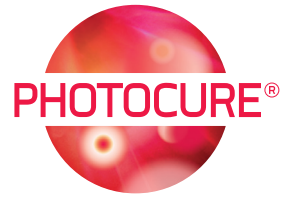


Q4

FOURTH QUARTER
REPORT 2017
PHOTOCURE GROUP



2017



Highlights for fourth quarter and full year 2017

(Numbers in brackets and comparisons are for the corresponding period in 2016.)

- Hexvix/Cysview sales revenue increased 25% to NOK 39.4 million in the fourth quarter. Year to date revenue growth was 14%
- Investments in U.S. commercial organization driving continued strong Cysview sales revenue growth, up 27% in the fourth quarter and 39% for the full year
- Fourth quarter in market unit sales growth was 21% in the U.S. and 14% in Nordic, while partner unit sales declined 9% driving a total Company in-market unit sales decline of 3%
- Following the investments in U.S., commercial segment EBITDA was NOK 0.9 million (NOK 10.7 million) for the fourth quarter and NOK 10.4 million (NOK 30.0 million) for the full year
- In November, CMS (United States Centers for Medicare & Medicaid Services) issued the Final Rule stating that it will reimburse hospital outpatient departments for certain Blue Light Cystoscopy (BLC) with Cysview procedures beginning January 1, 2018
- In February 2018, the U.S. Food and Drug Administration (FDA) approved an extension of the indication for BLC with Cysview to include flexible cystoscopies used for on-going surveillance of patients with non-muscle invasive bladder cancer.

Key figures:

Figures in NOK million	Q4 2017	Q4 2016	Change	FY 2017	FY 2016	Change
Hexvix/Cysview revenues	39.4	31.6	25 %	149.0	131.0	14 %
Other sales & milestone revenues	0.0	6.5		1.9	12.7	
Total revenues	39.4	38.1	3 %	150.9	143.6	5 %
Operating expenses	46.8	35.7	31 %	168.0	142.3	18 %
EBITDA recurring	-10.8	-0.3		-29.1	-8.0	
EBITDA commercial franchise	0.9	10.7		10.4	30.0	
EBITDA development portfolio	-11.8	-11.1		-39.5	-38.1	
EBIT (Operating result)	-14.1	-3.4		-45.2	-15.9	
Profit/loss (-) before tax	-13.2	24.0		-41.6	12.8	
Net Profit/loss (-)	-13.0	17.9		-34.7	35.3	
Earnings per share, diluted (NOK)	-0.60	0.83		-1.61	1.64	
Cash & cash equivalents				129.4	169.2	

President & CEO Kjetil Hestdal, M.D. Ph.D. comments:

“In line with previous quarters in 2017, fourth quarter also demonstrates continued significant progress in our U.S. business. With the two recent major achievements, new reimbursement of Blue Light Cystoscopy with Cysview for Medicare patients and FDA approval of label expansion for Cysview, we have significantly strengthened our ability to provide many more bladder cancer patients with improved management.”



Operational review

Photocure (the Company) delivers transformative solutions to improve the lives of bladder cancer patients.

Photocure is leveraging on the opportunities from its flagship brand Hexvix/Cysview for improved detection of bladder cancer, reduced disease recurrence and progression rates to improve health outcomes in a cost-efficient manner for bladder cancer patients.

With its specialist commercial and medical team established in the U.S. and the Nordic region Photocure has a solid foundation for future growth of our breakthrough bladder cancer product as well as exploring expansion of the product portfolio.

Update commercial segment

The commercial segment delivered strong revenues in all regions in the fourth quarter. Lack of API revenues and milestone payments however negatively impacted total revenues compared to last year.

Total Hexvix/Cysview revenue increased 25% to NOK 39.4 million (NOK 31.6 million) in the fourth quarter. Own revenues, Nordic and U.S., increased 31%, while partner revenues increased 17%. Full year Hexvix/Cysview revenue increased 14% to NOK 149.0 million (+14% in constant currencies).

Operating expenses increased 42% to NOK 35.1 million (NOK 24.6 million) in the fourth quarter and full year 23% to NOK 128.5 million (NOK 104.2 million). This was mainly driven by an increase in sales and marketing efforts in U.S. in accordance with business plan. Furthermore, increased expenses related to flexible cystoscopy in Nordic, as well as work related to product improvements and business development contributed to the increase in operating expenses.

Full year EBITDA was NOK 10.4 million (NOK 30.0 million). With increased investment in marketing and sales in the U.S. as well as reduced milestone revenues, the decline compared to the same period last year was expected. The EBITDA margin was 7%, compared to 21% last year.

MNOK	Q4 '17	FY '17	FY '16
Nordic - Hexvix	12.9	43.3	39.0
US - Cysview	10.2	42.4	30.5
Partners	16.3	63.3	61.5
Hexvix/Cysview total	39.4	149.0	131.0
<i>YoY growth</i>	25 %	14 %	
Other revenues	0.0	1.9	12.7
Total revenues	39.4	150.9	143.6
<i>YoY growth</i>	3 %	5 %	
Cost of goods sold	-3.4	-12.0	-9.3
Gross profit	36.0	138.9	134.3
Operating expenses	-35.1	-128.5	-104.2
EBITDA	0.9	10.4	30.0
<i>EBITDA margin</i>	2 %	7 %	21 %

Hexvix®/Cysview®

Full year sales in U.S. were strong with a unit sales increase of 31%. Global full year unit sales increased 2%, negatively impacted by a reduction in our partner business.

In-market unit sales in own markets, U.S. and Nordic, increased 16% in the fourth quarter. However, because of 9% decline in partner unit sales, the global in-market unit sales declined 3%.

Global in-market sales of Hexvix/Cysview increased 6% to NOK 64 million (NOK 60 million) in the fourth quarter. Full year in-market sales were NOK 256 million (NOK 241 million).

U.S. Cysview sales

Fourth quarter revenues in the U.S. grew 27% to NOK 10.2 million (NOK 8.0 million), driven by volume growth and price increases. As in previous quarters, the improvement reflects increased productivity as well as expanded sales resources. In-market unit growth in the fourth quarter was 21%.

Full year U.S. revenues increased 39% to NOK 42.4 million (NOK 30.5 million), and 42% in constant currency. Full year unit growth was 31%.

The total number of permanent blue light cystoscopes (BLCs) installed at leading U.S. hospitals was 104 at year end, an increase of 21 from end of 2016.

Photocure is in the process of expanding its commercial and medical organization in U.S. to increase penetration of Cysview in hospitals and urology practices. According to plan we will continue this process in 2018.

In November, the United States Centers for Medicare & Medicaid Services (CMS) released the Final Rule stating that it will reimburse hospital outpatient



departments for certain Blue Light Cystoscopy (BLC) with Cysview procedures from January 1, 2018. CMS has created a new set of codes specific to Blue Light Cystoscopy allowing for improved reimbursement for those procedures. The Company expects this to increase the installed base of BLC's and drive revenue growth from 2018.

In February 2018, the U.S. Food and Drug Administration (FDA) approved additional indications for BLC with Cysview to include flexible cystoscopes, which are used in the on-going surveillance of patients with bladder cancer. This new indication was granted based on the results from a large Phase 3 study completed in 2017. The clinical safety and efficacy profile was confirmed in this study and the label now allows repeated use of Cysview. In collaboration with KARL STORZ Endoscopy-America, Inc., Photocure plans to launch Cysview in combination with blue light enabled flexible video cystoscopy in mid-2018.

Nordic Hexvix sales

Nordic revenues increased 35% to NOK 12.9 million (NOK 9.6 million) in the fourth quarter. This was the strongest quarter on record, and is driven by significant increases in Norway and Denmark, partly caused by inventory build-up.

The Danish market is back on level with 2016, after a decline in the beginning of the year driven by the reorganization of hospitals in Copenhagen. Photocure's in-market unit sales in the Nordic region in fourth quarter increased 14%.

Full year Nordic revenues increased 11% (+11% in constant currencies) to NOK 43.3 million (NOK 39.0 million). Full year in-market unit sales increased 3% compared to 2016.

Hexvix/Cysview partner sales

Partner revenue increased 17% to NOK 16.3 million (NOK 14.0 million) in the fourth quarter. The increase was driven by inventory build-up by the partner. In-market unit sales declined 9% in the fourth quarter, driven mainly by reduced sales in France and Austria. Volumes in Germany for the fourth quarter are at level with 2016. In France the loss of reimbursement has resulted in declined volume the last three quarters, however for the full year unit sales is at level with 2016.

Full year partner revenue increased 3% to NOK 63.3 million (NOK 61.5 million), negatively impacted by lower sales in several markets. Currency impact was limited for the year. In-market unit sales declined 1%. Sales in the new markets, Canada and Australia, have commenced, however volume has been negatively impacted by timing of outplacement of

scopes by the third-party suppliers and timing of health system funding approvals. Juno Pharmaceuticals completed the registration of Hexvix in New Zealand in October.

Hexvix/Cysview publications and presentations

In October, new data from the BLC with Cysview registry study were presented at the 37th Société Internationale d'Urologie (SIU) annual meeting in Lisbon, Portugal. Data from the registry study, which is the largest U.S. Bladder Cancer Registry Study, showed that BLC with Cysview resulted in an upstaging or upgrading of tumor with change in patient management in 13% of patients. The addition of BLC with Cysview to standard WLC increased the detection rate by 12% for any papillary and 44% for the more aggressive CIS (Carcinoma in Situ) bladder cancer lesions.

In November, detailed data from the Phase 3 study data was presented at the Society of Urologic Oncology annual meeting in Washington D.C., USA. Four separate posters were presented.

Update development portfolio

Visonac® and Cevira® – late stage clinical non-urology development products

In second quarter 2017, the Company announced that it will assess further strategic alternatives for its non-urology assets, Cevira and Visonac.

The decision to initiate a broad review of possible strategic alternatives for Cevira and Visonac follows a non-conclusive comprehensive partnering process. Photocure will continue assessing further strategic alternatives for Cevira and Visonac.

Financial review

(Numbers in brackets are for the corresponding period in 2016; references to the prior year refer to a comparison to the same period 2016, unless otherwise stated).

MNOK	Q4 '17	FY '17	FY '16
Hexvix/Cysview revenues	39.4	149.0	131.0
Other revenues	0.0	1.9	12.7
Total revenues	39.4	150.9	143.6
Gross profit	36.0	138.9	134.3
Operating expenses	-46.8	-168.0	-142.3
EBITDA recurring	-10.8	-29.1	-8.0
One-Off items	-	-4.0	-
Depreciation & Amort	-3.3	-12.1	-7.9
EBIT	-14.1	-45.2	-15.9
Net financial items	1.0	3.6	28.6
Earnings before tax	-13.2	-41.6	12.8
Tax expenses	0.2	6.9	22.5
Net earnings	-13.0	-34.7	35.3

Photocure's operational results in 2017 have been driven by strong growth in its activities in U.S. Added resources have had an impact on revenue growth as well as operational costs in line with our strategic objectives.

Revenues

Total revenues in the fourth quarter were NOK 39.4 million, an increase of 3% from the fourth quarter last year (NOK 38.1 million). Full year revenues were NOK 150.9 million (NOK 143.6 million), an increase of 5%.

Hexvix/Cysview sales revenues for the fourth quarter were NOK 39.4 million, an increase of 25% from last year (NOK 31.6 million). The increase was driven by strong sales in U.S. as well as purchases for inventory by distributors and partner. Full year Hexvix/Cysview revenues were NOK 149.0 million (NOK 131.0 million), an increase of 14%. In constant currencies, Hexvix/Cysview revenues grew 14% for the year.

Other revenues include sale of Active Pharmaceutical Ingredients (API) and Signing/Milestone revenues. 2016 revenues were driven by revenue deferrals as well as milestones that were not repeated in the current year. 2017 revenues relate to Bellus Medical, a privately-owned U.S. based cosmetic dermatology company. In April, Photocure and Bellus Medical signed an asset purchase and licensing agreement for Photocure's cosmetic dermatology product Allumera. Under the terms of this agreement, Photocure received USD 200,000 at signing.

Operating costs

Total operating costs, excluding one-off items, depreciation and amortization, were NOK 46.8 million (NOK 35.7 million) in the fourth quarter, an increase of 31%. Full year increase was 18% to NOK 168.0 million (NOK 142.3 million).

The increase in operating costs was driven mainly by planned investments in U.S. sales and marketing operations.

MNOK	Q4 '17	FY '17	FY '16
Research & Development	5.6	18.9	17.7
Sales & Marketing	23.4	96.4	79.3
Other Opex	17.9	52.7	45.3
Operating expenses excl one-off	46.8	168.0	142.3
<i>YoY growth</i>	31 %	18 %	
Nedax write-down	0.0	4.0	0.0
Operating expenses	46.8	172.0	142.3
Depreciation & Amort.	3.3	12.1	7.9
Total	50.1	184.1	150.2
<i>YoY growth</i>	29 %	23 %	

Fourth quarter research and development (R&D) costs were NOK 5.6 million (NOK 5.4 million). Full year R&D costs were NOK 18.9 million (NOK 17.7 million). The R&D costs relate mainly to regulatory work and maintenance and expansion of our intellectual property. Expenses related to the Cysview Phase 3 market expansion trial, excluding internal resources, have been capitalized and amortized.

Sales and marketing costs increased 16% to NOK 23.4 million (NOK 20.1 million) in the fourth quarter. Sales and marketing costs for the full year were NOK 96.4 million (NOK 79.3 million). The increase was in line with our strategic plans and was driven by activities in U.S. As announced in the fourth quarter 2016 report Photocure will increase expenses in U.S. operations in 2017 and 2018.

Full year other operating expenses, which includes supply chain, business development and general/administration, were NOK 52.7 million compared to NOK 45.3 million last year. The increase was mainly driven by work related to product improvements and business development.

One-off items relate to write off of parts and finished goods inventory for Nedax, the light source used with Visonac. As announced in April 2017, following non-conclusive partnering discussions for Cevira and Visonac, Photocure is in the process of assessing other strategic alternatives for these two product candidates.

Financial results

EBITDA was negative NOK 10.8 million (NOK -0.3 million) for the fourth quarter. Full year EBITDA, before one-off items, was negative NOK 29.1 million (NOK -8.0 million). Currency translation had a positive effect on the year to date EBITDA of less than NOK 1 million.

EBITDA in the commercial segment was full year NOK 10.4 million compared to NOK 30.0 million prior year. The development portfolio had full year EBITDA, before one-off items, negative NOK 39.5 million (NOK -38.1 million).

Full year depreciation and amortization was NOK 12.1 million (NOK 7.9 million). The increase from prior year was mainly driven by amortization on the investments in intangible assets related to the Phase 3 market expansion trial for Cysview.

Net financial items were NOK 3.6 million (NOK 28.6 million) for the year. 2016 net financial items were driven by sales of shares and subscription rights in PCI Biotech.

Photocure had a net loss before tax of NOK 13.2 million in the fourth quarter (net profit of NOK 24.0 million) and a net loss of NOK 41.6 million full year (net profit of NOK 12.8 million). Tax expenses in the fourth quarter were a net income of NOK 0.2 million (net cost NOK 6.2 million) and full year net income of NOK 6.9 million (net income of NOK 22.5 million). Prior year net tax income was mainly driven by a change in transfer pricing method.

Net loss was NOK 13.0 million in the fourth quarter (profit of NOK 17.9 million) and NOK 34.7 million full year (profit of NOK 35.3 million).

Cash flow and statement of financial position

Net cash flow from operations was positive NOK 7.5 million in the fourth quarter (positive NOK 49.9 million) and negative NOK 23.6 million full year (positive NOK 19.2 million). The impact from changes to working capital full year was positive NOK 6.4 million (negative NOK 8.8 million).

Net cash flow from investments was negative NOK 1.2 million in the fourth quarter (positive NOK 25.0 million) and negative NOK 16.3 million full year (positive NOK 13.9 million). This was mainly driven by investments related to the Phase 3 market expansion trial for Cysview.

Fourth quarter net change in cash was positive NOK 6.3 million (positive NOK 75.3 million). Full year net change in cash was negative NOK 39.9 million (positive NOK 35.2 million). Cash and cash

equivalents were NOK 129.4 million at the end of the year.

Shareholders' equity was NOK 218.1 million at the end of the year, an equity ratio of 83%.

As of 31 December 2017, Photocure held 809 own shares.

Risks and uncertainty factors

Photocure is exposed to risk and uncertainty factors, which may affect some or all of the Company's activities. Photocure has financial risk, market risk as well as operational risk and risk related to development of new products.

The most important risks the Company is exposed to are associated with market development for Hexvix/Cysview, progress of partnering activities, as well as financial risks related to interest rates, liquidity and currency fluctuations.

There are no significant changes in the risks and uncertainty factors compared to the descriptions in the Annual Report for 2016.

Outlook

Photocure has built considerable experience in the bladder cancer market through its Hexvix/Cysview franchise and sees significant long-term value creation potential in this market segment. The Company aims to capitalize on the inclusion in the AUA guidelines, as well as the increased patient awareness and the changes to reimbursement of Cysview in the outpatient TURBT procedures with rigid scopes, to significantly increase penetration in the U.S. market. Furthermore, with the approval of the extension of the indication for BLC with Cysview to include flexible cystoscopies, a significant market opportunity has opened in the surveillance segment.

Photocure believes that in order to increase market share in the U.S., an investment in the U.S. commercial and medical infrastructure is required. The Company has invested significantly in increased sales force in 2017 and will continue to invest in 2018. These investments will enable the Company to drive the U.S. revenues in 2020 to a range of USD 20-25 million, however with upside potential driven by added reimbursement and penetration of the surveillance segment. The Company will update the market on this outlook later in 2018 when there is better visibility of effects of the new reimbursement and initial market response in the surveillance segment.



As a result of the increased activity level in U.S., the added operating expenses has contributed an EBITDA decline for the group in 2017. This will

continue in 2018. The Company is fully funded for this market strategy.

The Board of Directors and CEO
Photocure ASA

Oslo, 26 February 2018

Jan Hendrik Egberts
Chairperson

Johanna Holldack
Director

Gwen Melincoff
Director

Tom Pike
Director

Synne H. Røine
Director

Grannum R. Sant
Director

Xavier Yon
Director

Kjetil Hestdal
President and CEO

Photocure Group

Accounts for fourth quarter and full year 2017

Photocure Group – Statement of comprehensive income

		2017	2016	2017	2016
<i>(all amounts in NOK 1 000 except per share data)</i>	Note	Q4	Q4	1.1-31.12	1.1-31.12
Sales revenues		39,409	36,833	149,181	136,186
Signing fees and milestone revenues		-0	1,249	1,730	7,441
Total revenues		39,409	38,081	150,911	143,627
Cost of goods sold		-3,404	-2,716	-12,011	-9,337
Gross profit		36,005	35,365	138,900	134,291
Indirect manufacturing expenses	3	-3,678	-2,613	-11,293	-10,386
Research and development expenses	3	-8,164	-7,929	-32,591	-22,962
Marketing and sales expenses	3	-23,382	-20,174	-96,430	-79,930
Other operating expenses	3	-14,924	-8,037	-43,789	-36,874
Total operating expenses		-50,148	-38,753	-184,103	-150,152
EBIT		-14,143	-3,388	-45,203	-15,861
Financial income		1,454	27,927	5,949	32,427
Financial expenses		-485	-501	-2,326	-3,787
Net financial profit/loss(-)		969	27,426	3,622	28,640
Profit/loss(-) before tax		-13,174	24,038	-41,580	12,779
Tax expenses	4	171	-6,187	6,883	22,530
Net profit/loss(-)		-13,003	17,851	-34,697	35,309
Other comprehensive income	5	66	-1,191	-507	-366
Total comprehensive income		-12,937	16,660	-35,204	34,943
Net profit/loss(-) per share, undiluted	6	-0.60	0.83	-1.61	1.64
Net profit/loss(-) per share, diluted	6	-0.60	0.83	-1.61	1.64

Photocure Group – Statement of financial position

<i>(Amounts in NOK 1 000)</i>	Note	31.12.2017	31.12.2016
Non-current assets			
Machinery & equipment		1,268	1,660
Intangible assets	7	33,315	26,390
Deferred tax asset	4	52,903	46,020
Total non-current assets		87,486	74,070
Current assets			
Inventories		19,552	17,955
Accounts receivable		14,573	12,323
Other receivables		12,119	12,750
Cash and short term deposits	8	129,368	169,239
Total current assets		175,613	212,268
Total assets		263,099	286,338
Equity and liabilities			
Equity			
Share capital	9	10,779	10,779
Other paid-in capital		56,114	54,268
Retained earnings		151,187	186,895
Shareholders' equity		218,080	251,943
Long-term liabilities			
Pension liabilities		4,752	3,758
Total long-term liabilities		4,752	3,758
Current liabilities		40,267	30,637
Total liabilities		45,019	34,395
Total equity and liabilities		263,099	286,338

Photocure Group – Changes in equity

<i>(Amounts in NOK 1 000)</i>	2017 Q4	2016 Q4	2017 1.1-31.12	2016 1.1-31.12
Equity at beginning of period	230,724	234,077	251,943	210,060
Capital increase		425		2,415
Share-based compensation (share options employee)	292	781	1,341	3,300
Treasury shares decrease				1,225
Comprehensive income	-12,937	16,660	-35,204	34,943
Equity at end of period	218,080	251,943	218,080	251,943

Photocure Group – Cash flow statement

	2017	2016	2017	2016
	Q4	Q4	1.1-31.12	1.1-31.12
<i>(Amounts in NOK 1 000)</i>				
Profit/loss(-) before tax	-13,174	24,038	-41,580	12,779
Depreciation and amortisation	3,309	3,056	12,108	7,853
Gain sale of financial assets	-	-27,280	-	-27,280
Share-based compensation	292	781	1,341	3,541
Net interest income	-268	-285	-2,310	-2,394
Settlement deferred revenue Galderma	-	37,193	-	37,193
Changes in working capital	17,121	14,119	6,396	-8,787
Other operational items	213	-1,717	452	-3,713
Net cash flow from operations	7,493	49,906	-23,593	19,193
Net investments in fixed assets	-683	-698	-1,050	-3,148
Development expenditures	-803	-7,797	-17,538	-18,567
Sales proceeds shares PCI Biotech Holding	-	33,213	-	33,213
Received interest payments	268	285	2,310	2,394
Cash flow from investments	-1,218	25,003	-16,278	13,892
Cash flow from financing activities	-	425	-	2,128
Net change in cash during the period	6,276	75,334	-39,871	35,213
Cash & cash equivalents at beginning of period	123,092	93,905	169,239	134,026
Cash & cash equivalents at end of period	129,368	169,239	129,368	169,239

Notes to the accounts for fourth quarter and full year 2017

Note 1 – General accounting principles

General information

Photocure ASA is a public limited company domiciled in Norway. The business of the Company 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 (OSE: PHO). The Company's registered office is Hoffsvæien 4, NO-0275 Oslo, Norway.

Photocure Group (Photocure) comprises Photocure ASA and the wholly owned subsidiary Photocure Inc. that is a U.S. registered company.

Basis of preparation

These condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. These interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2016 (the Annual Financial Statements) as they provide an update of previously reported information. The accounting policies used are consistent with those used in the Annual Financial Statements. The presentation of the interim financial statements is consistent with the Annual Financial Statements. The interim report has not been subject to an audit. The Board of Directors approved the interim financial statements on 26 February 2018.

Photocure has Norwegian kroner (NOK) 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.

Summary of significant accounting policies

IFRS 15 Revenue from contract with customers establishes a comprehensive framework for determining whether, how much and when revenue is recognized. The standard replaces IAS 18 Revenue and related interpretations. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The new standard contains a new set of principles on when and how to recognize and measure revenue as well as new requirements related to presentation. The core principle in that framework is that revenue should be recognized dependent on the transfer of promised goods or services to the customer for an amount that reflects the consideration which should be received in exchange for those goods or services. The objective of the standard is to provide a five-step approach to revenue recognition that includes identifying contracts with customers, identifying performance obligations, determining transaction prices, allocating transaction prices to performance obligations, and recognizing revenue when or as performance obligations are satisfied.

The Group has assessed the impact of IFRS 15. The adoption of IFRS 15 will have an impact on Photocure's timing of recognition of sale of goods. The timing effect of recognition of sales of goods is calculated to be approximately NOK 6 million in reduction of equity as of January 1, 2018.

Under IFRS 15 up-front fees not related to an identified performance obligation will be recognized over the term of the contract upon the delivery of goods. For current contracts the contract term is estimated to be equal to the expiry date of the patents in the relevant market areas. This will result in revenue being deferred compared to revenue recognition under the current standard. However as there is currently only one material open contract, entered into in 2011 where patents will expire in 2019/2020, the effect of change in accounting principle is deemed to be immaterial compared to total revenues.

Photocure has analyzed the impact of implementing IFRS 9 Financial Instruments from 1 January 2018. Photocure has in addition evaluated the impact of implementing IFRS 16 Leases from 1 January 2019. Based on the contracts, financial assets and liabilities currently held by the Company the impact on Photocure's financial statements are evaluated to be insignificant.

The new and amended standards and interpretations from IFRS that were adopted by the EU with effect from 2017 did not have any significant impact on the reporting in 2017.

Important accounting valuations, estimates and assumptions

Preparation of the accounts in accordance with IFRS requires the use of judgment, estimates and assumptions that have consequences for recognition in the balance sheet of assets and liabilities, the estimation of contingent liabilities and recorded revenues and expenses. The use of estimates and assumptions is based on the best discretionary judgement of the Group management.

Note 2 - Photocure Group – Segment information

Photocure has two segments; Commercial Franchise and Development Portfolio. Commercial Franchise includes Hexvix/Cysview by sales channel, own sales and partner sales, and other sales, currently including sale of active ingredients. Development Portfolio includes development of commercial products and pipeline products.

1 Jan - 31 December 2017	Commercial Products				Development Products			Grand Total
	Hexvix/Cysview		Other Sales	Total Sales	Hex/Cys Develop.	Pipeline	Total R&D	
	Hex/Cys Own Sales	Hex/Cys Partner						
(Amounts in NOK 1 000)								
Sales revenues	85,720	63,295	166	149,181	-	-	-	149,181
Milestone revenues	-	-	1,730	1,730	-	-	-	1,730
Cost of goods sold	-3,403	-8,607	-	-12,011	-	-	-	-12,011
Gross profit	82,316	54,688	1,895	138,900	-	-	-	138,900
Gross profit of sales %	96 %	86 %	100 %	92 %				92 %
R&D	-	-	-	-	-3,905	-18,991	-22,896	-22,896
Sales & marketing	-84,022	-8,320	-	-92,342	-	-4,012	-4,012	-96,355
Other & allocations	-14,195	-21,208	-765	-36,168	-4,028	-12,548	-16,576	-52,744
Operating expenses	-98,217	-29,527	-765	-128,510	-7,933	-35,551	-43,485	-171,995
EBITDA	-15,901	25,160	1,130	10,390	-7,933	-35,551	-43,485	-33,095

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



Q4 2017	Commercial Products				Development Products			Grand Total
	Hexvix/Cysview		Other Sales	Total Sales	Hex/Cys Develop.	Pipeline	Total R&D	
	Hex/Cys Own Sales	Hex/Cys Partner						
(Amounts in NOK 1 000)								
Sales revenues	23,069	16,339	-	39,409	-	-	-	39,409
Milestone revenues	-	-	-	-	-	-	-	-
Cost of goods sold	-875	-2,529	-	-3,404	-	-	-	-3,404
Gross profit	22,195	13,810	-	36,005	-	-	-	36,005
Gross profit of sales %	96 %	85 %	-	91 %	-	-	-	91 %
R&D	-	-	-	-	-1,691	-3,890	-5,582	-5,582
Sales & marketing	-20,030	-2,409	-	-22,439	-	-924	-924	-23,363
Other & allocations	-5,058	-7,327	-236	-12,620	-1,355	-3,919	-5,274	-17,894
Operating expenses	-25,088	-9,735	-236	-35,059	-3,046	-8,734	-11,780	-46,839
EBITDA	-2,893	4,075	-236	946	-3,046	-8,734	-11,780	-10,834

Q4 2016	Commercial Products				Development Products			Grand Total
	Hexvix/Cysview		Other Sales	Total Sales	Hex/Cys Develop.	Pipeline	Total R&D	
	Hex/Cys Own Sales	Hex/Cys Partner						
(Amounts in NOK 1 000)								
Sales revenues	17,626	13,985	5,222	36,833	-	-	-	36,833
Milestone revenues	-	-	1,248	1,248	-	-	-	1,248
Cost of goods sold	-795	-1,921	-	-2,716	-	-	-	-2,716
Gross profit	16,830	12,065	6,469	35,364	-	-	-	35,364
Gross profit of sales %	95 %	86 %	100 %	93 %	-	-	-	93 %
R&D	-	-	-	-	-1,928	-3,503	-5,431	-5,431
Sales & marketing	-16,732	-2,103	-	-18,835	-	-1,314	-1,314	-20,148
Other & allocations	-2,415	-3,256	-128	-5,798	-593	-3,726	-4,319	-10,117
Operating expenses	-19,146	-5,359	-128	-24,633	-2,521	-8,543	-11,064	-35,697
EBITDA	-2,316	6,706	6,341	10,732	-2,521	-8,543	-11,064	-332

Note 3 – Income statement classified by nature

(Amounts in NOK 1 000)	2017	2016	2017	2016
	Q4	Q4	1.1-31.12	1.1-31.12
Sales revenues	39,409	36,833	149,181	99,353
Signing fees and milestone revenues	-0	1,249	1,730	6,193
Cost of goods sold	-3,404	-2,716	-12,011	-6,621
Gross profit	36,005	35,365	138,900	98,925
Payroll expenses	-26,946	-20,191	-96,271	-63,044
R&D costs excl. payroll expenses/other operating exp.	-1,889	-1,597	-12,999	-5,062
Ordinary depreciation and amortisation	-4,285	-1,620	-12,108	-4,797
Other operating expenses	-13,407	-12,894	-62,725	-38,496
Total operating expenses	-46,527	-36,302	-184,103	-111,399
EBIT	-10,522	-937	-45,203	-12,473

Note 4 – Tax

<i>(Amounts in NOK 1 000)</i>	31.12.2017	31.12.2016
Income tax expense		
Tax payable	-	-
Changes in deferred tax	-6,883	-22,530
Total income tax expense	-6,883	-22,530
Tax base calculation		
Profit before income tax	-34,546	18,685
Permanent differences	-3,618	-27,426
Temporary differences	26,568	19,044
Utilisation of tax loss carried forward	-	-10,303
Change in tax loss carried forward	11,596	-
Tax base	0	0
Temporary differences:		
Total	-100,528	-122,268
Tax loss carried forward	330,542	314,019
Net temporary differences	230,014	191,751
Unrecognised deductible temporary differences and tax losses		
Deferred tax benefit	230,014	191,751
Deferred tax asset	52,903	46,020

Temporary differences are recognized for the parent company only and the note disclosure for the Group is of this reason identical to the disclosure for parent company. The calculation of deferred tax asset 31 December 2017 is based on a tax rate of 23%.

The parent company has recognized a deferred tax asset regarding net temporary differences. Accumulated tax asset in the parent company at the end of December 2017 is NOK 52.9 million compared to NOK 46.0 million at end of 2016. There is no expiry on losses to be carried forward in Norway. The basis for recognition of a tax asset in Norway are the predicted future profit according to the business plan for all major markets and that temporary differences for the coming years will be reversed. The deferred tax asset is of this reason increased by NOK 6.9 million as of 31 December 2017. The basis for the recognition of the tax asset is the assessment that there is convincing evidence that the deferred tax benefit will be utilized.

For further information see the consolidated financial statements for the year ended 31 December 2016 note 10.

Note 5 – Other comprehensive income

<i>(Amounts in NOK 1 000)</i>	2017	2016	2017	2016
	Q4	Q4	1.1-31.12	1.1-31.12
Market value adjustment PCI Biotech Holding ASA		-1,439		-
Currency translation	66	247	-507	-366
Total other comprehensive income	66	-1,191	-507	-366

Items may be subsequently reclassified to profit or loss.

Note 6 – Earnings per share

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

	2017	2016
<i>(Figures indicate the number of shares)</i>	1.1-31.12	1.1-31.12
Issued ordinary shares 1 January	21,557,910	21,476,295
Effect of treasury shares	-809	-809
Effect of share options exercised	-	-54,730
Effect of shares issued	-	81,615
Weighted average number of shares	21,557,101	21,502,371
Effect of outstanding share options	10,175	128,971
Weighted average number of diluted shares	21,567,276	21,631,342
Earnings per share in NOK	-1.61	1.64
Earnings per share in NOK diluted	-1.61	1.64

Note 7 – Fixed Assets

	Machinery & equipment	Intangible
<i>(Amounts in NOK 1 000)</i>		
Net book value 31.12.16	1,660	26,390
Net investments 31.12.17	481	18,161
Depreciation and amortization	-873	-11,235
Net book value 31.12.17	1,268	33,315

Photocure has from 2015 carried out a clinical study in U.S. for the approved product Cysview in order to file a supplemental NDA.

Related to this study Photocure has capitalized, net after amortization, NOK 29.0 million as of end December 2017 compared to NOK 21.1 million as of 31 December 2016. The investment is amortized on a straight-line basis in the profit and loss from the start of the project and over the remaining patent period for the approved product and indication.

The remaining intangible assets consist of capitalized software.

Note 8 – Fair value

The table below analyses financial assets recognized 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

Market value hierarchy <i>(Amounts in NOK 1 000)</i>	Level 1	Level 2	Level 3	Total
Financial assets available for sale:				
- Money market funds	100,983	-	-	100,983
Total	100,983	-	-	100,983

Note 9 – Share capital

Registered share capital in Photocure ASA amounts to:

	No. of shares	Nominal value per share	Share capital in NOK
Share capital at 31 December 2016	21,557,910	NOK 0.50	10,778,955
Share capital at 31 December 2017	21,557,910	NOK 0.50	10,778,955
Treasury shares:			
Holdings of treasury shares at 31 December 2016	809		405
Buy-back of treasury shares	-	NOK 0.50	-
Share option exercise	-	NOK 0.50	-
Holdings of treasury shares at 31 December 2017	809		405

The table below indicates the status of authorizations at 31 December 2017:

	Purchase, treasury shares	Ordinary share issue	Employee share issues
<i>(Figures indicate the number of shares)</i>			
Authorisation issued at the General Meeting on 27 April 2017	2,155,791	2,155,791	1,077,895
Share issues after the General Meeting on 27 April 2017	-	-	-
Purchase of treasury shares	-	-	-
Remaining under authorisations at 31 December 2017	2,155,791	2,155,791	1,077,895

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 2017:

Name	Position	No. of shares	subscription rights
Kjetil Hestdal	President and CEO	133,873	72,500
Ambaw Bellete	Head, US Cancer Commercial Operations	2,000	61,300
Erik Dahl	Chief Financial Officer	1,000	63,500
Inger Ferner Heglund	Vice President Research and Development	8,200	70,300
Grete Hogstad	Vice President Strategic Marketing	10,500	58,000
Espen Njåstein	Head, Nordic Cancer Commercial Operations	5,000	64,100
Gry Stensrud	Vice President Technical Development & Opæ	1,845	53,300
Tom Pike	Board member	3,400	-

Note 10 – Share options

At 31 December 2017, employees in Photocure had the following share option schemes:

Year of allocation	2017	2016	2015	2014
Option programme	2017	2016	2015	2014
Number	72,400	294,000	274,935	96,334
Exercise price (NOK)	38.06	40.15	32.78	27.39
Date of expiry (31	2021	2020	2019	2018

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

	31.12.2017		31.12.2016	
	No. of shares	Average exercise price (NOK)	No. of shares	Average exercise price (NOK)
Outstanding at start of year	951,955	36.10	1,119,543	37.00
Allocated during the year	90,100	38.06	354,100	40.15
Become invalid during the year	94,627	37.35	234,987	40.75
Exercised during the year	2,667	27.39	116,282	29.22
Expired during the year	207,092	38.50	170,419	48.75
Outstanding at end of period	737,669	35.53	951,955	36.10
Exercisable options at end of period	591,389	34.56	620,772	35.28

Note 11 – Shareholders

Overview of the major shareholders at 31 December 2017:

Shareholder	Account type	Citizen	No of shares	%
HIGH SEAS AS		NOR	2,200,000	10.21 %
FONDSFINANS NORGE		NOR	1,280,000	5.94 %
KLP AKSJE NORGE VPF		NOR	1,202,395	5.58 %
KOMMUNAL LANDSPENSJONSKASSE		NOR	948,789	4.40 %
MP PENSJON PK		NOR	810,000	3.76 %
RADIUMHOSPITALET FORSKNINGSSTIFTELSE		NOR	743,319	3.45 %
BNP PARIBAS SECURITIES SERVICES	NOM	FRA	625,264	2.90 %
FONDSFINANS GLOBAL HELSE		NOR	380,000	1.76 %
VERDIPAPIRFONDET EIKA NORGE		NOR	366,009	1.70 %
VICAMA AS		NOR	329,530	1.53 %
INTERTRADE SHIPPING		NOR	300,000	1.39 %
POLAR CAPITAL GLOBAL HEALTHCARE GROWTH		GBR	254,537	1.18 %
NETFONDS LIVSFORSIKRING		NOR	252,221	1.17 %
MYRLID AS		DNK	250,000	1.16 %
RUL AS		NOR	244,451	1.13 %
EGELAND HOLDING AS		NOR	230,000	1.07 %
DANSKE BANK A/S	NOM	DEN	220,947	1.02 %
NORDNET LIVSFORSIKRING AS		NOR	210,220	0.98 %
MYNA AS		NOR	210,000	0.97 %
KJETIL MYRLID AASEN		NOR	210,000	0.97 %
Total 20 largest shareholders			11,267,682	52.27 %
Total other shareholders			10,290,228	47.73 %
Total number of shares			21,557,910	100.00 %

Photocure Group – Alternative Performance Measures

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

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

Photocure uses the following alternative performance measures.

EBITDA & EBIT

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

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

The reconciliation to the IFRS accounts is as follows:

	2017	2016	2017	2016
	Q4	Q4	1.1-31.12	1.1-31.12
<i>(all amounts in NOK 1 000)</i>				
Gross profit	36,005	35,365	138,900	134,291
Operating expenses excl amortization & depreciation	-46,838	-35,697	-171,995	-142,298
EBITDA	-10,833	-332	-33,095	-8,008
Amortization & depreciation	-3,310	-3,056	-12,108	-7,853
EBIT	-14,143	-3,388	-45,203	-15,861

Recurring EBITDA equals EBITDA before one-off items. One-off items are accounting items of a significant and extraordinary nature. In the first quarter Photocure identified the write off of parts and finished goods inventory for Nedax as an on-off item, in total NOK 4.0 million.

Revenue growth in constant currency

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

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



	2017	2016	2017	2016
	Q4	Q4	1.1-31.12	1.1-31.12
USD (NOK per 1 USD)	8.16	8.38	8.27	8.40
EUR (NOK per 1 EUR)	9.62	9.04	9.33	9.29
DKK (NOK per 100 DKK)	129.20	121.46	125.42	124.81
SEK (NOK per 100 SEK)	98.12	92.63	96.80	98.23

Photocure Group – Other Measures

In-market sales

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

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

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

	2017	2016	2017	2016
	Q4	Q4	1.1-31.12	1.1-31.12
<i>(all amounts in NOK 1 000)</i>				
In-market sales	63,814	60,367	256,426	241,099

Photocure Group – Our Products

Hexvix/Cysview

Hexvix/Cysview (hexaminolevulinate hydrochloride) is a drug that is taken up selectively by cancer cells in the bladder making them glow bright pink during Blue Light Cystoscopy (BLC). BLC with Hexvix improves the detection of tumors and leads to more complete resection, less residual tumors and better management decisions.

Cysview® is the tradename in the U.S. and Canada, Hexvix® is the tradename in all other markets. Photocure is commercializing Hexvix/Cysview directly in the U.S. and the Nordic region, and has strategic partnerships for the commercialization of Hexvix/Cysview in Europe, Canada, Australia and New Zealand.

Bladder cancer ranks as the ninth most common cancer worldwide with 430,000 new cases and more than 165,000 deaths annually. 75% of all bladder cancer cases occur in men¹. It has a high recurrence rate with an average of 61% in year one and 78% over five years². Bladder cancer has the highest lifetime treatment costs per patient of all cancers³.

Bladder cancer is a costly, potentially progressive disease for which patients have to undergo multiple cystoscopies due to the high risk of recurrence. There is an urgent need to improve both the diagnosis and the management of bladder cancer for the benefit of patients and healthcare systems alike.

Bladder cancer is classified into two types, non-muscle invasive bladder cancer (NMIBC) and muscle-invasive bladder cancer (MIBC), depending on the depth of invasion in the bladder wall⁴. NMIBC remains in the inner layer of cells lining the bladder. These cancers are the most common (75%) of all bladder cancer cases and include the subtypes Ta, carcinoma in situ (CIS) and T1 lesions. MIBC is when the cancer has grown into deeper layers of the bladder wall. These cancers, including subtypes T2, T3 and T4, are more likely to spread and are harder to treat⁴.

1. Globocan. Incidence/mortality by population. Available at: http://globocan.iarc.fr/Pages/bar_pop_sel.aspx

2. Babjuk M, Burger M, Zigeuner R, Shariat SF, van Rhijn BW, Compérat E, et al. EAU Guidelines on non-muscle-invasive bladder cancer (Ta, T1 and CIS). Eur Urol. 2016 Guidelines Edition:1-40.

3. Sievert KD et al. World J Urol 2009;27:295–300

4. Bladder Cancer. American Cancer Society. <http://www.cancer.org/acs/groups/cid/documents/webcontent/003085-pdf.pdf>. Accessed April 2016.

Visonac

Visonac (methyl aminolevulinate 80mg/g) is in development for the treatment of moderate to severe acne. 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. By avoiding the risks of increased antibiotic resistance from long term exposure and providing a better tolerated alternative than systemic retinoids, Visonac has the potential to satisfy a high unmet medical need.

Cevira

Cevira is in development as an intravaginal drug-device combination for photodynamic therapy of cervical persistent oncogenic human papilloma virus (HPV) infections and precancerous lesions. This treatment modality is based on our highly selective technology targeting the diseased area. Cevira is a treatment modality aiming to preserve the competence of the cervix, an improvement over surgical procedures frequently used today.



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