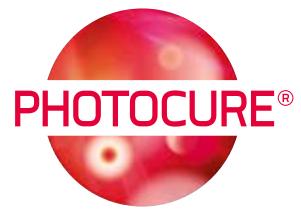
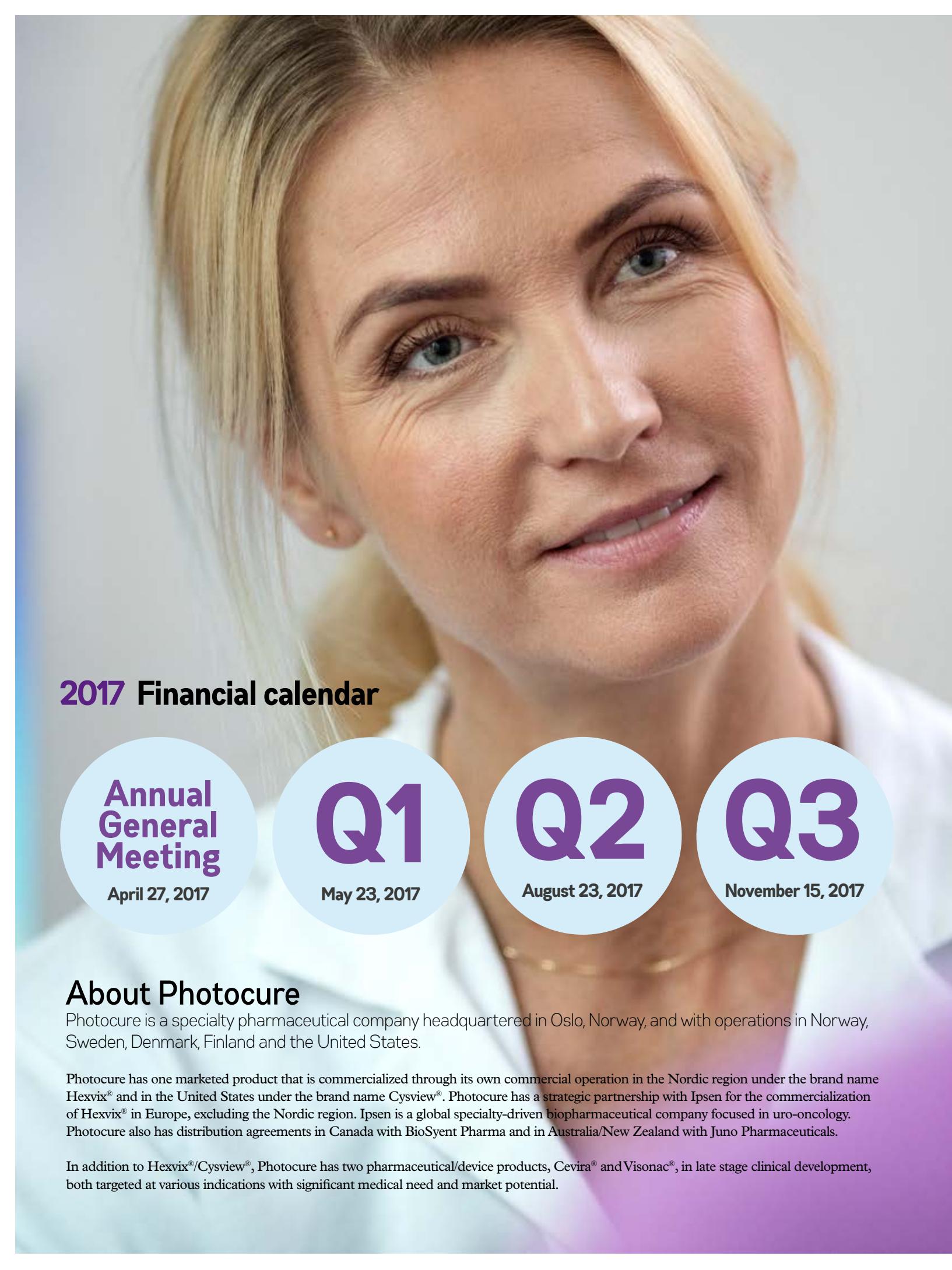


ANNUAL REPORT
YEAR 2016
PHOTOCURE GROUP





2017 Financial calendar

**Annual
General
Meeting**

April 27, 2017

Q1

May 23, 2017

Q2

August 23, 2017

Q3

November 15, 2017

About Photocure

Photocure is a specialty pharmaceutical company headquartered in Oslo, Norway, and with operations in Norway, Sweden, Denmark, Finland and the United States.

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 United States 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. Photocure also has distribution agreements in Canada with BioSyent Pharma and in Australia/New Zealand with Juno Pharmaceuticals.

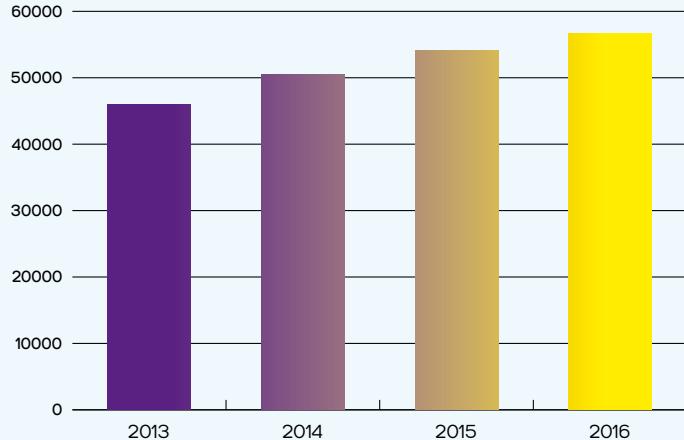
In addition to Hexvix®/Cysview®, Photocure has two pharmaceutical/device products, Cevira® and Visonac®, in late stage clinical development, both targeted at various indications with significant medical need and market potential.

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This year in brief

IN-MARKET UNIT SALES



P&L PHOTOCURE TOTAL

	FY '16	FY '15
Total sales revenues	136.2	122.3
Signing fees and milestones	7.4	12.4
Total revenues	143.6	134.7
Gross profit	134.3	126.5
Operating expenses	-142.3	-144.6
EBITDA	-8.0	-18.1
EBIT	-15.9	-22.0
Profit/loss(-) before tax	12.8	-28.1
Net profit/loss(-)	35.3	-36.2
Net result per share, diluted	1.64	-1.69

Sales revenues
for 2016 were NOK 136
million, an increase of 11%
from 2015

EBITDA was
NOK -8 million
(NOK -18 million in 2015)

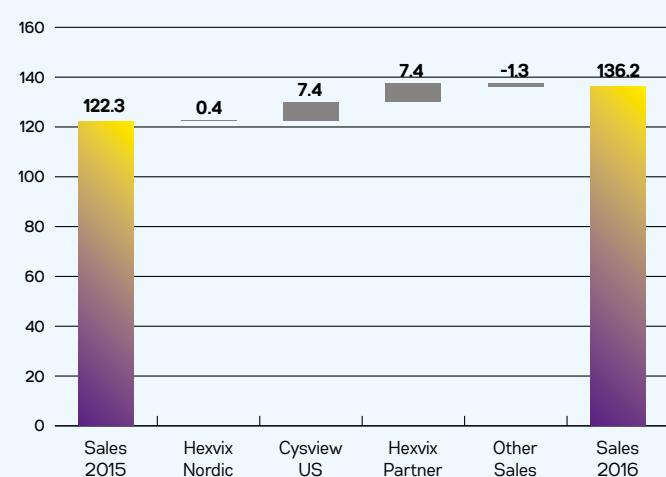
NET result after tax was
NOK 35 million (NOK -36
in 2015)

CASH balance at year
end NOK 169 million

P&L PHOTOCURE BY SEGMENT

MNOK	FY '16	FY '15
Commercial Franchise		
Total revenues	143.6	134.7
Gross profit	134.3	126.5
Operating expenses	-104.2	-97.8
EBITDA	30.0	28.7
Development Portfolio		
Total revenues	0.0	0.0
Gross profit	0.0	0.0
Operating expenses	-38.1	-46.8
EBITDA	-38.1	-46.8

SALES REVENUE GROWTH - MNOK



Cysview®: Included in the American Urological Association (AUA) and the Society of Urological Oncology (SOU) guidelines for the management of non-muscle invasive bladder cancer.

Continued stream of publications documenting the medical benefits of Blue Light Cystoscopy with **Hexvix®/Cysview®, Bladder Cancer, World Journal of Urology and The Journal of Urology**

The US Market expansion study for Blue Light Flexible Cystoscopy (BLFC) with **Cysview®** developed according to plan

Board of Directors Report 2016

In 2016 Photocure continued to increase the footprint for the Hexvix®/Cysview® brand with increased sales and improved profitability. Significant milestones have been reached for Hexvix®/Cysview®, such as the inclusion and recommendation in the national treatment guidelines in US and France. Going forward we have great expectations for our continued and increased investments in the US market with a goal to quadruple the Cysview® sales in the US by end of 2020. We are also looking forward to the results from our phase 3 study in the surveillance setting, expanding the use of Hexvix®/Cysview®.

The Company ended the year with sales revenues of NOK 136.2 million, an increase of 11% from 2015. Operating loss was NOK 15.9 million, an improvement from 2015 with NOK 6.1 million. Net profit for the year was NOK 35.3 million compared to a loss in 2015 of NOK 36.2 million.

The commercial segment EBITDA was NOK 30.0 million for the year, improving from NOK 28.7 million in 2015. Full year in-market unit sales increased 5% in 2016 driven by growth of 21% in the US, 5% for partner sales and flat in Nordic.

The main development project in 2016 has been the phase 3 US market expansion study for Blue Light Flexible Cystoscopy with Cysview®. The patient enrollment progressed as planned during the year and was completed post-year end.

About Photocure

Photocure ASA (“Photocure”, “the Company” or “the Group”) is a specialty pharmaceutical company listed on Oslo Børs. 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.

Strategic direction – building a specialty pharmaceutical company

Photocure’s strategy is to create a specialty pharmaceutical company maximizing its commercial presence and the opportunity of its flagship brand Hexvix®/Cysview® in urology. In addition, the Company will continue to leverage its competence in its proprietary Photodynamic Technology Platform and acquired expertise and capacity in urology to explore alone or in partnership with others new product opportunities targeting unmet medical needs in urology.

The two non-urology product development opportunities, Cevira® and Visonac®, targets therapeutic areas with significant unmet medical needs. The company will, in addition to pursue ongoing work to establish development and commercial partnerships, also assess other strategic alternatives for these two opportunities.

Commercial Segment

HEXVIX®/CYSVIEW® – THE INNOVATIVE PRODUCT FOR IMPROVED DETECTION AND MANAGEMENT OF BLADDER CANCER

Hexvix®/Cysview® is Photocure’s commercialized product and is the first significant advance for the improved detection and

management of bladder cancer. The product is launched in all key European markets and in the US, while preparations for launch is ongoing in Canada and Australia. In 2016 the in-market sales totaled NOK 241 million, compared to NOK 214 in 2015. Hexvix®/Cysview® is marketed in the US and Nordics by Photocure’s own salesforce and through partnerships in continental Europe, Canada and Australia/New Zealand. The Company continues to see significant growth opportunities in the US and major European countries as well as the new territories Canada and Australia/New Zealand.

Our focus in US has been to increase number of permanent Blue Light Cystoscopes (BLC™) installed at leading US hospitals/urology centers as well as increase usage per center. As a result of this focus we have increased installed base of Blue Light Cystoscopes with 18 to 83 in the year.

Supporting the sales activities has been the establishment of a real world registry study at nine sites across the US. At the end of 2016 more than 600 patients were included in the registry. This has and will continue to allow for publications and presentations of clinical data supporting the medical benefits of Hexvix®/Cysview®.

During the year Photocure has worked to secure a long-term sustainable solution for Cysview® Medicare reimbursement. However, we have not reached a final resolution and will continue this work in 2017.

A significant milestone and recognition of the medical benefits of Cysview® was achieved in May 2016 with recommendation of Blue Light Cystoscopy with Cysview® in the new AUA/SUO guidelines for bladder cancer. In recommending the use of Cysview®, the guidelines highlight the importance of Cysview® in increasing the detection and decreasing the recurrence rate of non-muscle invasive bladder cancer.

Sales in Nordic has been flat compared to 2015. The sales results were impacted by sales force vacancies during the year. Our sales in Sweden however, have increased with 14% in the year, driven by our targeted efforts to increase our market share in the country.

Partner sales has been driven mainly by increases in Germany and France. In November, new 2016 French national guidelines for the management of bladder cancer were introduced. The French guidelines recommend BLC™ with Hexvix® for the first bladder cancer resection (TURBT) in essentially all patients and for consecutive TURBT’s in the majority of patients. The recommendations are at an evidence level Grade B, demonstrating



the strong clinical data supporting BLC™ with Hexvix®.

Hexvix®/Cysview® is designed to induce specific fluorescence in the malignant cells in the bladder during blue light cystoscopic procedures (BLC™), making it easier for the urologist to detect and treat bladder cancer. 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 as well as reduced disease progression.

There is an ongoing stream of publications documenting the medical benefits of BLC™ with Hexvix®/Cysview®. During 2016, several studies were published highlighting and verifying key clinical benefits including the positive impact of Hexvix®/Cysview® on reduced disease progression, bladder cancer detection and the safety of repeated use of Hexvix®/Cysview®.

Development Portfolio

HEXVIX®/CYSVIEW® - FLEXIBLE SURVEILLANCE MARKET SEGMENT

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 TURBT segment. Following positive early clinical experience with flexible cystoscopes in 2014, Photocure initiated a phase 3 clinical study for examining improved detection rates of Cysview® Blue Light Cystoscopy vs

White Light Cystoscopy in 2015. The study design is in alignment with US Food and Drug Administration (FDA) to obtain approval for extended use and fulfill the Cysview® post marketing commitments. Seventeen top rated cancer hospitals in the USA participate in the study, and patient recruitment was completed, on plan, early 2017. Final results are expected mid-2017 and possible approval in 2018. In addition to the registration study, Photocure is in the process of generating additional clinical data in the market expansion segment by supporting investigator initiated trials.

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 to a large patient population in need for alternatives to antibiotics and isotretinoin.

Acne is the single most common skin disease worldwide, and affects up to 85% of all 12-24 year olds. 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.

In a phase 2b study, Visonac® showed a medically relevant and statistically significant efficacy in treatment of patients with severe acne. Based on these data Photocure has obtained alignment with the FDA on the phase 3 clinical development program through the Special Protocol Assessment (SPA) process.

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.

Photocure has secured the Special Protocol Agreement (SPA) with the FDA on the design of the phase 3 clinical registration program for Cevira® in patients with high-grade pre-cancerous cervical abnormalities (HSIL). The SPA defines the size, design and analysis of clinical trials that will form the primary basis of approval.

Cervical HPV and precancerous lesions of the cervix are highly prevalent diseases affecting an estimated 260 million women across the globe, currently with only surgical treatment options available. Cevira® is being developed as the first novel non-surgical therapeutic option for this large and growing patient population. A phase 2 clinical study has shown that 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.

Financial review

The Photocure annual accounts have been prepared in accordance with IFRS requirements as adopted by EU.

Total revenue reached NOK 143.6 million up from NOK 134.7 million in 2015. Revenue growth was positively impacted by foreign exchange rates, increased demand in major markets and price increases, partly offset by reduced sales of Active Pharmaceutical Ingredients (API) and milestone revenues. Sales revenues reached NOK 136.2 million in 2016, an increase of 11% from NOK 122.3 million in 2015. Sales revenues comprise own sales of Hexvix® in the Nordic region and Cysview® in the US, income from product sales and royalties from Photocure's license partners on sales of Hexvix® to hospitals and pharmacies, and sale of API. Sale of API relates to the agreement with Galderma on the divestment of Metvix®/Akitilite® and will discontinue from 2017.

Signing and milestone revenues totaled NOK 7.4 million in 2016 compared to NOK 12.4 million in 2015. Signing and milestones revenues include milestones from new partners, totaling NOK 2.3 million in 2016 and NOK 7.5 million in 2015. Furthermore, the revenues in 2015 and 2016 include deferred revenue from the divestment of Metvix®/Akitilite® to Galderma. This deferred revenue will discontinue from 2017.

Operating expenses increased from NOK 148.5 million in 2015 to NOK 150.2 million in 2016. Main cost driver was increased sales and marketing expenses in the US sales operation. Photocure expenses all research and development costs with the exception of development costs related to the phase 3 clinical study for Cysview® which have been capitalized as intangible assets.

Photocure's operating result totaled NOK -15.9 million in 2016, compared to an operating result of NOK -22.0 million in 2015.

The change in the operating result is primarily attributable to the increase in sales of Hexvix®/Cysview®, partly offset by reduced sales of API and reduced milestone revenues.

Net financial items totaled NOK 28.6 million in 2016, compared to NOK -6.1 million in 2015. The increase in net financial income is driven by sale of shares and subscription rights in PCI Biotech Holding in 2016 as opposed to an impairment loss on these shares in 2015. Photocure owned no shares or subscription rights in PCI Biotech Holding on 31 December 2016.

Result before tax was NOK 12.8 million in 2016 compared to loss of NOK 28.1 million in 2015.

Tax income of NOK 22.5 million in 2016 is driven by change in transfer pricing principles which among other resulted in a reallocation of historical losses carried forward. The net tax expenses of NOK 8.1 million in 2015 reflects reduction in deferred tax assets at the end of the year.

The Group's net result after tax is NOK 35.3 million in 2016 compared to NOK -36.2 million in 2015.

Photocure follows a low risk 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 169.2 million at 31 December 2016, increased from NOK 134.0 million at 31 December 2015.

Net cash flow from operating activities was NOK 19.2 million in 2016, compared to NOK -21.0 million in 2015. The improved net cash flow is driven by payment from Galderma related to the divestment of Metvix® in addition to operational improvements in 2016.

Shareholder equity was NOK 251.9 million at 31 December 2016, an equity ratio of 88%. At the end of 2015, shareholder equity was NOK 210.0 million (85%).

DIVIDEND

The Board does not propose a dividend payment for 2016. 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 2016 a profit after tax of NOK 41.2 million, compared to a profit after tax of NOK 1.0 million in 2015. The equity in Photocure ASA totals NOK 471.8 million at 31 December 2016. The equity ratio of the parent company is 94%.

SHARE CAPITAL AND BOARD MANDATES

At 31 December 2016, 21,557,910 shares were registered in Photocure. At the Ordinary General Meeting 28 April 2016, the Board of Directors was granted authorization to purchase up to 10% of its own shares. At 31 December 2016, Photocure held 809 own shares.

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 2016, 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

In April 2017, the Board announced that the Company will initiate a broad review of possible strategic alternatives for its non-urology assets, Cevira® and Visonac®, in parallel with ongoing partner search. This will have no impact on the carrying value of intangible assets for the company.

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 of Directors and management monitor and analyze 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, and with Juno Pharmaceuticals and BioSyent Pharma for Australia/New Zealand and Canada respectively. 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 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 three products under development, Hexvix®/Cysview® for use in the surveillance segment, Visonac® and Cevira®. Key development risks include:

- Development of Photocure's products is associated with inherent risk. Inter alia, development is subject to obtaining adequate

funding as well as technological risk.

- The further development of Photocure's near-term pipeline may be dependent on partnering agreements with third parties.
- Photocure or its future partners 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 inter alia 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. At the end of 2016, the Company has no 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. The remaining investments are hedged by the funds.

LIQUIDITY RISK

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

CREDIT RISK

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

CURRENCY RISK

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

exposure in foreign currency. Photocure's revenues and costs are accrued in different currencies and the Company is therefore exposed to exchange rate fluctuations. The Company monitors the need for hedging of large transactions on an ongoing basis. Photocure did not have outstanding hedging of future transactions at 31 December 2016.

Organization

The Group's senior management team at year-end consists of Kjetil Hestdal, President and CEO; Erik Dahl, Chief Financial 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 2016. All members of the Board of Directors are shareholder-elected. The members of the Board of Directors were at the end of 2016 Bente-Lill Romøren (Chairperson), Synne H. Røine, Tom Pike, Grannum Sant and Xavier Yon.

Photocure ASA has offices in Oslo, Norway. Photocure ASA has

one subsidiary, Photocure Inc, located in Princeton, New Jersey, USA.

Corporate social responsibility

Photocure's corporate social responsibility guidelines are available on www.photocure.com.

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, 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 – 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.

Through efforts made by Photocure and its partners, more bladder cancer patients gained access to Hexvix®/Cysview® and its possible positive impact on management of these patients. By continuously supporting clinical studies, the results of studies have been published in Bladder Cancer, World Journal of Urology and The Journal of Urology during the year documenting clinical benefits for bladder cancer patients by using Hexvix®/Cysview®. It is also Photocure's ambitions to provide patients in new territories the access to Hexvix®/Cysview® by expanding the product into new markets, and significant progress have been achieved during 2016 by our new distributors in Canada, Australia and New Zealand.

HUMAN RESOURCES

The Photocure organization comprised of 50 employees in Nordics and the US at the end of 2016. In addition to our employees, we have a strong network of consultants to further the development of our pipeline products. The Company has a policy to outsource non-core operations and highly specialized services. The work environment within the Company is considered to be good. No accidents or injuries resulting in absence were registered in 2016. Absence due to illness in the Company was 3.3% of total hours in 2016.

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, 40% of board members are women, as are 43% of the senior management team. Working time arrangements at the Company are independent of gender.

Photocure's policy is to promote equal rights and opportunities and prevent discrimination on account of gender, ethnicity, nationality, ancestry, color or religion. Photocure is working actively to promote



the anti-discrimination act in our business. The activities include recruitment, salary and working conditions, promotion, professional development and protection against harassment.

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

ENVIRONMENT

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

GOVERNANCE AND ETHICS

Ensuring good governance practices involves all people in Photocure. This includes governance as documented in our guidelines for corporate governance, ethical conduct and anticorruption 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 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).

Outlook

Photocure's strategy is to develop the Company from a research and development based organization into a specialty pharmaceutical company. This is achieved by strengthening the commercial activities of the Company in urology. In this connection, significant investments are made in the US market to increase market share for Cysview® and to obtain market expansion through the clinical phase 3 study and marketing approval of Cysview® in the bladder cancer surveillance market. Our goal is to quadruple the Cysview® sales in the US by end of 2020. Moreover, the Company works closely with its partners to launch and increase its Hexvix®/Cysview® market share in Europe, Australia/New Zealand and Canada. In the Nordics, Photocure is well established with a market share of approximately 40% of all transurethral resections of the bladder (TURBT). Despite this significant market share, the Company sees growth opportunities particularly in Sweden as well as in the Nordic surveillance market.

Photocure has through the Hexvix®/Cysview® franchise built considerable experience in the urology sector. The Company will in 2017 continue to explore strategic alternatives to capitalize on its strength in the sector.

To maximize the value of Photocure's non-urology development products, the strategy of the Company has been to establish partners for development and commercialization of Cevira® and Visonac®. Following non-conclusive partnering discussions, the company will now assess other strategic alternatives for these two opportunities in parallel to continue ongoing partner search.

Oslo, 5 April 2017
The Board of Directors of Photocure ASA

Bente-Lill B. Romøren
Chairperson

Grannum Sant
Director

Synne H. Røine
Director

Xavier Yon
Director

Tom Pike
Director

Kjetil Hestdal
President and CEO

Confirmation from the Board of Directors and CEO 2016

We confirm that, to the best of our knowledge, that the financial statements for the period from 1 January to 31 December 2016 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, 5 April 2017

The Board of Directors of Photocure ASA

Bente-Lill B. Romøren
Chairperson

Synne H. Røine
Director

Tom Pike
Director

Grannum Sant
Director

Xavier Yon
Director

Kjetil Hestdal
President and CEO

Board of Directors



Bente-Lill Romøren

Chairperson of the Board/Member of Compensation Committee

Attendance: • Board meetings: 13/13 • Compensation Committee: 4/4

Bente-Lill Romøren was employed by Novo Nordisk Scandinavia AS from 1976 to 2012 in various positions, including International Operations VP for the Nordic countries from 1995 – 1997, 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).

- Elected year 2014
- Position: Independent consultant
- Education: M.Sc. in Chemistry
- Other assignments: Board member of Radiumhospitalets Forskningsstiftelse, Board member of Targovax, Chairperson of Farmastat

Bente-Lill Romøren holds no shares and no share options in Photocure.

Synne H. Røine

Director/Chairperson Audit Committee

Attendance: • Board meetings: 13/13 • Audit Committee: 5/5

Synne H. Røine is CFO of Colosseum Smile Group, a leading provider of dental care in Scandinavia.

Ms. Røine served as CFO of Bionor Pharma ASA from 2013 to 2015, a biotechnology company developing therapeutic vaccines against viral diseases. From 2009 to 2013 she was CFO of Pronova BioPharma ASA, which develops and sells Omega-3 based pharmaceuticals.

- Elected year 2014
- Position: CFO, Colosseum Smile Group
- Education: M.Sc in Finance & Economics



Synne H. Røine holds no shares and no share options in Photocure.



Tom Pike

Director/Member Audit Committee

Attendance: • Board meetings: 13/13 • Audit Committee: 5/5

Tom Pike serves as Chairperson of Vaccibody, and has been associated with the pharmaceutical industry in Norway for many years. Previous positions include Partner in the venture capital fund NeoMed, Chairperson & CEO of Clavis Pharma ASA as well as Chairperson of the Association of the Pharmaceutical Industry in Norway. He has worked at Hoffman La-Roche in Norway and Switzerland for 18 years, including 8 years as general manager in Norway.

- Elected year 2014
- Position: Life Science Industry Professional
- Education: B.Sc. Honors in Pharmacology
- Other assignments: Chairperson at Vaccibody AS, Clanotech AB, ACD Pharmaceuticals AS, Credio AS

Tom Pike holds 3 400 shares and no share options in Photocure.

Grannum R. Sant

Director

Attendance: • Board meetings: 8/8

Dr. Sant has a broad and deep international experience in pharma and academia. From 2003 to 2013 he held senior leadership roles including Vice President and Head of Medical Affairs for urology and oncology at Sanofi US. His last pharma position (2010-2013) was as Vice President, Head of Global Medical Affairs Rare Genetic Diseases at Genzyme. Dr. Sant is a board-certified urologist in the US and prior to 2003 was Professor and Chair of the Urology at Tufts University School of Medicine.

- Elected year 2016
- Position: Independent consultant and Professor of Urology at Tufts University School of Medicine in Boston, USA
- Education: MD (Dublin University, FRCS, FACS)
- Other assignments: Board Member at Cellanyx, Scientific Advisory Board Chair Cellanyx, Scientific Advisory Board member EmpiraMed and Pivot Pharmaceuticals



Grannum R. Sant holds no shares and no share options in Photocure.

Xavier Yon

Director/ Chairperson Compensation Committee

Attendance: • Board meetings: 13/13 • Compensation Committee: 3/3

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 Pfizer, Solvay Pharma and Alcon before starting as President and CEO of Galderma in 1989. Under Xavier Yon's leadership Galderma grew into being a leading dermatology company globally.

- Elected year 2011
- Position: Managing Director, XY Consulting
- Education: Degree in physics, chemistry and biology from Sorbonne University, Paris
- Other assignments: Director Virbac Animal Health (France) since 2004, Director Elastagen (Australia) since 2011, Director Michelson Diagnostics (UK) since 2012

Xavier Yon holds no shares and no share options in Photocure.

Corporate Governance Policy and Annual Review

Review of policy adopted by the Board April 5, 2017

Photocure is committed to Good Corporate Governance

Photocure ASA the (“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, maximize value and utilize 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 and available at the Norwegian Corporate Governance Committee’s web site 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 senior 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 2016. 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 care, courage and passion. These values aim to characterize the behavior 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.

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 business related to medical use of photodynamic technology and other medical methods of treatment, and anything thereby connected.”

Non-conformance with the recommendation: None

3. Equity and dividends

EQUITY

At 31 December 2016, the Company’s consolidated equity was NOK 251.9 million, an equity ratio of 88%. 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 authorized by the general meeting to resolve increases of the Company’s share capital. The authorization 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 authorized by the general meeting to purchase the Company’s own shares on behalf of the Company. The authorization 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 authorization 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 809 own shares. Photocure has not acquired any own shares during 2016.

In the event of a future share buy-back program, the board of directors will aim to ensure that all transactions pursuant to such program will be carried out either through the trading system at Oslo Børs or at prevailing prices at Oslo Børs. In the event of such program, 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 SENIOR 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 senior 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 no later than 21 days prior to the date of the general meeting.

PARTICIPATION AND EXECUTION

Pursuant to the Articles of Association section 9 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.

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.

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 one year. 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: Hans Peter Bøhn (chairperson), Dan Mahoney and James McDonald. The current members have been elected by the general meeting with a term until the Company's ordinary general meeting in 2017. All members are independent of the board of directors and senior 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 five members: Bente-Lill Romøren (chairperson), Synne H. Reine, Tom Pike, Xavier DenisYon and Grannum R. Sant. 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 senior management, material business contacts and the Company's main shareholders.

The Company's annual report provides 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 senior management, and at least one member shall have qualifications within accounting or auditing. Board members who are also members of the senior 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 other 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 H. Røine (chairperson) and Tom Pike.

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 senior management.

The principal tasks of the compensation committee are to prepare:

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

The compensation committee currently consists of the following two members: Xavier Denis Yon (chairperson) and Bente-Lill 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 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 ongoing 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 as adopted by EU. 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 at 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 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 nomination committee has recommended a program whereby the members of the Board may choose to receive all or part of their remuneration in the form of restricted stock units (RSUs). The RSUs will be non-transferrable and each will give the right and obligation to acquire shares in the Company after the first anniversary of the general meeting resolving the remuneration to the Board, subject to certain terms and conditions. The RSU program is proposed to strengthen the company's ability to attract eligible board members with appropriate competence and international experience, and to facilitate ownership in the Company by the Board.

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 senior 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 senior management, and shall ensure convergence of the financial interests of the senior 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 senior management in the form of share options, annual bonus programs 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 2017. The remuneration guidelines are included in note 22 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 long term incentive program linked to share price development. 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 of interim reports.

INFORMATION TO SHAREHOLDERS

The Company shall have procedures for establishing discussions with important shareholders to enable the board of directors 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 defense 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 was 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 senior management is present.

The board of directors has established guidelines in respect of the use of the auditor by the senior 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



The power to transform

Statement of Comprehensive Income

Parent		Amounts in NOK 1,000			Group	
2016	2015			Notes	2016	2015
107,861	100,903	Sales revenues		12,3	136,186	122,330
7,441	12,387	Signing fees and milestone revenues		12,3	7,441	12,387
115,302	113,290	Total revenues			143,627	134,717
-9,163	-7,974	Cost of goods sold		4	-9,337	-8,221
106,139	105,316	Gross profit			134,290	126,496
209	103	Other income			0	0
-10,386	-10,410	Indirect manufacturing expenses		5	-10,386	-10,410
-22,962	-31,337	Research and development expenses		5	-22,962	-31,337
-35,199	-34,495	Marketing and sales expenses		5	-79,930	-73,399
-44,225	-47,685	Other operating expenses		5	-36,873	-33,336
-112,563	-123,824	Total other income and expenses			-150,151	-148,482
-6,423	-18,508	Operating profit/loss(-)			-15,861	-21,986
32,426	42,566	Financial income		9	32,427	8,856
-7,318	-4,304	Financial expenses		9	-3,787	-4,304
-	-10,636	Impairment loss shares in PCI Biotech Holding		9	-	-10,636
25,108	27,626	Net financial profit/loss(-) including PCI shares			28,640	-6,084
18,685	9,118	Profit/loss(-) before tax			12,779	-28,070
22,530	-8,108	Tax expense		10	22,530	-8,108
41,215	1,010	Net profit/loss(-)			35,309	-36,178
0	0	Currency translation			-366	865
0	0	Total other comprehensive income items that may be reclassified to profit & loss			-366	865
41,215	1,010	Comprehensive income			34,943	-35,313
		Earnings per share (Amounts in NOK):		11		
		Basic			1.64	-1.69
		Diluted			1.64	-1.69

Statement of Financial Position

as of 31 December

Parent		Amounts in NOK 1,000			Group	
2016	2015			Notes	2016	2015
ASSETS						
1,498	2,109	Machinery and equipment		12	1,660	2,289
26,390	11,877	Intangible assets		12	26,390	11,877
221,545	215,320	Loan to group company		23	-	-
3,675	9,157	Other investments		13	-	5,933
46,020	23,490	Deferred tax asset		10	46,020	23,490
299,128	261,953	Total non-current assets			74,070	43,589
16,969	13,466	Inventories		14	17,468	13,800
7,889	7,867	Accounts receivable		15, 17	12,323	12,259
11,553	43,538	Other receivables		15, 17	12,750	44,384
167,223	130,868	Cash and short term deposits		15, 18	169,239	134,026
203,634	195,739	Total current assets			211,781	204,469
502,761	457,692	Total assets			285,851	248,058
EQUITY AND LIABILITIES						
10,779	10,738	Share capital		19	10,779	10,738
54,773	43,073	Other paid-in capital			54,773	43,073
406,240	370,061	Retained earnings			186,391	156,249
471,792	423,872	Total equity			251,943	210,060
3,629	3,960	Pension liabilities		7	3,758	3,960
3,629	3,960	Total non-current liabilities			3,758	3,960
9,782	8,172	Accounts payable		21	9,909	9,198
2,926	4,036	Employee withholding taxes and social security tax			2,926	4,036
14,632	17,652	Other current liabilities		21	17,314	20,804
27,341	29,860	Total current liabilities			30,150	34,038
30,969	33,820	Total liabilities			33,908	37,998
502,761	457,692	Total equity and liabilities			285,851	248,058

Oslo, 5 April 2017

The Board of Directors of Photocure ASA

Bente-Lill B. Romøren
Chairperson

Xavier Yon
Director

Grannum Sant
Director

Synne H. Røine
Director

Tom Pike
Director

Kjetil Hestdal
President and CEO

Statement of Changes in Equity

Parent company	Amounts in NOK 1,000						
	Issued capital	Treasury shares	Other paid-in equity	Fair value reserve	Translation reserve	Retained earnings	Total equity
Equity as of 31 December 2014	10,697	-6,051	43,851	0	0	369,051	417,548
Comprehensive income:							
Net profit for the year						1,010	1,010
Other comprehensive income that may be reclassified to p&l			-	-		-	0
Total comprehensive income	0	0	0	0	0	1,010	1,010
Transaction with owners:							
Capital increase	41		2,374				2,415
Employees' options			2,899				2,899
Total transaction with owners	41	0	5,273	0	0	0	5,314
Equity as of 31 December 2015	10,738	-6,051	49,124	0	0	370,061	423,872
Comprehensive income:							
Net profit for the year						41,215	41,215
Other comprehensive income that may be reclassified to p&l			-	-		-	0
Total comprehensive income	0	0	0	0	0	41,215	41,215
Transaction with owners:							
Capital increase	41		2,374				2,415
Sale own shares		984					984
Revaluation own shares		5,036				-5,036	0
Employees' options			3,306				3,306
Total transaction with owners	41	6,020	5,680	0	0	-5,036	6,705
Equity as of 31 December 2016	10,779	-31	54,804	0	0	406,240	471,792
Group							
Equity as of 31 December 2014	10,697	-6,051	43,857	0	180	191,376	240,059
Comprehensive income:							
Net profit for the year						-36,178	-36,178
Other comprehensive income that may be reclassified to p&l			-	-	865	-	865
Total comprehensive income	0	0	0	0	865	-36,178	-35,313
Transaction with owners:							
Capital increase	41		2,374				2,415
Employees' options			2,899				2,899
Total transaction with owners	41	0	5,273	0	0	0	5,314
Equity as of 31 December 2015	10,738	-6,051	49,130	0	1,045	155,198	210,060
Comprehensive income:							
Net profit for the year						35,309	35,309
Other comprehensive income that may be reclassified to p&l			-	-	-366	-	-366
Total comprehensive income	0	0	0	0	-366	35,309	34,943
Transaction with owners:							
Capital increase	41		2,374				2,415
Sale own shares		984					984
Adjustment own shares*		5,036			241	-5,036	241
Employees' options			3,300				3,300
Total transaction with owners	41	6,020	5,674	0	241	-5,036	6,940
Equity as of 31 December 2016	10,779	-31	54,804	0	920	185,471	251,943

* Correction of previous years surplus of sales of own shares.

Statement of Cash Flows

Parent		Amounts in NOK 1,000			Group	
2016	2015			Notes	2016	2015
18,685	9,118	Profit/loss(-) before tax			12,779	-28,070
7,710	3,709	Ordinary depreciation & amortisation		12	7,853	3,899
	10,636	Write down of non current investment				10,636
-43	-1,345	(Gain)/Loss on sale of non-current equipment			-43	-1,345
-27,280		(Gain)/Loss on sale of non-current financial assets		9	-27,280	
-5,130	-4,938	Deferred income sale of Metvix & Aktilite			-5,130	-4,938
2,855	2,899	Share-based payments expense		6	3,541	2,899
938	906	Pension costs		7	1,068	906
-2,394	-986	Interest income		9	-2,394	-986
3,531	-33,710	Unrealized currency (gain)/loss loan subsidiary		9		-
107	-2,081	Unrealized currency (gain)/loss other			107	-2,081
635	-492	Other items			285	828
37,193		Received payment Galderma		2	37,193	
		Changes in				
-3,990	-471	- inventories			-4,155	-560
-842	-5,300	- trade and other receivables			-1,230	-8,259
1,610	4,699	- trade and other payables			711	5,367
-3,642	646	- provisions and other accruals			-4,113	1,207
-	-535	Taxes paid		10	-	-535
29,944	-17,245	Net cash flow from operating activities			19,193	-21,032
2,394	986	Interest received			2,394	986
-9,756	-2,986	Loan to subsidiary		23		-
-3,388	-523	Investments in machinery and equipment		12	-3,535	-523
387	3	Sale of fixed assets (sales price)			387	3
30,674		Sale of shares		13	30,674	
2,539	1,342	Sale of subscription rights		9	2,539	1,342
-18,567	-14,410	Development expenditures		12	-18,567	-14,410
4,283	-15,588	Net cash flow from investing activities			13,892	-12,602
-1,270		Payment of non-current liability			-1,270	
2,414	2,415	Proceeds from exercise of share options			2,414	2,415
984	-	Sale own shares			984	-
2,128	2,415	Net cash flow from financing activities			2,128	2,415
36,355	-30,418	Net change in cash during the year			35,213	-31,219
130,868	161,286	Cash and cash equivalents as of 01 January			134,026	165,245
167,223	130,868	Cash and cash equivalents as of 31 December			169,239	134,026

Accounting principles 2016

1. General information

The annual accounts for 2016 for Photocure ASA (the Parent Company) and its subsidiary Photocure Inc (together the Group or Photocure) were approved for publication by the Board of Directors on 5 April 2017.

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 Parent Company's shares are listed on the Oslo Stock Exchange. The Parent Company's registered office is Hoffsvien 4, NO-0275 Oslo, Norway.

2. Basis for preparation of the annual accounts

The annual accounts for the Group and the Parent 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.

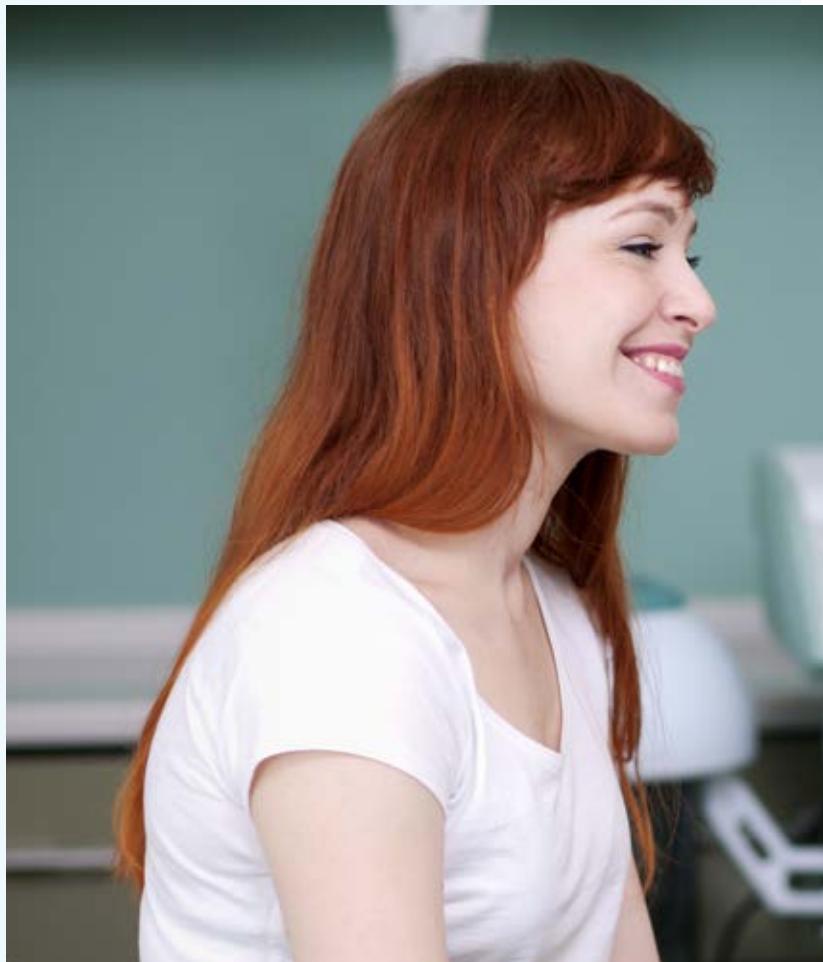
The Group and the Parent Company's annual accounts are prepared in accordance with International Financial Reporting Standards (IFRS) as specified by the International Accounting Standards Board and implemented by the EU as per 31 December 2016.

Photocure has NOK (Norwegian kroner) as its functional currency and presentation currency. In the absence of any statement to the contrary, all financial information are 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/Cysview is licensed to several license partners outside Photocure's own markets.

3. Disclosures regarding new standards not yet effective

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 related interpretations. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The new standard contains a new set of principles on when and how to recognize and measure revenue as well as new requirements related to presentation. The core principle in that framework is that revenue should be recognized dependent on the transfer of promised goods or services to the customer for an amount that reflects the consideration which should be received in exchange for those goods or services. The objective of the standard is to provide a five-step approach to revenue recognition that includes identifying contracts with customers, identifying performance obligations, determining transaction prices, allocating transaction prices to performance obligations, and recognizing revenue when or as performance obligations are satisfied.



The Group is continuing to assess the potential impact of IFRS 15. The adoption of IFRS 15 is not expected to have a significant impact on Photocure's recognition of sale of goods, but might affect the timing of the recognition of upfront payment and milestone fees.

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. The standard is effective for annual period beginning on or after 1 January 2019. The adoption of IFRS is not expected to have a significant impact on Photocure's statement of financial position as a future lease payments under existing lease contracts are limited, ref. note 12.

IFRS 9 contains a new classification and measurement approach, impairment and hedge accounting rules for financial assets and liabilities. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Based on the financial assets and liabilities currently held by the company this is not expected to have a significant impact on Photocure's financial statements.

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. Use of judgements and estimates.

In preparation of these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized, and information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment in the financial statements as of 31 December 2016, are included in the following notes:

- Note 2 Signing fee and milestone payments: whether the Group should recognize these payments received as income.
- Note 6 Fair value of employee options: uncertainty regarding the use of estimates and discretionary judgment.
- Note 10 Recognition of deferred tax asset: available future taxable profit against which tax losses carried forward can be used.

- Note 12 Development expenditures: key assumptions underlying the capitalized development costs
- Note 23 Long term loan subsidiary: impairment and key assumptions underlying the balance sheet value in parent company

5. Summary of important guidelines for accounting for the Group

A. CLASSIFICATION

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

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

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

B. CURRENCY

Monetary items in foreign currencies are converted at closing rate of exchange. In the absence of any statement to the contrary,

realized and unrealized exchange rate gains and losses are included in financial income or expenses. Transactions in foreign currencies are recorded at the exchange rate on the date of transaction.

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

Deferred revenue from the sale of Metvix/Aktelite to Galderma is recognized evenly over the maximum period, and translated to NOK based on an average currency rate during the year.

C. PROPERTY, PLANT AND EQUIPMENT

Tangible fixed assets are recognised at cost less deductions for accumulated depreciation and accumulated impairment losses. Tangible fixed assets are depreciated over the expected useful life of the assets taking any residual value into consideration. Costs incurred 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 office equipment	3–5 years

D. INTANGIBLE ASSETS

Capitalised development expenditures are recognised at cost less accumulated amortization and accumulated impairment losses. The expenditure capitalised includes the costs of services and materials rendered by external suppliers and own pharmaceutical ingredients and devices directly attributable to the development of the product. Internal personal and overhead costs are not capitalised.

Intangible development expenditures are amortized on a straight-line basis in the profit and loss over the remaining patent period for the approved product and indication as follows:

- Product development	4 - 10 years
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E. IMPAIRMENT

Financial assets and tangible & intangible fixed assets that are recognized in the balance sheet, are tested for impairment if there are indications of a permanent loss in value. If the book value of an 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 asset. Tangible fixed assets are grouped and measured at the lowest level for determining loss in value.

Previous impairment losses are reversed to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized or taken place.

F. 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.

The work of the regulatory function and services provided are related to both market expansion and product development. Photocure classifies for this reason the regulatory function into the following two categories:

- 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 are classified as marketing costs.

G. 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.

H. 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.

I. 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.

1. Trade accounts receivable and other receivables are recorded at nominal value.
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.
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.
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.
5. Trade accounts payable are booked at nominal value.
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.

J. 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.

License 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.

K. 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 received for product development or manufacture are first booked as reduction of costs when the conditions for the grant in question have been met and the applications are granted. Grants received for product development that are capitalized, are reported as reduction of gross expenditures and the net expenditures are regarded as the intangible assets.

L. 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.

M. PENSIONS

Photocure ASA has an agreement with a life assurance company concerning contribution-based pensions for Photocure's employees. The contribution plan has been changed from 1 January 2016 and match the revised national regulations for pension. The new contributions are 6% of the employee's ordinary salary up to 7.1 times the basic amount (G) of the Norwegian National Insurance scheme, and thereafter 16% up to 12 x G. The national insurance cover pension for salaries to 7.1 G. Pension contributions 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 senior management 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.

Senior management employed in Photocure Inc receive 4% contribution of annual salary as deferred compensation. The unfunded annual contribution shall vest after 3 years.

The calculated pension obligation pursuant to these schemes are 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.

N. SHARE-BASED REMUNERATION

Employees are offered share options 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 may allot own shares instead of issuing new shares when share options are exercised. All share options 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 share options vesting period and the Company's equity is increased correspondingly. The fair value of share options is calculated according to the Black-Scholes model. Each program is calculated separately with the actual strike price and duration of the program. The share options cease to be valid immediately on the employee's resignation from the Company. Employer's social security contributions on outstanding share

options are accrued as personnel costs over the vesting period based on the intrinsic value of the rights.

O. TAX

The tax expense in the income statement includes both the income tax payable for the period and changes in deferred tax. Deferred tax in Norway is calculated at rate of 24% 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.

P. 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.

Q. 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 virutal certain 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.

R. 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.

S. 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.

T. 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.

U. 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.

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.
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.

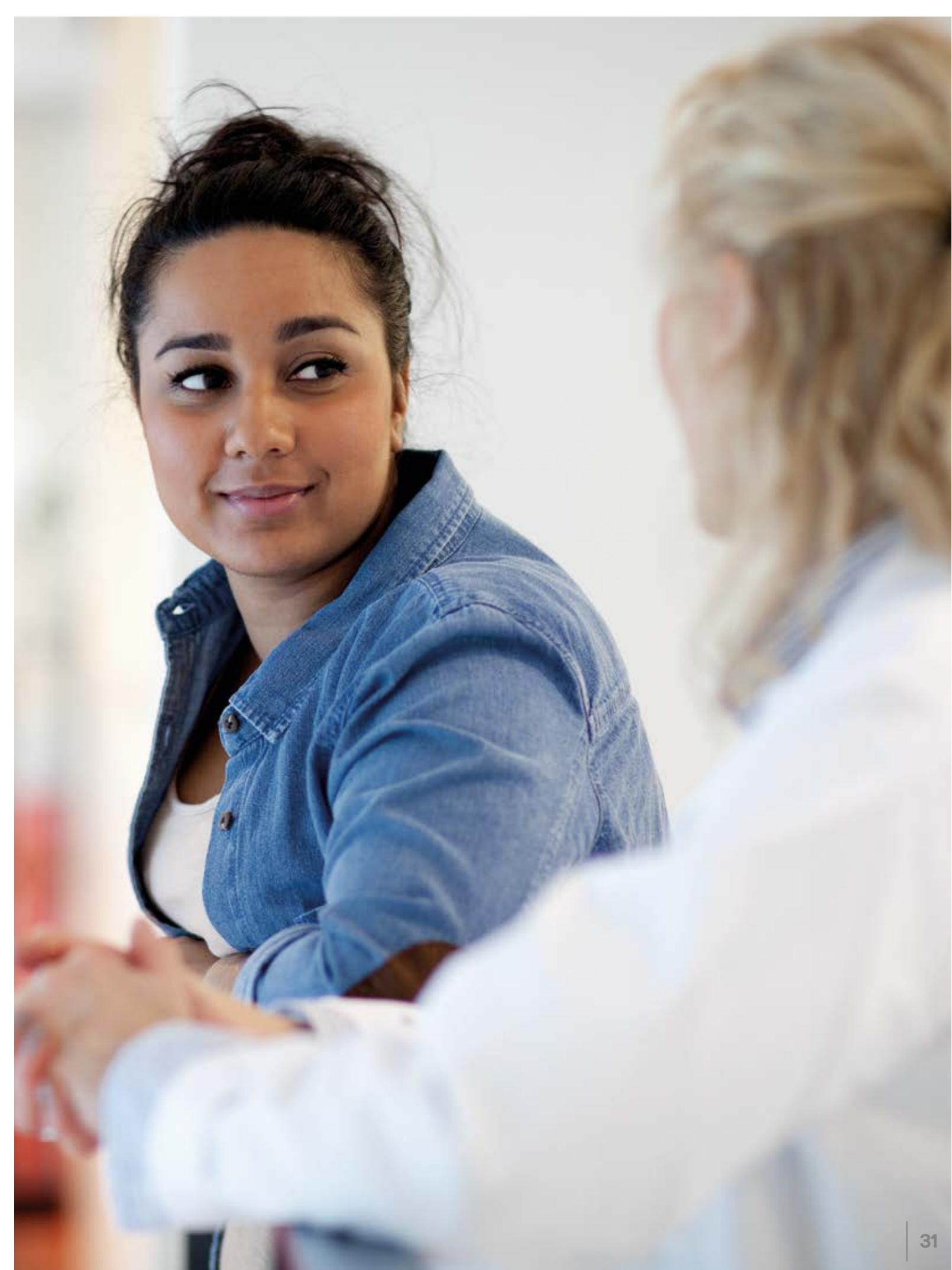
V. LEASE AGREEMENTS

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.

W. 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 2016

PHOTOCURE

1

1. OWN SALES AND LICENSING OF HEXVIX® AND CYSVIEW®

In 2011 Photocure entered into an agreement with Ipsen Pharma SAS (Ipsen) for marketing, sales and distribution of Hexvix in most of Europe and rest of the world excluding the US, Nordic region and certain other countries. Ipsen has a strong and well established uro-oncology franchise and commercialises Hexvix through its dedicated urology sales force.

In August 2015 Photocure appointed BioSyent Pharma Inc. as our exclusive distributor for the commercialization of Cysview in Canada. BioSyent Pharma will fund all costs related to the launch and commercialization of Cysview, which was approved by Health Canada in January 2015.

In May 2015 Photocure appointed Juno Pharmaceuticals as our exclusive distributor for the registration and commercialization of Hexvix in Australia and New Zealand.

2

2. SIGNING FEES AND MILESTONE REVENUES

Received, non-refundable up-front payments for licensing and milestone payments for Photocure products from license and distribution partners, have been treated as payments associated with the transfer of rights for the product. Amounts received are not subject to netting, and in the view of the management no conditions or future obligations are associated with these payments. Received payments are therefore recognized as income when the conditions are achieved.

Under the terms of the agreement entered with BioSyent Pharma Inc in 2015 Photocure received a signing payment for the rights to Cysview in the territory of Canada of USD 650,000.

Under the terms of the agreement entered with Juno Pharmaceuticals Photocure has in 2015 received EUR 250,000 for the rights to Hexvix in the territory of Australia and New Zealand. In 2016 Photocure received an additional milestone of EUR 250,000 for the market approval of Hexvix in Australia.

Under the agreement with Galderma entered in 2009, Photocure received in December 2016 the final payment of the remaining EUR 4 million.

3

3. OPERATING SEGMENTS

The operating segments follow the current business model for Photocure which consists of two segments: Commercial Franchise and Development Portfolio. The Commercial segment include the Hexvix/Cysview products and is broken down into own sales and partner sales by market segments and other sales. The Development segment is split by development of commercial products and pipeline products. Sales revenue from own sales in Commercial 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 in Europe outside the Nordic region and royalties from sales by Ipsen to end users. Milestone revenue within partner sub segment include signing payments with Juno for Australia & New Zealand and BioSyent for Canada.

Other Sales in the Commercial 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.

1 Jan - 31 December 2016	Commercial Franchise				Development Portfolio			
Amounts in NOK 1,000	Hex/Cys Own sales	Hex/Cys Partner	Other Sales	Total Sales	Hex/Cys Develop.	Pipeline	Total R&D	Grand Total
Sales Revenues	69,504	61,460	5,222	136,186	-	-	-	136,186
Milestone revenues	-	2,311	5,130	7,441	-	-	-	7,441
Cost of goods sold	-2,701	-6,635	-	-9,337	-	-	-	-9,337
Gross profit	66,803	57,136	10,352	134,291	-	-	-	134,291
Gross profit of sales %	96 %	89 %	100 %	93 %				93 %
R&D	-	-	-	-	-4,215	-13,437	-17,652	-17,652
Sales & marketing	-68,230	-7,541	-	-75,771	-	-3,555	-3,555	-79,326
Other & allocations	-11,037	-16,802	-632	-28,472	-3,187	-13,661	-16,848	-45,320
Operating expenses	-79,268	-24,343	-632	-104,243	-7,401	-30,654	-38,055	-142,298
EBITDA	-12,465	32,793	9,719	30,047	-7,401	-30,654	-38,055	-8,008
Depreciation and Amortization				-2,116			-5,737	-7,853
EBIT				27,932			-43,792	-15,861

1 Jan - 31 December 2015	Commercial Franchise				Development Portfolio			
Amounts in NOK 1,000	Hex/Cys Own sales	Hex/Cys Partner	Other Sales	Total Sales	Hex/Cys Develop.	Pipeline	Total R&D	Grand Total
Sales Revenues	61,684	54,101	6,545	122,329	-	-	-	122,329
Milestone revenues	-	7,450	4,939	12,388	-	-	-	12,388
Cost of goods sold	-2,483	-5,738	-	-8,221	-	-	-	-8,221
Gross profit	66,803	57,136	10,352	134,291	-	-	-	126,497
Gross profit of sales %	95 %	90 %	100 %	93 %				93 %
R&D	-	-	-	-	-4,709	-24,849	-29,558	-29,558
Sales & marketing	-61,568	-8,684	-	-70,252	-	-3,021	-3,021	-73,273
Other & allocations	-11,171	-15,772	-603	-27,546	-3,070	-11,136	-14,207	-41,753
Operating expenses	-72,739	-24,456	-603	-97,798	-7,779	-39,007	-46,786	-144,584
EBITDA	-13,538	31,356	10,881	28,699	-7,779	-39,007	-46,786	-18,087
Depreciation and Amortization				-1,586			-2,313	-3,899
EBIT				27,113			-49,099	-21,986

The definition of EBITDA is Earnings Before Interest Tax Depreciation and Amortization.

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	
	2016	2015
Nordic countries	39,040	38,667
United States	30,465	23,017
Own sales	69,505	61,684
Partner countries Europe	64,423	60,645
Partner countries rest of world	2,258	-
Group sale revenues	136,186	122,329

4**4. COST OF GOODS SOLD**

Total cost of goods sold include direct materials, services provided by contract manufacturers and packaging suppliers, products freights and distribution costs. In addition are royalties for inlicensing of technology and rights from other parties included.

5**5. INCOME STATEMENT CLASSIFIED BY NATURE**

Amounts in NOK 1,000		Group		Parent	
	Note	2016	2015	2016	2015
Sales revenues	2	136,186	122,330	107,861	100,903
Signing fees and milestone revenues	2	7,441	12,387	7,441	12,387
Cost of goods sold	4	-9,337	-8,221	-9,163	-7,974
Gross profit		134,290	126,496	106,139	105,316
Other income		0	0	209	103
Payroll expenses	6	-82,385	-80,358	-52,821	-52,894
R&D costs excluding payroll expenses/other operating expenses		-7,542	-15,117	-7,542	-15,117
Ordinary depreciation and amortisation	12	-7,853	-3,899	-7,710	-3,709
Other operating expenses		-52,372	-49,108	-44,699	-52,207
Total operating revenue and operating expenses		-150,151	-148,482	-112,562	-123,824
Operating profit		-15,861	-21,986	-6,423	-18,508
Specification of Other operating expenses:					
Marketing expenses		8,147	10,393	4,495	7,779
Profit split coverage US		-	-	10,774	18,147
Travel expenses		11,591	9,805	3,880	3,833
Patent costs, legal and other fees		16,723	15,777	13,302	12,210
Other expenses		15,911	13,133	12,248	10,238
Total other operating expenses		52,372	49,108	44,699	52,207

6**6. PERSONNEL EXPENSES**

Amounts in NOK 1,000		Group		Parent	
	Note	2016	2015	2016	2015
Salaries		62,229	63,613	36,995	39,716
Employer's social security contributions on salaries, etc.		7,197	6,892	5,442	5,367
Option costs incl employer's social security contributions		3,400	3,665	2,715	3,168
Pension costs	7	4,725	3,823	3,888	3,175
Other benefits		4,833	2,365	3,782	1,468
Total payroll expenses		82,385	80,358	52,821	52,894
No. of full-time equivalent positions		50	49	29	29

Share-based remuneration

As part of the company's incentive policy, employees are offered share options to the company's shares. Allocated share options 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 share options are allocated to members of the Board of Directors. For 2016, NOK 3.5 million of share-based payments has been expensed, of which NOK 0.7 million applies to Photocure Inc. The corresponding figure for Photocure in 2015 was NOK 2.9 million of which NOK 0.5 million applied to Photocure Inc.

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

	2016		2015	
	Number	Average exercise price (NOK)	Number	Average exercise price (NOK)
Outstanding at start of year	1,119,543	39.05	1,153,312	39.05
Granted during the year	354,100	40.15	407,700	32.78
Forfeited during the year	234,987	40.75	129,725	38.66
Exercised during the year	116,282	29.22	86,994	29.02
Expired during the year	170,419	48.75	224,750	42.00
Outstanding at end of year	951,955	36.10	1,119,543	37.00
Vested options as per 31 December	620,772	35.28	768,728	39.57

The average weighted life of outstanding share options was 2.3 years at 31 December 2016 and 2.1 years at 31 December 2015. The average weighted fair value of options granted in 2016 was NOK 11.16.

The exercise prices and the average life of outstanding share options as per 31 December 2016 were as follows:

Average remaining life	No. of options	Exercise price (NOK)
1 year	227,117	38.50
2 year	102,668	27.39
3 year	294,970	32.78
4 year	327,200	40.15
Total	951,955	

Calculation method for market value of employee share options:

The market value of share options 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. Strike prices are set as the listed price plus 10% 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. 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.

	2016	2015	2014	2012
Dividends (NOK)	0.00	0.00	0.00	0.00
Expected volatility (%)	41.22	39.99	41.10	45.14
Historical volatility (%)	41.22	39.99	41.10	45.14
Risk-free interest (%)	0.48	0.95	1.79	1.95
Expected life of options (years)	3.50	3.50	3.71	3.71

7. PENSION COSTS

The Parent Company has a contribution-based pension scheme. The contribution plan has been changed in 2016 in order to comply with the legal requirements in regard to compulsory occupational pensions in Norway. As of 31 December 2016 and 31 December 2015, the company had immaterial deposits in the premium and the contribution fund. The Company has entered into pension agreements with senior management in the form of contribution-based pensions for salaries exceeding coverage by insurance. This contribution-based pension liability 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.

The pension cost for the year is calculated as follows:

Amounts in NOK 1,000	Group		Parent	
	2016	2015	2016	2015
Total pension costs, contribution scheme in life assurance	3,657	2,917	2,950	2,269
Total pension costs, company contribution scheme	1,068	906	938	906
Total	4,725	3,823	3,888	3,175

8. AUDITING FEES

Amounts in NOK 1000 ex VAT	Group and parent	
	2016	2015
Statutory auditing	300	331
Other attestation services	55	31
Other services excluding auditing	0	0
Tax advice	390	409
Total	745	771

9. FINANCIAL INCOME AND EXPENSE

Amounts in NOK 1,000	Group		Parent	
	2016	2015	2016	2015
Interest income	2,394	995	2,394	995
Foreign exchange gains	2,753	6,519	2,753	40,229
Gain sale of shares PCI Biotech Holding	24,741	0	24,741	0
Gain sale of financial rights	2,539	1,342	2,539	1,342
Total financial income	32,426	8,856	32,426	42,566
Foreign exchange losses	3,701	4,197	7,233	4,197
Other financial expense	86	107	86	107
Total financial expense	3,787	4,304	7,318	4,304
Impairment loss shares in PCI Biotech Holding	-	10,636	-	10,636

The foreign exchange gain in the parent company 2015 include unrealised exchange gain of the long term loan to the subsidiary that is nominated in USD. The exchange rate NOK/USD increased to 8.80 as of December 31, 2015 resulting in unrealised gain of NOK 33.7 million in 2015. In 2016 the exchange rate decreased to 8.65 resulting in an unrealised loss of NOK 3.5 million. In the consolidated accounts the unrealised gain/loss is eliminated against the change in equity as part of other comprehensive income.

A currency forward contract of EUR 3 million that was settled in December 2016 resulted in a currency gain of NOK 1 million.

Photocure has in December 2016 sold all shares in PCI Biotech Holding ASA and realised a gain of NOK 24.7 million. The subscription rights related to the capital increase in PCI Biotech Holding in January 2015 and December 2016 were sold as well.

10. TAX

Amounts in NOK 1,000	Parent & Group	
	2016	2015
Income tax expense		
Tax payable	-	535
Changes in deferred tax	-22,530	7,573
Total income tax expense	-22,530	8,108
Tax base calculation		
Profit before income tax	18,685	9,118
Permanent differences *)	-27,426	12,286
Temporary differences	19,044	-12,110
Utilisation of tax loss carried forward	-10,303	-9,294
Increase tax loss carried forward	-	-
Tax base	-	-
Temporary differences:		
Receivables	-	-
Inventories	1,460	1,921
Non current assets	-1,349	-1,407
Long term currency loans	64,866	67,700
Provisions	-625	-766
Pensions	-3,534	-3,742
Gains and loss account	61,450	76,812
Total	122,268	140,518
Tax loss carried forward	-314,019	-234,478
Net temporary differences	-191,751	-93,960
Deferred tax liability (asset)	-46,020	-23,490
Parent & Group		
2016		2015
Reconciliation of effective tax rate		
Expected income taxes at statutory tax rate	4,671	2,462
Permanent differences	-6,857	3,317
Effect change permanent differences previous years	267	-85
Effect change tax rate Norway	1,918	1,879
Recognition of previously unrecognized tax losses	-22,530	-
Withholding tax in foreign jurisdiction	-	535
Income tax expense	-22,530	8,108
Effective tax rate in % **	-120.6 %	88.9 %

Temporary differences are recognized for the parent company only and the note disclosure for the Group is of this reason identical to the disclosure for parent company.

*) 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 parent company has a taxable income in 2016 of NOK 10.3 million compared to NOK 9.3 million in 2015. Photocure has changed the transfer price method in the Group from a resale method to a profit/loss split method for the business in US and a transfer of loss carried forward from the subsidiary Photocure Inc in US of NOK 88.6 million was approved by the Norwegian Tax Office in 2016. The basis for recognition of a tax asset in Norway are the predicted future profit according to the business plan for all major markets and that temporary differences for the coming years will be reversed. The deferred tax asset is of this reason increased by NOK 22.5 million as of 31 December 2016 to NOK 46.0 million.

It is Photocure's judgment that the operation in the US will be profitable and this will contribute to the pre-tax result in the parent company through the profit/loss split method. This is based on a cash flow model taking into account a balanced view of the market share for Cysview in the US compared to partner sales of Hexvix in Europe and Photocure's own sales in the Nordic region. The expansion of the US sales and marketing force which commenced in 2016, will continue in 2017 and enable Photocure Inc to cover larger parts of the US market in order to gain further market shares. Furthermore, in 2016 a significant milestone was reached in the US as Blue light enabled cystoscopy with Cysview was recommended in new bladder cancer guidelines released by the American Urology Association and Society of Urological Oncology. This recommendation provides strong recognition of the clinical benefits of Cysview/Hexvix and is an important foundation for future growth in the US.

Photocure continues to see growth opportunities in the Nordic and major European countries. French national guidelines for the management of bladder cancer were introduced in 2016 that recommend BLC with Hexvix for the first bladder cancer resection for the majority of patients. Several studies have been published during 2016 highlighting and verifying key clinical benefits including the positive impact of Hexvix/Cysview on reduced disease progression, bladder cancer detection and the safety of repeated use of Hexvix/Cysview.

The basis for the recognition of the tax asset is the assessment that there are convincing evidence 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.

Deferred tax assets have not been recognised in respect of the following items in the US subsidiary due to no history of pre-tax profit at this point in time :

Amounts in NOK 1,000	2016		2015	
	Amount	Tax effect	Amount	Tax effect
Unrecognised deferred tax assets				
Net deductible temporary differences	-1,073	-429	-2,302	-921
Tax losses	80,988	32,395	73,887	29,555
Total	79,915	31,966	71,585	28,634

Tax losses for which no deferred tax asset was recognized, expire as follows :

Amounts in NOK 1,000	2016		2015	
	Amount	Expiry date	Amount	Expiry date
Expire	80,988	2030 - 2036	73,887	2030 - 2035
Never expire	105	-	-	-

11**11. 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 share options that can be exercised. Antidilution effects are not taken into consideration.

	2016	2015
Figures indicate the number of shares		
Ordinary shares 1 January	21,476,295	21,393,301
Effect of treasury shares	-809	-35,476
Effect of share options exercised	-54,730	-49,639
Effect of shares issued	81,615	82,994
Weighted average number of shares, 31 December	21,502,371	21,391,180
Effect of outstanding share options	128,971	83,495
Weighted average number of diluted shares, 31 December	21,631,342	21,474,675
 Earnings per share		
Earnings per share in NOK basic	1.64	-1.69
Earnings per share in NOK diluted	1.64	-1.69

12**12. INTANGIBLE ASSETS, MACHINERY AND EQUIPMENT**

Amounts in NOK 1,000						
Group	Intangible assets			Machinery and Equipment		
	Product Development	Software Systems	Total	Production	Office	Total
Accumulated cost at 31 December 2014	0	0	0	3,304	5,200	8,504
Additions	14,405	0	14,405	28	495	523
Disposals and scrapping		0	0	-5	-500	-505
Accumulated cost at 31 December 2015	14,405	0	14,405	3,327	5,195	8,522
Additions	18,567	2,811	21,378	0	710	710
Disposals and scrapping		0	0	-3	-760	-763
Accumulated cost at 31 December 2016	32,972	2,811	35,783	3,324	5,145	8,469
Accumulated depreciation at 31 December 2014	0	0	0	2,146	3,264	5,410
Amortization and depreciation	2,528	0	2,528	417	954	1,371
Disposals and scrapping	0	0	0	-6	-542	-548
Accumulated depreciation at 31 December 2015	2,528	0	2,528	2,557	3,676	6,233
Amortization and depreciation	6,818	47	6,865	384	603	987
Disposals and scrapping	0	0	0	-9	-402	-411
Accumulated depreciation at 31 December 2016	9,346	47	9,393	2,932	3,877	6,809
Book value at 31 December 2016	23,626	2,763	26,390	392	1,268	1,660
Book value at 31 December 2015	11,877	0	11,877	770	1,519	2,289

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

The Group cannot render probable future earnings large enough to justify recognizing development costs for pharmaceuticals and medical equipment in the balance sheet before marketing approval has been obtained. Own development costs are therefore recognized as an expense until national market approval for the product and indication has been granted. Development expenditures for the product after marketing approval has been obtained and market launch is completed, may be recognized in the balance sheet. The premise of this presentation is based on development that involves significant changes to the product, which is considered likely to generate future financial benefits.

Photocure has from 2015 carried out a clinical study in US for the approved product Cysview in order to file a marketing approval application for repeated use and use in combination with flexible cystoscopies that will open the surveillance market in US. Photocure has capitalized NOK 21.1 million in the balance sheet as of 31 December 2016 for these development expenditures. The development expenditures are amortized on a straight-line basis in the profit and loss from the start of the expenditure project over the remaining patent period for the approved product and indication.

	Group		Parent	
	2016	2015	2016	2015
Rental costs				
Rental of office premises	3,317	2,688	2,516	1,955
Rental of equipment	390	251	349	205
Total rental costs	3,707	2,939	2,865	2,160

The parent company has a rental agreement for premises at Hoffsveien 4 in Oslo ending August 2021. The agreement include a right to sub rent part of the premises and this right has been utilised in 2016. The net rent amounts to NOK 2.8 million for the period 1 January 2017 through 31 December 2017. The net rent for the remaining period until the expiry of the agreement amounts to NOK 8.8 million. Annual regulation of the rent corresponds to the change in the consumer price index.

Photocure Inc rents office premises at Carnegie Center, Princeton, New Jersey from 1 April 2011 through 31 March 2017. Photocure Inc utilised in 2016 an option to extend the agreement with an additional period of 5 years ending 31 March 2022. The rent commitment for the period 1 January 2017 to 31 December 2017 is NOK 0.9 million while the rent for the remaining period until the expiry of the agreement amounts to NOK 4.3 million.

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

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13. OTHER INVESTMENTS

In the balance sheet of the Group 31 December 2015 the shares representing 9.96% holding in PCI Biotech Holding ASA were included by NOK 5.9 million valued at last traded price on Oslo Axess in 2015 at NOK 4.00 per share. As disclosed in Note 9 above, all of the shares in PCI Biotech Holding were realised in December 2016.

In the balance sheet of parent company 100% of shares in the subsidiary Photocure Inc are included with book value NOK 3.7 million as of 31 December 2016 and NOK 3.2 million as of 31 December 2015.

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14. INVENTORIES

Amounts in NOK 1,000	Group		Parent	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
Raw materials	1,798	1,832	1,798	1,832
Components	3,980	4,048	3,980	4,048
Semi-finished and finished goods	11,690	7,920	11,191	7,586
Total inventories	17,468	13,800	16,969	13,466

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.

15. 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. 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	
31-Dec-16					
Accounts payable	8,909	1,000			9,909
Other current liabilities	2,814	9,500	4,500	500	17,314
31-Dec-15					
Accounts payable	8,498	700			9,198
Other current liabilities	4,544	10,500	5,000	760	20,804

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 had a cash surplus in EUR and a cash deficit in USD. During 2016 Photocure entered a currency forward contract of EUR 3 million to secure the deferred EUR 4 million milestone payment from Galderma. The contract was settled in December 2016.

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 1000	Change in the NOK exchange rate	Effect on operating profit/loss
2016	+ 10 %	-4,881
2016	- 10 %	4,881
2015	+ 10 %	-3,935
2015	- 10 %	3,935

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16. 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	Level 1	Level 2	Level 3	Total
Market value hierarchy				
Market value hierarchy				
Financial assets available for sale:				
- Money market funds	141,664			141,664
Total	141,664	-	-	141,664

17**17. 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-16	31-Dec-15	31-Dec-16	31-Dec-15
Accounts receivable	12,323	12,259	7,812	7,828
Accounts receivable intercompany			77	38
Total	12,323	12,259	7,889	7,866
Royalty	4,803	4,263	4,803	4,263
Incurred part of final settlement from sale of Metvix/Aktelite, cf. description in note 2	0	32,805	0	32,805
Other receivables	7,947	7,316	6,750	6,470
Total other receivables	12,750	44,384	11,553	43,538

Loan to the subsidiary is disclosed in note 23.

Age breakdown of group accounts receivable	Not yet due	0-30 days	30-60 days	60-90 days	Over 90 days	Total
31 December 2016	10,343	1,928	52			12,323
31 December 2015	9,191	2,477	328	263		12,259

Bad debt loss in 2016 and 2015 has been immaterial. Credit risk and foreign exchange risk in regard to trade accounts receivable are dealt with in more detail in Note 15.

18**18. CASH AND SHORT TERM DEPOSITS**

Amounts in NOK 1,000	Group		Parent	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
Cash and cash equivalents, restricted	3,908	4,075	3,908	4,075
Cash and cash equivalents, non-restricted	23,667	16,638	21,651	13,480
Money market funds, non-restricted	141,664	113,313	141,664	113,313
Total	169,239	134,026	167,223	130,868

Restricted cash and cash equivalents at 31 December 2016 include security for employees' withholding tax in of NOK 1.4 million, while the remaining amount refers to deposit for rent of office.

19. SHARE CAPITAL

Registered share capital in Photocure ASA amounted to:

	No. of shares	Nominal value per share NOK	Share capital in NOK
Share capital at 31 December 2015	21,476,295	0.50	10,738,148
Share capital at 31 December 2016	21,557,910	0.50	10,778,955
Treasury shares:			
Holdings of treasury shares at 31 December 2014	35,476		17,738
Buy-back of treasury shares	0	0.50	0
Share option exercise	0	0.50	0
Holdings of treasury shares at 31 December 2015	35,476		17,738
Buy-back of treasury shares	0	0.50	0
Share option exercise	-34,667	0.50	-17,334
Holdings of treasury shares at 31 December 2016	809		405

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 28 April 2016, the Board of Directors of Photocure ASA was granted authorisation to issue up to 4.3 million shares. Of this authorisation, (a) 2.15 million shares are linked to financing of the Company's development, while (b) 2.15 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 2017. Previously issued authorisations have expired.

The table below indicates the status of authorisations at 31 December 2016:

Figures indicate the number of shares	Purchase, treasury shares	Ordinary share issue	Employee share issues
Authorisation issued at the General Meeting on 28 April 2016	2,147,628	2,147,628	2,147,628
Share issues after the General Meeting on 28 April 2016	0	0	81,615
Purchase of treasury shares after the General Meeting 28 April 2016	0	0	0
Remaining under authorisations at 31 December 2016	2,147,628	2,147,628	2,066,013

951 955 share options have been allocated to employees 31 December 2016 (see note 6).

Ownership structure

The major shareholders in Photocure as of 31 December 2016 were:

	Shares	Shareholding
High Seas AS	3,350,000	15.5 %
JP Morgan Chase Bank	3,155,822	14.6 %
KLP Aksje Norge	1,218,130	5.7 %
The Norwegian Radium Hospital Research Foundation	1,112,916	5.2 %
Kommunal Landspensjonskasse	838,272	3.9 %
Fondsfirnas Norge	825,000	3.8 %
MP Pensjon PK	810,000	3.8 %
Danske Invest Norske Instit. II.	422,603	2.0 %
Skagen vekst	399,267	1.9 %
Eika Norge	366,001	1.7 %
Vicama AS	329,530	1.5 %
Danske Invest Norske Aksjer	322,414	1.5 %
Fondsfirnas Global Helse	320,000	1.5 %
Polar Capital Global Healthcare	254,537	1.2 %
Rul AS	224,451	1.0 %
WLH Invest AS	201,537	0.9 %
Bergen Kommunale Pensjonskasse	200,000	0.9 %
Egeland Holding AS	195,000	0.9 %
KLP Aksjenorge indeks	188,492	0.9 %
Artal AS	177,349	0.8 %
Total of 20 largest shareholders	14,911,321	69.2 %
Treasury shares	809	0.0 %
Total other shareholders	6,645,780	30.8 %
Total number of shares	21,557,910	100.0 %

Shares owned, directly or indirectly, by members of the Board of Directors, the President and CEO and senior management and their closely related associates as of 31 December 2016:

Name	Position	No. of shares	No. of share options*
Tom Pike	Board member	3,400	
Kjetil Hestdal	President and CEO	128,873	92,500
Ambaw Bellete	Head, US Cancer Commercial Operations	-	76,600
Erik Dahl	Chief Financial Officer	1,000	93,500
Inger Ferner Heglund	Vice President Research and Development	8,200	90,580
Grete Hogstad	Vice President Strategic Marketing	10,500	77,800
Espen Njåstad	Head, Nordic Cancer Commercial Operations	5,000	80,450
Gry Stensrud	Vice President Technical Development & Operations	1,845	73,850

* See note 6 for additional information about the share options.

20**20. CAPITAL STRUCTURE**

The Group is financed by equity and had no interest-bearing debt at 31 December 2016 and 31 December 2015 with exception for the pension liability according to note 7.

21**21. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES**

Amounts in NOK 1,000	Group		Parent	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
Accounts payable	9,909	9,198	9,203	6,656
Accounts payable, intercompany			579	1,516
Total	9,909	9,198	9,782	8,172
Provision for accrued external R&D costs	2,520	1,800	2,520	1,800
Accrued bonus, holiday pay, salaries	10,837	13,484	8,155	10,470
Accrued royalty liability	754	856	754	856
Miscellaneous other accrued costs	3,203	4,664	3,203	4,526
Total other current liabilities	17,314	20,804	14,632	17,652

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 any signing fees and milestone payments received.

22**22. 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
Senior management 2016						
President and CEO		2,786	475	87	343	3,691
Chief Operating Officer until May 2016 *)		2,717		68	175	2,960
VP Research and Development		1,391	136	87	134	1,747
Chief Financial Officer		1,685	166	17	176	2,044
VP Strategic Marketing		1,455	124	91	144	1,814
VP Technical Development and Operations		1,390	119	17	99	1,625
Head, US Cancer Commercial Operations *)		2,704	334	207	215	3,460
Head, Nordic Cancer Commercial Operations		1,418	201	18	110	1,746
Total senior management	15,546	1,555	590	1,396	19,087	
Board of Directors 2016						
Chairperson of the Board		470				470
Members of the Board		1,080				1,080
Total remuneration	1,550	15,546	1,555	590	1,396	20,637
*) Remunerations paid in USD:						
Chief Operating Officer		323	-	8	21	352
Head, US Cancer Commercial Operations		322	40	25	26	412

Amounts in NOK 1,000						
	Directors' fees paid	Salaries paid	Bonuses accrued	Benefits in kind	Pension cost	Total
Senior management 2015						
President and CEO		2,383	602	86	330	3,401
Chief Operating Officer *)		3,232	414	112	317	4,075
VP Research and Development		1,347	197	85	128	1,758
Chief Financial Officer		1,620	211	15	168	2,014
VP Strategic Marketing		1,422	196	92	142	1,852
VP Technical Development and Operations		1,215	208	17	98	1,538
Head, US Cancer Commercial Operations *)		2,507	462	188	85	3,242
Head, Nordic Cancer Commercial Operations		1,284	284	18	108	1,694
Total senior management		15,010	2,574	612	1,376	19,572
Board of Directors 2015						
Chairperson of the Board		470				470
Members of the Board		810				810
Total remuneration	1,280	15,010	2,574	612	1,376	20,852
*) Remunerations paid in USD:						
Chief Operating Officer		401	51	14	39	506
Head, US Cancer Commercial Operations		311	57	23	11	402

THE BOARD OF DIRECTORS' DECLARATION ON DETERMINATION OF SALARIES AND OTHER REMUNERATION FOR SENIOR MANAGEMENT 2017

1. General

This declaration is prepared by the board of directors in Photocure ASA ("Photocure" or "the Company") in accordance with the Norwegian Public Limited Liability Companies Act (the "Companies Act") section 6-16a, for consideration at the annual general meeting on 27 April 2017.

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 2017 and until new principles are resolved by the general meeting in accordance with the Companies Act. The annual general meeting in 2018 will review how the principles set out in this declaration have been pursued in 2017 and deal with the principles for 2018 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, long term incentives, 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 tied to development of the official share price in the Company 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 30% of their base salary.

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 6% and 16% of the employee's base salary up to 12 times the basic amount (G) of the Norwegian National Social Security Scheme (Folketrygden). Photocure has established pension coverage for senior management for salary above 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

It may be used other variable elements in remuneration or awarded 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 may be offered to participate in a cash bonus plan up to 30% of the annual base salary at the time for granting. The bonus is offered to the senior managers according to the Board's discretion. The board of directors will take into consideration inter alia the Company's goals and strategies as well targeted performance for each senior manager, when allocating the bonus.

The plan is a performance based remuneration element reflecting the underlying long term value creation of the Company. The participant receiving the grant is required to invest the net bonus payment after tax into shares in the Company ("Restricted Stocks"), that will be subject to a three years' lock up period. The Company will, on behalf of the participant, seek to facilitate the share purchase with the use of treasury shares or share capital increases. The board of directors will decide further terms and conditions regarding the lock-up, termination of employment and other terms and conditions for the Restricted Stock plan.

Existing subscription rights issued under the Company's previous stock option incentive plan, as resolved by the annual general meeting of the Company in 2016 and previous years, will continue in accordance with their terms. The board of directors may however, at its discretion, convert granted stock options to Restricted Stocks based on fair value. No further subscription rights are granted under the stock option incentive plan after implementation of the Restricted Stock plan.

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 senior 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 senior management are discussed in note 22 to the annual accounts for the financial year 2016.

Photocure has had an incentive scheme regarding allocation of share options in the Company, pursuant to which current senior management have received a total of 183,400 options in 2016. Each option carries the right to subscribe one share in the Company. From and including 2017, the Company has implemented the Restricted Stock plan as further described in section 3.2 of this declaration. Previous allocated share options will remain until exercised, lapsed or converted to Restricted Stock.

The annual report and annual accounts for 2016 are available on the web site of the Company, www.photocure.com.

The agreements entered into with senior management during the financial year 2016 are entered into in accordance with the principles for determining senior management salaries and remuneration as approved by the general meeting in 2016.

The Board believes that the guidelines for share-based remuneration promote value creation in the Company 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 share options to shares and holdings of share options for senior managers are presented in the following overview:

Share options for senior management 2016	Share options awarded*	Expired share options	Share options exercised	Holding of share options at 31 December 2016	Average exercise price
President and CEO	32,500	30,000	25,000	93,500	36.63
Chief Financial Officer	25,500	-	1,000	93,500	35.82
VP Strategic Marketing	21,000	17,250	-	77,800	35.32
VP Research and Development	27,800	19,500	-	90,580	35.31
VP Technical Development and Operations	26,300	22,500	17,000	73,850	37.00
Head, US Cancer Commercial Operations	22,500	-	-	76,600	35.10
Head, Nordic Cancer Commercial Operations	27,800	-	5,000	80,450	35.62
Total	183,400	89,250	48,000	586,280	

* Exercise price NOK 40.15 expiry date 31 December 2020.

Share options for senior management 2015	Share options awarded*	Expired share options	Share options exercised	Holding of share options at 31 December 2015	Average exercise price
President and CEO	40,000	50,000	-	116,000	36.78
Chief Financial Officer	24,000	-	-	69,000	34.10
Chief Operating Officer	24,800	-	-	135,095	41.91
VP Strategic Marketing	24,000	23,400	-	74,050	37.08
VP Research and Development	25,500	22,650	-	82,280	36.86
VP Technical Development and Operations	27,000	19,050	-	87,050	37.21
Head, US Cancer Commercial Operations	24,800	-	-	54,100	33.00
Head, Nordic Cancer Commercial Operations	23,300	-	-	57,650	32.72
Total	213,400	115,100	-	675,225	

* Exercise price NOK 32.78 expiry date 31 December 2019.

23. 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. 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. The transfer price method applied from 2012 to the end of 2014 was the resale method. The method determine the arm's-length price of a transaction by deducting an appropriate gross profit margin from the selling price to a third party. The transfer price method implemented from 2015 is the profit & loss split method (PSM). The PSM divides the combined profit or loss between the transacting related entities based on what would be anticipated if the entities had been transacting at arm's length. A contribution analysis for sale of Cysview compares the split of profit or loss between Photocure Inc and Photocure ASA based on the value of the functions performed by each of the related parties, taking account of assets used and the risks assumed by both parties.

Photocure Inc has established its own marketing organization that is partly funded by a loan from its parent company in addition to its own revenues. The transactions between Photocure ASA and Photocure Inc are on terms at arm's length, except for the loan that is interest free until further notice.

It is Photocure ASA's judgment that Photocure Inc will be able to repay the loan to Photocure ASA. This is based on a cash flow model taking into account a balanced view of the market share for Cysview in the US compared to partner sales of Hexvix in Europe and Photocure's own sales in the Nordic region. The expansion of the US sales and marketing force which commenced in 2016, will continue in 2017 and enable Photocure Inc to cover larger parts of the US market in order to gain further market shares. Furthermore, in 2016 a significant milestone was reached in the US as Blue light enabled cystoscopy with Cysview was recommended in new bladder cancer guidelines released by the American Urology Association and Society of Urological Oncology. This recommendation provides strong recognition of the clinical benefits of Cysview/Hexvix and is an important foundation for future growth in the US.

Transactions and intercompany balances Photocure Inc:		
Amounts in NOK 1 000	2016	2015
Sales of products	2,139	1,590
Sales of services	209	103
Total subsidiary	2,348	1,693
	31-Dec-16	31-Dec-15
Accounts receivables	77	38
Long term loan given	221,545	215,320
Accounts payables	-579	-1,516
Total subsidiary	221,043	213,842
Guarantees to bank in favor of subsidiary for requested security	1,946	1,980

These are for licenses with the States of Maryland and California to sell Cysview® and for the office lease deposit.

24. SUBSEQUENT EVENTS

In April 2017, the Board announced that the Company will initiate a broad review of possible strategic alternatives for its non-urology assets, Cevira® and Visonac®, in parallel with ongoing partner search. This will have no impact on the carrying value of intangible assets for the company.





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To the Annual shareholder meeting of Photocure ASA

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Photocure ASA. The financial statements comprise:

- The financial statements of the Parent company Photocure ASA ("the Company"), which comprise the statement of financial position as at 31 December 2016, the statement of comprehensive income, statement of changes in equity, statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Photocure ASA and its subsidiaries, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity, statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying financial statements give a true and fair view of the financial position of the Group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

To give the shareholders greater transparency about the audit that was performed, the audit report has been extended to include key audit matters. This is a new requirement applicable for listed entities. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Offices in:

KPMG AS, a Norwegian limited liability company and member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.	Oslo	Eikerum	Mo i Rana	Stord
Statautoriserte revisorer - medlemmer av Den norske Revisorforening	Arendal	Finnset	Molde	Tromsø
	Bergen	Hamar	Skiens	Trondheim
	Boda	Haugesund	Sandefjord	
	Drammen	Knarvik	Sandnessjøen	Tynset
		Kristiansand	Stavanger	Alesund

Deferred tax asset

Refer to Note 10 in the Company and Group's financial statement

<i>The Key Audit Matter</i>	<i>How the matter was addressed in our audit</i>
<p>Photocure has recognized a deferred tax asset of NOK 46 million in the Company and Group's financial statement as of 31 December 2016. Photocure has changed the transfer price method in the Group from a resale method to a profit/loss split method for the business in US and a transfer of loss carried forward from the subsidiary Photocure Inc in US of NOK 88 million was approved by the Norwegian Tax Office in 2016. The deferred tax asset is of this reason increased by NOK 22 million as of 31 December 2016 to NOK 46 million.</p> <p>The recognized deferred tax asset relates to deductible temporary differences and unused tax losses in the Company in Norway. Management has assessed that there is convincing evidence that taxable profits will be available in the future, against which unused tax losses in Norway can be utilized.</p> <p>We have determined this to be a key audit matter, due to the inherent uncertainty in forecasting the amount of future taxable profits and the reversal of temporary differences.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> - Obtaining the estimated future taxable profit analyses prepared by management - Evaluating the appropriateness of key assumptions in the estimated future taxable profit analysis, including profit and cash flow growth, the impact of the expiry of patents and the reversal of significant temporary differences - Comparing historical cash flow development in mature markets with expected future cash flows in new/emerging markets - Carrying out sensitivity analyses to assess the impact of reasonable changes in key assumptions - Evaluating the adequacy of the financial statement disclosures in the Company and Group's financial statement. <p>From the evidence obtained, we found management's assessment of the value of the deferred tax assets to be acceptable.</p>

Carrying value of intangible assets

Refer to Note 12 in the Company and Group's financial statement

<i>The Key Audit Matter</i>	<i>How the matter was addressed in our audit</i>
<p>Photocure has recognized intangible assets of NOK 26 million in Company and Group's financial statement as of 31 December 2016. Photocure has capitalized NOK 21.1 million in the balance sheet as of 31 December 2016 that relates to development costs for the clinical study of Cysview®. Development costs are recognized in the statement of financial position after national marketing approval has been obtained and market launch is completed to the extent this involves significant changes to the product, physical or in the label, which is considered likely to generate future financial benefits.</p> <p>We have determined recognition of the intangible assets to be a key audit matter as there is judgmental elements on whether it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity, and that the cost of the assets can be measured reliably. Further, we have determined intangible assets impairment indicators to be a key audit matter as the existence of such indicators would trigger an impairment test.</p>	<p>Our audit procedures with regards to recognition of intangible assets included, among others:</p> <ul style="list-style-type: none"> - Inspecting documents supporting that marketing approval of the product has been obtained and market launch is completed prior to capitalizing expenditures - Inspecting material expenditures capitalized in the financial year to verify that the expenditures relates to the development activity and thus qualify for capitalization - Evaluating the estimated useful economic lives used to determine the annual amortization - Evaluating the adequacy of the financial statement disclosures in the Company and Group's financial statement <p>Our audit procedures with regards to the identification of impairment indicators included, among others:</p> <ul style="list-style-type: none"> - Challenging management and applying our own knowledge of the business and the industry to identify any indicators of impairments of intangible assets - Analyzing documentation that supports that the post marketing clinical trial for Cysview® is progressing in accordance with the project plan including assessing whether significant milestones has been achieved according to plan through independent inquires with key R&D personnel to corroborate. - Evaluating the adequacy of the financial statement disclosures in the Company and Group's financial statement <p>From the evidence obtained, we found management's assessment of recognition of intangible asset as reasonable. Further, we found management's assessment that there are currently no impairment indicators present, acceptable.</p>

Loan to Group company

Refer to Note 23 in the Company and Group's financial statement

<i>The Key Audit Matter</i>	<i>How the matter was addressed in our audit</i>
<p>Photocure ASA has one subsidiary, Photocure Inc, that was established in order to carry out the marketing-, selling- and distribution activities for the Cysview® product in the US. Photocure ASA has a long-term loan to Photocure Inc that is recognized at NOK 221 million in Company's financial statement as of 31 December 2016.</p> <p>We have determined impairment of the loan to be a key audit matter, due to the inherent uncertainty in Photocure Inc and the Group's ability to successfully commercialize the individual product concerned.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> - Challenging management and applying our own knowledge of the business and the industry to identify any indicators of impairment of the loan - Assessing the impairment documentation prepared by management - Evaluating the appropriateness of key assumptions in the impairment documentation, including profit and cash flow growth, the impact of the expiry of patents, and discount rate and confirm that these were consistent with relevant key assumptions used in valuation of deferred tax asset. - Comparing historic cash flow development in mature markets with expected future cash flows in the US market - Performing sensitivity analyses to assess the impact of reasonable changes in key assumptions - Evaluating the adequacy of the financial statement disclosures in the Company's financial statement. <p>From the evidence obtained, we found management's assessment of the carrying value of the loan to Photocure Inc to be acceptable.</p>

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon with the exception of our report on Other Legal and Regulatory Requirements below.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the

financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) 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 management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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 including the report on Corporate Social Responsibility and statement on Corporate Governance concerning the financial statements, the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on 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 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, 5 April 2017
KPMG AS

Geir Moen
State Authorised Public Accountant

Alternative Performance Measures

(Information provided based on Guidelines on Alternative Performance Measures (APMs) for listed issuers by The European Securities and Markets Authority - ESMA)

Photocure reports certain performance measures that are not defined under IFRS but which represent additional measures used by the Board as well as by management in assessing performance as well as for reporting both internally and to shareholders. Photocure believes that the presentation of these non-IFRS performance measures provides useful information which provides readers with a more meaningful understanding of the underlying financial and operating performance of the company when viewed in conjunction with our IFRS financial information.

Photocure uses the following alternative performance measures.

EBITDA & EBIT

We regard EBITDA as the best approximation to pre-tax operating cash flow and reflects cash generation before working capital changes. EBITDA is widely used by investors when evaluating and comparing businesses, and provides an analysis of the operating results excluding depreciation and amortisation. The non-cash elements depreciation and amortization may vary significantly between companies depending on the value and type of assets.

The definition of EBITDA is "Earnings Before Interest, Tax, Depreciation and Amortization".

The reconciliation to the IFRS accounts is as follows:

(all amounts in NOK 1000)	2016 01.01.-31.12	2015 01.01.-31.12
Gross profit	134,291	126,496
Operating expenses excl amortization & depreciation	-142,298	-144,583
EBITDA	-8,008	-18,087
Amortization & depreciation	-7,853	-3,899
EBIT	-15,861	-21,986

Revenue growth in constant currency

Photocure's business is conducted internationally and in respective local currency. Less than 90% of the revenue for the full year 2016 was conducted in Norwegian kroner, our functional currency. Fluctuations in foreign exchange rates may have a significant impact on reported revenue in Norwegian kroner. To eliminate the translational effect of foreign exchange and to better understand the revenue development in the various regions we provide calculated revenue growth information by region and total for the company.

The average exchange rates used to translate revenues as per the reporting dates were as follows:

	2016 01.01.-31.12	2015 01.01.-31.12
USD (NOK per 1 USD)	8.40	8.06
EUR (NOK per 1 EUR)	9.29	8.94
DKK (NOK per 100 DKK)	124.81	119.88
SEK (NOK per 100 SEK)	98.23	95.59

Alternative Performance Measures

In-market sales

A significant share of Photocure's sales of Hexvix/Cysview, i.e. all sales classified as partner sales and all sales in the Nordic region, goes through partners and distributors. These partners and distributors carry inventory of Hexvix/Cysview. Photocure's billing and revenue therefore does not necessarily reflect the demand from end users / hospitals at a given point in time as inventory levels may vary over time.

Furthermore, Photocure's revenue does not reflect the full value of the product in the market, as partners pay a royalty or a purchase price for the product below the price charged the end user.

To capture end user demand the company's partners and distributors report their revenue to end users in terms of number of units invoiced and in terms of revenue achieved. Photocure collects this data and consolidates to get the group total in-market sales, in units and in Norwegian kroner.

	2016 01.01.-31.12	2015 01.01.-31.12
In-market sales	241,099	214,109



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