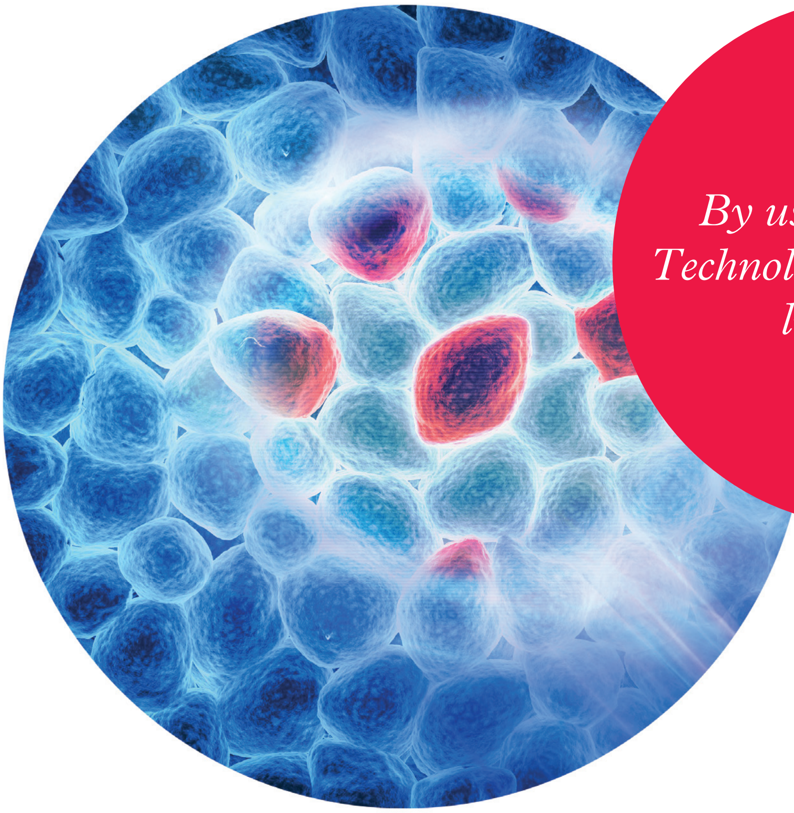
ANNUAL REPORT 2012

PHOTOCURE GROUP

www.photocure.com

Early diagnosis and precise treatment can better the chances for recovery and improve quality of life and self esteem.



By use of Photocure Technology™ cancer cells light up red

BOARD OF DIRECTOR'S REPORT 2012

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 and treatment provides the opportunity to meet needs in the areas of dermatology and cancer.

Photocure is commercializing Hexvix® in the Nordic region through its own commercial operations, while GE Healthcare, until December 2011, was responsible for the same in the rest of the world.

A new commercial strategy for Hexvix/Cysview was announced in September 2011. The partnership with GE Healthcare ended and Photocure entered into a strategic collaboration with Ipsen, a global specialty-driven biopharmaceutical company focused in uro-oncology. Ipsen has rights to commercialize Hexvix worldwide, excluding the US and Nordic regions. In order to capitalize on the untapped US market opportunity, Photocure commercializes the product through its own commercial operations in US under the brand name Cysview®.

In addition to Hexvix/Cysview, 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 innovative photodynamic technology platform. The technology can be applied across several therapeutic areas; however, Photocure has two main therapeutic areas: dermatology and cancer.

The company will leverage its proven expertise to develop, register and commercialize new products in cancer and dermatology. Furthermore we will partner with industry leaders to accelerate and maximize the value of new innovative products, while retaining rights in selective strategic markets to expand our own commercial presence.

OUR PRODUCTS

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

Hexvix/Cysview is the first significant advance 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. 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 improved patient management and a significant increase in the time to recurrence of bladder cancer. Based on this, Hexvix/Cysview has the potential to transform the diagnosis of bladder cancer and may significantly improve patient outcomes.

Photocure markets and sells Hexvix in the Nordic region through its own commercial operation. As part of the new commercial strategy for Hexvix, in 2011 Photocure entered into a strategic collaboration with Ipsen to commercialize Hexvix worldwide, excluding the US and Nordic regions. Ipsen is a leading company in Europe within uro-oncology. Additionally, to capitalize on the untapped US market opportunity, in 2012 Photocure launched the product, approved as Cysview in the US, through its own commercial operations. The US organization is now fully operational.

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 region where it has achieved greater than 30% market share, to maximize the potential of Cysview in the US market.

VISONAC® – TREATMENT OF MODERATE TO SEVERE ACNE

Photocure has been working to develop a new product for treating patients with moderate to severe acne, and Visonac has the potential to satisfy a high unmet medical need.

Photocure initiated a phase 2b 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.

The results of the phase 2b study were announced in May 2012. In the study Visonac showed a statistically significant reduction in inflammatory lesions and overall improvement in acne severity. In the second half of 2012 Photocure started the regulatory and clinical preparations for phase 3 studies in EU and US.

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 antibiotics and isotretinoin, Visonac has the potential to provide medical benefit to a large patient population.

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 2b dose-finding study for Cevira - the first trial to evaluate the optimal dose of the novel integrated intravaginal drug-delivery device. The study was a randomized, double blind placebo controlled trial in patients with low to moderate grade cervical intraepithelial neoplasia (CIN1-2).

The initial three month results were announced in December 2012 and demonstrated statistically significant efficacy in eradication of oncogenic HPV infections and precancerous lesions in CIN2 patients. Results after the six-nine month assessment will be presented in the first half 2013. The study will support the design of the pivotal phase 3 registration program for the US and Europe.

BOARD OF DIRECTOR'S REPORT 2012

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. Our studies have demonstrated an excellent safety profile and no patient down time.

During 2012 Photocure continued the work to identify a partner for Cevira before commencing the phase 3 program.

LUMACAN® – DIAGNOSIS OF COLORECTAL CANCER

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

In 2010, Photocure signed a global agreement concerning the development and commercialization of Lumacan with the US based company Salix Pharmaceuticals, Inc. ("Salix"). The agreement 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 colorectal cancer, Salix has the exclusive rights to develop other indications within the field of use. Compensation for such new indications is to be further discussed between the parties.

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

Photocure received in December 2012 a payment of USD 4.5 million from Salix regarding development of Lumacan to date and the commitment to continue the development. Salix is currently developing an optimal oral formulation of Lumacan to be used in clinical studies. During the third quarter of 2012 Salix initiated an exploratory study designed to evaluate fluorescence kinetics of Lumacan following enema administration. The oral prototypes are planned to be introduced into clinical trial in 2013.

ALLUMERA® – A COSMETIC PRODUCT TO IMPROVE THE APPEARANCE OF THE SKIN

Photocure exited in the fourth quarter 2012 its Allumera® cosmetic dermatology business in the US. Allumera was in a highly competitive market and despite the product being supported by an experienced dedicated dermatology team, it did not deliver the growth that Photocure had expected. Photocure intends to support current Allumera customers through a customer service center for the foreseeable future.

PATENTS

Photocure's patent portfolio has grown in the last year and now contains 22 patent families. The new patent applications which were submitted in 2012 cover Visonac and new opportunities to further exploit Photocure's unique technology, the Photocure Technology™. Photocure is pleased that a European patent has been granted on the Cevira device since this patent is a key feature of the Cevira patent portfolio.

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.

Sales revenues amounted to NOK 75.1 million in 2012, an increase of 7% from NOK 70.0 million in 2011. Sales revenues comprise own sales of Hexvix in the Nordic region and Cysview in USA, income from product sales and royalties from Photocure's license partners on sales of Hexvix to hospitals and pharmacies, and sale of active ingredient for Metvix to Galderma.

Signing and milestone revenues totaled NOK 58.7 million in 2012 compared to NOK 44.1 million in 2011. The revenues include milestones from Ipsen and Salix. Furthermore the revenues include deferred revenue from the sale of Metvix/Aktilite. In connection with the sale of Metvix/Aktilite to Galderma in 2009, payment of EUR 7 million of milestone revenues was contractually agreed to be deferred, of which EUR 3 million to be paid no later than December 2012 and EUR 4 million to be paid no later than December 2016. The first payment of EUR 3 million was received in 2012. The revenues from these payments are accounted for as incurred from the time of agreement.

Operating expenses, after deductions for other operating revenues, increased from NOK 133.8 million in 2011 to NOK 163.7 million in 2012. R&D expenses decreased by NOK 14 million from 2011 to 2012 mainly due to finalization of the phase 2b clinical trials for Visonac and Cevira. Sales and marketing expenses have increased in the period due to establishment of the sales organization in USA and marketing activities in cooperation with Ipsen.

Photocure's operating result totaled NOK -39.2 million in 2012, compared to an operating result of NOK -30.6 million in 2011. The change in the operating result is primarily attributable to the increase in sales and marketing expenses from the activities in USA.

Net financial items totaled NOK 8.2 million in 2012, compared to NOK 9.9 million in 2011.

The Group has recognized losses carried forward as a tax asset of NOK 0.9 million in 2012 in addition to 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.

Photocure decided 1 October 2012 to discontinue operations related to Allumera. The organization has been discontinued during the fourth quarter. Loss from discontinued operations was NOK 17.8 million in 2012 and NOK 26.8 million in 2011.

The Group's net loss after tax and discontinued operations is NOK -47.9 million compared to NOK -7.5 in 2011.

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 by NOK 10.8 million in 2012 and NOK 12.3 million in 2011.

Photocure ASA (parent company) had in 2012 a loss after tax of NOK 5.0 million, compared with a profit after tax of NOK 26.4 million in 2011. The Board of Directors of Photocure ASA proposes that the loss for the year is covered by a transfer from other equity. Following this, the equity in Photocure ASA totals NOK 461.5 million at 31 December 2012, of which free equity amounts to NOK 401.6 million. The equity ratio of the parent company is 90%.

With our current financial position and the prospects of securing future partnerships for our pipeline products, the Board will propose to the Annual General Meeting to distribute NOK 2.00 per share back to the shareholders in the form of 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 302.8 million at 31 December 2012, down NOK 52.4 million from NOK 355.2 million at 31 December 2011. Net cash flow from operating activities was NOK -54.9 million in 2012, compared to NOK -34.5 million in 2011.

At 31 December 2012, 21,393,301 shares were registered in Photocure. At the Ordinary General Meeting 10 May 2012, the Board of Directors was granted authorization to purchase up to 10% of its own shares. At 31 December 2012, Photocure held 178,255 own shares, which is equivalent to 0.8% 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 2012.

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 2012, 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; Erik Dahl, CFO; Kathleen Deardorff, COO; Grete Hogstad, Vice President Strategic Marketing; Inger Ferner Heglund, Vice President Research and Development; Gry Stensrud, Vice President Technical Development and Operations; Ambaw Bellete, Head, US Cancer Commercial Operations and Espen Njåstein, Head, Nordic Cancer Commercial Operations.

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

At the end of 2012, the company employed 64 people. The company makes considerable use of external suppliers for production, research and development, as well as for regulatory work. The work environment within the company is considered to be good. No accidents or injuries entailing absence were registered in 2012. Absence due to illness in the company totaled 480 working days in 2011, which corresponds to 2.8% 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 50% of the senior management team. Working-time arrangements at the company are independent of gender.

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

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

CORPORATE GOVERNANCE

Photocure considers solid corporate governance as a prerequisite to creating value for shareholders and gaining the confidence of investors. Photocure will strive to comply with the generally accepted principles of good corporate governance through its internal controls and management structure. Photocure believes that its current guidelines for corporate governance are in line with the latest version of the Norwegian Code of Practice for Corporate Governance, and a description of this is included in the annual report. A complete description of the recommendation is available at the Norwegian Corporate Governance Board (NCGB) web pages (www.nues.no).

BOARD OF DIRECTOR'S REPORT 2012

OUTLOOK

Photocure's strategy is to develop the company from a purely research and development based operation into a specialty pharmaceutical company. This is achieved by strengthening the commercial activities of the company. In this connection significant investments are done in the US market through the establishment of our own sales and marketing organization for Cysview. Moreover, the company works closely with Ipsen to increase its Hexvix market share in European countries as well as introduce the product in selected countries outside Europe. In the Nordics, Photocure is well established with a market share in excess of 30% of all transurethral resections of affected bladder (TURB).

Within research and development, the main tasks are to conduct necessary studies and to ensure progress in the development of new pharmaceuticals and treatment procedures within the company's core areas.

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. The decision to exit the Allumera commercial operation in the US makes it relevant to evaluate various options for the continued development for Visonac and the company is currently exploring different options including establishing possible partnership for further development and commercialization.

Oslo, 27 February 2013

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.

Observance of the recommendations is based on the "comply or explain" principle. Photocure's board of directors and management has resolved as a main principle to follow the recommendations of the Norwegian Corporate Governance Code of 23 October 2012 to the extent not considered unreasonable due to the company size and stage of development. Explanations are provided of non-conformance to the code if not fully implemented.

Photocure's compliance with the Code is detailed in this report and section numbers refer to the Code's chapters.

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

Photocure intends to comply with the Norwegian Code of Practice for Corporate Governance. This statement of compliance with the code is presented in the company's annual report and on the company website.

Photocure's value base constitutes a key premise for the company's corporate governance.

Non-conformance with the recommendation: Photocure has established core values, but has due to the company's development stage so far not developed guidelines for corporate social responsibility.

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.

Non-conformance with the recommendation: None.

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 and to purchase own shares is tied to defined purposes and limited in time to the next General Meeting.

Non-conformance with the recommendation: Photocure is focusing its resources on building a speciality pharma company and the board of directors will recommend payment of dividends in line with the company's results, financial position and outlook. The company has, due to its level of development, uneven revenue streams and net cash flows, and does not expect to pay recurring dividends until justified by recurring cash flows.

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH RELATED PARTIES

Photocure has only one class of shares. If the board of directors proposes that the existing shareholders' pre-emptive rights be waived in the case of share capital increases, the waiver will be based on the common interests of the company and the shareholders. The reasons will be made public in a stock exchange disclosure in connection with the capital increase.

All material transactions between the company and shareholders, members of the board of directors, 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 of directors if they have any material interest – directly or indirectly – in any agreement entered into by the company. The board of directors will report in the annual report any transactions with related parties.

Non-conformance with the recommendation: None.

5. FREELY NEGOTIABLE SHARES

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

Non-conformance with the recommendation: None.

6. GENERAL MEETINGS

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 Meetings are an effective forum for both shareholders and the board of directors.

The chairperson of the board of directors, the CEO and CFO are present at the Annual General Meeting, along with the nomination committee and the company auditor. Shareholders who are unable to participate themselves may vote by proxy and a person can also be appointed to vote for the shareholders as a proxy.

Notice of the meeting and relevant documents, including the proposal of the nomination committee, are made available on the company website three weeks in advance of the meeting. Notice of the meeting is sent to all shareholders individually, or to their depository banks, three weeks in advance of the meeting. The notice of meeting includes information regarding shareholders' rights, guidelines for registering and voting at the meeting. The company provides information on the procedure for representation at the meting through proxy, nominates a person to vote on behalf of the shareholders and to the extent possible prepare a form which allows separate voting instructions for each matter.

Non-conformance with the recommendation: Photocure being a small company and with directors living in different countries has encouraged directors to attend, but has for both cost and convenience reasons so far not required all directors to attend the General Meeting.

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.

The nomination committee's duties are to propose candidates for election to the board of directors and to propose fees to be paid to the board members. The Nomination Committee are required to justify their recommendations.

Non-conformance with the recommendation: None.

CORPORATE GOVERNANCE

8. COMPOSITION AND INDEPENDENCE OF THE BOARD OF DIRECTORS

The board of directors consists of six members. 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, and function as an effective collegial body.

The members of the board of directors are elected for one year terms and presented on the company website. The Chairman and the members of the board of directors are elected by the General Meeting. All board members are considered to be independent from the company's day-to-day management, main shareholders and material business connections.

Non-conformance with the recommendation: None.

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 of directors performs an annual review of its work and required competences.

The board of directors 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 of directors has established instructions for the committees and the President & CEO.

In matters where the chairman of the board of directors is or has been actively involved, another board member will chair the meeting.

Non-conformance with the recommendation: None.

10. RISK MANAGEMENT AND INTERNAL CONTROLS

It is the responsibility of the board of directors to ensure that the company has sound internal controls and systems for risk management that are appropriate in relation to the extent and nature of the company's activities. Significant risks include strategic risks, financial risks, liquidity risks and operational risks including risks related to development of products. The company's significant risks are assessed on an on-going basis and at least once a year by the board.

The company's finance function is responsible for the preparation of the financial statements and to ensure that these are prepared and reported according to applicable laws and regulations and in accordance with IFRS. The Audit Committee performs reviews of the quarterly and annual financial statements with special focus on transaction types, which includes judgments, estimates or issues with major impact on the financial statement. In additional to the quarterly and annual reporting, the board of directors receives monthly financial updates. Management controls are performed at a senior level in the company.

The board of directors performs an annual review of the company's internal control systems and risk areas.

Non-conformance with the recommendation: None.

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.

Non-conformance with the recommendation: None.

12. REMUNERATION OF EXECUTIVE PERSONNEL

The board of directors has established 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.

The board will propose to the General Meeting 2013 that the option program shall include a minimum exercise price 10% above stock price at grant, as well as a cap on the size of remuneration which share options can bring.

Non-conformance with the recommendation: The share option scheme is currently not combined with direct ownership of the underlying shares as the option programs so far has given limited pay-outs.

13. INFORMATION AND COMMUNICATIONS

The company's reporting of financial and other information is based on openness and takes into account requirements for equal treatment of all investors. The company publishes a financial calendar on an annual basis, including dates of release of interim reports and dates for general meetings. All press releases and stock exchange notifications are posted on the company's website at the same time as it is sent to the shareholders.

The chairperson of the board chair and the CEO are authorised to speak on behalf of the company, and delegate such authority as is appropriate in relevant cases.

Non-conformance with the recommendation: None

14. COMPANY TAKE-OVERS

The board of directors will not attempt to influence, hinder or complicate the submission of bids for the acquisition of the company's operations or shares, or prevent the execution thereof. The board of directors will help ensure that shareholders are treated equally. If a take-over offer is made, the board of directors will obtain a valuation from an independent expert and issue a recommendation as to whether shareholders should accept the offer.

Non-conformance with the recommendation: None.

15. AUDITOR

On an annual basis, the auditor presents to the audit committee 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 annual financial statements and, at least once a year, carries out a review of the company's procedures for internal control in collaboration with the audit committee. In addition, the external auditor meets with the board of directors, without Photocure management being present, at least once per year.

Non-conformance with the recommendation: None.

INCOME STATEMENT

Photocure ASA
(Amounts in NOK 1 000)

Parent 2012	Parent 2011		Notes	Group 2012	Group 2011
85 410	70 015	Sales revenues	1,2,3	75 082	70 015
58 741	44 076	Signing fees and milestone revenues	1,2,3	58 741	44 076
144 151	**114 091**	**Total revenues**		**133 823**	**114 091**
-10 069	-10 954	Cost of goods sold	6	-9 405	-10 940
134 082	**103 137**	**Gross profit**		**124 418**	**103 151**
2 586	2 578	Other income	5	2 242	2 578
-12 337	-10 712	Indirect manufacturing expenses	7	-12 337	-10 712
-50 083	-64 062	Research and development expenses	7, 8	-50 083	-64 062
-47 361	-30 197	Marketing and sales expenses	7	-70 188	-30 551
-27 798	-30 251	Other operating expenses	7	-33 300	-31 008
-134 993	**-132 644**	**Total other income and expenses**		**-163 666**	**-133 755**
-911	**-29 507**	**Operating profit/loss(-)**		**-39 248**	**-30 604**
12 766	14 516	Financial income	12	12 766	12 274
-9 218	-2 364	Financial expenses	12	-4 530	-2 364
3 548	**12 152**	**Net financial profit/loss(-)**		**8 236**	**9 911**
2 637	**-17 355**	**Profit/loss(-) before tax**		**-31 012**	**-20 693**
890	39 950	Tax expense	13	890	39 950
3 527	**22 595**	**Net profit/loss(-) for continued operations**		**-30 122**	**19 257**
-8 508	3 787	Profit/loss(-) from discontinued operations	4	-17 779	-26 769
-4 981	**26 382**	**Net profit/loss(-) for the year**		**-47 901**	**-7 512**
-10 828	-12 312	Market value adjustment shares		-10 828	-12 312
		Currency translation		-527	67
-10 828	**-12 312**	**Total other comprehensive income**		**-11 355**	**-12 245**
-15 809	**14 070**	**Comprehensive income**		**-59 256**	**-19 757**
		Earnings per share (Amounts in NOK):	14		
		Basic		-2.25	-0.35
		Diluted		-2.24	-0.35
		Earnings per share continued operations	14		
		Basic		-1.42	0.90
		Diluted		-1.41	0.89

BALANCE SHEET
AS OF 31 DECEMBER

Photocure ASA
(Amounts in NOK 1 000)

Parent 2012	Parent 2011		Notes	Group 2012	Group 2011
		ASSETS			
3 531	3 984	Machinery and equipment	15	4 111	4 414
81 468	35 749	Loan to group company	28		
62 107	84 675	Other investments	16	59 951	83 336
40 840	39 950	Deferred tax asset	13	40 840	39 950
187 946	**164 358**	**Total non-current assets**		**104 902**	**127 700**
8 724	11 441	Inventories	17	9 826	11 790
6 438	5 442	Accounts receivable	18, 20	7 116	5 642
7 611	8 797	Other receivables	18, 20	8 316	8 876
301 822	355 092	Cash and short term deposits	18, 21	302 818	355 175
324 596	**380 773**	**Total current assets**		**328 076**	**381 483**
512 542	**545 131**	**Total assets**		**432 978**	**509 183**
		EQUITY AND LIABILITIES			
10 697	10 697	Share capital	22	10 697	10 697
72 961	72 771	Other paid-in capital		72 961	72 771
377 814	393 616	Retained earnings		296 610	355 869
461 472	**477 084**	**Total equity**		**380 268**	**439 337**
1 621	1 196	Pension liabilities	10	1 621	1 196
1 621	**1 196**	**Total non-current liabilities**		**1 621**	**1 196**
9 040	11 973	Accounts payable	24	9 035	11 821
2 125	1 771	Employee withholding taxes and social security tax		2 167	1 806
38 283	53 107	Other current liabilities	24	39 888	55 023
49 448	**66 851**	**Total current liabilities**		**51 089**	**68 650**
51 070	**68 047**	**Total liabilities**		**52 710**	**69 846**
512 542	**545 131**	**Total equity and liabilities**		**432 978**	**509 183**

Oslo, 27 February 2013
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 and CEO

STATEMENT OF CHANGES IN EQUITY

Photocure ASA
(Amounts in NOK 1 000)

Parent company

	Issued capital	Treasury shares	Other paid-in equity	Fair value reserve	Trans-lation reserve	Retained earnings	Total equity
Equity as of 31 December 2010	**11 047**	**-37 486**	**109 632**	**31 492**	**0**	**348 053**	**462 738**
Comprehensive income:							
Net profit for the year						26 382	26 382
Other comprehensive income				-12 312			-12 312
Total comprehensive income	0	0	0	-12 312	0	26 382	14 070
Transaction with owners:							
Capital reduction	-350	41 607	-41 257				0
Buy back own shares		-10 876					-10 876
Sale own shares		4 231					4 231
Employees' options			6 921				6 921
Total transaction with owners	-350	34 962	-34 336	0	0	0	276
Equity as of 31 December 2011	**10 697**	**-2 524**	**75 296**	**19 180**	**0**	**374 435**	**477 084**
Comprehensive income:							
Net profit for the year						-4 981	-4 981
Other comprehensive income				-10 828			-10 828
Total comprehensive income	0	0	0	-10 828	0	-4 981	-15 809
Transaction with owners:							
Capital reduction							0
Buy back own shares		-9 165					-9 165
Sale own shares		2 827					2 827
Employees' options			6 527				6 527
Other items						10	10
Total transaction with owners	0	-6 338	6 527	0	0	10	199
Equity as of 31 December 2012	**10 697**	**-8 862**	**81 823**	**8 352**	**0**	**369 463**	**461 472**

Group

	Issued capital	Treasury shares	Other paid-in equity	Fair value reserve	Trans-lation reserve	Retained earnings	Total equity
Equity as of 31 December 2010	**11 047**	**-37 486**	**109 632**	**31 492**	**73**	**344 097**	**458 855**
Comprehensive income:							
Net profit for the year						-7 512	-7 512
Other comprehensive income				-12 312	67		-12 245
Total comprehensive income	0	0	0	-12 312	67	-7 512	-19 757
Transaction with owners:							
Capital reduction	-350	41 607	-41 257				0
Buy back own shares		-10 876					-10 876
Sale own shares		4 231					4 231
Employees' options			6 921				6 921
Other items						-35	-35
Total transaction with owners	-350	34 962	-34 336	0	0	-35	241
Equity as of 31 December 2011	**10 697**	**-2 524**	**75 296**	**19 180**	**140**	**336 550**	**439 337**
Comprehensive income:							
Net profit for the year						-47 901	-47 901
Other comprehensive income				-10 828	-527		-11 355
Total comprehensive income	0	0	0	-10 828	-527	-47 901	-59 256
Transaction with owners:							
Capital reduction							0
Buy back own shares		-9 165					-9 165
Sale own shares		2 827					2 827
Employees' options			6 527				6 527
Other items							0
Total transaction with owners	0	-6 338	6 527	0	0	0	189
Equity as of 31 December 2012	**10 697**	**-8 862**	**81 823**	**8 352**	**-387**	**288 649**	**380 268**

CASH FLOW STATEMENT

Photocure ASA
(Amounts in NOK 1 000)

Parent 2012	Parent 2011		Group 2012	Group 2011
-5 871	-13 568	Profit/loss(-) before tax	-48 791	-47 462
1 358	1 088	Ordinary depreciation & amortisation	1 610	1 134
0	-21	(Gain)/Loss on sale of non-current assets	0	-21
11 060	-11 385	Deferred income sale of Metvix & Aktilite	11 060	-11 385
5 718	6 034	Share-based payments expense	6 527	6 882
588	506	Pension costs	588	506
-10 380	-10 643	Interest income	-10 380	-10 643
1 497	55	Other items	970	70
2 717	6 750	Change in inventory	1 964	6 402
191	1 768	Change in receivables	-915	5 701
-2 578	4 358	Change in other short term liability	-2 425	2 755
-11 621	11 621	Prepayment from customer	-11 621	11 621
-3 202	0	Change in other accruals	-3 515	-25
-10 524	**-3 437**	**Net cash flow from operating activities**	**-54 928**	**-34 466**
-45 719	-25 893	Loan to subsidiary		
-906	-3 241	Investments in machinery and equipment	-1 309	-3 720
0	119	Sale of fixed assets (sales price)	0	119
10 380	10 643	Interest received	10 380	10 643
-36 245	**-18 373**	**Net cash flow from investing activities**	**9 071**	**7 042**
-9 165	-10 873	Buy back own shares	-9 165	-10 873
2 827	4 231	Sale own shares	2 827	4 231
-162	0	Payment of debt	-162	0
-6 500	**-6 642**	**Net cash flow from financing activities**	**-6 500**	**-6 642**
-53 269	**-28 452**	**Net change in cash during the year**	**-52 357**	**-34 066**
355 091	**383 543**	**Cash and cash equivalents as of 01 January**	**355 175**	**389 241**
301 822	**355 091**	**Cash and cash equivalents as of 31 December**	**302 818**	**355 175**

ACCOUNTING PRINCIPLES

1. GENERAL INFORMATION

The annual accounts for 2012 for Photocure ASA (the Company) and its subsidiary (together the Group or Photocure) were approved for publication by the Board of Directors on 27 February 2013.

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 Hoffsveien 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 2012.

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.

1 October 2012, Photocure decided to exit its Allumera cosmetic dermatology business in the US and the decision was implemented before the end of 2012. Allumera is presented as discontinued operations in the financial report 2012 and hence the category Own sales, Dermatology is taken out of the operating segments.

In 2011 Photocure and GE Healthcare agreed to terminate their partnership regarding marketing, sales and distribution of Hexvix. As of January 2012, Photocure has commercialised the product Cysview (US trade name) through its own commercial operations in the US. Hexvix is licensed to Ipsen in the rest of the world outside the US and the Nordic region.

In the annual accounts for 2012, Photocure has presented the consolidated accounts including the wholly owned subsidiary Photocure Inc.

3. CHANGES IN ACCOUNTING POLICIES

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 interpretations 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 2012:

- 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 is co-investing EUR 3.0 million with Ipsen in marketing and sales programs of Hexvix, conditional on Ipsen's own marketing and sales activities. Photocure estimates that its expenses will incur evenly during the period of January 2012 through June 2013.
- Based on an agreement concerning licensing of Lumacan, a product under development, to Salix Pharmaceuticals Inc. ("Salix"), Photocure has received licence- and milestone payments. According to the agreement, these payments are not subject to any conditions and are recognised in the period they are received.
- 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.
- Based on Norwegian company tax rules, the Group has recognized a tax asset of NOK 40.8 million in the balance sheet as of 31 December 2012 of Photocure ASA. The basis for recognition is that temporary differences for the coming years will be reversed and expected future revenues.
- 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 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 to 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 9. The allocation of options to employees of subsidiary is made directly from the parent company and the financial presentation is correspondingly reported in the subsidiary.
- 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, pharmaceutical wholesalers in the Nordic region and hospitals in the US, and the risk for bad debts is minor.

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.

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

c. Property, plant and equipment

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

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

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

Intangible assets are 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. Development 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. If the Group has a sufficient amount of own shares, the Group will allot own shares instead of issuing new shares. 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 is expensed over the subscription rights' vesting period and the Company's equity is increased correspondingly. The fair

value of subscription rights is calculated according to the Black-Scholes model. Each 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.
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 2012

1 - OWN SALES AND LICENSING OF HEXVIX TO IPSEN PHARMA

GE Healthcare and Photocure agreed in 2011 to terminate the license agreement for the Hexvix product where GE Healthcare was responsible for marketing, sales and distribution outside the Nordic region. At the same time, Photocure entered into a strategic collaboration agreement with Ipsen Pharma (Ipsen). Ipsen is 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. In order to capitalize on the untapped US market opportunity, Photocure launched the FDA (Food and Drug Administration) approved product by establishing its own commercial operations in its subsidiary Photocure Inc in 2012. The product is approved as Cysview in the US.

Photocure will co-invest a total of EUR 3 million in 2012 and 2013 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. Additionally, Photocure has successfully transferred the contract manufacturing of Hexvix to a new partner and this transfer process triggered an additional EUR 3 million in transfer milestone payments from Ipsen in 2012.

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. Photocure received USD 4.0 million on signature of the agreement and received additionally USD 4.5 million in 2012 related to the development of Lumacan. Photocure is entitled to up to a total of USD 126.5 million in milestone payments from Salix. 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 3. 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. Photocure received EUR 3 million in 2012 and payment of the remaining EUR 4 million will be made before December 2016, depending on future regulatory approvals in Europe and the United States. 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 and Cysview sales in the US. Sales through partners comprise sales of Hexvix to Ipsen outside the Nordic region and USA, and royalties from sales by partners to end users. Milestone revenue within Cancer includes production transfer payments for Hexvix from Ipsen and milestone payment from Salix for the development of Lumacan.

Sales revenue from Partner in the Dermatology segment consists of the sale of the active substance MAL and the deferred recognition of Metvix revenue from Galderma. The Allumera business was exited in 2012 and is not included in the table.

The major part of operating costs is 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 are offset against operating expenses. Corporate management review the profitability of the segments on a regular basis and use this information to analyse and manage the operations. The operating segments are reviewed based on profitability and measured consistently over time.

Group - Segment information

2012 (amounts in NOK 1 000)								
	Cancer				Dermatology			Total
	Own	Partner	R&D	Total	Partner	R&D	Total	
Sales revenues	29 525	38 305		67 830	7 252	0	7 252	75 082
Milestone revenues		47 710		47 710	11 031		11 031	58 741
Cost of goods sold	-3 006	-6 385		-9 391	-14	0	-14	-9 405
Gross profit	**26 519**	**79 630**	**0**	**106 150**	**18 269**	**0**	**18 269**	**124 418**
Gross profit of sales %	90%	83%		86%	100%		100%	87%
Operating expenses	-54 689	-35 328	-39 225	-129 243	-204	-34 219	-34 423	-163 666
Operating profit/loss (-)	**-28 169**	**44 302**	**-39 225**	**-23 093**	**18 065**	**-34 219**	**-16 155**	**-39 248**

2011 (amounts in NOK 1 000)								
	Cancer				Dermatology			Total
	Own	Partner	R&D	Total	Partner	R&D	Total	
Sales revenues	24 048	40 514		64 561	5 454	0	5 454	70 015
Milestone revenues		32 692		32 692	11 384		11 384	44 076
Cost of goods sold	-1 481	-6 830		-8 311	-2 629	0	-2 629	-10 940
Gross profit	**22 567**	**66 375**	**0**	**88 942**	**14 209**	**0**	**14 209**	**103 151**
Gross profit of sales %	94%	83%		87%	52%		52%	84%
Operating expenses	-20 952	-22 367	-40 799	-84 117	-169	-49 470	-49 639	-133 756
Operating profit/loss (-)	**1 615**	**44 009**	**-40 799**	**4 825**	**14 040**	**-49 470**	**-35 430**	**-30 605**

NOTES TO THE FINANCIAL STATEMENTS FOR 2012

4 - DISCONTINUED OPERATION

(Amounts in NOK 1 000)

With effect from 30 September 2012 Photocure decided to exit its activities related to the Allumera business. The marketing organization was terminated during 4th quarter of 2012.

The statement of comprehensive income has been restated according to IFRS 5 in order to present discontinued operations separately from continuing operations.

	Group		Parent	
Results of discontinued operation	**2012**	**2011**	**2012**	**2011**
Sales revenues	3 239	1 477	-5 917	8 507
Expenses including restructure	-21 018	-28 246	-2 591	-4 720
Operating result	**-17 779**	**-26 769**	**-8 508**	**3 787**
Tax cost	0	0	0	0
Loss for the year	**-17 779**	**-26 769**	**-8 508**	**3 787**
Earnings per share	-0.84	-1.25		
Earnings per share, diluted	-0.83	-1.24		

Cash flow used in discontinued operations	**2012**	**2011**
Net cash flow from operating activities	-17 343	-25 843
Net cash flow from investment activities	0	-579
Net cash flow from financing activities	0	0
Net cash flow for the year	**-17 343**	**-26 422**

Effect of wind up on the financial position		**2012**	**2011**
Equipment	Note 15		-100
Inventory	Note 17		-349
Trade and other receivables	Note 20		-512
Trade and other payables	Note 24		1 609
Net assets and liabilities		**0**	**648**

Restructure costs incurred	
Direct restructure actions	3 100
Legal advice	250
Total	**3 350**

5 - OTHER INCOME

(Amounts in NOK 1 000)	Group		Parent	
	2012	**2011**	**2012**	**2011**
Grants from the Research Council of Norway for development projects	-	250	-	250
Norwegian R&D tax credit	2 200	2 200	2 200	2 200
Intercompany services			344	
Miscellaneous income	42	128	42	128
Total	**2 242**	**2 578**	**2 586**	**2 578**

6 - COST OF GOODS SOLD

Total cost of goods sold in 2012 of NOK 9.4 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 0.8 million in 2012 and NOK 1.0 million in 2011.

7 - INCOME STATEMENT CLASSIFIED BY NATURE

(Amounts in NOK 1 000)		Group		Parent	
	Note	**2012**	**2011**	**2012**	**2011**
Sales revenues	2	75 082	70 015	85 410	70 014
Signing fees and milestone revenues	2	58 741	44 076	58 741	44 076
Cost of goods sold	6	-9 405	-10 940	-10 069	-10 954
Gross profit		**124 418**	**103 151**	**134 082**	**103 136**
Other income	5	2 242	2 578	2 586	2 578
Payroll expenses	9	-76 520	-63 227	-59 893	-62 346
R&D costs excluding payroll expenses/other operating expenses	8	-23 782	-34 661	-23 782	-34 661
Ordinary depreciation and amortisation	15	-1 545	-1 089	-1 358	-1 088
Other operating expenses		-64 061	-37 356	-52 546	-37 126
Total operating revenue and operating expenses		**-163 666**	**-133 755**	**-134 993**	**-132 643**
Operating profit continued operations		**-39 248**	**-30 604**	**-911**	**-29 507**

Specification of Other operating expenses:

	2012	**2011**	**2012**	**2011**
Marketing expenses	23 505	5 885	19 419	5 537
Travel expenses	7 714	6 451	5 196	6 451
Patent costs, legal and other fees	14 559	12 215	11 833	11 543
Other expenses	18 283	12 805	16 098	13 595
Total other operating expenses	**64 061**	**37 356**	**52 546**	**37 126**

8 - 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 hexylaminolevulinate (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.

9 - PERSONNEL EXPENSES

(Amounts in NOK 1 000)		Group		Parent	
	Note	**2012**	**2011**	**2012**	**2011**
Salaries		54 252	44 684	41 744	44 684
Employer's social security contributions on salaries, etc.		7 450	6 860	6 520	6 860
Option costs		6 528	6 915	5 718	6 034
Employer's social security contributions on options		-106	-985	-106	-985
Pension costs	10	3 956	3 499	3 430	3 499
Other benefits		4 440	2 254	2 587	2 254
Total payroll expenses		**76 520**	**63 227**	**59 893**	**62 346**
No. of full-time equivalent positions		57.8	43.8	44.8	43.8

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 employmee. No subscription rights are allocated to members of the Board of directors. For 2012, NOK 6.5 million of share-based payments has been expensed, of which NOK 0.8 million applies to Photocure Inc. The corresponding figure for Photocure in 2011 was NOK 6.9 million of which NOK 0.9 million applied to Photocure Inc.

At 31 December 2012, employees in Photocure had the following share option schemes:

Year of allocation	**2012**	**2012**	**2011**	**2011**	**2010**	**2010**	**2009**
Option programme	2012-I	2011-II	2011-I	2010-I	2010-II	2009	2008
Number	30 000	290 194	75 000	314 515	50 000	123 156	167 927
Exercise price (NOK)	40.50	50.75	50.75	44.00	38.00	20.30	32.00
Date of expiry (31 December)	2017	2016	2016	2015	2015	2014	2013

In addition, a conditional allocation of 670 000 options was made at price NOK 40.50. This allocation is dependent on the achievement of both personal and company goals. Allocation of these options will take place in April 2013 after an evaluation of the goals achieved for 2012.

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

	2012		2011	
	Number	**Average exercise price (NOK)**	**Number**	**Average exercise price (NOK)**
Outstanding at start of year	975 094	36.23	710 365	27.49
Allocated during the year	351 219	49.87	500 490	45.18
Become invalid during the year	155 812	42.70	70 900	36.47
Exercised during the year	119 709	23.62	164 861	25.66
Expired during the year	-	-	-	-
Outstanding at end of year	1 050 792	41.27	975 094	36.23
Exercisable options as per 31 December	672 491	37.44	589 217	30.47

The average weighted life of outstanding share options was 3.0 years at 31 December 2012 and 3.4 years at 31 December 2011. The average weighted market value of options issued in 2012 was NOK 14.83 and in 2011it was NOK 18.51 per option. The market prices for the Photocure share on the exercising of the options in March and May 2012 were NOK 47.00 and NOK 39.50 per share, respectively.

The exercise prices and the average life of outstanding share options as per 31 December 2012 were as follows:

Average remaining life	**No. of options**	**Exercise price NOK**
1 year	167 927	32.00
2 year	123 156	20.30
3 year	50 000	38.00
3 year	314 515	44.00
4 year	365 194	50.75
5 year	30 000	40.50
Total	**1 050 792**	

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.

	2012	**2011**	**2010 - I**	**2010 - II**	**2009**
Dividends (NOK)	0.00	0.00	0.00	0.00	0.00
Expected volatility (%)	45.74	46.85	41.06	41.06	44.35
Historical volatility (%)	45.74	46.85	41.06	41.06	44.35
Risk-free interest (%)	1.98	1.57	3.08	2.57	3.11
Expected life of options (years)	3.75	3.65	3.65	3.50	3.66

10 - 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 2012 and 31 December 2011, 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.

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

The pension cost for the year is calculated as follows:

(Amounts in NOK 1 000)	**Group**		**Parent**	
	2012	**2011**	**2012**	**2011**
Total pension costs, contribution scheme in life assurance	3 511	2 931	2 985	2 931
Total pension costs, company contribution scheme	445	568	445	568
Total	**3 956**	**3 499**	**3 430**	**3 499**

NOTES TO THE FINANCIAL STATEMENTS FOR 2012

11 - AUDITING FEES

(Amounts in NOK 1 000 ex VAT)	**Group and parent**	
	2012	**2011**
Statutory auditing	220	224
Other attestation services	20	23
Other services excluding auditing	0	0
Tax advice	62	260
Total	**302**	**507**

12 - FINANCIAL INCOME AND EXPENSE

(Amounts in NOK 1 000)	**Group**		**Parent**	
	2012	**2011**	**2012**	**2011**
Interest income	10 397	10 669	10 397	10 669
Foreign exchange gains	2 369	1 605	2 369	3 847
Total financial income	**12 766**	**12 274**	**12 766**	**14 516**
Interest expense	5	6	5	6
Foreign exchange losses	4 397	2 212	9 084	2 212
Other financial expense	128	146	129	146
Total financial expense	**4 530**	**2 364**	**9 218**	**2 364**

13 - TAX

(Amounts in NOK 1 000)

	Group		**Parent**	
Income tax expense	**2012**	**2011**	**2012**	**2011**
Tax payable				
Changes in deferred tax	-890	-39 950	-890	-39 950
Total income tax expense	**-890**	**-39 950**	**-890**	**-39 950**
Tax base calculation				
Profit before income tax	-48 791	-47 462	-5 871	-13 568
Permanent differences *)	3 860	4 278	2 691	3 284
Temporary differences	29 288	43 447	29 445	44 229
Utilisation of tax loss carried forward, not previously incorporated	-26 265	-33 945	-26 265	-33 945
Increase tax loss carried forward US	41 908	33 682	-	-
Tax base	**0**	**0**	**0**	**0**

Temporary differences:	**2012**	**2011**	**2012**	**2011**
Receivables	0	0	0	0
Inventories	1 921	1 921	1 921	1 921
Non current assets	-1 132	-1 329	-1 321	-1 359
Provisions	-7 962	-16 411	-7 962	-16 411
Pensions	-1 621	-1 196	-1 621	-1 196
Gains and losses	150 024	187 529	150 024	187 529
Total	141 230	170 514	141 041	170 484
Tax loss carried forward	-354 454	-337 198	-286 898	-313 162
Net temporary differences	**-213 224**	**-166 684**	**-145 857**	**-142 678**
Write down of deferred tax asset	67 367	24 006	0	0
Deferred tax benefit recognised in balance sheet	**-145 857**	**-142 678**	**-145 857**	**-142 678**
Deferred tax liability (asset)	**-40 840**	**-39 950**	**-40 840**	**-39 950**

Effective tax rate

	Group	**Parent**
Expected income taxes at statutory tax rate 28%	-13 661	-1 644
Permanent differences (28%)	1 081	753
Not recognised deferred tax benefit of tax loss US	12 141	-
Effect foreign currency	-253	-
Effect different rate income tax US	-197	-
Income tax expense	**-890**	**-890**
Effective tax rate in % **)	1.8 %	15.2 %

*) Permanent differences consist of non deductible costs, non taxable income and deduction for development cost through the SkatteFunn consept.

**) Tax expense related to profit before tax.

The Company has recognised a deferred tax asset regarding net temporary differences in Norway as of 31 December 2012 by NOK 0.9 million and as of 31 December 2011 by NOK 39.95 million. The basis for the recognition is the assessment that it is more-likely-than-not that the deferred tax benefit will be utilised. There is no expiry on losses to be carried forward in Norway while it expires after 20 years in US.

14 - EARNINGS PER SHARE

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

	2012	**2011**
No. of shares		
Ordinary shares 1 January	21 393 301	22 093 301
Write down of treasury shares	0	-700 000
Effect of treasury shares	-133 510	-46 299
Effect of share options exercised	0	0
Weighted average number of shares, 31 December	**21 259 791**	**21 347 002**
Effect of outstanding share options	89 884	197 164
Weighted average number of diluted shares, 31 December	**21 349 675**	**21 544 166**

NOTES TO THE FINANCIAL STATEMENTS FOR 2012

	2012			2011		
Earnings per share	**Continued operations**	**Dis-continued operations**	**Totalt**	**Continued operations**	**Dis-continued operations**	**Totalt**
Weighted average number of shares	**21 259 791**	**21 259 791**	**21 259 791**	**21 347 002**	**21 347 002**	**21 347 002**
Dilution effect	89 884	89 884	89 884	197 164	197 164	197 164
Weighted average number of shares diluted	21 349 675	21 349 675	21 349 675	21 544 166	21 544 166	21 544 166
Annual earnings per share in NOK	-1.42	-0.84	-2.25	0.90	-1.25	-0.35
Annual earnings per share in NOK diluted	-1.41	-0.83	-2.24	0.89	-1.24	-0.35

15 - MACHINERY AND EQUIPMENT

(Amounts in NOK 1 000)

Group	**Intangible**	**Plant equipment and furniture**		
	Software	**Production Equipment**	**Furniture & Equipment**	**Total**
Accumulated cost at 1 January 2011	1 419	1 327	2 718	**5 464**
Additions	23	1 022	2 196	3 241
Disposals and scrapping	0	0	-1 221	-1 221
Accumulated cost at 31 December 2011	**1 442**	**2 349**	**3 693**	**7 484**
Additions	11	363	936	1 309
Disposals and scrapping	-890	-118	-35	-1 043
Accumulated cost at 31 December 2012	**563**	**2 594**	**4 594**	**7 750**
Accumulated depreciation at 1 January 2011	953	642	1 941	**3 536**
Ordinary depreciation	183	277	674	1 134
Disposals and scrapping	0	0	-1 599	-1 599
Accumulated depreciation at 31 December 2011	**1 136**	**919**	**1 015**	**3 071**
Ordinary depreciation	108	519	982	1 610
Disposals and scrapping	-890	-118	-33	-1 041
Accumulated depreciation at 31 December 2012	**354**	**1 321**	**1 965**	**3 640**
Book value at 31 December 2011	**306**	**1 430**	**2 677**	**4 413**
Book value at 31 December 2012	**208**	**1 274**	**2 629**	**4 111**
Equipment discontinued operations at 31 December 2011			**100**	**100**

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

	Group		Parent	
Rental costs	**2012**	**2011**	**2012**	**2011**
Rental of office premises	4 264	3 929	3 695	3 430
Rental of equipment	370	463	370	369
Total rental costs	**4 634**	**4 392**	**4 065**	**3 799**

The Company has entered into a new rent agreement for premises at Hoffsveien 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 2013 through 31 December 2013. The rent for the remaining period until the expiry of the agreement on 30 August 2016 amounts to NOK 9.9 million. Annual regulation of the rent corresponds to the change in the consumer price index.

Photocure Inc rents office premises at Carnegie Center, Princeton, New Jersey from 1 April 2011 through 31 March 2014. Photocure Inc has the option to extend the rent agreement for 3 years. The rent committment for the period 1 January 2013 to 31 March 2014 is NOK 0.7 million.

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 2013 are estimated to decrease.

16 - OTHER INVESTMENTS

Group shares	**Location**	**Year of incorpo-ration**	**Share capital**	**Share-holding**	**Book value**	**Equity at 31 December 2012**	**Result 2012**
PCI Biotech Holding ASA	*Oslo, Norway*	2007	16 249	19.35 %	46 725	69 706	-25 259

Shares in PCI Biotech Holding ASA are valued at market price on Oslo Axess at 31 December 2012 at NOK 31.50 per share.

In the balance sheet of parent company 100% of shares in the subsidiary Photocure Inc are included with book value NOK 2.2 million as of 31 December 2012 and NOK 1.3 million as of 31 December 2011.

	Group and parent	
Other non-current financial assets	**31-Dec-12**	**31-Dec-11**
Booked part of final settlement from sale of Metvix/ Aktilite, cf. description in note 2	13 226	25 783

17 - INVENTORIES

(Amounts in NOK 1 000)	**Group**		**Parent**	
	31-Dec-12	**31-Dec-11**	**31-Dec-12**	**31-Dec-11**
Raw materials	930	2 386	930	2 386
Components	2 379	1 372	2 379	1 372
Semi-finished and finished goods	6 517	8 032	5 415	7 683
Total inventories	**9 826**	**11 790**	**8 724**	**11 441**
Including inventories discontinued operations		349		
Total inventories continued operations	**9 826**	**11 441**	**8 724**	**11 441**

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.

18 - FINANCIAL RISK

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

(I) Organisation of financial risk management

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

Responsibility for managing financial risk is placed with the management of the company. 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.

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 manufactures, markets and sells the company's products via two different business models. One is to do marketing and sale through the company's own organization in the Nordic region and US. The other model is to do the marketing and sale through license partners. Revenues from license partners consist of three elements: sales of products to license partners, royalties from license partners' sales to end users, and milestone revenues. Photocure manufactures the company's products by renowned contract manufacturers in Italy, Spain, Sweden and Norway. Prices of raw materials are a risk factor. Currency risk is mainly related to milestone revenues, sale to partner and royalties which is nominated in EUR and USD. Also Photocure's commercial operations in the US expose Photocure for currency risk against USD as both costs and expenses are in USD. Currency risks are partly naturally hedged by purchasing goods and services in EUR.

Research and development activities

Photocure conducts research and development of new innovative medical products based on the company's patented technology. Currency risk in research and development is connected to the purchase of goods and services for drug formulation and development of new medical devices, and to the purchase of services related to the conducting of clinical studies, in Europe and the United States. 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 Company 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:

	Remaining period				
(Amounts in NOK 1 000)	**Less than 1 month**	**1–3 months**	**3–12 months**	**1–5 years**	**Total**
31-Dec-12					
Accounts payable	8 035	1 000	0	0	**9 035**
Other current liabilities	2 500	26 388	10 000	1 000	**39 888**
31-Dec-11					
Accounts payable	10 821	1 000	0	0	**11 821**
Other current liabilities	4 000	25 023	20 000	6 000	**55 023**

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, major pharmaceutical wholesalers in the Nordic region and major hospitals in USA. 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. Bank accounts in foreign currencies are used actively to reduce exposure to all the main currencies and currency risk is to some degree naturally hedged in EUR, USD, SEK and DKK by having both revenues and costs in the same currency. Photocure does not have any outstanding hedges of future transactions at 31 December 2012.

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**
2012	+ 10 %	-3 677
2012	- 10 %	3 677
2011	+ 10 %	-830
2011	- 10 %	830

19 - FAIR VALUE

The table below analyses financial assets recognised in the balance sheet at fair value according to the valuation method.

The different levels have been defined as follows:

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

(Amounts in NOK 1 000)

Market value hierarchy	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets available for sale:				
- Shares in PCI Biotech Holding ASA	46 725			**46 725**
- Money market funds	237 711			**237 711**
Total	**284 436**	**0**	**0**	**284 436**

20 - RECEIVABLES

Maximum credit risk

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

(Amounts in NOK 1 000)	**Group**		**Parent**	
	31-Dec-12	**31-Dec-11**	**31-Dec-12**	**31-Dec-11**
Accounts receivable	7 116	5 642	5 931	5 208
Accounts receivable intercompany	0	0	507	234
Total	**7 116**	**5 642**	**6 438**	**5 442**
Including accounts receivables discontinued operations		434		
Total accounts receivable continued operations	**7 116**	**5 208**	**6 438**	**5 442**
Royalty	3 132	5 309	3 132	5 309
Other receivables	5 184	3 567	4 479	3 488
Total other receivables	**8 316**	**8 876**	**7 611**	**8 797**
Including receivables discontinued operations		78		
Total other receivable continued operations	**8 316**	**8 798**	**7 611**	**8 797**

Loan to the subsidiary is disclosed in note 26.

Age breakdown of group accounts receivable	**Not yet due**	**0–30 days**	**30–60 days**	**60–90 days**	**Over 90 days**	**Total**
31 December 2012	6 088	455	402	79	92	**7 116**
31 December 2011	4 883	759	0	0	0	**5 642**

A provision for bad debts of NOK 0.3 million has been made as of 31 December 2012 while no loss on bad debts incurred in 2011. Credit risk and foreign exchange risk in regard to trade accounts receivable are dealt with in more detail in Note 18.

21 - CASH AND SHORT TERM DEPOSITS

(Amounts in NOK 1 000)	Group		Parent	
	31-Dec-12	**31-Dec-11**	**31-Dec-12**	**31-Dec-11**
Cash and cash equivalents, restricted (1)	4 243	4 094	4 243	4 094
Cash and cash equivalents, non-restricted	60 864	33 602	59 868	33 519
Money market funds, non-restricted	237 711	317 479	237 711	317 479
Total	**302 818**	**355 175**	**301 822**	**355 092**

(1) Restricted cash and cash equivalents at 31 December 2012 include security for employees' withholding tax in the amount of NOK 1.9 million, while the remaining amount refers to deposit for rent of office.

22 - SHARE CAPITAL

Registered share capital in Photocure ASA amounted to:

	No. of shares	Nominal value per share NOK	Share capital in NOK
Share capital at 31 December 2011	**21 393 301**	**0.50**	**10 696 651**
Share capital at 31 December 2012	**21 393 301**	**0.50**	**10 696 651**
Treasury shares:			
Holdings of treasury shares at 31 December 2010	**695 652**		**347 826**
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
Holdings of treasury shares at 31 December 2011	52 314		26 157
Buy-back of treasury shares	245 650	0.50	122 825
Sale of treasury shares	-119 709	0.50	-59 855
Holdings of treasury shares at 31 December 2012	178 255		89 128

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 10 May 2012, the Board of Directors of Photocure ASA was granted authorisation to issue up to 2.9 million shares. Of this authorisation, (a) 2.1 million shares are linked to financing of the Company's development, while (b) 0.8 million shares are associated with the issue of shares to the Company's employees 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 2013. Previously issued authorisations have expired.

The table below indicates the status of authorisations at 31 December 2012:

	Purchase, treasury shares	Ordinary share issue	Employee share issues
(Figures indicate the number of shares)			
Authorisation issued at the General Meeting on 10 May 2012	2 139 330	2 139 330	800 000
Share issues after the General Meeting on 10 May 2012		0	0
Purchase of treasury shares	-245 650		
Remaining under authorisations at 31 December 2012	**1 893 680**	**2 139 330**	**800 000**

At 31 December 2012, 1 050 792 subscription rights have been allocated to employees (see note 9).

Ownership structure

The major shareholders in Photocure as of 31 December 2012 were:

	Shares	Shareholding
The Norwegian Radium Hospital Research Foundation	3 129 000	14.6 %
JP Morgan Chase Bank	1 957 334	9.1 %
Odin Norge	1 584 105	7.4 %
Fondsfinans Spar	1 350 000	6.3 %
Gezina AS	1 230 716	5.8 %
Skagen vekst	1 109 401	5.2 %
KLP Aksje Norge VPF	891 768	4.2 %
Kommunal Landspensjonskasse	855 000	4.0 %
MP Pensjon PK	500 000	2.3 %
Danske Invest Norske Instit. II.	403 807	1.9 %
Danske Invest Norske Aksjer	372 624	1.7 %
Vicama AS	345 384	1.6 %
Goldman Sachs & Co - Equity	325 667	1.5 %
Bergen Kommunale Pensjonskasse	300 000	1.4 %
Holberg Norge	271 699	1.3 %
Total of shareholders with a shareholding of more than 1%	**14 354 806**	**67.1 %**
Treasury shares	178 255	0.8 %
Total other shareholders	6 860 240	32.1 %
Total number of shares	**21 393 301**	**100.0 %**

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 2012:

Name	Position	No. of shares	No. of sub-scription rights*
Åse Aulie Michelet	Chairman	9 500	
Jon Hindar	Board member	8 000	
Ingrid Wiik	Board member	4 000	
Mats Pettersson	Board member	5 000	
Eva Steiness	Board member	5 300	

Kjetil Hestdal	President and CEO	62 873	139 000
Erik Dahl from 15 August 2012	Chief Financial Officer	-	30 000
Kathleen Deardorff	Chief Operating Officer	-	75 000
Inger Ferner Heglund	Vice President Research and Development	8 200	84 800
Grete Hogstad	Vice President Strategic Marketing	8 000	76 250
Gry Stensrud	Vice President Technical Development & Operations	6	61 196

* See note 9 for additional information about the subscription rights.

For 2012, the Board of directors of Photocure has continued an incentive programme for the company's employees, including the Company management. A total of 670 000 conditional share options / subscription rights have been awarded for 2012, with each share option entitling the holder to subscribe for one new share in the company at a price of NOK 40.50. These share options will only be earned if significant goals in the work programme and the budget for 2012 are achieved. The conditional share options for the Company management are specified in note 25.

23 - CAPITAL STRUCTURE

The group is financed by equity and had no interest-bearing debt at 31 December 2012 and 31 December 2011.

24 - ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

(Amounts in NOK 1 000)	**Group**		**Parent**	
	31-Dec-12	**31-Dec-11**	**31-Dec-12**	**31-Dec-11**
Accounts payable	9 035	11 821	8 146	11 356
Accounts payable, intercompany	0	0	895	617
Total	**9 035**	**11 821**	**9 040**	**11 973**
Including accounts payable discontinued operations		625		
Total accounts receivable continued operations	**9 035**	**11 196**	**9 040**	**11 973**
Provision for accrued external R&D costs	4 811	9 956	4 811	9 956
Provision for obligation under Lumacan license agreement	7 535	15 878	7 535	15 878
Prepayment from customer	0	11 621	0	11 621
Accrued bonus, holiday pay, salaries	10 965	11 740	9 941	10 463
Accrued royalty liability	391	1 079	391	1 079
Miscellaneous other accrued costs	16 186	4 749	15 605	4 110
Total other current liabilities	**39 888**	**55 023**	**38 283**	**53 107**
Including other liabilities discontinued operations		984		
Total other current liabilities continued operations	**39 888**	**54 039**	**38 283**	**53 107**

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.

25 - 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**
Senior management 2012						
President and CEO		2 198	484	118	265	**3 065**
Chief Operating Officer		2 296	304	74	135	**2 809**
VP Research and Development		1 208	154	97	117	**1 576**
Chief Financial Officer, from 15 August 2012		587	-	26	83	**695**
VP Strategic Marketing		1 274	174	99	136	**1 684**
VP Technical Development and Operations		1 085	168	16	100	**1 369**
Head, US Cancer Commercial Operations		1 506	-	113	50	**1 669**
Head, Nordic Cancer Commercial Operations		992	30	39	82	**1 143**
Total senior management		**11 145**	**1 315**	**583**	**966**	**14 009**
Board of Directors 2012						
Chairman of the Board	450					**450**
Members of the Board	1 200					**1 200**
Total remuneration	**1 650**	**11 145**	**1 315**	**583**	**966**	**15 659**

	Directors' fees paid	**Salaries paid**	**Bonuses paid**	**Benefits in kind**	**Pension cost**	**Total**
Senior management 2011						
President and CEO		2 115	769	117	274	**3 274**
Chief Operating Officer, from 1 May 2011		1 195	-	-	97	**1 292**
VP Research and Development		1 143	165	93	115	**1 516**
Chief Financial Officer, to 30 November 2011		1 199	197	60	119	**1 575**
VP Strategic Marketing		1 253	187	98	136	**1 673**
VP Technical Development and Operations		6 905	1 317	367	742	**9 330**
Total senior management						
Board of Directors 2011	**-**					**-**
Chairman of the Board	420					**420**
Members of the Board	420	6 905	1 317	367	742	**9 750**
Total remuneration	**840**	**6 905**	**1 317**	**367**	**742**	**10 170**

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 goal-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 2012, 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 (Folketrygden). Photocure has established pension coverage for employees with salaries higher than 12 G. The scheme is a contribution-based operating pension with provisions corresponding to 16% of salary above 12 G. In the event of resignation, full pension rights are conditional upon at least five years' employment, while less than 3-years' employment carries no rights. Contributions paid generated interest at 4.5% p.a. in 2012. 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 Strategic 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 2012	**Subscription rights awarded***	**Expired subscription rights**	**Subscription rights exercised**	**Holding of subscription rights at 31 December 2012**	**Average exercise price**	**Conditionally awarded subscription rights**
President and CEO	30 000	-	-	139 000	37.21	50 000
Chief Financial Officer, to 30 November 2011	30 000	-	-	30 000	40.50	-
Chief Operating Officer, from 1 May 2011 **	-	-	-	75 000	50.75	30 000
VP Strategic Marketing	17 250	-	-	76 250	37.24	30 000
VP Research and Development	19 500	-	-	84 800	35.90	30 000
VP Technical Development and Operations	22 500	-	-	61 196	40.24	30 000
Head, US Cancer Commercial Operations	-	-	-	-	-	30 000
Head, Nordic Cancer Commercial Operations	-	-	-	-	-	30 000
Total	**119 250**	**-**	**-**	**466 246**		**230 000**

* Exercise price NOK 50.75 expiry date 31 December 2016.

** Assigned 30 000 unconditional subscription rights with exercise price NOK 40.50 at appointment in 2012.

Subscription rights for senior management 2011	**Subscrip-tion rights awarded***	**Expired subscrip-tion rights**	**Subscrip-tion rights exercised**	**Holding of subscription rights at 31 December 2011**	**Average exercise price**	**Condition-ally awarded subscription rights**
President and CEO	50 000	-	-	109 000	33.48	50 000
Chief Financial Officer	25 650	-	-	76 500	32.01	30 000
Chief Operating Officer**	75 000	-	-	75 000	50.75	-
VP Strategic Marketing	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, 4 October 2010	19 050	-	-	38 696	34.13	30 000
Total	**215 750**	**-**	**-**	**423 496**		**170 000**

* 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.

26 - RELATED PARTIES - COMPANIES

Subsidiary

Photocure has established a wholly owned subsidiary in the US, Photocure Inc, in order to carry out the marketing-, selling- and distribution activities for the Cysview product from 2012, see details in note 1. Photocure ASA has the ownership to the patent rights and the trade mark and is responsible in the group for development and manufacturing of the product. Photocure Inc purchases the completed product from the parent company and distributes 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.

Photocure Inc was repsonsible for sale and distribution of the cosmetic dermatology product Allumera until 30 September 2012 when Photocure made the strategic decision to exit its Allumera business in the US.

Transactions and intercompany balances Photocure Inc:

(Amounts in NOK 1 000)	**2012**	**2011**
Sales of products	9 333	8 507
Sales of services	344	887
Total subsidiary	**9 677**	**9 394**

	31-Dec-12	**31-Dec-11**
Accounts receivables	507	234
Long term loan given	81 468	35 749
Accounts payables	-895	-617
Total subsidiary	**81 080**	**35 366**

Guarantees to bank in favor of subsidiary for requested security	**1 398**	**300**

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

The Norwegian Radium Hospital Research Foundation

The Norwegian Radium Hospital Research Foundation (RF) is the largest single shareholder in Photocure ASA with 14.6% of the shares at 31 December 2012. 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)	**2012**	**2011**
Research and development services	500	500

	31-Dec-12	**31-Dec-11**
Accounts receivables	0	0
Accounts payables	0	0

27 - SUBSEQUENT EVENTS

There are no subsequent events after 31 December 2012 that give material impact the the group financial position as of the balance sheet date.

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To the Annual Shareholders' Meeting of Photocure ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Photocure ASA, which comprise the financial statements of the parent company Photocure ASA and the consolidated financial statements of Photocure ASA and its subsidiaries. The parent company's and the consolidated financial statements comprise the balance sheet as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

Auditor's Responsibility

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

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

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

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

Statsautoriserte revisorer - medlemmer av Den norske Revisorforening.

Offices in:

Oslo, Alta, Arendal, Bergen, Bodø, Elverum, Finnsnes, Grimstad, Hamar, Haugesund, Knarvik, Kristiansand, Larvik, Mo i Rana, Molde, Narvik, Røros, Sandefjord, Sandnessjøen, Stavanger, Stord, Straume, Tromsø, Trondheim, Tønsberg, Ålesund

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 2012, 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, 27 February 2013
KPMG AS

Lars Inge Pettersen
Stateauthorized public accountant

[Translation has been made for information purposes only]

Oslo, 27 February 2013

Confirmation from the Board of Directors and CEO 2012

We confirm that, to the best of our knowledge, that the financial statements for the period from 1 January to 31 December 2012 has been prepared in accordance with IFRS adopted by EU and gives a true and fair view of the Group and the Company's consolidated assets, liabilities, financial position and results of operations, and that the Report of the Board of directors provides a true and fair view of the development and performance of the business and the position of the Group and the Company together with a description of the key risks and uncertainty factors that the company is facing.

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 and CEO


ONE KIT
NDC 10511-3001-1
Cysview®
(hexaminolevulinate HCl)
KIT for Intravesical Solution
100 mg
For Bladder Instillation Only after Reconstitution
Rx ONLY
Single Use Containers.
Discard unused portion.
DILUENT
for Cysview®
50 mL

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