



# ANNUAL REPORT 2011

PHOTOCURE GROUP





# BOARD OF DIRECTOR'S REPORT 2011

## BACKGROUND

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

Photocure is commercializing Hexvix<sup>®</sup> in the Nordic region through its own commercial operations, while GE Healthcare, until December 2011, has been responsible for the same in the rest of the world. A new commercial strategy for Hexvix/Cysview was announced in September 2011. Photocure and GE Healthcare terminated the partnership and Photocure entered into a strategic collaboration with Ipsen, a global specialty-driven biopharmaceutical company focused in uro-oncology. Ipsen will commercialize Hexvix worldwide, excluding the US and Nordic regions. In order to capitalize on the untapped US market opportunity, Photocure will commercialize the product through its own commercial operations.

Photocure has developed a cosmetic product Allumera<sup>®</sup> based on its proprietary technology platform, which was launched through its own operations in the United States in the second quarter of 2011.

In addition to these products, Photocure has three pharmaceutical products in clinical development, all targeted at various indications with significant market potential.

## STRATEGIC DIRECTION – EVOLUTION INTO A SPECIALTY PHARMACEUTICAL COMPANY

Photocure's strategy is to transform the company from a research and development based company into a specialty pharmaceutical company on the basis of the company's technology platform in the field of photodynamic therapy, diagnosis and cosmetics. Photocure has two main clinical areas of focus: dermatology and cancer.

Photocure's strategy in the field of dermatology is to develop products and market these through its own sales and marketing organization, where appropriate. Allumera, a cosmetic product that improves the appearance of the skin, is the first product Photocure launched in line with this strategy, through the company's commercial

organization in the US. In addition, Photocure is developing Visonac<sup>®</sup> for the treatment of moderate to severe acne.

The cancer field consists of the approved product Hexvix/Cysview<sup>®</sup> and the pipeline products, Cevira<sup>®</sup> and Lumacan<sup>®</sup>. Photocure has entered into a strategic collaboration with Ipsen for Hexvix. Ipsen has been granted a world wide license to commercialize Hexvix except in the US and the Nordic regions. In the US, a large but regulatory and businesswise homogeneous market, Photocure will build its own commercial operations for Cysview, the US trademark for Hexvix. The new strategy will maximize the market potential of Hexvix/Cysview globally. At the same time, the company wishes to retain rights to its products in some markets and sell the products there through its own sales and marketing organizations. Lumacan was out-licensed to Salix in 2010 and the company is also planning to identify a partner for Cevira before the start of phase III.

## DERMATOLOGY

Photocure's technology platform in the field of photodynamic therapy (PDT) is very well suited to the development of products that meet the demands of the future for treating dermatological conditions including cosmetic needs. PDT is an established procedure in the field of dermatology and Photocure has taken the lead in developing effective PDT products to service this market.

## MARKETING AND SALES ALLUMERA<sup>®</sup> – A COSMETIC PRODUCT TO IMPROVE THE APPEARANCE OF THE SKIN

Photocure commenced development of Allumera, a cosmetic product for the dermatology market, in 2009. The Allumera concept is based on the cosmetic improvements experienced with Metvix. The cosmetic market in the US is large and growing. Photocure's market surveys indicate that the benefits provided by Allumera are a good match for the cosmetic procedures that dermatologists perform today.

Photocure completed a study of the effects of Allumera in 2010. The results from this study were positive and showed a significant improvement in the facial skin, through minimized appearance of pores.

Photocure established a subsidiary in Princeton, New Jersey, in 2010 for the US derma-

tology organization and launched Allumera on the US market in the second quarter of 2011.

## RESEARCH AND DEVELOPMENT VISONAC<sup>®</sup> – TREATMENT OF MODERATE TO SEVERE ACNE

Photocure has been working to develop a new product for treating patients with moderate to severe acne. Photocure initiated a phase IIb study for Visonac in July 2011 and completed the enrolment of patients in January 2012. The study is a randomized, placebo controlled study in patients with moderate to severe acne vulgaris. It will measure safety and efficacy in patients aged 12 - 35 years, who will receive four treatments over a six week period. The cream is applied to the acne area, and after a short incubation time, the skin is illuminated with red light. Fifteen centers in the US have recruited a total of 150 patients to this study. The results are anticipated in the second half of 2012 and will support the design of the pivotal Phase III studies in the US and Europe.

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

## CANCER

One of the advantages of Photocure's technology platform is the ability to diagnose and treat the early stages of cancer with a minimum of side effects. The products that the company is developing meet the demands of the future for diagnosing and treating illnesses before they may develop into more serious stages.

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## HEXVIX/CYSVIEW® - THE INNOVATIVE PRODUCT FOR IMPROVED DETECTION OF BLADDER CANCER

Hexvix/Cysview is the first significant advancement for the improved detection of bladder cancer. It is designed to induce specific fluorescence in the malignant cells in the bladder during a cystoscopic procedure, making it easier for the urologist to detect bladder cancer. Hexvix, initially approved in Sweden in 2004, was approved across Europe by 2005 and as Cysview® in the US in 2010. Since 2006, the product has been commercialized in Europe by GE Healthcare. Hexvix was initially approved in the EU based on strong clinical data showing improved detection of bladder cancer. More recently, new clinical data has shown that improved detection using Hexvix/Cysview makes local surgery more complete and leads to significant reduction in the recurrence of bladder cancer. Based on this, Hexvix/Cysview has the potential to transform the diagnosis of bladder cancer and may significantly improve patient outcomes.

## MARKETING AND SALES

Photocure markets and sells Hexvix in the Nordic region through its own commercial operation. As part of the new commercial strategy for Hexvix, Photocure entered into a strategic collaboration with Ipsen, a global specialty-driven biopharmaceutical company focused on four franchises, including uro-oncology, to commercialize Hexvix worldwide, excluding the US and Nordic regions. Additionally, to capitalize on the untapped US market opportunity, Photocure plans to launch the product, approved as Cysview in the US, through its own commercial operations.

The target market in the US is concentrated and can be addressed with a niche sales force. Photocure will leverage its knowledge and expertise gained in marketing and selling Hexvix in the Nordic regions where it has achieved greater than 30% market share, to maximize the potential of Cysview in the US market.

## RESEARCH AND DEVELOPMENT CEVIRA® - TREATMENT OF HPV AND PRECANCEROUS LESIONS OF THE CERVIX

Cevira is a unique photodynamic treatment of HPV infection and precancerous lesions of the cervix.

In January 2012, Photocure completed patient enrolment in a phase IIb dose-finding study for Cevira - the first trial to evaluate the optimal dose of the novel integrated intravaginal drug-delivery device. The study is a randomized, double blind placebo controlled trial in patients with low to moderate grade cervical intra-epithelial neoplasia (CIN1-2). Patients will receive 1-2 treatments using a novel drug-device combination. Primary treatment response will be evaluated by central review of histology, cytology and HPV assessments 3 months after treatment and with follow-up after 9 months. Twenty-three centers in Europe and US have recruited a total of 240 patients into this study. The first results are anticipated in second half 2012 and will support the design of the pivotal phase III registration program for the US and Europe.

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

Photocure is planning to identify a partner for Cevira before commencing the phase III program.

## LUMACAN® - DIAGNOSIS OF COLON CANCER

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

In 2010, Photocure signed a global agreement concerning the development and commercialization of Lumacan with the US based company Salix Pharmaceuticals, Inc. ("Salix"). The agreement involves granting Salix an exclusive global license for Lumacan. Photocure received an upfront payment of USD 4 million and is entitled to additional milestone payments totaling USD 126.5

million. These milestones are linked to the development of Lumacan and regulatory events, as well as to specific sales targets. In addition to the milestone payments, Photocure will also receive a double digit royalty on sales in the US, as well as a significant share of all income from licensing agreements that Salix concludes outside the US. Salix has global responsibility for the continued development, registration and commercialization of Lumacan.

Photocure has retained the rights to market and sell Lumacan in the Nordic region. In addition to the development of Lumacan for colon cancer, Salix has the exclusive rights to develop other indications such as the diagnosis of early stage cancer in the stomach. Compensation for such new indications is to be further discussed between the parties.

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

## PATENTS

Photocure has a solid patent portfolio containing 17 patent families. Three new patent applications were submitted in 2011, covering Cevira and Lumacan. In addition, Photocure received approval of a number of applications resulting in extended patent protection for Visonac and new photo sensitizers.

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

## FINANCIAL POSITION

The Photocure annual accounts have been prepared in accordance with IFRS requirements. Photocure ASA is a Group at the end of 2011.

Sales revenues amounted to NOK 82.9 million in 2011, an increase of 18% from NOK 70.5 million in 2010. Sales revenues comprise own sales of Hexvix in the Nordic region, income from product sales and royalties from Photocure's license partners, GE Healthcare and Ipsen, on sales of Hexvix to hospitals and pharmacies, deferred revenue recognition of the sale of Metvix/Aktelite, and sale of active substances for Metvix to Galderma. Signing and milestone revenue totaled NOK 32.7 million in 2011 after Photocure received EUR 3.5 million from

Ipsen in upfronts and manufacturing transition milestones and USD 0.9 million from GE Healthcare for taking over Cysview responsibility for the US market.

In connection with the sale of Metvix/Aktelite to Galderma in 2009, the payment of the remaining EUR 7 million will depend on future regulatory approvals in Europe and the US, but EUR 3 million will be paid no later than December 2012, and the residual EUR 4 million no later than December 2016.

Operating expenses, after deductions for other operating revenues, increased from NOK 160.7 million in 2010 to NOK 161.9 million in 2011. R&D expenses decreased by NOK 24 million from 2010 to 2011 mainly due to Salix taking over the development expenses for Lumacan. Expenses related to the commercial operations in the US have increased due to the establishment of the Al-lumera sales organization and preparation for the launch of Cysview.

Photocure's operating result totaled NOK -57.4 million in 2011, compared to an operating result of NOK 7.5 million in 2010. The change in the operating result is primarily attributable to a NOK 74.2 million decrease in milestone revenues from 2010 to 2011 and an increase in sales revenues of NOK 12.4 million.

Net financial items totaled NOK 9.9 million in 2011, compared to NOK 10.6 million in 2010.

After reviewing the Group's strategic position, it has recognized losses carried forward as a tax asset of NOK 40.0 million in 2011. The reason for recognition is that it is more likely than not that the deferred tax asset will be realized.

The Group's net loss after tax is NOK -7.5 million compared to NOK 18.1 in 2010.

Photocure owns 19.35% of the shares in PCI Biotech Holding ASA, a company listed at the Oslo Stock Exchange. The market value of the shares in PCI Biotech Holding ASA decreased in 2011. The shares were noted at NOK 47.10/share at 31 December 2010 and at NOK 38.80/share at 31 December 2011. The value of Photocure's shares thus decreased by NOK 12.3 million in 2011.

In 2011, Photocure ASA (parent company) returned an annual profit after tax of NOK

26.4 million, compared with an annual profit after tax of NOK 22.1 million in 2010. The Board of Directors of Photocure ASA proposes that the profit for the year is transferred to other equity. Following this, the equity in Photocure ASA totals NOK 477.1 million at 31 December 2011, of which free equity amounts to NOK 386.6 million. This will result in an equity ratio of 88%.

Photocure's strategy of becoming a specialty pharma company will necessitate a significant investment in commercial operations in the US. Furthermore, Photocure will continue its high R&D activity. In light of this, the Board of Directors will advise the General Meeting not to pay a dividend.

The company follows a prudent investment strategy for its liquid funds. The return on the company's liquid funds depends on the rate of interest in the money markets and will therefore vary over time. Liquid funds in the company amounted to NOK 355.2 million at 31 December 2011, down from NOK 389.2 million at 31 December 2010. Net cash flow from operating activities was NOK -34.5 million in 2011, compared to NOK 15.6 million in 2010.

At 31 December 2011, 21,393,301 shares were registered in Photocure. At the Ordinary General Meeting in April 2011, the Board of Directors was granted authorization to purchase up to 10% of its own shares. At 31 December 2011, Photocure held 52,314 own shares, which is equivalent to 0.2% of the outstanding shares in the company.

The company's revenues and costs are accrued in a number of different currencies. The company is therefore exposed to fluctuations in the currency markets. The risks are assessed on a regular basis.

Photocure has expensed all research and development costs in 2011.

Pursuant to § 3.3 (a) of the Norwegian Accounting Act, it is confirmed that the conditions for assuming that the company 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 2011, except those which are stated in this report that are of major significance for the assessment of the company's financial position and results.

## ORGANIZATION

The company's senior management team at year-end consists of Kjetil Hestdal, President and CEO, Torbjørn Øye, interim CFO, Kathleen Deardorff, Chief Operating Officer, Grete Hogstad, Vice President Strategic Marketing, Inger Ferner Heglund, Vice President Research and Development, and Gry Stensrud, Vice President Technical Development and Operations.

Photocure ASA has offices in Oslo, Norway. The company has entered into a 5-year leasing contract for Hoffsvæien 4 from March 2011. In addition, Photocure Inc has entered into 3-year leasing contract in Princeton, New Jersey, USA.

At the end of 2011, the company employed 60 people. The company makes considerable use of external suppliers for production, research and development, as well as for regulatory work vis-à-vis the authorities. The work environment within the company is considered to be good. No accidents or injuries entailing absence were registered in 2011. Absence due to illness in the company totaled 460 working days in 2011, which corresponds to 2.29% of total hours.

Photocure aims to be a workplace with equal opportunities for women and men in all areas. The company has traditionally recruited from environments where the number of women and men is relatively equally represented. In terms of gender equality within the company, 50% of board members are women, as are 60% 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.

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The company does not pollute the external environment to a greater extent than is normal for this industry.

## CORPORATE GOVERNANCE

Photocure considers good corporate governance as a prerequisite to create value for shareholders and 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 next page. A complete description of the recommendation is available at the Oslo Stock Exchange ([www.ose.no](http://www.ose.no)).

## OUTLOOK

Photocure's strategy is to develop the company from a purely research and development based operation into a specialty pharmaceutical company. This is to be achieved by reinforcing the commercial activity of the company. The company will invest in commercial operations for Cysview and Allumera in the US market. Photocure has high expectations to the strategic collaborations with Ipsen for world wide commercialization of Hexvix outside the US and the Nordic regions. A commercial operation for dermatology in the US is already established, ready to bring the sales of Allumera to a higher level.

The main task in the field of research and development is to conduct clinical studies and to ensure progress in the development

of new pharmaceuticals and treatment procedures within the company's core areas. The company is planning to report two important phase IIb studies in the second half 2012 – one for Visonac and one for Cevira.

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

Oslo, 15 February 2012

Åse Aulie Michelet, Chairman of the Board

Jon Hindar, Board member

Mats Pettersson, Board member

Eva Steiness, Board member

Ingrid Wiik, Board member

Xavier Yon, Board member

Kjetil Hestdal, President and CEO

# CORPORATE GOVERNANCE

## PHOTOCURE IS COMMITTED TO GOOD CORPORATE GOVERNANCE

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

Photocure complies with the Norwegian Code of Practice for Corporate Governance of 21 October 2010. The code is a “comply or explain” guideline and Photocure’s governance structure is in accordance with the guidelines.

The following sections detail the key aspects of Photocure’s corporate governance policy.

### 1 - REPORTING ON CORPORATE GOVERNANCE

Photocure complies with the Norwegian Code of Practice for Corporate Governance. A statement of compliance with the code is presented in the company’s annual report and on the company website. Photocure’s value base is also described on the company website, and constitutes a key premise for the company’s corporate governance.

### 2 - BUSINESS

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

### 3 - EQUITY AND DIVIDENDS

Photocure’s equity is appropriate to the company’s goals, strategy and risk profile. The company’s mandate to increase the capital is tied to defined purposes and limited in time to the next General Meeting. Photocure is focusing its resources on building a speciality pharma company and the Board will recommend payment of dividends in line with the company’s results and development.

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

Photocure has only one class of shares. All material transactions between the company and shareholders, members of the board, key employees or parties closely associated with same are to be assessed by an independent third party. Members of the board

of directors and the management are obliged to notify the board if they have any material interest – directly or indirectly – in any agreement entered into by the company.

### 5 - FREELY NEGOTIABLE SHARES

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

### 6 - THE GENERAL MEETING

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

### 7 - NOMINATION COMMITTEE

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

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

The composition of the board of directors of Photocure is designed to ensure that it can attend to the common interests of all shareholders, and that it meets the company’s requirements for expertise, capacity and diversity. The members of the board of directors are elected for one year at a time and presented in the company’s annual report. The Chairman of the Board is elected by the General Meeting.

### 9 - THE WORK OF THE BOARD OF DIRECTORS

The board of directors prepares an annual plan for its work, which comprises goals, strategy and implementation. The board has established an audit committee and a remuneration committee for the thorough and independent handling of cases involving financial reporting and remuneration to key employees. The board has established instructions for the President & CEO. In matters where the Chairman of the Board is or has been actively involved, another board member will chair the meeting.

### 10 - RISK MANAGEMENT AND INTERNAL CONTROL

It is the responsibility of the board of directors to ensure that the company has sound internal control and systems for risk management that are appropriate in relation to the extent and nature of the company’s activities. The board of directors performs an annual review of the company’s internal control systems and risk areas.

### 11 - REMUNERATION OF THE BOARD OF DIRECTORS

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

### 12 - REMUNERATION OF KEY EMPLOYEES

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

### 13 - INFORMATION AND COMMUNICATIONS

The company’s guidelines for the reporting of financial and other information are based on openness and take into account requirements for equal treatment of all players in the market. Information for shareholders is published on the company website at the same time as it is sent to the shareholders.

### 14 - COMPANY TAKE-OVERS

Transactions that, in effect, involve the discontinuation of any business must be decided by the General Meeting.

### 15 - AUDITOR

On an annual basis, the auditor submits to the board of directors the main features of the plan for the performance of the audit work. The auditor also participates in meetings of the board of directors that deal with the financial statements and, at least once a year, carries out a review of the company’s procedures for internal control in collaboration with the board of directors.

# INCOME STATEMENT

## Photocure (Amounts in NOK 1 000)

Parent				Group	
2011	2010			2011	2010
			Notes		
89 906	70 517	Sales revenues	1,2,3	82 877	70 517
32 692	106 840	Signing fees and milestone revenues	1,2,3	32 692	106 840
<b>122 598</b>	<b>177 357</b>	<b>Total revenues</b>		<b>115 568</b>	<b>177 357</b>
-11 358	-9 124	Cost of goods sold	5	-11 072	-9 124
<b>111 240</b>	<b>168 233</b>	<b>Gross profit</b>		<b>104 496</b>	<b>168 233</b>
2 578	7 392	Other income	4	2 578	7 392
-11 180	-8 675	Indirect manufacturing expenses	6	-11 180	-8 675
-66 192	-90 167	Research and development expenses	6, 7	-66 192	-90 167
-31 915	-32 919	Marketing and sales expenses	6	-50 178	-35 401
-30 251	-32 387	Other operating expenses	6	-36 897	-33 861
<b>-136 960</b>	<b>-156 756</b>	<b>Total other income and expenses</b>		<b>-161 868</b>	<b>-160 712</b>
<b>-25 720</b>	<b>11 477</b>	<b>Operating profit/loss(-)</b>		<b>-57 372</b>	<b>7 521</b>
14 516	15 149	Financial income	11	12 274	15 149
-2 364	-4 578	Financial expenses	11	-2 364	-4 578
<b>12 152</b>	<b>10 571</b>	<b>Net financial profit/loss(-)</b>		<b>9 910</b>	<b>10 571</b>
<b>-13 568</b>	<b>22 048</b>	<b>Profit/loss(-) before tax</b>		<b>-47 462</b>	<b>18 092</b>
39 950	0	Tax expense	12	39 950	0
<b>26 382</b>	<b>22 048</b>	<b>Net profit/loss(-) for the year</b>		<b>-7 512</b>	<b>18 092</b>
-12 312	40 923	Market value adjustment shares		-12 312	40 923
		Currency translation		67	73
<b>-12 312</b>	<b>40 923</b>	<b>Total other comprehensive income</b>		<b>-12 245</b>	<b>40 996</b>
<b>14 070</b>	<b>62 971</b>	<b>Comprehensive income</b>		<b>-19 757</b>	<b>59 088</b>
		<b>Earnings per share (Amounts in NOK):</b>	13		
		Basic		-0.35	0.84
		Diluted		-0.35	0.83



# BALANCE SHEET

AS OF 31 DECEMBER

## Photocure (Amounts in NOK 1 000)

Parent				Group	
2011	2010			2011	2010
		<b>ASSETS</b>	<b>Notes</b>		
3 984	1 929	Machinery and equipment	14	4 414	1 929
35 749	7 615	Loan to group company	27		
84 675	84 715	Other investments	15	83 337	84 263
39 950	0	Deferred tax asset	12	39 950	0
<b>164 358</b>	<b>94 259</b>	<b>Total non-current assets</b>		<b>127 700</b>	<b>86 192</b>
11 441	18 191	Inventories	16	11 790	18 191
5 442	5 214	Accounts receivable	17, 19	5 642	5 214
8 797	14 726	Other receivables		8 876	15 004
355 092	383 543	Cash and short term deposits	18, 20	355 175	389 241
<b>380 773</b>	<b>421 674</b>	<b>Total current assets</b>		<b>381 483</b>	<b>427 650</b>
<b>545 131</b>	<b>515 933</b>	<b>Total assets</b>		<b>509 183</b>	<b>513 842</b>
		<b>EQUITY AND LIABILITIES</b>			
10 697	11 047	Share capital	21	10 697	11 047
72 771	72 145	Other paid-in capital		72 771	72 145
393 616	379 545	Retained earnings		355 869	375 662
<b>477 084</b>	<b>462 737</b>	<b>Total equity</b>		<b>439 337</b>	<b>458 854</b>
1 196	690	Pension liabilities	9	1 196	690
<b>1 196</b>	<b>690</b>	<b>Total non-current liabilities</b>		<b>1 196</b>	<b>690</b>
11 973	8 174	Accounts payable	23	11 821	9 066
1 771	2 745	Employee withholding taxes and social security tax		1 805	2 745
53 107	41 587	Other current liabilities	23	55 023	42 487
<b>66 851</b>	<b>52 506</b>	<b>Total current liabilities</b>		<b>68 650</b>	<b>54 298</b>
<b>68 047</b>	<b>53 196</b>	<b>Total liabilities</b>		<b>69 846</b>	<b>54 988</b>
<b>545 131</b>	<b>515 933</b>	<b>Total equity and liabilities</b>		<b>509 183</b>	<b>513 842</b>

Oslo, 15 February 2012

The Board of Directors of Photocure ASA

Åse Aulie Michelet, Chairman of the Board	Eva Steiness, Board member
Ingrid Wiik, Board member	Mats Pettersson, Board member
Jon Hindar, Board member	Xavier Yon, Board member
Kjetil Hestdal, President & CEO	

# STATEMENT OF CHANGES IN EQUITY

## Photocure (Amounts in NOK 1 000)

### Parent company

Notes	Issued capital	Treas- ury shares	Other paid-in equity	Fair value reserve	Trans- lation reserve	Re- tained earn- ings	Total equity
	<b>11 047</b>	<b>-15 989</b>	<b>104 152</b>	<b>0</b>	<b>0</b>	<b>316 574</b>	<b>415 783</b>
<b>Equity as of 31 December 2009</b>							
Comprehensive income:							
						22 048	22 048
				31 492		9 431	40 923
	0	0	0	31 492	0	31 479	62 971
Transaction with owners:							
		-26 070					-26 070
		4 573					4 573
8			5 480				5 480
	0	-21 497	5 480	0	0	0	-16 017
	<b>11 047</b>	<b>-37 486</b>	<b>109 632</b>	<b>31 492</b>	<b>0</b>	<b>348 053</b>	<b>462 737</b>
<b>Equity as of 31 December 2010</b>							
Comprehensive income:							
						26 382	26 382
				-12 312			-12 312
	0	0	0	-12 312	0	26 382	14 070
Transaction with owners:							
	-350	41 607	-41 257				0
		-10 876					-10 876
		4 231					4 231
8			6 921				6 921
	-350	34 962	-34 336	0	0	0	276
	<b>10 697</b>	<b>-2 524</b>	<b>75 296</b>	<b>19 180</b>	<b>0</b>	<b>374 435</b>	<b>477 084</b>

### Group

	<b>11 047</b>	<b>-15 989</b>	<b>104 152</b>	<b>0</b>	<b>0</b>	<b>316 574</b>	<b>415 783</b>
<b>Equity as of 31 December 2009</b>							
Comprehensive income:							
						18 092	18 092
				31 492	73	9 431	40 996
	0	0	0	31 492	73	27 523	59 088
Transaction with owners:							
		-26 070					-26 070
		4 573					4 573
8			5 480				5 480
	0	-21 497	5 480	0	0	0	-16 017
	<b>11 047</b>	<b>-37 486</b>	<b>109 632</b>	<b>31 492</b>	<b>73</b>	<b>344 097</b>	<b>458 854</b>
<b>Equity as of 31 December 2010</b>							
Comprehensive income:							
						-7 512	-7 512
				-12 312	67		-12 245
	0	0	0	-12 312	67	-7 512	-19 757
Transaction with owners:							
	-350	41 607	-41 257				0
		-10 876					-10 876
		4 231					4 231
8			6 921				6 921
	-350	34 962	-34 336	0	0	-35	241
	<b>10 697</b>	<b>-2 524</b>	<b>75 296</b>	<b>19 180</b>	<b>140</b>	<b>336 550</b>	<b>439 337</b>
<b>Equity as of 31 December 2011</b>							

# CASH FLOW STATEMENT

## Photocure (Amounts in NOK 1 000)

Parent			Group	
2011	2010		2011	2010
-13 568	22 048	Profit/loss(-) before tax	-47 462	18 092
1 088	1 316	Ordinary depreciation & amortisation	1 134	1 316
-21	-27	(Gain)/Loss on sale of non-current assets	-21	-27
-11 385	-11 341	Deferred income sale of Metvix & Aktelite	-11 385	-11 341
6 034	5 480	Share-based payments expense	6 882	5 480
506	350	Pension costs	506	350
-10 649	-10 142	Interest income	-10 649	-10 142
6	15	Interest expense	6	15
55	145	Other items	70	67
6 750	-4 365	Change in inventory	6 402	-4 365
1 768	2 268	Change in receivables	5 701	2 593
4 358	-5 762	Change in other short term liability	2 755	-4 870
11 621	-	Prepayment from customer	11 621	-
	17 529	Change in other accruals	-25	18 429
<b>-3 437</b>	<b>17 514</b>	<b>Net cash flow from operating activities</b>	<b>-34 466</b>	<b>15 597</b>
-25 893	-7 615	Loan to subsidiary	-	-
-3 241	-1 187	Investments in machinery and equipment	-3 720	-1 187
119	113	Sale of fixed assets (sales price)	119	113
	-17 414	Investments in other non-current assets		-17 414
10 649	10 142	Interest received	10 649	10 142
<b>-18 367</b>	<b>-15 961</b>	<b>Net cash flow from investing activities</b>	<b>7 048</b>	<b>-8 346</b>
-10 873	-26 070	Buy back own shares	-10 873	-26 070
4 231	4 573	Sale own shares	4 231	4 573
-6	-15	Interest paid	-6	-15
<b>-6 648</b>	<b>-21 512</b>	<b>Net cash flow from financing activities</b>	<b>-6 648</b>	<b>-21 512</b>
<b>-28 452</b>	<b>-19 959</b>	<b>Net change in cash during the year</b>	<b>-34 066</b>	<b>-14 261</b>
<b>383 543</b>	<b>403 502</b>	<b>Cash and cash equivalents as of 01 January</b>	<b>389 241</b>	<b>403 502</b>
<b>355 092</b>	<b>383 543</b>	<b>Cash and cash equivalents as of 31 December</b>	<b>355 175</b>	<b>389 241</b>

# ACCOUNTING PRINCIPLES

## 1. GENERAL INFORMATION

The annual accounts for 2011 for Photocure ASA (the Company) and its subsidiary (together the Group or Photocure) were approved for publication by the board of directors on 15 February 2012.

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

## 2. BASIS FOR PREPARATION OF THE ANNUAL ACCOUNTS

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

The Group and the Company's annual accounts are prepared in accordance with International Financial Reporting Standards (IFRS) as specified by the International Accounting Standards Board and implemented by the EU as per 31 December 2011.

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

In 2011 Photocure Inc., a Photocure wholly owned subsidiary in the United States, launched Allumera, a cosmetic product that improves the appearance of the skin.

In 2011 Photocure and GE Healthcare terminated their partnership regarding marketing, sales and distribution of Hexvix. At the same time Photocure entered into a license agreement for Hexvix (US: Cysview) with Ipsen Pharma SAS (Ipsen). Ipsen will commercialise Hexvix worldwide, excluding the US and Nordic regions where Photocure will commercialise the product through its own commercial operations. Photocure Inc. will commercialise the product in the US.

In the annual accounts for 2011, Photocure has presented the consolidated accounts including the wholly owned subsidiary Photocure Inc. The company was established in 2010 by Photocure ASA and the establishment of the Group is thus not made through acquisition.

## 3. CHANGES IN ACCOUNTING PRINCIPLES

Photocure has implemented the latest changes in IAS 24 - Information about related parties. The changes only affect the disclosures in the notes. Other new and amended standards and interpretations from IFRS that were adopted by the EU with effect from 2011 are not relevant to Photocure's reporting.

Photocure has not chosen an early implementation of any new or amended IFRS's or IFRIC interpretations. Photocure does not expect that implementation of new/amended standards and interpre-

tations with future application dates, will have any significant effect on the annual accounts at the time of implementation.

## 4. IMPORTANT ACCOUNTING VALUATIONS, ESTIMATES AND ASSUMPTIONS

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

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

In the process of applying the principles of accounting, the Group management has made the following judgements and estimates that are of significance for recognised values in the annual accounts for 2011:

- Received, non-refundable up-front payments for licensing of the Hexvix product to Ipsen have been treated as payments associated with the transfer of rights for the product and manufacturing transition milestones achieved by Photocure. Amounts received are not subject to netting, and in the view of the Group no conditions or future obligations are associated with these payments. Received payments are therefore recognised as income when the conditions are achieved.
- In 2012 and 2013, Photocure will co-invest EUR 3.0 million with Ipsen in marketing and sales programs of Hexvix, conditional on Ipsen's own marketing and sales activities. Photocure's expenses will thus be recognised when incurred.
- On signing an agreement concerning licensing of Lumacan, a product under development, to Salix Pharmaceuticals Inc. ("Salix") in November 2010, Photocure received a non-refundable licence payment of USD 4 million. According to the agreement, this payment is not subject to any conditions and it was recognised as income in the 2010 accounts.
- The agreement with Salix commits Photocure to refund up to USD 3 million of Salix's development costs for formulation. Salix owns the rights to the development work, and it will not generate direct income for Photocure. This is a contractual, unconditional obligation and will not give increased value or income for Photocure. The amount was thus expensed in 2010.
- In the opinion of the Group, shares in PCI Biotech Holding ASA (PCI Biotech) are to be considered as shares available for sale in accordance with IAS 39. Our view is that with 19.35% of the shares, Photocure does not have significant influence in PCI Biotech. There are no shareholder agreements or similar arrangement between Photocure and the other owners of PCI Biotech. Photocure is not represented on the Board of PCI Biotech.
- The Group has recognized a tax asset of NOK 40.0 million in the balance sheet as of 31 December 2011 of Photocure ASA. The basis for recognition is that it is more likely than not that the deferred tax asset will be realized and that temporary differences for the coming years will be reversed.
- Development of pharmaceuticals and medical equipment: The Group cannot render probable future earnings large enough to justify recognising development costs in the balance sheet before marketing approval has been obtained. Own development costs

# ACCOUNTING PRINCIPLES

are therefore recognised as an expense as incurred until national market approval for the product and indication has been obtained. Any further development of the product after marketing approval has been obtained and market launch completed will be recognised in the balance sheet to the extent that this involves significant changes to the product, which is considered likely will generate future financial benefits, cf. 5d.

- Development of other products: The Group cannot render probable future earnings on own-developed products that are large enough to justify recognising development costs in the balance sheet before such products have been commercially launched in a market, and before it is likely that the products will generate profits in the long term. Any further development of the product after such a market launch is completed will be recognised in the balance sheet to the extent that this involves significant changes to the product, which is considered likely will generate future financial benefits.
- The fair value of employee options is calculated according to the Black-Scholes method. This method involves the use of estimates and discretionary judgement, as described in more detail in note 8. The allocation of options to employees of subsidiaries is made directly from the parent company and the financial presentation is correspondingly reported in the subsidiary.
- Accounts receivable have been valued in relation to the likelihood that customers will meet their payment obligations. Accounts receivable are primarily from our licence partners and pharmaceutical wholesalers in the Nordic region, and no provisions for bad debts have been made.
- In recent years, the Group has paid advances on royalties for the licensing of technology. Such advance payments have been valued in relation to the likelihood of utilisation of the pre-paid royalties. Changes in the expected value of advance payments are taken against income.

## 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 realised in the Group's ordinary operating cycle or are kept for sale or consumption;
- They are expected to be realised 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, realised and unrealised 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.

### c. Property, plant and equipment

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

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

- Production and test equipment 5 years
- Furnishings and equipment 3–5 years

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

- Software 5 years

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

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

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

### d. Research and development costs

Research costs are expensed as incurred. Development costs are recognised 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 recognised 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 recognised in the balance sheet. Develop-

# ACCOUNTING PRINCIPLES

ment costs that have been expensed in previous accounting periods cannot be recognised in the balance sheet at a later date. Cost-sharing of research and development expenses with licence partners is booked as a reduction in costs.

## **e. Investment in subsidiary companies**

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

## **f. Inventories**

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

## **g. Financial assets and liabilities**

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

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

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

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

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

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

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

## **h. Revenue recognition**

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

Payments for the sale of products are recorded on the date of delivery, that is to say when both control and risk essentially have been transferred to the buyer. The return of goods is booked as a reduction of revenue. Signing payments received in connection with entering

into licence 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 and launches are booked as revenue when the milestones are achieved.

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

## **i. Government grants**

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

## **j. License costs**

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

## **k. Pensions**

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

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

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

## **l. Share-based remuneration**

Employees are offered subscription rights to the Company's shares as an element of the Group's employee incentive policy. The subscription rights are offered at strike prices that reflect the market price of the shares at the time of allotment of the rights.

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

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

#### **m. Tax**

The tax expense in the income statement includes both the income tax payable for the period and changes in deferred tax. Deferred tax is calculated at 28% 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 utilise all or parts of assets in connection with deferred tax. Non-recognised assets in connection with deferred tax are reviewed every balance sheet date and are included to the degree that it is probable that future taxable profits will allow the recovery of assets in connection with deferred tax.

#### **n. Earnings per share**

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

The diluted earnings per share are calculated by adjusting the denominator for amounts outstanding on option programmes. Anti-dilution effects are not taken into consideration.

#### **o. Provisions**

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

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

the income statement after deduction for the recharge.

#### **p. Contingent liabilities and assets**

Contingent liabilities are defined as:

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

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

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

#### **q. Events after the balance sheet date**

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

#### **r. Cash flow statement**

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

#### **s. Equity**

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

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

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

#### **t. Lease agreements**

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

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

#### **u. Segment reporting**

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

# NOTES TO THE FINANCIAL STATEMENTS FOR 2011

## 1 - OWN SALES AND LICENSING OF HEXVIX TO IPSEN PHARMA

GE Healthcare and Photocure have in 2011 agreed to terminate the license agreement for the Hexvix product where GE Healthcare was responsible for marketing, sales and distribution outside the Nordic region. Photocure retains the rights to the product in the Nordic region. In order to capitalize on the untapped US market opportunity, Photocure will launch the FDA (Food and Drug Administration) approved product through its subsidiary Photocure Inc. The product is approved as Cysview in the US. Photocure will in establishing its own commercial operations in US, leverage its knowledge and expertise in marketing and selling Hexvix in the Nordic markets. The market approval rights for Cysview were transferred from GE Healthcare 31 December 2011.

Photocure has in September 2011 entered into a strategic collaboration agreement with Ipsen Pharma SAS (Ipsen), a global specialty-driven biopharmaceutical company focused on four franchises, including uro-oncology. Ipsen will be responsible for marketing and selling Hexvix worldwide, excluding the US and Nordic region. Ipsen has a strong and well established uro-oncology franchise and will commercialise Hexvix through its dedicated urology sales force. Photocure will receive an upfront payment of EUR 6.5 million related to the successful completion of transition milestones, as well as double digit royalties on all sales and milestones on specific sales achievements. In addition, Photocure will manufacture the product for Ipsen.

In 2012 and 2013 Photocure will co-invest EUR 3.0 million with Ipsen in marketing and sales programs to drive momentum and accelerate the sales growth of Hexvix.

## 2 - SIGNING FEES AND MILESTONE REVENUES

Photocure received EUR 1.5 million on signature of the agreement with Ipsen and then EUR 2 million in transfer milestone for the first batch of Hexvix manufactured in 2011. Photocure has started the process to transfer the contract manufacturing of Hexvix to a new partner and this transfer process will trigger an additional EUR 3 million in transfer milestone payments when completed.

Photocure signed in 2010 a partnership agreement with Salix Pharmaceuticals, Inc. that involves carrying out and covering the costs for the development, registration and commercialisation of Lumacan for the diagnosis of colorectal cancer. Salix is a United States pharmaceutical company listed on NASDAQ and focused on gastrointestinal diseases (stomach and bowels). Photocure received USD 4.0 million on signature of the agreement and is entitled to up to USD 126.5 million in milestone payments from Salix, along with royalties on sales. These milestone payments are largely related to clinical development and regulatory events, but are also linked to sales. In addition, Photocure will receive a double digit royalty percentage as well as a percentage of all Salix's revenues from licensing outside the United States. The agreement is in line with Photocure's strategy of licensing cancer projects prior to phase III. Salix will carry out and cover the costs of the development, registration and commercialisation of Lumacan worldwide, while Photocure has retained the rights to market and sell Lumacan in the Nordic countries.

With effect from 30 September 2009, Photocure entered into an

agreement with Galderma S.A. concerning the sale of global rights, assets and liabilities associated with Metvix, as well as exclusive rights to develop new dermatological products based on Photocure's patented substance MAL. Photocure received EUR 44 million on signature, and will receive an additional EUR 7 million before December 2016 for the rights associated with new MAL-based dermatology products. The exact timing of the payment of the EUR 7 million will depend on future regulatory approvals in Europe and the United States. However, payment of EUR 3 million will be made before December 2012, and payment of the remaining EUR 4 million will be made before December 2016. The sum of EUR 7 million will be recognised as revenue over the period up to the time of the last payment. Other payments from Galderma are recognised as revenue as incurred.

## 3 - OPERATING SEGMENTS

The operating segments follow the business model for Photocure which consists of two segments: Cancer and Dermatology. The two segments are broken down into commercial products and R&D pipeline projects. Sales revenue from own sales in Cancer segment consists of Hexvix sales to pharmaceutical wholesalers in Nordic markets. Sales through partners comprise sales of Hexvix to GE Healthcare and Ipsen outside the Nordic region, and royalties from sales by partners to end users. Milestone revenue within Cancer include signing- and transfer payments from Ipsen and transfer payment from GE Healthcare for the market rights in US.

Sales revenue from Own sales in Dermatology segment consists of Allumera sales to dermatologists and clinics in the US. The sale of the active substance MAL and the deferred recognition of Metvix revenue from Galderma are included in R&D Dermatology.

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



# NOTES TO THE FINANCIAL STATEMENTS FOR 2011

## Segment information

1.1 - 31.12.2011 (Amounts in NOK 1 000)								
	Cancer				Dermatology			Total
	Own	Partner	R&D	Total	Own	R&D	Total	
Sales revenues	24 048	40 514	-	64 561	1 477	16 839	18 315	82 877
Milestone revenues	-	32 692	-	32 692	-	-	-	32 692
Cost of goods sold	-1 481	-6 830	-	-8 311	-132	-2 629	-2 761	-11 072
<b>Gross profit</b>	<b>22 567</b>	<b>66 375</b>	<b>0</b>	<b>88 942</b>	<b>1 344</b>	<b>14 210</b>	<b>15 554</b>	<b>104 496</b>
Gross profit of sales %	94 %	83 %		87 %	91 %		85 %	87 %
Operating expenses	-20 952	-22 367	-40 799	-84 117	-31 269	-46 482	-77 751	-161 868
<b>Operating profit/loss (-)</b>	<b>1 615</b>	<b>44 009</b>	<b>-40 799</b>	<b>4 825</b>	<b>-29 925</b>	<b>-32 272</b>	<b>-62 197</b>	<b>-57 372</b>
Net finance								9 910
<b>Profit/loss (-) before tax</b>								<b>-47 462</b>

1.1 - 31.12.2010 (Amounts in NOK 1 000)								
	Cancer				Dermatology			Total
	Own	Partner	R&D	Total	Own	R&D	Total	
Sales revenues	19 534	38 085	-	57 619	-	12 898	12 898	70 517
Milestone revenues	-	106 840	-	106 840	-	-	-	106 840
Cost of goods sold	-1 329	-7 795	-	-9 124	-	-	-	-9 124
<b>Gross profit</b>	<b>18 205</b>	<b>137 130</b>	<b>0</b>	<b>155 335</b>	<b>0</b>	<b>12 898</b>	<b>12 898</b>	<b>168 233</b>
Gross profit of sales %	93 %	80 %		84 %			100 %	87 %
Operating expenses	-18 272	-15 231	-65 470	-98 973	-3 955	-57 784	-61 739	-160 712
<b>Operating profit/loss (-)</b>	<b>-67</b>	<b>121 899</b>	<b>-65 470</b>	<b>56 362</b>	<b>-3 955</b>	<b>-44 886</b>	<b>-48 841</b>	<b>7 521</b>
Net finance								10 571
<b>Profit/loss (-) before tax</b>								<b>18 092</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR 2011

## 4 - OTHER INCOME

(Amounts in NOK 1 000)

	<b>2011</b>	<b>2010</b>
Grants from the Research Council of Norway for development projects	250	4 264
Norwegian R&D tax credit (Skattefunn)	2 200	2 200
Miscellaneous income	128	928
<b>Total</b>	<b>2 578</b>	<b>7 392</b>

Miscellaneous income includes settlement and final invoicing in the Metvix/Aktlite product area.

## 5 - COST OF GOODS SOLD

Total cost of goods sold in 2011 of NOK 11.1 million, includes royalties for inlicensing of technology and rights from other parties. Paid royalties for licensed technology related to the Hexvix product amounted to NOK 1.0 million in 2011 and NOK 0.9 million in 2010.

## 6 - INCOME STATEMENT CLASSIFIED BY NATURE

(Amounts in NOK 1 000)

	Note	Group		Parent	
		2011	2010	2011	2010
Sales revenues	2	82 877	70 517	89 906	70 517
Signing fees and milestone revenues	2	32 692	106 840	32 692	106 840
Cost of goods sold	5	-11 072	-9 124	-11 358	-9 124
<b>Gross profit</b>		<b>104 496</b>	<b>168 233</b>	<b>111 240</b>	<b>168 233</b>
Other income	4	2 578	7 392	2 578	7 392
Payroll expenses	8	-73 330	-59 447	-62 946	-58 038
R&D costs excluding payroll expenses/other operating expenses	7	-36 181	-62 201	-36 181	-62 201
Ordinary depreciation and amortisation	14	-1 134	-1 316	-1 088	-1 316
Other operating expenses		-53 801	-45 140	-39 323	-42 593
<b>Total operating revenue and operating expenses</b>		<b>-161 868</b>	<b>-160 712</b>	<b>-136 960</b>	<b>-156 756</b>
<b>Operating profit</b>		<b>-57 372</b>	<b>7 521</b>	<b>-25 720</b>	<b>11 477</b>
Net financial items	11	9 910	10 571	12 152	10 571
<b>Operating profit</b>		<b>-47 462</b>	<b>18 093</b>	<b>-13 567</b>	<b>22 049</b>

### Specification of other operating expenses:

	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Marketing expenses	12 251	9 404	5 537	6 922
Travel expenses	7 297	4 830	5 776	4 830
Patent costs, legal and other fees	16 010	18 595	12 488	18 595
Other expenses	18 243	12 311	15 522	12 246
<b>Total other operating expenses</b>	<b>53 801</b>	<b>45 140</b>	<b>39 323</b>	<b>42 593</b>

## 7 - R&D OBLIGATION FOR LUMACAN

As mentioned in note 2, Photocure has entered into an agreement with Salix Pharmaceuticals, Inc. concerning the licensing of Lumacan. The agreement grants Salix all rights to patented and own development involving the use of the active substance hexylamino-levulinate (HAL) for the diagnosis of colorectal cancer. Photocure has committed to refund Salix up to USD 3 million for its development work associated with formulation. Photocure has no rights to this development of Lumacan, and it generates no direct revenues for the company. USD 3 million was thus booked as R&D costs on the signing of the license agreement with Salix in 2010.

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

## 8 - PERSONNEL EXPENSES

(Amounts in NOK 1 000)

	Note	Group		Parent	
		2011	2010	2011	2010
Salaries		52 942	41 424	45 284	40 507
Employer's social security contributions on salaries, etc.		7 310	6 670	6 860	6 670
Option costs		6 915	5 489	6 034	5 028
Employer's social security contributions on options		-985	951	-985	951
Pension costs	9	3 648	2 989	3 499	2 989
Other benefits		3 501	1 924	2 255	1 893
<b>Total payroll expenses</b>		<b>73 330</b>	<b>59 447</b>	<b>62 946</b>	<b>58 038</b>
No. of full-time equivalent positions		59.8	47.3	43.8	45.3

### Share-based remuneration

As part of the company's incentive policy, employees are offered subscription rights to the company's shares (the term 'options' is also used). Allocated subscription rights are vested over three years, one third each year. The rights are no longer valid after five years or immediately on resignation of the employee. No subscription rights are allocated to members of the Board of directors. For 2011, NOK 6.9 million of share-based payments has been expensed, of which NOK 0.9 million applies to Photocure Inc. The corresponding figure for Photocure in 2010 was NOK 5.5 million of which NOK 0.5 million applied to Photocure Inc.

At 31 December 2011, employees in Photocure had the following share option schemes:

Year of allocation	2011	2011	2010	2010	2009
Option programme	2011	2010-I	2010-II	2009	2008
Number	87 500	397 565	50 000	221 441	218 588
Exercise price (NOK)	50.75	44.00	38.00	20.30	32.00
Date of expiry (31 December)	2016	2015	2015	2014	2013

In addition, a conditional allocation of 528 000 options was made at price NOK 50.75. This allocation is dependent on the achievement of both personal and company goals. Allocation of these options will take place in February/March 2012 after an evaluation of the goals achieved for 2011.

# NOTES TO THE FINANCIAL STATEMENTS FOR 2011

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

	2011		2010	
	Number	Average exercise price (NOK)	Number	Average exercise price (NOK)
Outstanding at start of year	710 365	27.49	629 223	37.51
Allocated during the year	500 490	45.18	499 689	23.26
Become invalid during the year	70 900	36.47	-	-
Exercised during the year	164 861	25.66	179 322	25.50
Expired during the year	-	-	239 225	46.50
Outstanding at end of year	975 094	36.23	710 365	27.49
Exercisable options as per 31 December	589 217	30.47	187 792	29.39

The average weighted life of outstanding share options was 3.4 years at 31 December 2011 and 3.6 years at 31 December 2010. The average weighted market value of options issued in 2011 was NOK 13.95, and in 2010 it was NOK 11.07 per option. The market prices for the Photocure share on the exercising of the options in March and November 2011 were NOK 48.70 and NOK 35.50 per share, respectively.

The exercise prices and the average life of outstanding share options as per 31 December 2011 were as follows:

Average remaining life	No. of options	Exercise price (NOK)
2 year	218 588	32.00
3 year	221 441	20.30
3 year	50 000	38.00
4 year	397 565	44.00
5 year	87 500	50.75
<b>Total</b>	<b>975 094</b>	

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

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

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

## 9 - PENSION COSTS

The Company has a contribution-based pension scheme. This pension scheme complies with the requirements in regard to compulsory occupational pensions in Norway. As of 31 December 2011 and 31 December 2010, the Company had immaterial deposits on the premium/contribution fund. The Company has entered into pension agreements with employees in the form of contribution-based pensions for salaries exceeding coverage by insurance. This contribution-based pension liability is interest-bearing in the amount of 4.5% per annum.

### The pension cost for the year is calculated as follows:

(Amounts in NOK 1 000)

	Group		Parent	
	2011	2010	2011	2010
Total pension costs, contribution scheme in life assurance	3 080	2 639	2 931	2 639
Total pension costs, company contribution scheme	568	350	568	350
<b>Total</b>	<b>3 648</b>	<b>2 989</b>	<b>3 499</b>	<b>2 989</b>

## 10 - AUDITING FEES

(Amounts in NOK 1 000 ex. VAT)

	Group and parent	
	2011	2010
Statutory auditing	224	220
Other attestation services	23	19
Other services excluding auditing	0	0
Tax advice	260	71
<b>Total</b>	<b>507</b>	<b>310</b>

## 11 - FINANCIAL INCOME AND EXPENSE

(Amounts in NOK 1 000)

	Group		Parent	
	2011	2010	2011	2010
Interest income	10 669	10 142	10 669	10 142
Foreign exchange gains	1 605	4 737	3 847	4 737
Other financial income	0	270	0	270
<b>Total financial income</b>	<b>12 274</b>	<b>15 149</b>	<b>14 516</b>	<b>15 149</b>
Interest expense	6	15	6	15
Foreign exchange losses	2 212	4 401	2 212	4 401
Other financial expense	146	162	146	162
<b>Total financial expense</b>	<b>2 364</b>	<b>4 578</b>	<b>2 364</b>	<b>4 578</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR 2011

## 12 - TAX

(Amounts in NOK 1 000)

	Group		Parent	
	2011	2010	2011	2010
<b>Reconciliation of tax against expected nominal rate of tax:</b>				
Profit before tax	-47 462	18 092	-13 568	22 048
Expected nominal rate of tax (28%)	-13 289	5 066	-3 799	6 173
Effect of different tax rate in US	-2 663	0	0	0
<b>Total expected tax</b>	<b>-15 952</b>	<b>5 066</b>	<b>-3 799</b>	<b>6 173</b>
Change in temporary differences	12 228	21 906	12 384	21 715
Change in non-incorporated temporary differences	2 531	-44	0	0
Permanent differences	1 317	1 510	920	1 390
Not recognised deferred tax benefit of tax loss in subsidiary	9 382	866	0	0
Utilisation of tax loss carried forward, not previously incorporated	-9 505	-29 304	-9 505	-29 278
<b>Total tax cost for the year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Recognised previous years deferred tax benefit of tax loss carried forward	39 950	0	39 950	0
<b>Total tax cost</b>	<b>39 950</b>	<b>0</b>	<b>39 950</b>	<b>0</b>
<b>Specification of basis for deferred tax / tax advantage</b>				
<b>Tax effect of temporary differences:</b>				
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Gain discontinued operations	52 508	65 635	52 508	65 635
Fixed assets	-380	-556	-380	-556
Inventories	538	538	538	538
Receivables/liabilities	-4 595	-5 451	-4 595	-5 451
Net pension obligation	-335	-193	-335	-193
<b>Total net deferred tax liability/(asset)</b>	<b>47 736</b>	<b>59 973</b>	<b>47 736</b>	<b>59 973</b>
Loss to be carried forward	-98 128	-98 028	-87 806	-98 028
<b>Net deferred tax asset</b>	<b>-50 392</b>	<b>-38 055</b>	<b>-40 070</b>	<b>-38 055</b>
Write down of deferred tax asset	10 442	38 055	120	38 055
<b>Deferred tax benefit recognised in balance sheet</b>	<b>-39 950</b>	<b>0</b>	<b>-39 950</b>	<b>0</b>

The Company has decided to recognise a deferred tax asset regarding net temporary differences in Norway as of 31 December 2011 by NOK 39.95 million. The Company has in previous years chosen to assess the deferred tax asset at zero. The basis for the recognition this year is the assessment that it is more-likely-than-not that the deferred tax benefit will be utilised. There is no time limit on losses to be carried forward in Norway while the time limit in US is 20 years.

## 13 - EARNINGS PER SHARE

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

	<b>2011</b>	<b>2010</b>
<b>No. of shares</b>		
Ordinary shares 1 January	22 093 301	22 093 301
Write down of treasury shares	-700 000	0
Effect of treasury shares	-46 299	-508 287
Effect of share options exercised	0	0
<b>Weighted average number of shares, 31 December</b>	<b>21 347 002</b>	<b>21 585 014</b>
Effect of outstanding share options	197 164	276 718
<b>Weighted average number of diluted shares, 31 December</b>	<b>21 544 166</b>	<b>21 861 732</b>

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
<b>Earnings per share</b>		
Weighted average number of shares	21 347 002	21 585 014
Dilution effect	197 164	276 718
<b>Weighted average number of shares diluted</b>	<b>21 544 166</b>	<b>21 861 732</b>
Annual earnings per share in NOK	-0.35	0.84
Annual earnings per share in NOK diluted	-0.35	0.83

# NOTES TO THE FINANCIAL STATEMENTS FOR 2011

## 14 - MACHINERY AND EQUIPMENT

(Amounts in NOK 1 000)

	Group			Total	
	Software	Plant equipment and furniture Production Equipment	Furniture & Equipment		
Accumulated cost at 1 January 2010	1 072	1 029	2 840	4 941	
Additions	347	323	523	1 193	
Other disposals and scrapping	0	-25	-645	-670	
Accumulated cost at 31 December 2010	<b>1 419</b>	<b>1 327</b>	<b>2 718</b>	<b>5 464</b>	
Additions	23	1 022	2 196	3 241	
Disposals and scrapping	0	0	-1 221	-1 221	
<b>Accumulated cost at 31 December 2011</b>	<b>1 442</b>	<b>2 349</b>	<b>3 693</b>	<b>7 484</b>	
Accumulated depreciation at 1 January 2010	707	419	1 681	2 807	
Ordinary depreciation	246	248	604	1 098	
Write-downs	0	0	218	218	
Other disposals and scrapping	0	-25	-562	-587	
Accumulated depreciation at 31 December 2010	<b>953</b>	<b>642</b>	<b>1 941</b>	<b>3 536</b>	
Ordinary depreciation	183	277	674	1 134	
Disposals and scrapping	0	0	-1 599	-1 599	
<b>Accumulated depreciation at 31 December 2011</b>	<b>1 136</b>	<b>919</b>	<b>1 015</b>	<b>3 071</b>	
<b>Book value at 31 December 2011</b>	<b>306</b>	<b>1 430</b>	<b>2 678</b>	<b>4 414</b>	
<b>Book value at 31 December 2010</b>	<b>466</b>	<b>685</b>	<b>777</b>	<b>1 929</b>	
		Group		Parent	
<b>Rental costs</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	
Rental of office premises	3 929	2 470	3 430	2 470	
Rental of equipment	463	458	369	458	
<b>Total rental costs</b>	<b>4 392</b>	<b>2 928</b>	<b>3 799</b>	<b>2 928</b>	

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The Company has entered into a new rent agreement for premises at Hoffsvæien 4 in Oslo. The agreement is running from 1 March 2011 through 30 August 2016, without any right to terminate. Photocure has an option to extend the agreement for an additional period of 5 years. Rent including shared expenses amounts to NOK 3.7 million for the period 1 January 2012 through 31 December 2012. The rent for the remaining period until the expiry of the agreement on 30 August 2016 amounts to NOK 13.2 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 April 2011.

Leasing of equipment comprises medical treatment equipment located at hospitals and office equipment. All leasing agreements for equipment are short-term, and leasing costs for 2012 are estimated to total NOK 0.3 million.



## 15 - OTHER INVESTMENTS

(Amounts in NOK 1 000)

Shares	Location	Year of incorporation	Share capital of company	Share-holding and share of voting rights	Book value	Equity at 31 December 2011	Profit/loss at 31 December 2011
Photocure Inc	Princeton, NJ, USA	2010	1	100.00 %	1 339	-28 567	-24 247
PCI Biotech Holding ASA	Oslo, Norway	2007	16 249	19.35 %	57 554	92 533	-13 749

Shares in PCI Biotech Holding ASA are valued at market price on Oslo Axess at 31 December 2011 at NOK 38.80 per share.

Other non-current financial assets	Group and parent	
	12.31.2011	12.31.2010
Booked part of final settlement (EUR 7 million) from sale of Metvix/Aktlite, cf. description in note 2	25 783	14 398

## 16 - INVENTORIES

(Amounts in NOK 1 000)

	Group		Parent	
	12.31.2011	12.31.2010	12.31.2011	12.31.2010
Raw materials	2 386	4 283	2 386	4 283
Components	1 372	1 382	1 372	1 382
Semi-finished and finished goods	8 032	12 526	7 683	12 526
<b>Total inventories</b>	<b>11 790</b>	<b>18 191</b>	<b>11 441</b>	<b>18 191</b>

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

## 17 - FINANCIAL RISK

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

### (I) Organisation of financial risk management

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

Responsibility for managing financial risk is placed with the management of the Company. The risk associated with centralised activities such as financing, interest rate and currency management is managed from here. In addition, the Company manages the 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' audit committee.

# NOTES TO THE FINANCIAL STATEMENTS FOR 2011

## Centralised risk management

Photocure has a centralised finance department. The most important tasks of this department are to ensure the company's financial freedom to act in both long and short terms, 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 any necessary hedging transactions regarding interests and currency. Any required authorisations for taking out loans and entering into derivative framework agreements are granted on an annual basis by the board of directors. A hedging-oriented view forms the basis for management of the finance department's positions, such that transactions involving financial instruments have a counter item in an underlying commercial hedging requirement.

## Financial risk within the company

This section describes the risk factors within each business area, and the management of same. In this context, "financial risk" is taken to mean risk associated with financial instruments. These may either be hedging instruments for underlying risk, or considered themselves as a source of risk. Financial instruments are not used to hedge market risk.

## Commercial operations – production, sales and marketing

Photocure produces, markets and sells the company's products via two different business models. One of these models involves marketing and sale through the company's own organisation in the Nordic region. The other involves marketing and sale through licence partners. Revenues from licence partners are divided into three streams: sales of products to licence partners, royalties from licence partners' sales to end users, and milestones. Photocure produces the Company's products by means of contract production at recognised manufacturers in the United States, Spain, Sweden and Norway. Price risk with regard to raw materials is a risk factor. Currency risk is primarily associated with royalties, where Photocure's revenues vary on the basis of exchange rates – principally the EUR exchange rate. This currency risk is reduced by purchasing input factors in the same currency.

## 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 limited to the purchase of services, principally the conducting of clinical studies, in Europe and the United States. There is currency risk associated with the purchase of goods and services, primarily in the currencies EUR, USD and GBP. Currency exposure associated with research and development is not normally 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 principally 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

One of the most important objectives of Photocure's financial policy is to ensure that the Company has the financial freedom to act in both short and long terms to attain 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 new issue market is used as a source of liquidity when such is appropriate, and when the conditions in these markets are competitive. Cash flow from operational activities is increasing and is essentially stable in the commercial section of Photocure. Cash flow in research and development depends to a great extent on the level of the clinical programmes. The finance department monitors the cash flows from both long and short-term perspectives through reporting. Photocure's most important sources of finance are ongoing sales revenues and milestones associated with license agreements. In addition, the Company constantly assesses other sources of finance. Photocure does not have any loan agreements that involve requirements regarding financial key figures.

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

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

(Amounts in NOK 1 000)	Remaining period				Total
	Less than 1 month	1–3 months	3–12 months	1–5 years	
<b>12.31.2011</b>					
Accounts payable	10 821	1 000	0	0	<b>11 821</b>
Other current liabilities	4 000	25 023	20 000	6 000	<b>55 023</b>
<b>12.31.2010</b>					
Accounts payable	8 066	1 000	0	0	<b>9 066</b>
Other current liabilities	1 500	15 937	16 275	8 775	<b>42 487</b>

### 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 and to major pharmaceutical wholesalers in the Nordic region. The concentration of the credit risk is limited because the counterparties are large, sound companies that are not related to each other. Our license partners have a high credit rating. Photocure's credit risk is considered moderate, so Photocure 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 expenses and revenues are accrued in different currencies, primarily EUR, USD, GBP, SEK and DKK. Photocure is therefore exposed to exchange rate fluctuations. The Company assesses whether efforts shall be implemented to reduce the foreign exchange risk for significant transactions associated with license agreements. This is done by incorporating mechanisms into the licensing agreements – through the sale of products in NOK, for example. In addition, bank accounts in other currencies are used actively to reduce exposure to all the main currencies. Photocure does not have any outstanding hedges of future transactions at 31 December 2011.

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

(Amounts in NOK 1 000)	Change in the NOK exchange rate	Effect on operating profit/loss
<b>2011</b>	+ 10%	-830
<b>2011</b>	- 10%	830
<b>2010</b>	+ 10%	6 274
<b>2010</b>	- 10%	-6 274

## 18 - FAIR VALUE

The table below analyses financial assets recognised in the balance sheet at fair value according to the valuation method. The different levels have been defined as follows:

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

(Amounts in NOK 1 000)

Market value hierarchy	Level 1	Level 2	Level 3	Total
Financial assets available for sale:				
- Shares in PCI Biotech Holding ASA	57 554	0	0	<b>57 554</b>
- Money market funds	317 479	0	0	<b>317 479</b>
<b>Total</b>	<b>375 033</b>	<b>0</b>	<b>0</b>	<b>375 033</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR 2011

## 19 - RECEIVABLES

### Maximum credit risk

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

<i>(Amounts in NOK 1 000)</i>	<b>Group</b>		<b>Parent</b>	
	<b>12.31.2011</b>	<b>12.31.2010</b>	<b>12.31.2011</b>	<b>12.31.2010</b>
Accounts receivable	5 642	5 214	5 208	5 214
Accounts receivable intercompany	0	0	234	0
<b>Total</b>	<b>5 642</b>	<b>5 214</b>	<b>5 442</b>	<b>5 214</b>
Royalty	5 309	7 717	5 309	7 717
Other receivables	3 567	7 287	3 488	7 009
<b>Total other receivables</b>	<b>8 876</b>	<b>15 004</b>	<b>8 797</b>	<b>14 726</b>

Loan to the subsidiary is disclosed in note 25.

<b>Age breakdown of group accounts receivable</b>	<b>Not yet due</b>	<b>0–30 days</b>	<b>30–60 days</b>	<b>60–90 days</b>	<b>Over 90 days</b>	<b>Total</b>
31 December 2011	4 883	759	0	0	0	5 642
31 December 2010	5 058	32	54	70	0	5 214

There are insignificant bad debts, and no provisions for bad debts have been made, neither at 31 December 2011 nor at 31 December 2010. Credit risk and foreign exchange risk in regard to trade accounts receivable are dealt with in more detail in Note 17.

## 20 - CASH AND SHORT TERM DEPOSITS

*(Amounts in NOK 1 000)*

	<b>Group</b>		<b>Parent</b>	
	<b>12.31.2011</b>	<b>12.31.2010</b>	<b>12.31.2011</b>	<b>12.31.2010</b>
Cash and cash equivalents, restricted (1)	4 094	3 129	4 094	3 129
Cash and cash equivalents, non-restricted	33 602	45 003	33 519	39 305
Money market funds, non-restricted	317 479	341 109	317 479	341 109
<b>Total</b>	<b>355 175</b>	<b>389 241</b>	<b>355 092</b>	<b>383 543</b>

(1) Restricted cash and cash equivalents at 31 December 2011 include security for employees' withholding tax in the amount of NOK 1.8 million, while the remaining amount refers to deposit for rent of office.

## 21 - SHARE CAPITAL

Registered share capital in Photocure ASA amounted to:

	No. of shares	Nominal value per share (NOK)	Share capi- tal in NOK
<b>Share capital at 31 December 2010</b>	<b>22 093 301</b>	<b>0.50</b>	<b>11 046 651</b>
<b>Share capital at 31 December 2011</b>	<b>21 393 301</b>	<b>0.50</b>	<b>10 696 651</b>
Treasury shares:			
<b>Holdings of treasury shares at 31 December 2009</b>	<b>301 558</b>		<b>150 779</b>
Buy-back of treasury shares	573 416	0.50	286 708
Sale of treasury shares	-179 322	0.50	-89 661
<b>Holdings of treasury shares at 31 December 2010</b>	<b>695 652</b>		<b>347 826</b>
Write down of shares	-700 000	0.50	-350 000
Buy-back of treasury shares	221 523	0.50	110 762
Sale of treasury shares	-164 861	0.50	-82 431
<b>Holdings of treasury shares at 31 December 2011</b>	<b>52 314</b>		<b>26 157</b>

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

The General Meeting held on 27 April 2011 approved a reduction of the share capital by NOK 350 000 to NOK 10 696 650.50 by amortization of 700 000 of the treasury shares. At the General Meeting the Board of Directors of Photocure ASA was granted authorisation to issue up to 2.0 million shares. Of this authorisation, (a) 1.6 million shares are linked to financing of the Company's development, while (b) 0.4 million shares are associated with the issue of shares to the Company's employees and selected partners. 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 2012. Previously issued authorisations have expired.

The table below indicates the status of authorisations at 31 December 2011:

	Purchase, treasury shares	Ordinary share issue	Employee share issues
(Figures indicate the number of shares)			
Authorisation issued at the General Meeting on 27 April 2011	2 209 330	1 600 000	400 000
Share issues after the General Meeting on 27 April 2011	0	0	0
Purchase of treasury shares	-221 523		
<b>Remaining under authorisations at 31 December 2011</b>	<b>1 987 807</b>	<b>1 600 000</b>	<b>400 000</b>

At 31 December 2011, 975 094 subscription rights have been allocated to employees (see note 8).

# NOTES TO THE FINANCIAL STATEMENTS FOR 2011

## Ownership structure

The major shareholders in Photocure as of 31 December 2011 were:

	Shares	Shareholding
The Norwegian Radium Hospital Research Foundation	3 129 000	14.6 %
JP Morgan Chase Bank	1 955 829	9.1 %
Odin Norge	1 688 931	7.9 %
Gezina AS	1 326 306	6.2 %
Skagen vekst	1 114 401	5.2 %
Kommunal Landspensjonskasse	885 977	4.1 %
KLP Aksje Norge VPF	880 409	4.1 %
Fondsfinans Spar	800 000	3.7 %
Holberg Norge	539 298	2.5 %
MP Pensjon PK	500 000	2.3 %
Danske Invest Norske Aksjer	422 223	2.0 %
Bergen Kommunale Pensjonskasse	400 000	1.9 %
Danske Invest Norske Instit. II.	349 307	1.6 %
Vicama AS	345 384	1.6 %
<b>Total of shareholders with a shareholding of more than 1%</b>	<b>14 337 065</b>	<b>67.0 %</b>
Treasury shares	52 314	0.2 %
Total other shareholders	7 003 922	32.7 %
<b>Total number of shares</b>	<b>21 393 301</b>	<b>100.0 %</b>

Shares owned, directly or indirectly, by members of the Board, the President and CEO and senior management and their closely related associates as of 31 December 2011:

Name	Position	No. of shares	No. of subscription rights*
Åse Aulie Michelet	Chairman	-	
Jon Hindar	Board member	8 000	
Ingrid Wiik	Board member	1 500	
Xavier Yon	Board member	-	
Mats Pettersson	Board member	-	
Eva Steiness	Board member	-	
			<b>No. of subscription rights*</b>
Kjetil Hestdal	President and CEO	62 873	109 000
Kathleen Deardorff from 1 May 2011	Chief Operating Officer	-	75 000
Christian Fekete to 30 November 2011	Chief Financial Officer	-	76 500
Grete Hogstad	Vice President Marketing and Sales	8 000	59 000
Inger Ferner Heglund	Vice President Research and Development	8 200	65 300
Gry Stensrud	Vice President Technical Development and Operations	6	38 696

\* See note 8 for additional information about the subscription rights.

For 2011, the Board of Directors of Photocure has continued an incentive programme for the Company's employees, including the Company management. A total of 615 500 conditional share options / subscription rights have been awarded for 2011, with each share option entitling the holder to subscribe for one new share in the Company at a price of NOK 50.75. These share options will only be earned if significant goals in the work programme and the budget for 2011 are achieved. The conditional share options for the Company management are specified in note 24.

## 22 - CAPITAL STRUCTURE

The Group is financed by equity and had no interest-bearing debt at 31 December 2011 and 31 December 2010.

## 23 - ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

(Amounts in NOK 1 000)

	Group		Parent	
	12.31.2011	12.31.2010	12.31.2011	12.31.2010
Accounts payable	11 821	9 066	11 356	8 174
Accounts payable, intercompany	0	0	617	0
<b>Total</b>	<b>11 821</b>	<b>9 066</b>	<b>11 973</b>	<b>8 174</b>
Provision for accrued external R&D costs	9 956	8 926	9 956	8 926
Provision for obligation under Lumacan license agreement	15 878	17 550	15 878	17 550
Prepayment from customer	11 621	0	11 621	0
Accrued bonus, holiday pay, salaries	12 445	9 742	11 168	9 742
Accrued royalty liability	1 079	3 176	1 079	3 176
Miscellaneous other accrued costs	4 044	3 093	3 405	2 193
<b>Total other current liabilities</b>	<b>55 023</b>	<b>42 487</b>	<b>53 107</b>	<b>41 587</b>

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

## 24 - TRANSACTIONS WITH RELATED PARTIES - MANAGEMENT AND BOARD OF DIRECTORS

(Amounts in NOK 1 000)

	Directors' fees paid	Salaries paid	Bonuses paid	Benefits in kind	Pension cost	Total
<b>Senior management 2011</b>						
President and CEO		2 115	769	117	274	<b>3 274</b>
Chief Operating Officer, from 1 May 2011		1 195	0	0	97	<b>1 292</b>
VP Research and Development		1 143	165	93	115	<b>1 516</b>
Chief Financial Officer, to 30 November 2011		1 199	197	60	119	<b>1 575</b>
VP Marketing and Sales		1 253	187	98	136	<b>1 673</b>
VP Technical Development and Operations		1 032	129	16	102	<b>1 279</b>
<b>Total senior management</b>		<b>7 936</b>	<b>1 446</b>	<b>383</b>	<b>844</b>	<b>10 608</b>
<b>Board of Directors 2011</b>						
Chairman of the Board	420					<b>420</b>
Members of the Board	1 080					<b>1 080</b>
<b>Total remuneration</b>	<b>1 500</b>	<b>7 936</b>	<b>1 446</b>	<b>383</b>	<b>844</b>	<b>12 108</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR 2011

	Directors' fees paid	Salaries paid	Bonuses paid	Benefits in kind	Pension cost	Total
<b>Senior management 2010</b>						
President and CEO		1 957	744	132	239	<b>3 072</b>
VP Research and Development		1 085	257	94	106	<b>1 542</b>
Chief Financial Officer		1 153	266	62	108	<b>1 589</b>
VP Marketing and Sales		1 201	184	107	124	<b>1 616</b>
VP Technical Development and Operations, 4 October 2010		948	169	16	79	<b>1 212</b>
<b>Total senior management</b>		<b>6 344</b>	<b>1 620</b>	<b>411</b>	<b>656</b>	<b>9 031</b>
<b>Board of Directors 2010</b>						
Chairman of the Board	405					<b>405</b>
Members of the Board	852					<b>852</b>
<b>Total remuneration</b>	<b>1 257</b>	<b>6 344</b>	<b>1 620</b>	<b>411</b>	<b>656</b>	<b>10 288</b>

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

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

- Salaries are reviewed annually.
- Bonuses are calculated on the basis of goals for the Company laid down by the Board of Directors and achievement of personal goals. The Chief Executive Officer (CEO) of the company has a bonus agreement of up to 40% of ordinary salary, while other members of the senior management have bonus agreements of up to 35% of their ordinary salary.
- Senior managers participate in the Company's incentive programme with allocation of subscription rights for the Company's shares.

In 2011, the CEO was entitled to a bonus dependent on the fulfilment of certain conditions. Bonuses for members of the senior management are calculated on the basis of the Company's financial results, the Company's development work, and achievement of own goals.

Senior managers participate in the Company's pension scheme, which is a contribution scheme that involves payment of between 5% and 8% of the employee's salary, up to a maximum of 12 times the basic amount (G) of the Norwegian National Social Security Scheme (Folkestrygden). Photocure has established pension coverage for employees with salaries higher than 12 G. The scheme is a contribution-based operating pension with provisions corresponding to 16% of salary above 12 G. In the event of resignation, full pension rights are conditional upon at least five years' employment, while less than 3-years' employment carries no rights. Contributions paid generated interest at 4.5% p.a. in 2011. The pension schemes also cover in the event of disability.

In accordance with detailed regulations, the current CEO is entitled to continue to receive his salary for up to 24 months after the end of his period of notice. Should the CEO receive other income from employment in this period, any such income will be offset in full against his continued salary during the last 12 months of the period in which he continues to receive salary. The Vice President Sales and Marketing has an agreement for a 12-month period of notice. There are no agreements for other senior managers over and above the statutory requirements.

No senior managers have received any remuneration or financial benefits from other companies in the same group, other than what is shown above. No additional remuneration has been paid for special services outside the normal functions of a member of management.

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



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

Subscription rights for senior management 2011	Subscription rights awarded*	Expired subscription rights	Subscription rights exercised	Holding of subscription rights at 31 December 2011	Average exercise price	Conditionally awarded subscription rights
President and CEO	50 000	-	-	109 000	33.48	50 000
Chief Financial Officer, to 30 November 2011	25 650	-	-	76 500	32.01	30 000
Chief Operating Officer, from 1 May 2011 **	75 000	-	-	75 000	50.75	-
VP Marketing and Sales	23 400	-	-	59 000	33.29	30 000
VP Research and Development	22 650	-	-	65 300	31.46	30 000
VP Technical Development and Operations	19 050	-	-	38 696	34.13	30 000
<b>Total</b>	<b>215 750</b>	<b>-</b>	<b>-</b>	<b>423 496</b>		<b>170 000</b>

\* Exercise price NOK 44.00, expiry date 31 December 2015.

\*\* Assigned 75 000 unconditional subscription rights with exercise price NOK 50.75 at appointment in 2011.

Subscription rights for senior management 2010	Subscription rights awarded*	Expired subscription rights	Subscription rights exercised	Holding of subscription rights at 31 December 2010	Average exercise price	Conditionally awarded subscription rights
President and CEO	37 500	14 000	-	59 000	24.56	50 000
Chief Financial Officer	26 250	15 000	-	50 850	25.96	30 000
VP Marketing and Sales	26 250	15 000	8 750	35 600	26.25	30 000
VP Research and Development	26 250	14 375	-	42 650	24.80	30 000
VP Technical Development and Operations, 4 October 2010	18 750	10 500	13 396	19 646	24.56	20 000
<b>Total</b>	<b>135 000</b>	<b>68 875</b>	<b>22 146</b>	<b>207 746</b>		<b>160 000</b>

\* Exercise price NOK 20.30, expiry date 31 December 2014.

## 25 - 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 cosmetic skin product Allumera from 2011. 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 Allumera product. Photocure Inc purchases the completed product from the parent company and distributes according to the sales that they achieve in the United States . Photocure Inc has established its own marketing organization that is fully funded by its parent company. The transactions between Photocure and Photocure Inc are on terms at arm's length except for the funding that is interest free until further notice.

With effect from 1 January 2012 Photocure Inc takes over the marketing and sales rights in the United States for the pharmaceutical product Cysview, see details in note 1.

# NOTES TO THE FINANCIAL STATEMENTS FOR 2011

## Transactions and intercompany balances Photocure Inc:

(Amounts in NOK 1 000)

	<b>2011</b>
Sales of products	8 507
Sales of services	887
<b>Total subsidiary</b>	<b>9 394</b>

**12.31.2011**

Accounts receivables	234
Long term loan given	35 749
Accounts payables	-617
<b>Total subsidiary</b>	<b>35 366</b>

## The Norwegian Radium Hospital Research Foundation

The Norwegian Radium Hospital Research Foundation (RF) is the largest single shareholder in Photocure ASA with 14.6% of the shares at 31 December 2011. RF originally founded Photocure ASA on the basis of photodynamic therapy developed at the Norwegian Radium Hospital HF (DNR). In 2010 Photocure ASA renewed its agreement with RF, which provides the company with access to new technology in the field of photodynamic therapy, as well as an option to acquire new technology in the field of photodynamic therapy developed by DNR. Photocure pays for these research and development services rendered by RF. The agreement has been extended for three years and now runs until 31 December 2013.

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

## Transactions and balances Radium Hospital Research Foundation:

(Amounts in NOK 1 000)

	<b>2011</b>	<b>2010</b>
Photodynamic research and development services	500	500
	<b>12.31.2011</b>	<b>12.31.2010</b>
Accounts receivables	0	0
Accounts payables	0	0



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To the Annual Shareholders' Meeting of Photocure ASA

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Photocure ASA, which comprise the financial statements of the parent company Photocure ASA and the consolidated financial statements of Photocure ASA and its subsidiaries. The parent company's and the consolidated financial statements comprise the balance sheet as at 31 December, 2011, and the income statement and the statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

#### *Auditor's Responsibility*

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

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

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

#### Offices in:

Oslo	Hamar	Sandefjord
Alta	Haugesund	Sandnessjøen
Arendal	Kristiansand	Stavanger
Bergen	Larvik	Stord
Bodo	Molde	Tromsø
Elverum	Molde	Trondheim
Finnsnes	Narvik	Tønsberg
Grimstad	Roros	Ålesund

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Statsautoriserte revisorer - medlemmer av Den norske Revisorforening

*Opinion*

In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Photocure ASA and of Photocure ASA and its subsidiaries as at 31 December, 2011, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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

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

*Opinion on Accounting Registration and Documentation*

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

Oslo, 16 February 2012  
KPMG AS

Lars Inge Pettersen  
*State Authorised Public Accountant*

[Translation has been made for information purposes only]



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