurethral resections of the bladder (TURB).

Photocure has through the Hexvix/Cysview franchise built considerable experience in the urology sector. The Company will in 2015 explore strategic alternatives to capitalize on its strength in the sector, and

expand the Hexvix/Cysview franchise into the bladder cancer surveillance market with the initiation of a phase 3 post-marketing commitment trial.

To maximize the value of Photocure's products, the company is working to identify partners for development and commercialization of Cevira and Visonac.

Oslo, 7 April 2015

The Board of Directors of Photocure ASA

Bente-Lill Romøren, Chairperson

Synne H. Røine, Director

Mats Pettersson, Director

Xavier Yon, Director

Kjetil Hestdal, President and CEO



# CONFIRMATION FROM THE BOARD OF DIRECTORS AND CEO 2014

We confirm that, to the best of our knowledge, that the financial statements for the period from 1 January to 31 December 2014 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, 7 April 2015

The Board of Directors of Photocure ASA

Bente-Lill Romøren, Chairperson

Synne H. Røine, Director

Mats Pettersson, Director

Xavier Yon, Director

Kjetil Hestdal, President and CEO

# BOARD OF DIRECTORS

Name (year of birth)	<b>Bente-Lill Romøren (1949)</b>
Board roles	Chairperson of the Board Member of Compensation Committee
Elected year	2014
Position	Independent consultant
Education	M.Sc. in Chemistry
Experience	Bente-Lill Romøren was employed by Novo Nordisk Scandinavia AS from 1976 to 2012 in various positions, including as CEO of the Norwegian unit (2008-2012) and (1983-2002), division manager of HRT (hormone replacement therapy) and GHT (growth hormone therapy) in the Nordic region, UK and Ireland (2002-2008), and division manager of HRT in Scandinavia (2001-2002).
Other assignments	Board member of Radiumhospitalets Forskningsstiftelse Board member of Targovax Chairperson of Farmastat
Attendance	
Board meetings	9/9
Compensation Committee	2/2
Audit Committee	-
Shares owned at year-end	0

Name (year of birth)	<b>Synne H. Røine (1979)</b>
Board roles	Director Chairperson Audit Committee
Elected year	2014
Position	CFO, Bionor Pharma ASA
Education	MBA
Experience	Synne H. Røine is CFO of Bionor Pharma ASA, a biotech company focusing on the development of therapeutic vaccines against viral diseases. Ms. Røine served as CFO of Pronova BioPharma ASA from 2009 to 2013, a specialty pharma company selling, producing and developing Omega-3 based pharmaceuticals.
Other assignments	Board member Navamedic ASA
Attendance	
Board meetings	8/9
Compensation Committee	-
Audit Committee	2/2
Shares owned at year-end	0

Name (year of birth)	<b>Mats Petterson (1945)</b>
Board roles	Director Member Audit Committee
Elected year	2008
Position	Independent consultant
Education	B.Sc. in Economics and Business Administration
Experience	Mats Pettersson has over 35 years' experience of the pharmaceutical industry. Mats joined Pharmacia in 1976, where he held the position of CFO and different business development positions. Mats was responsible for most of the major transforming mergers in Pharmacia. In 2001 Mats founded Biovitrum AB, a spin-out company from Pharmacia, and was its CEO until 2007. Other assignments
Other assignments	Chairperson, Genmab A/S Chairperson, Moberg Pharma AB
Attendance	
Board meetings	13/13
Compensation Committee	
Audit Committee	4/5
Shares owned at year-end	5,000

Name (year of birth)	<b>Xavier Yon (1940)</b>
Board roles	Director Chairperson Compensation Committee
Elected year	2011
Position	Managing Director, XY Consulting
Education	Degree in Physics, Chemistry and Biology from Sorbonne University, Paris
Experience	As a former President and CEO of Galderma, Xavier Yon has spent more than 40 years in the pharmaceutical industry. He has previously worked for Solvay, Pfizer and Alcon before starting as President and CEO of Galderma in 1989. Under Xavier Yon's leadership Galderma grew into being the leading dermatology company globally.
Other assignments	-
Attendance	
Board meetings	13/13
Compensation Committee	2/2
Audit Committee	
Shares owned at year-end	0

# CORPORATE GOVERNANCE POLICY AND ANNUAL REVIEW

(Adopted by the board of directors on 7 April 2015)

PHOTOCURE IS COMMITTED TO GOOD CORPORATE GOVERNANCE Photocure ASA (“**Photocure**” or the “**Company**”) has made a strong commitment to ensure trust in the Company and to enhance shareholder value through effective decision-making and improved communication between the management, the board of directors and the shareholders. The Company’s framework for corporate governance is intended to decrease business risk, maximise value and utilise the Company’s resources in an efficient, sustainable manner, to the benefit of shareholders, employees and society at large.

The Company will seek to comply with the Norwegian Code of Practice for Corporate Governance (the “**Corporate Governance Code**”), last revised on 30 October 2014, which is available at the Norwegian Corporate Governance Committee’s web site [www.nues.no](http://www.nues.no) to the extent not considered unreasonable due to the Company size and stage of development. The principal purpose of the Corporate Governance Code is to ensure (i) that listed companies implement corporate governance that clarifies the respective roles of shareholders, the board of directors and executive management more comprehensively than what is required by legislation and (ii) effective management and control over activities with the aim of securing the greatest possible value creation over time in the best interest of companies, shareholders, employees and other parties concerned.

The Company is subject to reporting requirements for corporate governance under the Accounting Act section 3-3b as well as Oslo Børs’ “Continuing obligations of stock exchange listed companies” section 7. The board of directors will include a report on the Company’s corporate governance in each annual report, including an explanation of any deviations from the Corporate Governance Code. The corporate governance framework of the Company is subject to annual reviews and discussions by the board of directors.

The following provides a discussion of the Company’s corporate governance in relation to each section of the Corporate Governance Code for the financial year 2014. Photocure’s compliance with

the Code is detailed in this report and section numbers refer to the Corporate Governance Code:

## 1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

The board of directors of the Company has adopted several corporate governance guidelines, including rules of procedure for the board of directors, instructions for the audit committee, instructions for the compensation committee, insider manuals, manual on disclosure of information, ethical guidelines and guidelines for corporate social responsibility.

The Company will seek to comply with the Corporate Governance Code. The board of directors shall include a report on the Company’s corporate governance in its annual report, including an explanation of any deviations from the Corporate Governance Code.

Photocure’s value base constitutes a key premise for the Company’s corporate governance. The key values of the Company are integrity, respect and care, courage and passion. These values aim to characterise the behaviour of the Company and the Company’s employees, and form the basis for the Company’s ethical guidelines.

**Non-conformance with the recommendation: None**

## 2. BUSINESS

Photocure’s business is clearly defined in the Company’s articles of association (the “**Articles of Association**”). The Company’s goals and strategies are presented in the annual report, and the Company’s website [www.photocure.com](http://www.photocure.com).

The Company’s business is defined in the following manner in the Articles of Association section 3:

*“The purpose and main business of the company is to operate in photodynamic therapy and related areas, and anything thereby connected.”*

**Non-conformance with the recommendation: None**

## 3. EQUITY AND DIVIDENDS

### Equity

At 31 December 2014, the Company’s consolidated equity was NOK 240.1 million, an equity ratio of 89%. The board of directors considers this equity level to be satisfactory. The Company’s equity level and financial strength is continuously considered in light of its objectives, strategy and risk profile.

### Dividend policy

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.

The ordinary general meeting resolves the annual dividend, based on the proposal by the board of directors. The amount proposed sets an upper limit for the general meeting’s resolution.

### Capital increases and issuance of shares

The board of directors’ is authorised by the general meeting to resolve increases of the Company’s share capital. The authorisation is restricted to defined purposes, and does not last longer than to the Company’s next annual general meeting.

### Purchase of own shares

The board of directors’ is authorised by the general meeting to purchase the Company’s own shares on behalf of the Company. The authorisation is restricted to defined purposes, and does not last longer than to the Company’s next annual general meeting.

**Non-conformance with the recommendation: None**

#### 4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH RELATED PARTIES

##### Class of shares

The Company has one class of shares. All shares carry equal rights in the Company, and the Articles of Association do not contain any provisions restricting the exercise of voting rights.

##### Pre-emption rights to subscribe

According to the Norwegian Public Limited Liability Companies Act, the Company's shareholders have pre-emption rights in share offerings against cash contribution. Such pre-emption rights may however be set aside, either by the general meeting or by the board of directors if the general meeting has granted a board authorisation which allows for this. Any resolution to set aside pre-emption rights will be justified by the common interests of the Company and the shareholders, and such justification will be publicly disclosed through a stock exchange notice from the Company.

##### Trading in own shares

Photocure owns a total of 35,476 own shares. Photocure has not acquired any own shares during 2014.

In the event of a future share buy-back programme, the board of directors will aim to ensure that all transactions pursuant to such programme will be carried out either through the trading system at Oslo Børs or at prevailing prices at Oslo Børs. In the event of such programme, the board of directors will take the Company's and shareholders' interests into consideration and aim to maintain transparency and equal treatment of all shareholders. If there is limited liquidity in the Company's shares, the Company shall consider other ways to ensure equal treatment of all shareholders.

##### Transactions with close associates

The board of directors aims to ensure that any not immaterial future transactions between the Company and shareholders, a shareholder's parent company, members of the board of directors, executive personnel or close associates of any such parties are entered into on arms-length terms. For any such transactions which do not require approval by the general meeting pursuant

to the Norwegian Public Limited Liability Companies Act, the board of directors will on a case-by-case basis assess whether a fairness opinion from an independent third party should be obtained.

##### Guidelines for directors and executive management

The board of directors has adopted rules of procedures for the board of directors which inter alia includes guidelines for notification by members of the board of directors and executive management if they have any material direct or indirect interest in any transaction entered into by the Company.

##### Non-conformance with the recommendation: None

#### 5. FREELY NEGOTIABLE SHARES

The shares of the Company are freely transferable. There are no restrictions on transferability of shares pursuant to the Articles of Association.

##### Non-conformance with the recommendation: None

#### 6. GENERAL MEETINGS

The board of directors will make its best efforts with respect to the timing and facilitation of general meetings to ensure that as many shareholders as possible may exercise their rights by participating in general meetings, thereby making the general meeting an effective forum for the views of shareholders and the board of directors.

##### Notification

The notice for a general meeting, with reference to or attached support information on the resolutions to be considered at the general meeting, shall as a principal rule be sent to shareholders individually, or to their depository banks, no later than 21 days prior to the date of the general meeting. The notice of meeting includes information regarding shareholders' rights, guidelines for registering and voting at the meeting.

The board of directors will seek to ensure that the resolutions and supporting information distributed are sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered at the meeting. The notice and support information, as well as a proxy voting form,

will normally be made available on the Company's website [www.photocure.com](http://www.photocure.com) no later than 21 days prior to the date of the general meeting.

##### Participation and execution

Pursuant to the Articles of Association<sup>1</sup> shareholders who want to participate at the general meeting shall notify the Company thereof within five days prior to the general meeting.

To the extent deemed appropriate or necessary, the board of directors will seek to arrange for the general meeting to vote separately on each candidate nominated for election to the Company's corporate bodies.

The chairperson of the board, the chief executive officer and the chief financial officer are present at the annual general meeting. The board of directors and the nomination committee shall, as a general rule, be present at general meetings. The auditor will attend the ordinary general meeting and any extraordinary general meetings to the extent required by the agenda items or other relevant circumstances.

The chairperson of the board will normally be chairing the general meetings. The board of directors will seek to ensure that an independent chairperson is appointed if considered necessary based on the agenda items or other relevant circumstances.

The Company will aim to prepare and facilitate the use of proxy forms which allows separate voting instructions to be given for each item on the agenda, and nominate a person who will be available to vote on behalf of shareholders as their proxy.

**Non-conformance with the recommendation: Photocure is a small company and with directors living abroad, the company has so far not required directors' attendance in general meeting.**

<sup>1</sup> As proposed amended by the annual general meeting in 2015



# CORPORATE GOVERNANCE POLICY AND ANNUAL REVIEW

*(Adopted by the board of directors on 7 April 2015)*

## 7. NOMINATION COMMITTEE

The nomination committee is governed by the Articles of Association section 7. In addition, the Company's general meeting adopts instructions for the nomination committee. It is proposed that the annual general meeting in 2015 shall resolve revised instructions to the nomination committee to fully conform to the Corporate Governance Code.

The nomination committee shall consist of two or three members who shall be shareholders or shareholder representatives. The members shall be elected by the general meeting for a term of two years. The nomination committee shall give its recommendation to the general meeting on election of and compensation to members of the board of directors, in addition to election of members of the nomination committee. The proposals shall be justified.

The nomination committee currently consists of the following three members: Øyvin Brøymer (chairperson), Beate Bredesen, and James McDonald. The current members have been elected by the general meeting with a term until the Company's ordinary general meeting in 2015. All members are independent of the board of directors and executive management.

**Non-conformance with the recommendation: None**

## 8. COMPOSITION AND INDEPENDENCE OF THE BOARD OF DIRECTORS

Pursuant to the Articles of Association section 5, the Company's board of directors shall consist of three to seven members. The board of directors currently consists of the following four members: Bente-Lill Bjerkelund Romøren (chairperson), Synne Hermansen Røine, Mats Gunnar Pettersson and Xavier Denis Yon. The chairperson of the board has been elected by the general meeting. The term of office for members of the board of directors is one year at a time.

All members of the board are considered independent of the Company's executive management, material business contacts and the Company's main shareholders.

The Company's annual report will provide

information to illustrate the expertise of the members of the board of directors and their record of attendance at board meetings.

**Non-conformance with the recommendation: None**

## 9. THE WORK OF THE BOARD OF DIRECTORS

### The rules of procedure for the board of directors

The board of directors is responsible for the over-all management of the Company, and shall supervise the Company's day-to-day management and the Company's activities in general.

The Norwegian Public Limited Liability Companies Act regulates the duties and procedures of the board of directors. In addition, the board of directors has adopted supplementary rules of procedures, which provides further regulation on inter alia the duties of the board of directors and the chief executive officer, the division of work between the board of directors and the chief executive officer, the annual plan for the board of directors, notices of board proceedings, administrative procedures, minutes, board committees, transactions between the Company and the shareholders and confidentiality.

The board shall produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation. The chief executive officer shall at least once a month, by attendance or in writing, inform the board of directors about the Company's activities, position and profit trend.

The board of directors' consideration of material matters in which the chairperson of the board is, or has been, personally involved, shall be chaired by some other member of the board.

The board of directors shall evaluate its performance and expertise annually, and make the evaluation available to the nomination committee.

### The audit committee

The Company's audit committee is governed by the Norwegian Public Limited Liability Companies Act and a separate instruction adopted by the board of directors.

The members of the audit committee are appointed by and among the members of the board of directors. A majority of the members shall be independent of the Company's executive management, and at least one member shall have qualifications within accounting or auditing. Board members who are also members of the executive management cannot be members of the audit committee. The principal tasks of the audit committee are to:

- prepare the board of directors' supervision of the Company's financial reporting process;
- monitor the systems for internal control and risk management;
- have continuous contact with the Company's auditor regarding the audit of the annual accounts; and
- review and monitor the independence of the Company's auditor, including in particular the extent to which services than auditing provided by the auditor or the audit firm represent a threat to the independence of the auditor.

The audit committee currently consists of the following two members: Synne Hermansen Røine (chairperson) and Mats Gunnar Pettersson.

### The compensation committee

The Company's compensation committee is governed by a separate instruction adopted by the board of directors. The members of the compensation committee are appointed by and among the members of the board of directors, and shall be independent of the Company's executive management. The principal tasks of the compensation committee are to prepare:

- the board of directors' declaration on determination of salaries and other remuneration for executive management in accordance with the Norwegian Public Limited Liability Companies Act section 6-16 a; and
- other matters relating to remuneration and other material employment issues in respect of the executive management.

The compensation committee currently consists of the following two members: Xavier Denis Yon (chairperson) and Bente-Lill Bjerkelund Romøren.

**Non-conformance with the recommendation: None**

## 10. RISK MANAGEMENT AND INTERNAL CONTROL

The board of directors should on an ongoing basis assess the Company's risks. Each year, as a minimum, the board of directors has a thorough assessment of the significant parts of the Group's business and outlook, in order to identify risks and potential risks, and remedy any incident that have occurred. The board of directors may engage external expertise if necessary. The objective is to have the best possible basis for, and control of, the Company's situation at any given time.

In addition to the annual risk assessment, the management should present quarterly financial statements that will inform the board and shareholders on current business performance, including risk. These reports should be subject to review at the quarterly board meetings.

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.

**Non-conformance with the recommendation: None**

## 11. REMUNERATION OF THE BOARD OF DIRECTORS

The remuneration of the board of directors shall be decided by the Company's general meeting, and should reflect the board of

directors' responsibility, expertise, time commitment and the complexity of the Company's activities. The remuneration is not be linked to the Company's performance.

The nomination committee shall give a recommendation as to the size of the remuneration to the board of directors. Pursuant to the instructions for the nomination committee, the recommendation should normally be published on the Company's website at least 21 days prior to the general meeting that will decide on the remuneration.

The Company has not granted share options to board members.

Any remuneration in addition to normal fees to the members of the Board should be specifically identified in the annual report.

Members of the board of directors and/or companies with which they are associated should not take on specific assignments for the Company in addition to their appointment as a member of the board unless approved by the board of directors. The remuneration for such additional duties should be approved by the board of directors.

**Non-conformance with the recommendation: None**

## 12. REMUNERATION OF THE EXECUTIVE MANAGEMENT

The board of directors shall in accordance with the Norwegian Public Limited Liability Companies Act prepare separate guidelines for the stipulation of salary and other remuneration to key management personnel. The guidelines shall include the main principles applied in determining the salary and other remuneration of the executive management, and shall ensure convergence of the financial interests of the executive management and the shareholders. It should be clear which aspects of the guidelines that are advisory and which, if any, that are binding thereby enabling the general meeting to vote separately on each of these aspects of the guidelines.

The board of directors aims to ensure that performance-related remuneration of the executive management in the form of share options, annual bonus programmes

or the like, if used, are linked to value creation for shareholders or the Company's earnings performance over time. Performance-related remuneration should be subject to an absolute limit. Furthermore, the Company aims to ensure that such arrangements are based on quantifiable factors which the employee in question can influence.

The board of directors has established guidelines for remuneration of the key employees of the Company, and the guidelines will be presented to the annual general meeting in 2015. The remuneration guidelines are included in note 25 to the annual accounts. The compensation scheme for the Company's senior management is based on a fixed salary, performance related bonus (capped based on fixed salary) and a share option program. 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: None**

## 13. INFORMATION AND COMMUNICATIONS

### General

The Company has targeted investor relation activities with the aim to consistently provide the market with timely and accurate information.

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 board of directors has adopted a separate manual on disclosure of information, which sets forth the Company's disclosure obligations and procedures. The board of directors will seek to ensure that market participants receive correct, clear, relevant and up-to-date information in a timely manner, taking into account the requirement for equal treatment of all participants in the securities market.

The Company will each year publish a financial calendar, providing an overview of the dates for major events such as its ordinary general meeting and publication

# CORPORATE GOVERNANCE POLICY AND ANNUAL REVIEW

*(Adopted by the board of directors on 7 April 2015)*

of interim reports.

## Information to shareholders

The Company shall have procedures for establishing discussions with important shareholders to enable the Board to develop a balanced understanding of the circumstances and focus of such shareholders. Such discussions shall be done in compliance with the provisions of applicable laws and regulations.

All information distributed to the Company's shareholders will be published on the Company's web site at the same time as it is sent to shareholders. The chairperson of the board and the chief executive officer 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. TAKE-OVERS

In the event the Company becomes the subject of a take-over offer, the board of directors shall ensure that the Company's shareholders are treated equally and that the Company's activities are not unnecessarily interrupted. The board of directors shall also ensure that the shareholders have sufficient information and time to assess the offer.

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. There are no defence mechanisms against take-over bids in the Articles of Association, nor have other measures been implemented to specifically hinder acquisitions of shares in the Company. The board of directors has not established written guiding principles for how it will act in the event of a take-over bid, as such situations are normally characterized by concrete and one-off situations which make a guideline challenging to prepare.

In the event a take-over were to occur, the board of directors will consider the relevant recommendations in the Corporate Governance Code and whether the concrete situation entails that the recommendations in the Corporate Governance Code can be complied with or not.

## Non-conformance with the recommendation: The Company has not established separate principles for how to act in a take-over situation as described

### 15. AUDITOR

The Company's external auditor is KPMG AS.

On an annual basis, the auditor presents

to the audit committee a review of the Company's internal control procedures, including identified risk areas and proposals for improvement, as well as the main features of the plan for the audit of the Company.

Furthermore, the auditor participates in meetings of the board of directors that deal with the annual accounts and, at least once a year, carries out a review of the Company's procedures for internal control in collaboration with the audit committee. At least one board meeting with the auditor shall be held each year in which no member of the executive management is present.

The board of directors has established guidelines in respect of the use of the auditor by the executive management for services other than the audit.

The remuneration to the auditor will be approved by the ordinary general meeting. The board of directors will report to the general meeting details of fees for audit work and any fees for other specific assignments.

## Non-conformance with the recommendation: None

# STATEMENT OF COMPREHENSIVE INCOME

## Photocure ASA (Amounts in NOK 1 000)

Parent				Group	
2014	2013			2014	2013
			Notes		
93 913	64 224	Sales revenues	1,2,3	93 586	79 307
35 366	4 309	Signing fees and milestone revenues	1,2,3	35 366	4 309
<b>129 279</b>	<b>68 533</b>	<b>Total revenues</b>		<b>128 952</b>	<b>83 616</b>
-6 948	-5 875	Cost of goods sold	6	-6 996	-6 829
<b>122 331</b>	<b>62 658</b>	<b>Gross profit</b>		<b>121 956</b>	<b>76 787</b>
400	2 203	Other income	5	0	1 591
-9 187	-7 751	Indirect manufacturing expenses	7	-9 187	-7 751
-32 554	-33 976	Research and development expenses	7, 8	-32 554	-33 976
-24 777	-34 329	Marketing and sales expenses	7	-54 561	-68 418
-28 123	-37 303	Other operating expenses	7	-31 284	-40 079
<b>-94 241</b>	<b>-111 156</b>	<b>Total other income and expenses</b>		<b>-127 586</b>	<b>-148 633</b>
<b>28 091</b>	<b>-48 498</b>	<b>Operating profit/loss(-) recurring</b>		<b>-5 630</b>	<b>-71 846</b>
0	-3 694	Restructuring costs	4	0	-3 694
<b>28 091</b>	<b>-52 192</b>	<b>Operating profit/loss(-) incl non-recurring</b>		<b>-5 630</b>	<b>-75 540</b>
41 022	18 318	Financial income	12	9 787	10 119
-2 630	-1 431	Financial expenses	12	-2 630	-1 431
<b>38 392</b>	<b>16 887</b>	<b>Net financial profit/loss(-) excluding PCI shares</b>		<b>7 157</b>	<b>8 688</b>
<b>66 483</b>	<b>-35 305</b>	<b>Profit/loss(-) before PCI shares and tax</b>		<b>1 528</b>	<b>-66 852</b>
-8 181	0	Impairment loss shares in PCI Biotech Holding	16	-8 181	0
<b>58 302</b>	<b>-35 305</b>	<b>Profit/loss(-) before tax</b>		<b>-6 653</b>	<b>-66 852</b>
-18 047	8 269	Tax expense	13	-18 047	8 204
<b>40 255</b>	<b>-27 036</b>	<b>Net profit/loss(-) for continued operations</b>		<b>-24 700</b>	<b>-58 648</b>
0	0	Profit/loss(-) from discontinued operations	4	0	-302
<b>40 255</b>	<b>-27 036</b>	<b>Net profit/loss(-) for the year</b>		<b>-24 700</b>	<b>-58 950</b>
-7 883	-14 092	Market value adjustment PCI shares		-7 883	-14 092
0	0	Currency translation		491	76
<b>-7 883</b>	<b>-14 092</b>	<b>Total other comprehensive income items that may be reclassified to profit &amp; loss</b>		<b>-7 392</b>	<b>-14 016</b>
<b>32 372</b>	<b>-41 128</b>	<b>Comprehensive income</b>		<b>-32 092</b>	<b>-72 966</b>
		<b>Earnings per share (Amounts in NOK):</b>	14		
		Basic		-1,16	-2,78
		<b>Earnings per share continued operations</b>	14		
		Basic		-1,16	-2,76

# STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER

## Photocure ASA

(Amounts in NOK 1 000)

Parent						Group	
2014	2013					2014	2013
		ASSETS	Notes				
2 766	3 209	Machinery and equipment	15	3 094	3 681		
178 624	110 277	Loan to group company	26				
45 083	54 380	Other investments	16	42 355	51 969		
31 063	49 109	Deferred tax asset	13	31 063	49 109		
<b>257 536</b>	<b>216 975</b>	<b>Total non-current assets</b>		<b>76 512</b>	<b>104 759</b>		
12 995	12 561	Inventories	17	13 237	12 624		
7 847	8 687	Accounts receivable	18, 20	9 602	9 432		
5 453	7 168	Other receivables	18, 20	5 983	7 653		
161 286	166 351	Cash and short term deposits	18, 21	165 245	167 258		
<b>187 581</b>	<b>194 767</b>	<b>Total current assets</b>		<b>194 067</b>	<b>196 967</b>		
<b>445 117</b>	<b>411 742</b>	<b>Total assets</b>		<b>270 579</b>	<b>301 726</b>		
<b>EQUITY AND LIABILITIES</b>							
10 697	10 697	Share capital	22	10 697	10 697		
37 801	34 777	Other paid-in capital		37 801	34 777		
369 049	336 687	Retained earnings		191 560	223 649		
<b>417 547</b>	<b>382 161</b>	<b>Total equity</b>		<b>240 058</b>	<b>269 123</b>		
3 055	2 296	Pension liabilities	10	3 055	2 296		
<b>3 055</b>	<b>2 296</b>	<b>Total non-current liabilities</b>		<b>3 055</b>	<b>2 296</b>		
3 977	6 654	Accounts payable	24	4 337	7 281		
3 532	3 310	Employee withholding taxes and social security tax		3 532	3 324		
17 006	17 321	Other current liabilities	24	19 597	19 702		
<b>24 515</b>	<b>27 285</b>	<b>Total current liabilities</b>		<b>27 466</b>	<b>30 307</b>		
<b>27 570</b>	<b>29 581</b>	<b>Total liabilities</b>		<b>30 521</b>	<b>32 603</b>		
<b>445 117</b>	<b>411 742</b>	<b>Total equity and liabilities</b>		<b>270 579</b>	<b>301 726</b>		

Oslo, 7 April 2015

The Board of Directors of Photocure ASA

Bente-Lill B. Romøren, Chairperson

Synne H. Røine, Director

Xavier Yon, Director

Mats Pettersson, Director

Kjetil Hestdal, President and CEO



# 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
<b>Equity as of 31 December 2012</b>	<b>10 697</b>	<b>-8 862</b>	<b>81 823</b>	<b>21 975</b>	<b>-</b>	<b>355 841</b>	<b>461 473</b>
Total comprehensive income	-	-	-	-14 092	-	-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
Total transaction with owners	-	2 125	-40 309	-	-	-	-38 184
<b>Equity as of 31 December 2013</b>	<b>10 697</b>	<b>-6 737</b>	<b>41 514</b>	<b>7 883</b>	<b>-</b>	<b>328 805</b>	<b>382 161</b>
Total comprehensive income	-	-	-	-7 883	-	40 25	32 372
Transaction with owners:							
Capital repayment							-
Buy back own shares							-
Sale own shares		686					686
Employees' options			2 329				2 329
Other items							-
Total transaction with owners	-	686	2 329	-	-	-	3 015
<b>Equity as of 31 December 2014</b>	<b>10 697</b>	<b>-6 051</b>	<b>43 843</b>	<b>-</b>	<b>-</b>	<b>369 060</b>	<b>417 547</b>

### Group

<b>Equity as of 31 December 2012</b>	<b>10 697</b>	<b>-8 862</b>	<b>81 823</b>	<b>21 975</b>	<b>-387</b>	<b>275 026</b>	<b>380 272</b>
Total comprehensive income	-	-	-	-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
Total transaction with owners	-	2 125	-40 309	-	-	-	-38 184
<b>Equity as of 31 December 2013</b>	<b>10 697</b>	<b>-6 737</b>	<b>41 514</b>	<b>7 883</b>	<b>-311</b>	<b>216 076</b>	<b>269 123</b>
Total comprehensive income	-	-	-	-7 883	491	-24 700	-32 092
Transaction with owners:							
Capital repayment							-
Buy back own shares							-
Sale own shares		686					686
Employees' options			2 343				2 343
Total transaction with owners	-	686	2 343	-	-	-	3 029
<b>Equity as of 31 December 2014</b>	<b>10 697</b>	<b>-6 051</b>	<b>43 857</b>	<b>-</b>	<b>180</b>	<b>191 376</b>	<b>240 058</b>

Due to prior period reclassifications between retained earnings and fair value reserve, certain adjustments between these two categories have been made.

Total equity for each year remains the same.

# CASH FLOW STATEMENT

## Photocure ASA (Amounts in NOK 1 000)

Parent			Group	
2014	2013		2014	2013
58 302	-35 305	Profit/loss(-) before tax	-6 653	-67 154
1 257	1 224	Ordinary depreciation & amortisation	1 469	1 460
8 181	-	Write down of non current investment	8 181	-
-67	-4	(Gain)/Loss on sale of non-current assets	-67	26
-4 612	-4 309	Deferred income sale of Metvix & Aktelite	-4 612	-4 309
2 329	1 915	Share-based payments expense	2 343	2 176
759	675	Pension costs	759	675
-4 138	-5 530	Interest income	-4 138	-5 530
-31 235	-8 199	Unrealized currency (gain)/loss loan subsidiary	-	-
-1 839	-678	Unrealized currency (gain)/loss deferred income	-1 839	-678
-1 704	-1 752	Other items	425	-1 155
-434	-3 837	Change in inventory	-613	-2 798
2 555	-1 806	Change in receivables	1 500	-1 653
-1 696	-1 201	Change in other short term liability	-2 737	-597
316	-20 287	Change in other accruals	-105	-20 185
<b>27 974</b>	<b>-79 094</b>	<b>Net cash flow from operating activities</b>	<b>-6 088</b>	<b>-99 722</b>
-37 113	-20 609	Loan to subsidiary		
-956	-1 085	Investments in machinery and equipment	-956	-1 155
208	143	Sale of fixed assets (sales price)	208	143
4 138	5 530	Interest received	4 138	5 530
<b>-33 723</b>	<b>-16 021</b>	<b>Net cash flow from investing activities</b>	<b>3 390</b>	<b>4 518</b>
-	-42 481	Repayment of capital	-	-42 481
-	-3 830	Buy back own shares	-	-3 830
686	5 955	Sale own shares	686	5 955
<b>686</b>	<b>-40 356</b>	<b>Net cash flow from financing activities</b>	<b>686</b>	<b>-40 356</b>
<b>-5 064</b>	<b>-135 471</b>	<b>Net change in cash during the year</b>	<b>-2 012</b>	<b>-135 560</b>
<b>166 351</b>	<b>301 822</b>	<b>Cash and cash equivalents as of 01 January</b>	<b>167 258</b>	<b>302 818</b>
<b>161 286</b>	<b>166 351</b>	<b>Cash and cash equivalents as of 31 December</b>	<b>165 245</b>	<b>167 258</b>

# ACCOUNTING PRINCIPLES

## 1. GENERAL INFORMATION

The annual accounts for 2014 for Photocure ASA (the Company) and its subsidiary Photocure Inc (together the Group or Photocure) were approved for publication by the Board of Directors on 7 April 2015.

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 Hoffsvæien 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 2014.

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 and in the US through its wholly owned subsidiary Photocure Inc under the trade name Cysview. Hexvix is licensed to Ipsen Pharma SAS in the rest of Europe outside the Nordic region.

Photocure decided 1 October 2012 to exit Allumera business in the U.S. and this is presented as a discontinued operation in the financial statements.

## 3. CHANGES IN ACCOUNTING POLICIES

IFRS 15 Revenue from contract with customers establishes a comprehensive framework for determining whether, how much and when revenue is recognized. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017 with early adoption permitted. The Group is assessing the potential impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

## 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 2014:

- 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.
- In August 2014, Photocure and Salix Pharmaceuticals (Salix) agreed to terminate the global licensing agreement for Lumacan. As part of the termination agreement, Photocure received a payment of USD 5 million from Salix and regained the global rights and all intellectual property to Lumacan. The termination fee was recognized as a milestone payment in 2014.
- 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 19.20% 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 31.1 million in the balance sheet as of 31 December 2014 of Photocure ASA. This is a decrease of NOK 18 million compared to previous year due to a taxable profit in Norway 2014. The basis for recognition of a tax asset in Norway is that temporary differences for the coming years will be reversed and expected future profit.
- 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

# ACCOUNTING PRINCIPLES

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 will generate future financial benefits, cf. 5d.

- 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.

## 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/Aktile 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.

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 nominal value.

g.2 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 nominal value.

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 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 applications are granted.

#### **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 x 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 x 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 granted 2014 and later, are offered at strike prices that reflect the market price +10% 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 the employee's resignation from the Company.

Employer's social security contributions on outstanding



# ACCOUNTING PRINCIPLES

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% and in the USA at an effective rate of 40% 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. Each taxable entity in the Group are treated separately.

## **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. Anti-dilution 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.

## **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 2014

## 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 signed in 2010 a partnership agreement with Salix Pharmaceuticals, Inc. for the development of Lumacan for the diagnosis of colorectal cancer. In August 2014, following the proposed merger agreement between Salix and Cosmo Pharmaceuticals S.p.A, Photocure and Salix agreed to terminate the global licensing agreement for Lumacan. Photocure has received a payment of USD 5 million and will regain the global rights and all intellectual property to Lumacan.

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 incurred.

## 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 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 2014 includes the termination payment from Salix.

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.

Operating costs are charged directly to the respective segment involved, or allocated by principles reviewed by corporate management. Government research grants 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.

# NOTES TO THE FINANCIAL STATEMENTS FOR 2014

## Group - Segment information

1.1 - 31.12.2014 (Amounts in NOK 1 000)

	Cancer				Dermatology			Total
	Own	Partner	R&D	Total	Partner	R&D	Total	
Sales revenues	45 693	46 320	0	92 013	1 572	0	1 572	93 586
Milestone revenues	0	0	30 754	30 754	4 612	0	4 612	35 366
Cost of goods sold	-2 175	-4 821	0	-6 996	0	0	0	-6 996
<b>Gross profit</b>	<b>43 518</b>	<b>41 499</b>	<b>30 754</b>	<b>115 771</b>	<b>6 184</b>	<b>0</b>	<b>6 184</b>	<b>121 956</b>
Gross profit of sales %	95%	90%		92%	100%		100%	93%
Operating expenses	-57 067	-17 544	-42 235	-116 846	-846	-9 894	-10 740	-127 586
<b>Operating profit/loss (-)</b>	<b>-13 549</b>	<b>23 955</b>	<b>-11 481</b>	<b>-1 075</b>	<b>5 338</b>	<b>-9 894</b>	<b>-4 556</b>	<b>-5 630</b>

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	0	78 564	743	0	743	79 307
Milestone revenues	0	0	0	0	4 309	0	4 309	4 309
Cost of goods sold	-2 040	-4 789	0	-6 829	0	0	0	-6 829
<b>Gross profit</b>	<b>36 094</b>	<b>35 641</b>	<b>0</b>	<b>71 735</b>	<b>5 052</b>	<b>0</b>	<b>5 052</b>	<b>76 787</b>
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
<b>Operating profit/loss (-)</b>	<b>-26 003</b>	<b>9 906</b>	<b>-39 325</b>	<b>-55 422</b>	<b>-5 576</b>	<b>-10 848</b>	<b>-16 424</b>	<b>-71 846</b>

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## Geographical information

The geographical revenue information is based on the location of the customers.

The signing fees and milestone revenue information is described in note 2 and not included in the following table.

(Amounts in NOK 1 000)		
	Sale revenue	
	2014	2013
Nordic countries	33 415	29 885
United States	12 278	8 249
<b>Own sales</b>	<b>45 693</b>	<b>38 134</b>
<b>Partner countries Europe</b>	<b>47 893</b>	<b>41 173</b>
<b>Group sale revenues</b>	<b>93 586</b>	<b>79 307</b>

#### 4 - RESTRUCTURING COSTS & DISCONTINUED OPERATION

Restructuring costs incurred with NOK 3.7 million in 2013 and related to implemented headcount reductions and organizational changes. The costs incurred in this process have been reported as non-recurring restructuring costs in 2013.

<b>Specification of Restructuring expenses:</b> <i>(Amounts in NOK 1 000)</i>	<b>Group</b>		<b>Parent</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Payroll expenses	-	3 298	-	3 298
Fees and other expenses	-	396	-	396
<b>Total restructuring expenses</b>	<b>0</b>	<b>3 694</b>	<b>0</b>	<b>3 694</b>

In 2012, Photocure decided to exit its activities related to the Allumera business. The statement of comprehensive income has been restated according to IFRS 5 in order to present discontinued operations separately from continuing operations.

#### 5 - OTHER INCOME

<i>(Amounts in NOK 1 000)</i>	<b>Group</b>		<b>Parent</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Norwegian R&D tax credit (Skattefunn)	-	1 591	-	1 591
Intercompany services	-	-	400	612
<b>Total</b>	<b>0</b>	<b>1 591</b>	<b>400</b>	<b>2 203</b>

#### 6 - COST OF GOODS SOLD

Total cost of goods sold in 2014 of NOK 7.0 million, includes royalties for inlicensing of technology and rights from other parties.

# NOTES TO THE FINANCIAL STATEMENTS FOR 2014

## 7 - INCOME STATEMENT CLASSIFIED BY NATURE

(Amounts in NOK 1 000)

		Group		Parent	
	Note	2014	2013	2014	2013
Sales revenues	2	93 586	79 307	93 913	64 224
Signing fees and milestone revenues	2	35 366	4 309	35 366	4 309
Cost of goods sold	6	-6 996	-6 829	-6 948	-5 875
<b>Gross profit</b>		<b>121 956</b>	<b>76 787</b>	<b>122 331</b>	<b>62 658</b>
Other income	5	0	1 591	400	2 203
Payroll expenses	9	-73 008	-73 388	-51 899	-51 292
R&D costs excluding payroll expenses/other operating expenses	8	-15 197	-15 729	-15 197	-15 729
Ordinary depreciation and amortisation	15	-1 469	-1 460	-1 257	-1 224
Other operating expenses		-37 912	-59 647	-26 287	-45 114
<b>Total operating revenue and operating expenses</b>		<b>-127 586</b>	<b>-148 633</b>	<b>-94 240</b>	<b>-111 156</b>
<b>Operating profit continued operations before non-recurring items</b>		<b>-5 630</b>	<b>-71 846</b>	<b>28 091</b>	<b>-48 498</b>
Restructuring		0	-3 694	0	-3 694
<b>Operating profit continued operations including non-recurring items</b>		<b>-5 630</b>	<b>-75 540</b>	<b>28 091</b>	<b>-52 192</b>
<b>Specification of Other operating expenses:</b>		<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Marketing expenses		5 217	15 117	3 331	10 787
Payment for Visonac commercial rights		0	8 866	0	8 866
Travel expenses		7 531	8 620	3 628	3 943
Patent costs, legal and other fees		11 203	13 152	7 584	9 560
Other expenses		13 961	13 892	11 744	11 958
<b>Total other operating expenses</b>		<b>37 912</b>	<b>59 647</b>	<b>26 287</b>	<b>45 114</b>



## 8 - CHANGE OF COST CLASSIFICATION

Photocure has regarded all regulatory costs related to new markets as part of our development costs (R&D). However, since this work is related to market expansion rather than development work, Photocure has decided to change the accounting policy for the reporting of the regulatory function into the following two categories from next year:

- Regulatory work and services related to new products or product development based on new clinical trials up to and including phase 3, are classified as R&D costs
- Regulatory work and services for new markets based on existing clinical data will be classified as marketing costs

The R&D costs in 2014 include regulatory service costs for new markets based on existing clinical data with approximately NOK 2 million and in 2013 with approximately NOK 2.7 million.

## 9 - PERSONNEL EXPENSES

(Amounts in NOK 1 000)

	Note	Group		Parent	
		2014	2013	2014	2013
Salaries		58 816	62 818	40 251	43 579
Employer's social security contributions on salaries, etc.		6 240	7 237	5 199	6 013
Option costs		2 343	2 176	2 015	1 915
Employer's social security contributions on options		-82	-345	-82	-345
Pension costs	10	3 794	3 858	3 284	3 321
Other benefits		1 897	942	1 232	106
<b>Total payroll expenses</b>		<b>73 008</b>	<b>76 686</b>	<b>51 899</b>	<b>54 589</b>
Restructuring		0	-3 298	0	-3 298
<b>Net payroll expenses</b>		<b>73 008</b>	<b>73 388</b>	<b>51 899</b>	<b>51 291</b>
No. of full-time equivalent positions		47	50	32	32

### 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 2014, NOK 2.3 million of share-based payments has been expensed, of which NOK 0.3 million applies to Photocure Inc. The corresponding figure for Photocure in 2013 was NOK 2.2 million of which NOK 0.3 million applied to Photocure Inc.

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

		2014		2013	
		Number	Average exercise price (NOK)	Number	Average exercise price (NOK)
Outstanding at start of year	1 013 637	41.14	1 050 792	41.27	
Allocated during the year	326 000	27.39	346 649	38.50	
Become invalid during the year	107 575	38.52	178 525	42.09	
Exercised during the year	37 500	18.30	205 279	29.01	
Expired during the year	41 250	18.30	-	-	
Outstanding at end of year	1 153 312	39.05	1 013 637	41.14	
Exercisable options as per 31 December	852 631	41.84	680 175	40.81	

The average weighted life of outstanding share options was 2.1 years at 31 December 2014 and 2.9 years at 31 December 2013. The average weighted market value of options issued in 2014 was NOK 7.38. No new share option programs were started in 2013.

# NOTES TO THE FINANCIAL STATEMENTS FOR 2014

The exercise prices and the average life of outstanding share options as per 31 December 2014 were as follows:

Average remaining life	No. of options	Exercise price NOK
1 year	248 825	42.00
2 year	300 444	48.75
3 year	306 043	38.50
4 year	298 000	27.39
<b>Total</b>	<b>1 153 312</b>	

## 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.

	2014	2012	2011	2010
Dividends (NOK)	0.00	0.00	0.00	0.00
Expected volatility (%)	41.10	45.74	46.85	41.06
Historical volatility (%)	41.10	45.74	46.85	41.06
Risk-free interest (%)	1.79	1.98	1.57	3.08
Expected life of options (years)	3.71	3.75	3.65	3.65

## 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 2014 and 31 December 2013, the company had immaterial deposits in the premium and the 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	
	2014	2013	2014	2013
Total pension costs, contribution scheme in life assurance	2 996	3 183	2 486	2 646
Total pension costs, company contribution scheme	798	675	798	675
<b>Total</b>	<b>3 794</b>	<b>3 858</b>	<b>3 284</b>	<b>3 321</b>

## 11 - AUDITING FEES

(Amounts in NOK 1 000 ex VAT)

	Group and parent	
	2014	2013
Statutory auditing	304	246
Other attestation services	16	40
Other services excluding auditing	0	0
Tax advice	116	51
<b>Total</b>	<b>436</b>	<b>337</b>

## 12 - FINANCIAL INCOME AND EXPENSE

(Amounts in NOK 1 000)

	Group		Parent	
	2014	2013	2014	2013
Interest income	4 138	5 552	4 138	5 552
Foreign exchange gains	5 649	4 567	36 884	12 766
<b>Total financial income</b>	<b>9 787</b>	<b>10 119</b>	<b>41 022</b>	<b>18 318</b>
Interest expense	3	10	3	10
Foreign exchange losses	2 515	1 273	2 515	1 273
Other financial expense	112	148	112	148
<b>Total financial expense</b>	<b>2 630</b>	<b>1 431</b>	<b>2 630</b>	<b>1 431</b>

The foreign exchange gain in the parent company include unrealised exchange gain of the long term loan to the subsidiary that is nominated in USD. The exchange rate NOK/USD has increased from 5.59 as of December 31, 2012 to 7.43 as of December 31, 2014 resulting in unrealised gain of NOK 8.2 million in 2013 and NOK 31.2 million in 2014. In the consolidated accounts the unrealised gain is eliminated against the change in equity as part of other comprehensive income.

## 13 - TAX

(Amounts in NOK 1 000)

	Group		Parent	
	2014	2013	2014	2013
<b>Income tax expense</b>				
Tax payable	-	65	-	-
Changes in deferred tax	18 047	-8 269	18 047	-8 269
<b>Total income tax expense</b>	<b>18 047</b>	<b>-8 204</b>	<b>18 047</b>	<b>-8 269</b>
<b>Tax base calculation</b>				
Profit before income tax	-6 653	-67 154	58 302	-35 305
Permanent differences *)	10 636	-1 922	9 860	1 199
Temporary differences	-7 148	24 947	-6 552	24 386
Utilisation of tax loss carried forward, not previously incorporated	-61 610		-61 610	-
Increase tax loss carried forward	64 775	44 129	-	9 720
<b>Tax base</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR 2014

## Temporary differences:

Receivables	-	-	-	-
Inventories	1 921	1 790	1 921	1 790
Non current assets	-1 210	-1 267	-1 243	-1 267
Long term currency loans	34 747	3 553	34 747	3 553
Provisions	1 654	1 010	-	-83
Pensions	-3 035	-2 159	-3 035	-2 159
Gains and loss account	96 015	120 019	96 015	120 019
<b>Total</b>	<b>130 092</b>	<b>122 946</b>	<b>128 405</b>	<b>121 853</b>
Tax loss carried forward	-407 756	-412 917	-243 740	-305 351
<b>Net temporary differences</b>	<b>-277 664</b>	<b>-289 972</b>	<b>-115 335</b>	<b>-183 498</b>
Write down of deferred tax asset	162 614	108 087	-	1 613
<b>Deferred tax benefit recognised in balance sheet</b>	<b>-115 050</b>	<b>-181 885</b>	<b>-115 335</b>	<b>-181 885</b>
<b>Deferred tax liability (asset)</b>	<b>-31 063</b>	<b>-49 109</b>	<b>-31 063</b>	<b>-49 109</b>

	Group		Parent	
	2014	2013	2014	2013
<b>Effective tax rate</b>				
Expected income taxes at statutory tax rate 27%	413	-18 132	17 950	-9 532
Permanent differences	663	-519	454	324
Effect change permanent differences previous years	-24	591	-357	940
Not recognised deferred tax benefit of current year tax loss US	13 007	11 250		
Effect foreign currency	3 989	-1 212		
Effect different rate income tax US		-182		
<b>Income tax expense</b>	<b>18 047</b>	<b>-8 204</b>	<b>18 047</b>	<b>-8 269</b>
Effective tax rate in % **)	-271,3 %	12,2 %	31,0 %	23,4 %

\*) 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 the parent company in Norway but not for the subsidiary Photocure Inc. The parent company has a profit before tax in 2014 of NOK 66.5 million to be utilised by the tax loss carried forward in Norway. The deferred tax asset is of this reason decreased by NOK 18.0 million as of 31 December 2014 to NOK 31.1 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.

	2014	2013
<b>No. of shares</b>		
Ordinary shares 1 January	21 393 301	21 393 301
Effect of treasury shares	-72 154	-152 619
Effect of share options exercised	0	0
<b>Weighted average number of shares, 31 December</b>	<b>21 321 147</b>	<b>21 240 682</b>
Effect of outstanding share options	15 618	61 074
<b>Weighted average number of diluted shares, 31 December</b>	<b>21 336 765</b>	<b>21 301 756</b>

	2014	2013		
<b>Earnings per share</b>				
	<b>Total</b>	<b>Continued operations</b>	<b>Dis-continued operations</b>	<b>Total</b>
Weighted average number of shares	21 321 147	21 240 682	21 240 682	21 240 682
Dilution effect	15 618	61 074	61 074	61 074
<b>Weighted average number of shares diluted</b>	<b>21 336 765</b>	<b>21 301 756</b>	<b>21 301 756</b>	<b>21 301 756</b>
Annual earnings per share in NOK	-1.16	-2.76	-0.01	-2.78
Annual earnings per share in NOK diluted	-1.16	-2.76	-0.01	-2.78



# NOTES TO THE FINANCIAL STATEMENTS FOR 2014

## 15 - MACHINERY AND EQUIPMENT

(Amounts in NOK 1 000)

Group	Software	Production Equipment	Furniture & Equipment	Total
<b>Accumulated cost at 31 December 2012</b>	<b>563</b>	<b>2 594</b>	<b>3 532</b>	<b>6 689</b>
Additions	0	620	540	1 160
Disposals and scrapping	-31	0		-31
<b>Accumulated cost at 31 December 2013</b>	<b>532</b>	<b>3 214</b>	<b>4 072</b>	<b>7 818</b>
Additions		90	866	956
Disposals and scrapping			-270	-270
<b>Accumulated cost at 31 December 2014</b>	<b>532</b>	<b>3 304</b>	<b>4 668</b>	<b>8 504</b>
<b>Accumulated depreciation at 31 December 2012</b>	<b>354</b>	<b>1 321</b>	<b>1 033</b>	<b>2 708</b>
Ordinary depreciation	91	361	1 008	1 460
Disposals and scrapping	-30	0		-30
<b>Accumulated depreciation at 31 December 2013</b>	<b>415</b>	<b>1 682</b>	<b>2 041</b>	<b>4 138</b>
Ordinary depreciation	79	464	925	1 468
Disposals and scrapping			-196	-196
<b>Accumulated depreciation at 31 December 2014</b>	<b>494</b>	<b>2 146</b>	<b>2 770</b>	<b>5 410</b>
<b>Book value at 31 December 2013</b>	<b>117</b>	<b>1 533</b>	<b>2 031</b>	<b>3 681</b>
<b>Book value at 31 December 2014</b>	<b>38</b>	<b>1 158</b>	<b>1 898</b>	<b>3 094</b>

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

	Group		Parent	
Rental costs	2014	2013	2014	2013
Rental of office premises	3 584	4 076	3 012	3 460
Rental of equipment	328	379	284	358
<b>Total rental costs</b>	<b>3 912</b>	<b>4 455</b>	<b>3 296</b>	<b>3 818</b>

The Company has a rental agreement for premises at Hoffsveien 4 in Oslo. Photocure utilised in 2014 an option to extend the agreement with an additional period of 5 years ending August 2021 including a right to subrent part of the premises. The net rent including shared expenses amounts to NOK 2.7 million for the period 1 January 2015 through 31 December 2015. The net rent for the remaining period until the expiry of the agreement amounts to NOK 15.6 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. The rent commitment for the period 1 January 2015 to 31 December 2015 is NOK 0.7 million while the rent for the remaining period until the expiry of the agreement amounts to NOK 0.8 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 2014	Result 2014
PCI Biotech Holding ASA	Oslo, Norway	2007	16 249	19,20%	16 569	9 114	-35 840

Shares in PCI Biotech Holding ASA are valued at last traded price on Oslo Axess in 2014 at NOK 11.17 per share. A fall in market value from original cost NOK 38.4 million to market value as of balance sheet date of NOK 16.6 million represents a material decrease in value and impairments are necessary in the Financial Statements for 2014. Given that previous impairments of NOK 13.6 million should not be reversed through profit and loss if and when the market value increases again, it is only the fair value decreases below previous impairments to be recognised in profit and loss for 2014. This part of the impairment is NOK 8.2 million, the remaining part is presented as Other comprehensive income by NOK 7.9 million in 2014.

PCI Biotech Holding ASA carried out a fully underwritten rights issue of NOK 70 million that was completed 12 February 2015. Photocure did not participate in this capital increase and will hold 10.07% of the shares in PCI Biotech Holding ASA after 12 February 2015.

In the balance sheet of parent company 100% of shares in the subsidiary Photocure Inc are included with book value NOK 2.7 million as of 31 December 2014 and NOK 2.4 million as of 31 December 2013.

	Group and parent	
Other non-current financial assets	31-Dec-14	31-Dec-13
Incurred part of final settlement from sale of Metvix/Aktelite, cf. description in note 2	25 786	19 335

## 17 - INVENTORIES

(Amounts in NOK 1 000)

	Group		Parent	
	31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13
Raw materials	1 225	1 532	1 225	1 532
Components	3 713	2 719	3 713	2 719
Semi-finished and finished goods	8 299	8 373	8 057	8 310
<b>Total inventories</b>	<b>13 237</b>	<b>12 624</b>	<b>12 995</b>	<b>12 561</b>

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 technical medical equipment to be used in clinical trials and products that are to be used in the production of technical medical equipment.

# NOTES TO THE FINANCIAL STATEMENTS FOR 2014

## 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 ensures 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 interest 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	
<b>31-Dec-14</b>					
Accounts payable	4 187	150			4 337
Other current liabilities	3 000	8 097	8 000	500	19 597
<b>31-Dec-13</b>					
Accounts payable	7 027	171	83		7 281
Other current liabilities	3 802	6 500	8 900	500	19 702

#### 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 regularly monitors 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. However Photocure has a cash surplus in EUR and a cash deficit in USD. Photocure does not have outstanding hedging of future transactions at 31 December 2014.

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.

(Amounts in NOK 1 000)	Change in the NOK exchange rate	Effect on operating profit/loss
<b>2014</b>	+ 10 %	-5 163
<b>2014</b>	- 10 %	5 163
<b>2013</b>	+ 10 %	218
<b>2013</b>	- 10 %	-218

# NOTES TO THE FINANCIAL STATEMENTS FOR 2014

## 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	16 569			16 569
- Money market funds	143 368			143 368
<b>Total</b>	<b>159 937</b>	<b>0</b>	<b>0</b>	<b>159 937</b>

## 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:

(Amounts in NOK 1 000)

	Group		Parent	
	31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13
Accounts receivable	9 602	9 432	7 795	8 377
Accounts receivable intercompany			52	310
<b>Total</b>	<b>9 602</b>	<b>9 432</b>	<b>7 847</b>	<b>8 687</b>
Royalty	3 891	3 655	3 891	3 655
Other receivables	2 092	3 998	1 562	3 513
<b>Total other receivables</b>	<b>5 983</b>	<b>7 653</b>	<b>5 453</b>	<b>7 168</b>

38

Loan to the subsidiary is disclosed in note 26.

Age breakdown of group accounts receivable	Not yet due	0-30 days	30-60 days	60-90 days	Over 90 days	Total
31 December 2014	8 435	1 139	28			9 602
31 December 2013	8 708	477	47	47	153	9 432

Bad debt loss in 2014 and 2013 has been immaterial. 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-14	31-Dec-13	31-Dec-14	31-Dec-13
Cash and cash equivalents, restricted (1)	3 995	4 029	3 995	4 029
Cash and cash equivalents, non-restricted	17 882	14 686	13 923	13 779
Money market funds, non-restricted	143 368	148 543	143 368	148 543
<b>Total</b>	<b>165 245</b>	<b>167 258</b>	<b>161 286</b>	<b>166 351</b>

(1) Restricted cash and cash equivalents at 31 December 2014 include security for employees' withholding tax in the amount of NOK 1.5 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
<b>Share capital at 31 December 2013</b>	<b>21 393 301</b>	<b>0.50</b>	<b>10 696 651</b>
<b>Share capital at 31 December 2014</b>	<b>21 393 301</b>	<b>0.50</b>	<b>10 696 651</b>
<b>Treasury shares:</b>			
<b>Holdings of treasury shares at 31 December 2012</b>	<b>178 255</b>		<b>89 128</b>
Buy-back of treasury shares	100 000	0.50	50 000
Share option exercise	-205 279	0.50	-102 640
<b>Holdings of treasury shares at 31 December 2013</b>	<b>72 976</b>		<b>36 488</b>
Buy-back of treasury shares	0	0.50	0
Share option exercise	-37 500	0.50	-18 750
<b>Holdings of treasury shares at 31 December 2014</b>	<b>35 476</b>		<b>17 738</b>

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 27 May 2014, 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 2015. Previously issued authorisations have expired.

# NOTES TO THE FINANCIAL STATEMENTS FOR 2014

The table below indicates the status of authorisations at 31 December 2014:

	<b>Purchase, treasury shares</b>	<b>Ordinary share issue</b>	<b>Employee share issues</b>
<i>(Figures indicate the number of shares)</i>			
Authorisation issued at the General Meeting on 27 May 2014	2 139 330	2 139 330	800 000
Share issues after the General Meeting on 27 May 2014	0	0	0
Purchase of treasury shares after the General Meeting 27 May 2014	0	0	0
<b>Remaining under authorisations at 31 December 2014</b>	<b>2 139 330</b>	<b>2 139 330</b>	<b>800 000</b>

1 153 312 subscription rights have been allocated to employees 31 December 2014 (see note 9).

## Ownership structure

The major shareholders in Photocure as of 31 December 2014 were:

	<b>Shares</b>	<b>Share- holding</b>
The Norwegian Radium Hospital Research Foundation	3 029 000	14.2 %
JP Morgan Chase Bank	1 957 334	9.1 %
Fondsfinans Spar	1 750 000	8.2 %
KLP Aksje Norge VPF	1 279 984	6.0 %
Kommunal Landspensjonskasse	940 000	4.4 %
MP Pensjon PK	850 000	4.0 %
Skagen vekst	626 466	2.9 %
Bergen Kommunale Pensjonskasse	500 000	2.3 %
VPF DNB SMB	435 000	2.0 %
Danske Invest Norske Instit. II.	422 703	2.0 %
Verdipapirfondet Eika Norge	406 517	1.9 %
Danske Invest Norske Aksjer	360 714	1.7 %
Vicama AS	345 384	1.6 %
Fondsfinans farmasi-bioteknologi	300 000	1.4 %
Holmen spesialfond	300 000	1.4 %
VPF DNB Norge (IV)	287 193	1.3 %
Rul AS	281 475	1.3 %
Polar Capital Global Healthcare	254 537	1.2 %
<b>Total of shareholders with a shareholding of more than 1%</b>	<b>14 326 307</b>	<b>67.0 %</b>
Treasury shares	35 476	0.2 %
Total other shareholders	7 031 518	32.9 %
<b>Total number of shares</b>	<b>21 393 301</b>	<b>100.0 %</b>

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 2014:

<b>Name</b>	<b>Position</b>	<b>No. of shares</b>	<b>No. of subscription rights*</b>
Mats Pettersson	Board member	5 000	
Kjetil Hestdal	President and CEO	103 873	126 000
Ambaw Bellete	Head, US Cancer Commercial Operations	-	29 300
Erik Dahl	Chief Financial Officer	-	45 000
Kathleen Deardorff	Chief Operating Officer	-	110 295
Inger Ferner Heglund	Vice President Research and Development	8 200	79 430
Grete Hogstad	Vice President Strategic Marketing	10 500	73 450
Espen Njåstad	Head, Nordic Cancer Commercial Operations	-	34 350
Gry Stensrud	Vice President Technical Development & Operations	6	79 100

\* 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 2014 and 31 December 2013 with exception for the pension liability according to note 10.

## 24 - ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

(Amounts in NOK 1 000)

	<b>Group</b>		<b>Parent</b>	
	<b>31-Dec-14</b>	<b>31-Dec-13</b>	<b>31-Dec-14</b>	<b>31-Dec-13</b>
Accounts payable	4 337	7 281	3 626	6 334
Accounts payable, intercompany			351	320
<b>Total</b>	<b>4 337</b>	<b>7 281</b>	<b>3 977</b>	<b>6 654</b>
Provision for accrued external R&D costs	1 891	4 842	1 891	4 842
Accrued bonus, holiday pay, salaries	12 375	11 390	10 725	9 063
Accrued royalty liability	590	486	590	486
Miscellaneous other accrued costs	4 740	2 984	3 800	2 930
<b>Total other current liabilities</b>	<b>19 597</b>	<b>19 702</b>	<b>17 006</b>	<b>17 321</b>

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 2014

## 25 - REMUNERATION OF MANAGEMENT AND BOARD OF DIRECTORS

(Amounts in NOK 1 000)

	Directors' fees paid	Salaries paid	Bonuses accrued	Benefits in kind	Pension cost	Total
<b>Senior management 2014</b>						
President and CEO		2 270	958	379	317	3 924
Chief Operating Officer		2 473	872	72	182	3 599
VP Research and Development		1 300	418	91	113	1 923
Chief Financial Officer		1 551	342	23	152	2 069
VP Strategic Marketing		1 373	328	98	125	1 923
VP Technical Development and Operations		1 160	241	16	82	1 499
Head, US Cancer Commercial Operations		1 890	614	131	66	2 700
Head, Nordic Cancer Commercial Operations		1 220	371	20	95	1 705
<b>Total senior management</b>		<b>13 236</b>	<b>4 144</b>	<b>829</b>	<b>1 132</b>	<b>19 341</b>
<b>Board of Directors 2014</b>						
Chairperson of the Board	470					470
Members of the Board	1 170					1 170
<b>Total remuneration</b>	<b>1 640</b>	<b>13 236</b>	<b>4 144</b>	<b>829</b>	<b>1 132</b>	<b>20 981</b>

	Directors' fees paid	Salaries paid	Bonuses accrued	Benefits in kind	Pension cost	Total
<b>Senior management 2013</b>						
President and CEO		2 247	611	117	290	3 265
Chief Operating Officer		2 447	457	112	166	3 182
VP Research and Development		1 263	203	96	111	1 673
Chief Financial Officer		1 435	243	30	148	1 856
VP Strategic Marketing		1 338	227	98	122	1 785
VP Technical Development and Operations		1 134	220	17	82	1 453
Head, US Cancer Commercial Operations		1 673	257	170	49	2 149
Head, Nordic Cancer Commercial Operations		1 068	292	29	70	1 459
<b>Total senior management</b>		<b>12 605</b>	<b>2 510</b>	<b>670</b>	<b>1 038</b>	<b>16 822</b>
<b>Board of Directors 2013</b>						
Chairperson of the Board	470					470
Members of the Board	1 350					1 350
<b>Total remuneration</b>	<b>1 820</b>	<b>12 605</b>	<b>2 510</b>	<b>670</b>	<b>1 038</b>	<b>18 642</b>

## THE BOARD OF DIRECTORS' DECLARATION ON DETERMINATION OF SALARIES AND OTHER REMUNERATION FOR SENIOR MANAGEMENT 2015

### 1. General

This declaration is prepared by the Board of directors in Photocure ASA ("Photocure") in accordance with the Norwegian Public Limited Liability Companies Act (the "Companies Act") section 6-16a, for consideration at the annual general meeting on 30 April 2015.

Principles in this declaration regarding allocation of shares, subscription rights, options and any other form of remuneration stemming from shares or the development of the official share price in the company are binding on the Board of directors when approved by the general meeting. Such guidelines are described in section 3.2. Other guidelines are precatory for the Board of directors. If the Board of directors in an agreement deviates from these guidelines, the reasons for this shall be stated in the minutes of the Board of directors' meeting.

The principles set out for determination of salaries and other remuneration for the senior management in this declaration shall apply for the financial year 2015 and until new principles are resolved by the general meeting in accordance with the Companies Act. The annual general meeting in 2016 will review how the principles set out in this declaration have been pursued in 2015 and deal with the principles for 2016 in accordance with the Companies Act.

### 2. Main principles

Senior management remuneration in Photocure and group companies shall be determined based on the following main principles:

#### 2.1 Remuneration shall be competitive, but not leading

Senior management remuneration shall, as a general guideline, be suited to attract and retain skilled leaders in order to enhance value creation in the company and contribute to aligned interests between management and the shareholders. Total remuneration should as a general rule be at level with remuneration for senior management in comparable industries, businesses and positions in the country in which the individual manager resides.

#### 2.2 Remuneration shall be motivational

Senior management remuneration shall be structured to drive motivation and encourage improvements in results and shareholder value. In general, the remuneration consists of five elements: base salary, short term incentives (bonus), long term incentives (options), benefits in kind and pension benefits.

The variable remuneration, short term and long term, is linked to value generation for shareholders over time. The variable remuneration is determined both by achievement of individual and company wide key performance indicators and goals. Instrumental is that the senior manager both individually and as a team can influence achievement of the key performance indicators and goals.

The long term incentives are option based and in accordance with section 3.2 of this declaration.

#### 2.3 Remuneration shall be comprehensible and acceptable both internally and externally

The remuneration system shall not be unduly difficult to explain to the general public and should not involve disproportional complexity for the administration.

#### 2.4 Remuneration shall be flexible, allowing adjustments over time

To be able to offer competitive remuneration the company must have a flexible system that can accommodate changes as company and markets evolve.

### 3. Principles regarding benefits offered in addition to base salary

The base salary is the main element of the senior manager's remuneration. Additional and variable remuneration elements are, at time of grant, subject to determination of specific maximum amounts depending on position.

The following refer to the individual benefits which are granted in addition to base salary. Unless specifically mentioned, no special terms, conditions or allocation criteria apply to the benefits mentioned.

#### 3.1 Additional benefits

##### 3.1.1 Short term incentive / bonus scheme

The company has established a bonus scheme for senior management. These schemes are reviewed at least annually. Bonus schemes are tied to achievement of operational and financial 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 at the start of the year.

The Chief Executive Officer of the company has a bonus agreement of up to 40% of base salary, while other members of the senior management team have bonus agreements from 20% to 35% of their base salary.



# NOTES TO THE FINANCIAL STATEMENTS FOR 2014

## 3.1.2 Pension plans and insurance

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.

The company compensates the senior management for health and life insurance plans in line with standard conditions for senior positions, in addition to mandatory occupational injury insurance required under Norwegian Law.

## 3.1.3 Severance schemes

In accordance with detailed regulations, the current Chief Executive Officer is entitled to continue to receive his salary for up to 24 months after the end of his period of notice. Should the Chief Executive Officer 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.

## 3.1.4 Benefits in kind

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.

## 3.1.5 Loans and guarantees

No loans are granted, nor any security provided for members of the senior management team, the Board of directors, employees or other persons in elected corporate bodies.

## 3.1.6 Other benefits

The company may use other variable elements in remuneration or award other special benefits than those mentioned above, provided that this is considered expedient for attracting and/or retaining a manager. No special limitations have been placed on the type of benefits that can be agreed.

## 3.2 Binding principles for options and other types of benefits related to shares or share price trends

Senior managers participate in the company's incentive program with allocation of subscription rights for the company's shares. Options are allocated to the Company's management according to the Board's discretion, considering achievement of company as well as personal goals. The limits for the allocation of share options to senior managers is determined by the Board within the Board mandates adopted by the General Assembly.

Stock options granted from and including 2013 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.

Stock options granted from and including 2014 have as a requirement on exercise that one share should be acquired for each ten subscription rights exercised, and that such shares should be held two years before sold.

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## 4. Remuneration to senior managers in other Photocure companies

All companies in the Photocure group are to follow the main principles for the determining of executive management salaries and remuneration as set out in this declaration. Photocure aims at coordinating management remuneration policy and the schemes used for variable benefits throughout the group.

## 5. Statement on executive salary policy and consequences of agreements on remuneration in the previous financial year

Remuneration, including pension and insurances, severance schemes, benefits in kind and other benefits granted to executive management are discussed in note 25 to the annual accounts for the financial year 2014. Photocure has implemented an incentive scheme regarding allocation of share options in the company, pursuant to which executive management have received a total of 134.000 options in 2014.

The annual report and annual accounts for 2014 are available on the web site of the company, [www.photocure.com](http://www.photocure.com).

The agreements entered into with executive management during the financial year 2014 are entered into in accordance with the principles for determining executive management salaries and remuneration as approved by the general meeting in 2014.

The Board believes that the guidelines for share-based remuneration promote value creation in the company/Group and that the impact they have on the company and shareholders is positive.

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:

#### Subscription rights for senior management 2014

	Subscription rights awarded*	Expired subscription rights	Subscription rights exercised	Holding of subscription rights at 31 December 2014	Average exercise price
President and CEO	25 000	-	37 500	126 000	40.13
Chief Financial Officer	15 000	-	-	45 000	34.80
Chief Operating Officer	15 000	-	-	110 295	43.96
VP Strategic Marketing	13 000	8 750	-	73 450	40.06
VP Research and Development	17 000	26 250	-	79 430	39.64
VP Technical Development and Operations	17 000	6 250	-	79 100	39.87
Head, US Cancer Commercial Operations	14 000	-	-	29 300	33.19
Head, Nordic Cancer Commercial Operations	18 000	-	-	34 350	32.68
<b>Total</b>	<b>134 000</b>	<b>41 250</b>	<b>37 500</b>	<b>576 925</b>	

\* Exercise price NOK 27.39 expiry date 31 December 2018.

#### Subscription rights for senior management 2013

	Subscription rights awarded*	Expired subscription rights	Subscription rights exercised	Holding of subscription rights at 31 December 2013	Average exercise price
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
<b>Total</b>	<b>133 575</b>	<b>-</b>	<b>78 146</b>	<b>521 675</b>	

\* Exercise price NOK 38.50 expiry date 31 December 2017.

# NOTES TO THE FINANCIAL STATEMENTS FOR 2014

## 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 a loan from its parent company. The transactions between Photocure and Photocure Inc are on terms at arm's length except for the loan that is interest free until further notice.

### **Transactions and intercompany balances Photocure Inc:**

(Amounts in NOK 1 000)	2014	2013
Sales of products	12 605	-6 834
Sales of services	400	613
Total subsidiary	13 005	-6 221
	<b>31-Dec-14</b>	<b>31-Dec-13</b>
Accounts receivables	52	310
Long term loan given	178 624	110 277
Accounts payables	-351	-304
Total subsidiary	178 325	110 283

**Guarantees to bank in favor of subsidiary for requested security**    1 850                      1 520

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 2014. RF originally founded Photocure ASA on the basis of photodynamic therapy developed at the Norwegian Radium Hospital HF (DNR). A general R&D agreement with RF which gave Photocure 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, expired 31 December 2013.

### **Transactions and balances Radium Hospital Research Foundation:**

(Amounts in NOK 1 000)	2014	2013
Research and development services	0	500
	<b>31-Dec-14</b>	<b>31-Dec-13</b>
Accounts receivables	0	0
Accounts payables	0	0

## 27 - SUBSEQUENT EVENTS

With exception for the change in ownership in PCI Biotech Holding ASA as disclosed in note 16, there are no other subsequent events after 31 December 2014 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 subsidiaries. The parent company's and the consolidated financial statements comprise the statement of financial position as at 31 December 2014, 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	Stavanger
Alta	Knarvik	Stord
Arendal	Kristiansand	Straume
Bergen	Larvik	Tromsø
Bodø	Mo i Rana	Trondheim
Elverum	Molde	Tynset
Finnsnes	Narvik	Tønsberg
Grimstad	Sandefjord	Alesund
Hamar	Sandnessjøen	

KPMG AS, a Norwegian member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Statsautoriserte revisorer - medlemmer av Den norske Revisorforening.

*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 subsidiaries as at 31 December 2014, 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 the statements on Corporate Governance and Corporate Social Responsibility*

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 in the statements on Corporate Governance concerning the financial statements and the going concern assumption 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.

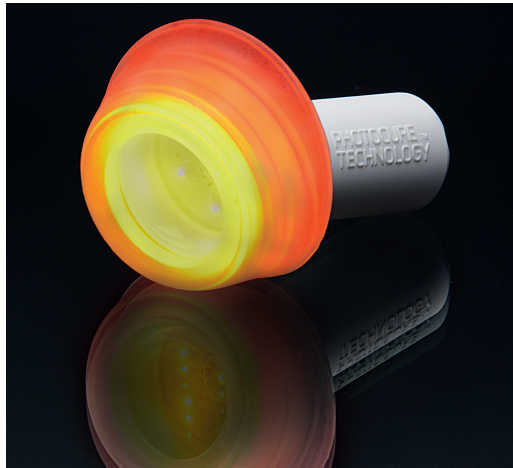
Oslo, 7 April 2015  
KPMG AS

Lars Inge Pettersen  
*State authorized public accountant*



### **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.



The **Cevira®**-device with an integrated light source

### **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.

Baseline



Week 12  
6 weeks after last treatment



**Visonac®** demonstrated efficacy across all skin types, ethnicities, genders, and prior therapies





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