

# Corporate Social Responsibility

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

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

*"The purpose and main business of the company is to operate 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](http://www.photocure.com) no later than 21 days prior to the date of the general meeting.

### **Participation and execution**

Pursuant to the Articles of Association 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. Røine, Tom Pike, Xavier Denis Yon 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**

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### **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**

## **CORPORATE SOCIAL RESPONSIBILITY GUIDELINES**

Photocure is the world leader in photodynamic technology. We develop and commercialize highly selective and effective solutions in several disease areas such as bladder cancer, colorectal cancer, HPV and precancerous lesions of the cervix, acne and other dermatologic conditions. 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 (CSR) will enhance this by building strong relationships with our stakeholders.

Our commitment to corporate social responsibility is driven by our values - integrity, respect and care, courage and passion - and is reflected in our focus on four priority areas: Patients access to health and quality of life, human resources, environment, and governance and ethics.

### **Basic Principles**

1. Our CSR guidelines are built on the UN Global Compact's ten principles in the areas of human rights, labor, the environment and anti-corruption.
2. The guidelines apply to all employees of Photocure. In selection of suppliers ethical and responsible business conduct including environment, health and safety policy of the supplier is evaluated.
3. Being a responsible corporate citizen, Photocure's main contribution is to develop a profitable and sustainable business. Our business practices should contribute to long-term economic, environmental and social development where we operate.

### **Guidelines**

4. Photocure will not discriminate on the basis of race, religion, sex, sexual orientation, age, disability, national or ethnic origin, cultural background, social group, marital status or political opinion. We treat others with respect and base employment decisions on job qualifications and merit.
5. Our communication with stakeholders and society at large shall be open, honest and responsive.
6. We shall be honest and fair in business dealings and have high standards of personal and professional integrity. We will never engage in any kind of bribery and corruption. We ensure that our business partners and suppliers understand that bribery and corruption is not tolerated.

7. Our business is to give patients access to health and quality of life. In doing this we ensure that our products are reliable and follow all relevant regulations in terms of quality, origin and impact on personal health and the environment.

8. Society's expectations on corporate social responsibility may change over time. We will be open and responsive to this and change our practices accordingly.

### **Roles and responsibilities**

9. The Board is responsible for ensuring compliance with the guidelines. Management will regularly review and control that these guidelines are followed, and report to the Board.

10. Each employee and Board Member is responsible for complying with the guidelines outlined in this document.

11. In selection of suppliers complying with similar guidelines is evaluated.

12. Non-compliance with these guidelines shall be reported to the Board of Photocure ASA.

These guidelines are adopted by the Board of Photocure ASA.