PHOTOCURE®

THE BLADDER CANCER COMPANY™

Annual report 2019

ANNUAL GENERAL MEETING
June 10, 2020

Q1
May 7, 2020

Q2
August 13, 2020

Q3
November 12, 2020

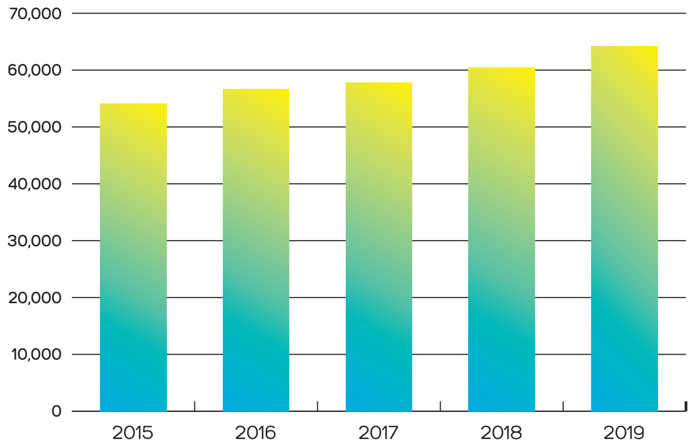
Photocure ASA ("Photocure", "the Company" or "the Group") delivers transformative solutions to improve the lives of bladder cancer patients. Photocure's unique technology, making bladder cancer cells glow bright pink, has led to better health outcomes for bladder cancer patients. Photocure is headquartered in Oslo, Norway and listed on the Oslo Stock Exchange (OSE: PHO).

Photocure has transformed itself from a technology-based company to a therapeutic area-focused commercial stage pharmaceutical company with focus on bladder cancer. The allocation of resources, and hence expenses, have shifted from R&D to sales and marketing. Photocure's strategy is to maximize its commercial presence and the opportunity of its flagship brand Hexvix®/Cysview® in bladder cancer. In addition, the Company will continue to explore alone or in partnership with others new product opportunities that is complementary to the Company's commercial activities and expertise.

Content

2019

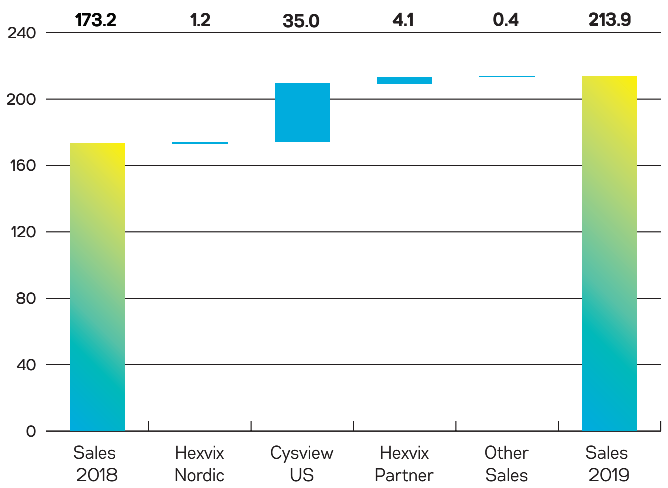
IN-MARKET UNIT SALES



P&L PHOTOCURE TOTAL

MNOK	FY 2019	FY 2018
Hexvix / Cysview revenues	213.2	172.9
Other sales revenues	3.2	0.3
Signing fees and milestones	65.1	8.3
Total revenues	281.6	181.5
Gross profit	**259.0**	**164.4**
Operating expenses	**-200.1**	**-174.9**
EBITDA recurring	**58.9**	**-10.5**
Restructuring and One-Off	-	-14.2
Depreciation & Amortization	-16.2	-13.2
EBIT	**42.7**	**-37.9**
Profit/loss(-) before tax	**45.9**	**-36.7**
Net profit/loss(-)	**31.8**	**-36.7**

SALES REVENUE - MNOK



P&L PHOTOCURE BY SEGMENT

MNOK	FY 2019	FY 2018
COMMERCIAL FRANCHISE		
Nordic revenues	48.2	47.0
US revenues	98.7	63.7
Partner revenues	66.3	62.2
Hexvix/Cysview revenue	**213.2**	**172.9**
Other revenues	3.2	8.6
Total revenues	**216.4**	**181.5**
Gross profit	**193.9**	**164.4**
Operating expenses	-186.6	-156.0
EBITDA recurring	**7.3**	**8.4**
DEVELOPMENT PORTFOLIO		
Milestone revenues	65.1	0.0
Operating expenses	-13.5	-18.9
EBITDA recurring	**51.6**	**-18.9**

in brief

EBITDA of NOK

NOK 58.9 MILL

in 2019 up from NOK -10.5 million in 2018

Potential treatment effect: Results of a study presented at BLADDR 2019 indicate for the first time that a treatment effect of BLC™ with Hexvix® may be related to immunogenic cell death responses and anti-tumor immune cell activation*

**BLC: Blue Light Cystoscopy*

Total revenue of

NOK 281.6 MILL.

in 2019 an increase of 55% over 2018

Revenue growth of

43%

in the U.S. operation in USD in 2019

Cevira®

The License Agreement with Asieris for the world-wide development and commercial-ization of Cevira® for the treatment of HPV induced cervical precancerous lesions

U.S. Cysview®

Reimbursement was extended and strengthened by CMS from 1 January 2020.

223

cystoscopes installed in the U.S. market at the end of the year, an increase by 66 in 2019

Board of Directors Report 2019

In 2019 Photocure has continued and strengthened its commercial activities within bladder cancer. Focusing resources to revenue generating investments in the U.S. has driven significant revenue growth. The impact has been a significant improvement in operating results. Photocure has also strengthened the position for Blue Light Cystoscopy with Cysview® with a reorganized U.S. sales force and through the improved reimbursement granted by the U.S. Centers for Medicare & Medicaid Services (CMS) effective from January 2020. The License Agreement with Asieris for the world-wide development and commercialization of Cevira for the treatment of HPV induced cervical precancerous lesions is a significant milestone and royalty opportunity, and will allow Photocure, in line with its strategy, to focus all its efforts and resources on delivering transformative solutions to improve the lives of bladder cancer patients.

The Company had total revenues of NOK 281.6 million in 2019, an increase of 55% from 2018. Total revenues include revenues from Asieris of NOK 65.1 million. Global full year in-market unit sales increased 6% in 2019, driven by a growth of 36% in the U.S. Operating profit was NOK 42.7 million, an improvement of NOK 80.6 million from 2018 operating loss of NOK 37.9 million. Net profit for the year was NOK 31.8 million compared to a loss in 2018 of NOK 36.7 million.

About Photocure

Photocure ASA ("Photocure", "the Company" or "the Group"), the Bladder Cancer Company, delivers transformative solutions to improve the lives of bladder cancer patients. Photocure's unique technology, making bladder cancer cells glow bright pink, has led to better health outcomes for patients worldwide. Photocure is headquartered in Oslo, Norway and listed on the Oslo Stock Exchange (OSE: PHO).

Strategic direction – developing a specialty pharmaceutical company

Photocure has transformed itself from a technology-based company to a therapeutic area-focused commercial stage pharmaceutical company with the focus on bladder cancer. The allocation of resources, and hence expenses, have shifted from R&D to sales and marketing. Photocure's strategy is to maximize its commercial presence and the opportunity of its flagship brand Hexvix®/Cysview® in bladder cancer. In addition, the Company will continue to explore, alone or in partnership with others, new product opportunities that arecomplementary to the Company's commercial activities and expertise in bladder cancer.

Commercial Segment

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

Bladder cancer ranks as the sixth most common cancer worldwide with 1 650 000 prevalent cases (5-year prevalence rate), 550 000 new cases and almost 200 000 deaths annually in 2018.[1] Bladder cancer has the highest lifetime treatment costs per patient of all cancers.[2] Patients have to undergo multiple cystoscopies due to the high risk of recurrence. There is an urgent need to improve both the diagnosis and the management of bladder cancer for the benefit of patients and healthcare systems alike.

Bladder cancer is classified into two types, non-muscle invasive bladder cancer (NMIBC) and muscle-invasive bladder cancer (MIBC), depending on the depth of invasion in the bladder wall. NMIBC are the most common (75%) of all bladder cancer cases. In MIBC the cancer has grown into deeper layers of the bladder wall and is more likely to spread and harder to treat.[3]

Photocure is leveraging its flagship brand Hexvix®/Cysview® to improve detection of non-muscle invasive bladder cancer andreduce disease recurrence and progression rates to improve cost-effective health outcomes for bladder cancer patients. Hexvix®/Cysview® is marketed in the U.S. and Nordic by Photocure's own specialist commercial and medical teams and through partnerships in continental Europe, Canada and Australia/New Zealand. In 2019 the in-market sales totaled approximately NOK 330 million, compared to NOK 285 million in 2018.

The Company continues to see significant growth opportunities in its markets and has a solid foundation for future growth of its breakthrough bladder cancer product. Furthermore, Photocure explores expansion of its product portfolio.

The company has continued to invest in its U.S. commercial organization, in line with its commercial market opportunities and strategic objectives. The added resources have driven growth in number of blue light cystoscopes installed at leading U.S. hospitals/urology centers as well as growth in unit sales and revenue. The availability of Blue Light Cystoscopy (BLCTM) with Cysview®, for rigid and flexible cystoscopy means that Cysview® can now be used for both bladder cancer surgery and follow-up cystoscopy, allowing physicians to detect patients with the disease earlier and manage it more appropriately. Revenue in U.S. increased 55% in 2019 to NOK 98.7 million (43% in USD) while the installed base of blue light cystoscopes increased by 66 to a total of 223 at end of the year.

In line with our ambition for U.S., Cysview® is well on its way to becoming the standard of care for bladder cancer patients. Keys to success are in place:

- Approval – Broader U.S. Indication into the 3x larger surveillance market
- Acceptance – AUA, EAU, SUO and many regional and local guidelines as well as the newly published Expert Consensus Guidelines for surveillance with flexible cystoscopes
- Access – Permanent and favorable reimbursement as of January 2019 and additional new codes to come in 2020.
- Activated Awareness – Demand via advocacy groups, clinics' advertising and media
- Acceleration – Commercial investment in the U.S. to optimize the opportunity in our largest and untapped market

Photocure will maximize the return on our commercial investment by executing our plans in the largely untapped U.S. market where we expect to see our greatest returns in the form of significant and sustainable revenue and profitability growth.

In addition to investments in the commercial capacity, growth has been fueled by inclusion of Blue Light Cystoscopy with Cysview® in prominent national guidelines for the management of bladder cancer and by improved reimbursement. Following previous positive rulings, in November 2019, the United States Centers for Medicare and Medicaid Services (CMS) released its Final Rule for 2020 maintaining the reimbursement code (A Code) for Cysview® when used in the hospital outpatient and other sites of care and the complexity adjustment code. The rule includes improved reimbursement for certain Blue Light Cystoscopy procedures effective 1 January 2020.

In February 2020, Photocure announced that the United States Patent and Trademark Office (USPTO) has granted U.S. Patent No. 10,556,010 covering the use of Blue Light Cystoscopy with Hexvix®/ Cysview® as neoadjuvant therapy in the treatment of bladder cancer in patients who are scheduled for a cystectomy. Photocure intends to further investigate Hexvix® for its therapeutic effect as result of Photocure's continued focus

[1] Globocan. Incidence/mortality by population. Available at: http://globocan.iarc.fr/Pages/bar_pop_sel.aspx
[2] Sievert KD et al. World J Urol 2009;27:295–300
[3] Bladder Cancer. American Cancer Society. https://www.cancer.org/cancer/bladder-cancer.html

on securing intellectual property rights. This patent expires in December 2036.

Sales revenue from Hexvix® in Nordic increased 3% in 2019 to NOK 48.2 million. In 2018 Photocure signed an exclusive distribution agreement for the Nordic area with Combat Medical (www.combat-medical.com). The device is designed for the delivery of Hyperthermic Intra-Vesical Chemotherapy (HIVEC®) for non-muscle invasive bladder cancer and has a strong strategic and synergistic fit with our current business and customer call points. Photocure leveraged the extensive Hexvix® infrastructure in the Nordic area for implementation of the Combat Medical distribution agreement. The product was launched in 2019.

Partner sales revenue increased 7% to NOK 66.3 million. The growth was driven by increased sales in Germany and France, as well as foreign exchange. In-market unit sales increased 3%.

Hexvix®/Cysview® has been launched in Canada and Australia, however volumes have been negatively impacted by the timing of the placement of scopes by third-party suppliers and health system funding approvals.

During 2019, several studies were published highlighting and confirming key benefits of Blue Light Cystoscopy (BLC™) with Hexvix®/Cysview®. Main publications and presentations are:

- An expert consensus on use of Cysview® with flexible cystoscopy to detect bladder cancer was published in Nature Reviews in Urology (April), recommending, as already stated in the AUA guidelines, that a clinician should offer BLC at the time of TURBT*, if available, to increase detection and reduce recurrence.
- A study published in World Journal of Urology (April), reported that patients who undergo bladder tumor resection with Blue Light Cystoscopy with Hexvix® exhibit improved outcomes.
- Strong additional clinical data of BLC with Hexvix®/ Cysview® presented during the European Association of Urology annual congress in March and the American Urological Association annual meeting in May.
- In July, a review paper on Blue Light Cystoscopy with Hexvix®/ Cysview® with focus on the use in the office setting with flexible cystoscopes was published in the peer reviewed European Medical Journal. With emerging data confirming similar clinical benefits for flexible BLC in the surveillance of non-muscle invasive bladder cancer to its current use in rigid cystoscopy, the authors stated that there is a clear opportunity for flexible BLC to assert a central role in the treatment paradigm.
- In October a study with BLC with Hexvix® was presented at the 39th Congress of the Société Internationale d'Urologie held in Athens, Greece. The study objective was to evaluate the feasibility of using Blue Light flexible cystoscopy with biopsy and tumor destruction by diode laser using local anesthesia in the outpatient clinic. The authors concluded that non-muscle invasive bladder cancer can be diagnosed and treated with diode laser with local anesthesia using flexible Blue Light Cystoscopy.
- Two abstracts on Hexvix® were presented at the BLADDR 2019 congress in Paris, France in October, including the first published data from a pre-clinical study investigating potential treatment effects of Blue Light Cystoscopy with Hexvix®. The results of the study indicate for the first time that a treatment effect may be related to immunogenic cell death responses and anti-tumor immune cell activation.
- December saw a new publication of study results in Urology, The Gold Journal, announced by Photocure in November, on reduced recurrence after flexible Blue Light Cystoscopy with Hexvix® in surveillance. This Danish study with 699 bladder cancer patients found that the use of flexible Blue Light Cystoscopy at the first follow-up after TURBT* reduced the risk of tumor recurrence by 33% compared to white light alone.

Development Portfolio

CEVIRA® – FOR TREATMENT OF HPV (HUMAN PAPILLOMA VIRUS) AND PRECANCEROUS LESIONS OF THE CERVIX

Cevira is a photodynamic drug-device combination product for non-surgical treatment of high-grade cervical dysplasia.

In July, the Company announced that it had entered into a License Agreement providing Asieris Meditech Co., Ltd (Asieris) with a world-wide license to develop and commercialize Cevira for the treatment of HPV induced cervical precancerous lesions.

* TURBT: trans-urethral resection of bladder tumors

Subsequently, Asieris has launched a global clinical development program with an initial focus on the Chinese market based on Photocure's Phase 2b data and the Phase 3 study design elements agreed with the U.S. Food and Drug Administration (FDA). The development for the U.S. and EU markets will follow when clinical data from the Chinese focused Phase 3 study confirms the safety and efficacy, estimated to be finished in 2022. Asieris will assume responsibility for the manufacturing of the Cevira product while Photocure retains responsibility for the manufacturing of the active pharmaceutical ingredient (API).

Under the License Agreement, Photocure has received a total signing fee of USD 5.0 million during 2019. In addition, the company may receive a total of USD 18 million based upon achievement of certain clinical and regulatory milestones in China and up to USD 36 million for certain clinical and regulatory milestones in the U.S. and EU. Approval of a second indication in China, the U.S. and the EU would result in payments of up to USD 14 million. Sales milestones and royalties of 10% to 20% will apply in all markets.

Financial review

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

Total revenue reached NOK 281.6 million up from NOK 181.5 million in 2018. Revenues were mainly driven by significant revenue growth in U.S., as well as signing fee payments and committed milestones from Asieris for Cevira. Also revenues from Nordic and partner revenue have increased from 2018.

Sales revenues reached NOK 213.9 million in 2019, an increase of NOK 40.7 million from NOK 173.2 million in 2018. Sales revenues comprise own sales of Hexvix® in the Nordic region and Cysview® in the U.S. and income from product sales and royalties from Photocure's license partners on sales of Hexvix® to hospitals and pharmacies in other regions.

Signing and milestone revenues totaled NOK 67.6 million in 2019 compared to NOK 8.3 million in 2018. Signing and milestone revenues include signing fee payments and committed milestones from Asieris for Cevira of NOK 65.1 million in 2019 and milestones from Bellus Medical totaling NOK 4.9 million in 2018. Furthermore, the signing and milestone revenues include revenues from the partner agreement with Ipsen.

Operating expenses excluding restructuring expenses increased from NOK 188.1 million in 2018 to NOK 216.3 million in 2019. The main cost driver was the strategic investment in increased sales and marketing expenses in the U.S. sales operation, partly offset by reduced research and development expenses. Photocure has expensed all research and development costs except for development costs related to the phase 3 clinical study for Cysview® which have been capitalized as intangible assets.

Photocure's operating result excluding restructuring expenses were NOK 42.7 million in 2019, compared to an operating result of NOK -23.7 million in 2018. The improvement in the operating result is primarily attributable to the significant increase in U.S. sales revenue and signing fee and milestones from Asieris.

Net financial items totaled NOK 3.2 million in 2019, compared to NOK 1.2 million in 2018. The increased net financial income in 2019 was driven mainly by foreign exchange gains from the receivable on Asieris.

Result before tax was a profit of NOK 45.9 million in 2019 compared to a loss of NOK 36.7 million in 2018.

Tax expense was NOK 14.1 million in 2019 and NOK 0.0 million in 2018. The calculation of deferred tax at year end was based on a tax rate of 22% for both 2019 and 2018.

The Group's net result after tax was NOK 31.8 million in 2019 compared to NOK -36.7 million in 2018.

Net cash flow from operating activities was NOK 20.7 million in 2019, compared to NOK -24.1 million in 2018. 2019 net change in cash was NOK 18.5 million, an improvement of NOK 41.0 million from 2018. The improvement is mainly driven by signing fee from Asieris for Cevira.

Photocure follows a low risk investment strategy for its liquid funds. The return on the liquid funds depends on the rate of interest in the money markets and will therefore vary over time. Liquid funds amounted to NOK 125.3 million at 31 December 2019 and NOK 106.8 million at 31 December 2018.

Shareholder equity was NOK 208.6 million at 31 December 2019, an equity ratio of 81%. At the end of 2018, shareholder equity was NOK 176.3 million (76%).

DIVIDEND

The Board does not propose a dividend payment for 2019. Photocure is focusing its resources on building a therapeutic area-focused commercial stage pharmaceutical company with focus on bladder cancer and the Board of Directors will recommend payment of dividends in line with the Company's results, financial position, product and market development plans and outlook. Photocure does not expect to pay dividends in the near future.

PARENT COMPANY

Photocure ASA (Parent company) had in 2019 a profit after tax of NOK 47.3 million, compared to a profit after tax of NOK 1.7 million in 2018. The equity in Photocure ASA totals NOK 492.1 million at 31 December 2019. The equity ratio of the Parent company is 93%.

SHARE CAPITAL AND BOARD MANDATES

At 31 December 2019, 21,779,008 shares were registered in Photocure. At the Ordinary General Meeting 9 May 2019, the Board of Directors was granted authorization to purchase up to 10% of its own shares. At 31 December 2019, Photocure held 16,624 own shares.

GOING CONCERN

Pursuant to § 3.3 (a) of the Norwegian Accounting Act, it is confirmed that the conditions for assuming that the Group is a going concern are present, and that the financial statements have been prepared on the basis of this assumption. No events have occurred since the end of 2019, except those which are stated in this report that are of major significance for the assessment of the Company's financial position and results.

Operational risk

Photocure develops innovative products and markets and sells these products through its own commercial teams and in partnerships with other companies. These activities entail exposure to various risks. The Board of Directors and management monitor and analyze the operations and potential risk factors, and actively take risk reduction measures.

COMMERCIAL RISK

Photocure is commercializing Hexvix®/Cysview® directly in the U.S. and the Nordic region and has a strategic partnership with Ipsen for the commercialization of Hexvix® in Europe, excluding the Nordic region, and with Juno Pharmaceuticals and BioSyent Pharma for Australia/New Zealand and Canada respectively. Any significant event that adversely affects revenues from Hexvix®/ Cysview® could have a material and negative impact on Photocure's results and cash flows. Key commercial risks include:

- Partners ability to support the brand in key markets.
- Reimbursement may be limited or unavailable in certain markets, which could make it more difficult to achieve profitability in these markets. Changes in reimbursement in Europe and U.S. may have a material impact on Photocure's results and cash flows.
- Hospitals may restrict access for our staff which will make the sales and support activities more challenging and therefore may have a negative impact on Photocure's results and cash flows.
- Use of Hexvix®/Cysview® requires installation of Blue Light Cystoscopes which are manufactured and sold by other companies, only one of which is approved with Cysview® in the U.S. These companies' ability and willingness to develop and promote these products may affect Photocure's results and cash flows.
- The expiration or loss of patent protection may adversely affect Photocure's future results and cash flows. Third parties may challenge or seek to invalidate or circumvent Photocure's patents and patent applications. The patent for Hexvix® expired in main European countries in 2019 and the patent for Cysview® in U.S. will expire in the fourth quarter 2020.
- Competitive products or technologies may emerge at any time, and changes in the competitive landscape may have a material impact on Photocure's results and cash flows.

MANUFACTURING RISK

Photocure relies on third-party suppliers for manufacturing and assembly. Delays or interruptions and quality issues at the production facilities as well as improper transport, handling and delivery may impair supply of Hexvix®/Cysview® to the market and hence revenues.

DEVELOPMENT AND REGULATORY RISK

- Photocure's partner Asieris will need approval from regulatory authorities to market Cevira. Efficacy issues could arise, and approval may be denied, delayed or limited.
- In general, successful launches and sales for pipeline products may not be achieved inter alia due to changes in market dynamics or competition, unsuccessful marketing, and pricing pressure due to limitations on healthcare budgets.
- As with any drug intended for diagnostic or therapeutic use, adverse clinical reactions are always a possibility.

Financial risk

Photocure has an international business operation and is exposed to liquidity and funding risk, credit risk, currency risk and interest rate risk. At the end of 2019, the Company had no derivatives or other financial instruments to reduce the currency risk and interest rate risk.

Responsibility for managing financial risk is placed with the management of the Company. Financial risk is also monitored by the Board of Directors.

LIQUIDITY AND FUNDING RISK

The Company monitors the cash flows from both long and short-term perspectives through planning and reporting. Photocure does not have any loan agreements that involve covenants or other financial requirements. Photocure uses a multi-currency consolidated accounts system that provides flexibility in relation to drawing on multiple currencies. The company may require new capital in the future. Adequate sources of capital funding may not be available when needed or may not be available on favorable terms.

CREDIT RISK

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

CURRENCY RISK

As NOK is the Company's presentation currency, Photocure is exposed to translation risk associated with the Company's net exposure in foreign currency. Photocure's revenues and costs are accrued in different currencies and the Company is therefore exposed to exchange rate fluctuations. The Company monitors the need for hedging of large transactions on an ongoing basis. Photocure did not have outstanding hedging of future transactions at 31 December 2019 and 31 December 2018.

INTEREST RATE RISK

Photocure does not have any interest-bearing debt, and the Company's interest rate risk is mainly associated with the Company's holdings of cash and cash equivalents. The main strategy is to diversify the risk and invest in money market funds and bond funds with low risk, high liquidity and short duration. The investments are denominated in NOK.

Organization

The Group's senior management team at year-end consisted of Daniel Schneider, President and CEO; Erik Dahl, Chief Financial Officer; Geoffrey Coy, Vice President and General Manager of U.S. Operations; Grete Hogstad, Vice President Strategic Marketing; Kari Myren, Head of Global Medical Affairs and Clinical Development and Gry Stensrud, Vice President Technical Development and Operations. Inger Ferner Heglund acts as an Advisor for Research and Development to Photocure's Leadership Team.

The Board of Directors held 16 meetings in 2019. All members of the Board of Directors are shareholder-elected. The members of the Board of Directors were at the end of 2019 Jan H. Egberts (Chairperson), Einar Antonsen, Johanna Holldack, Gwen Melincoff, Tom Pike, Tove Lied Ringvold and Grannum R. Sant.

Photocure ASA has offices in Oslo, Norway. Photocure ASA has one subsidiary, Photocure Inc, located in Princeton, New Jersey, USA.

Corporate social responsibility

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

Photocure is a specialty pharma company that delivers transformative solutions for detecting and treating bladder cancer to improve the lives of patients. The Company consistently aims to create innovative drugs, procedures and medical devices that help urology providers deliver improved bladder cancer outcomes to their patients. Through Photocure's end-to-end insight and bladder cancer expertise, the Company provides smarter solutions to existing challenges and is shaping the future of bladder cancer management.

Sustainability has been part of Photocure's business approach since the beginning. The company believes that creating value for patients, customers and society strengthens the Company's business and provides value for shareholders. Beyond the business impact Photocure aims at implementing further metrics linked to the UN Sustainable Development Goals, the globally recognized framework for advancing sustainability in the public and private sectors, and to foster strong relationships with a variety of stakeholders through its commitment to corporate social responsibility. In the near future, comprehensive ESG reporting will be available at www.photocure.com.

As a healthcare company, improving the lives of bladder cancer patients is in itself a strong commitment to society. Photocure's commitment to corporate social responsibility is driven by the Company values – care, courage and passion – and is reflected in the focus on the following priority areas: Patients access to health and quality of life, talent & workplace, environment, governance and ethics.

PATIENTS ACCESS TO HEALTH AND QUALITY OF LIFE

Photocure's mission is to deliver transformative solutions to improve the lives of bladder cancer patients.

Photocure's employees take pride in this mission, and consistently aim to create innovative drugs, procedures and medical devices that help urology providers deliver improved bladder cancer outcomes to their patients, regardless of the setting of care.

"Delivering transformative solutions to improve the lives of bladder cancer patients" encompasses all activities from developing products, gaining approval by relevant authorities, working with patient organizations and hospitals and finally getting the products to the market either through Photocure's own sales organization or by partners.

Through efforts made by Photocure and its partners, more bladder cancer patients gained access to Hexvix®/Cysview®, making possible a positive impact on management of these patients.

The Company is also continuously supporting clinical research activities and trains a growing number of physicians in the use of the blue light cystoscopy procedure. Photocure is also taking part in community involvement activities and is partnering with prominent patient associations to enhance the access to care and awareness on bladder cancer in general.

Documented clinical benefits for bladder cancer patients using Hexvix®/Cysview® have been published in Nature Reviews in Urology, World Journal of Urology and Urology – The Gold Journal in 2019, as well as at major international Urology congresses. Since launch over 500,000 procedures have been conducted with Hexvix®/Cysview® worldwide.

TALENT & WORKPLACE

The Photocure organization comprised of 67 employees at the end of 2019. In addition, the Company has a strong network of consultants to support the operations and development. The Company's policy is to outsource non-core operations and highly specialized services.

The work environment within the Company is considered to be good, measured through regular employee surveys. No accidents or injuries resulting in absence were registered in 2019. Absence due to illness in the Company was 1.6% of total hours in 2019, compared 3.6% in 2018.

Photocure aims to be a workplace with equal opportunities in all areas. The Company has traditionally recruited from environments where the number of women and men is relatively equally represented. In terms of gender equality within the Company, 40% of board members are women, as are 50% of the senior management team at the end of 2019. Globally Photocure employs 52% women and 48% men. Working time arrangements at the Company, independent of gender, strive to enhance the individual work-life balance.

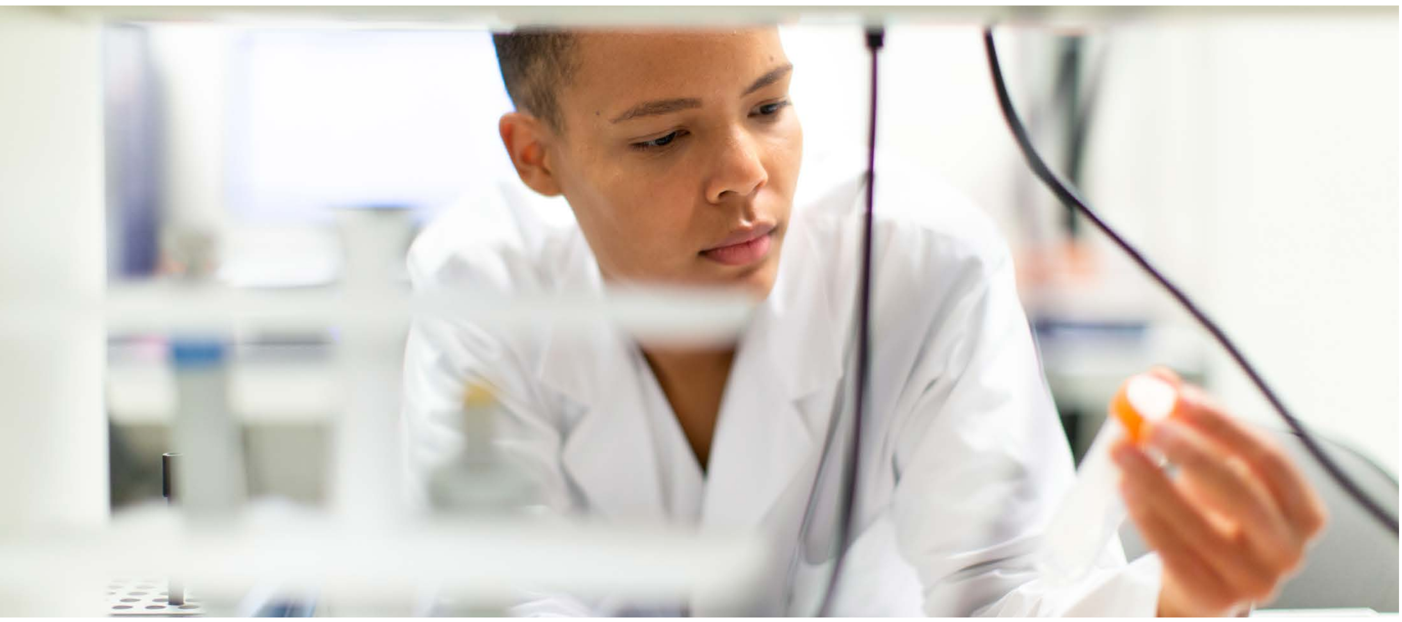
Photocure's policy is to promote equal rights and opportunities and prevent any kind of discrimination based on gender, ethnicity, nationality, sexual orientation, ancestry or religion. Photocure is working actively to promote the anti-discrimination act. These activities include recruitment, salary and working conditions, promotion, professional development and protection against harassment. Furthermore, Photocure aims to be a workplace where there is no discrimination on the basis of disability. A diverse and inclusive workplace supports innovation and contributes to a positive work environment in which people can grow both professionally and personally.

ENVIRONMENT

The Company does not pollute the external environment to a greater extent than is normal for this type of industry as all production and distribution is outsourced. However, Photocure makes it its priority in supplier selection and monitoring to evaluate and document its suppliers' business code of conduct including environment, health and safety policy and their Corporate Social Responsibility practices.

GOVERNANCE AND ETHICS

Ensuring good governance practices and "doing things the right way" involves all people in Photocure. This includes governance as documented in the guidelines for corporate governance, local and industry specific guidelines like good pharmacovigilance practice as well as ethical conduct and anticorruption based on the Photocure values and respect for human rights. Photocure's supplier requirements in terms of adherence to Company



practices, guidelines and values are an integral part of all stages of the procurement process including selection and auditing. In the outsourced manufacturing activities Photocure ensures that everything is produced and controlled according to quality standards such as good manufacturing practice (GMP).

Photocure's values set out the expectation that everyone behaves ethically in everything they do. The Company values are care, courage and passion. The annual performance appraisal for Photocure employees and management includes an assessment of the performance in relation to the values.
In addition, the company strives to always enhance its processes through gap-analysis and regular standard operating procedure reviews. In 2019 more than 60% of the company procedures have been revised and updated to ensure business ethics and good governance practice. The company also plans to name a Chief Compliance Officer in the coming year.

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

Subsequent events

Photocure is following the development related to the Covid-19 situation closely and has implemented strict measures to ensure the safety of patients, customers, employees and business partners while maintaining an uninterrupted level of service and supply. Additional measures are continuously considered.

As of the date of this report, the direct impact on Photocure's business from the Covid-19 pandemic is limited. However, the Company expects this pandemic to affect healthcare systems as the burden of managing the virus increases in the coming weeks and months. Photocure's production of Hexvix/Cysview is running at full capacity with no disruptions, but transport and supply chain services may be disrupted and Photocure's services and support may be restricted by government and healthcare organizations in the future. Should Photocure experience a temporary disruption, the Company has current inventory of Hexvix/Cysview that will last until the end of 2020. Short and long term business development and operations may be affected by the Covid-19 situation in various ways. It is currently not possible to quantify all such effects given the ongoing rapid development. Photocure has a strong cash position to support ongoing business and carries no interest-bearing debt.

Outlook

Photocure delivers transformative solutions which improve the lives of bladder cancer patients. Based on experience and the performance of the breakthrough bladder cancer product Hexvix®/ Cysview®, Photocure has embarked on a stepwise approach for continued growth. Photocure sees significant long-term potential in the global bladder cancer market and has a defined growth strategy:

- Accelerating – Drive the breadth and depth of Hexvix®/ Cysview® usage in key accounts
- Expanding – Generate sales in new geographies and product enhancements
- Acquiring – Synergistic or complementary products
- Transforming – Partner and in-license assets to strengthen the bladder cancer portfolio

The U.S. continues to represent the primary growth market for Photocure with a large untapped market opportunity exceeding 1 million procedures per year.

Based on the outlook and strategic opportunities, Photocure targets U.S. revenues in the range of USD 70 million in 2023, and sees significant continued revenue growth and profit opportunities in the U.S. market beyond 2023.

Oslo, 6 April 2020
Photocure ASA

Jan H. Egberts Chairperson	Grannum R. Sant Director	Tom Pike Director	Tove Lied Ringvold Director
Gwen Melincoff Director	Einar Antonsen Director	Johanna Holldack Director	Daniel Schneider President and CEO

Confirmation from the Board of Directors and CEO 2019

We confirm that, to the best of our knowledge, that the financial statements for the period from 1 January to 31 December 2019 have been prepared in accordance with IFRS adopted by EU and gives a true and fair view of the Group and the Company's consolidated assets, liabilities, financial position and results of operations, and that the Report of the Board of Directors provides a true and fair view of the development and performance of the business and the position of the Group and the Company together with a description of the key risks and uncertainty factors that the Company is facing.

Oslo, 6 April 2020
Photocure ASA

Jan H. Egberts Chairperson	Einar Antonsen Director	Johanna Holldack Director
Gwen Melincoff Director	Tom Pike Director	Tove Lied Ringvold Director
Grannum R. Sant Director		Daniel Schneider President and CEO

Board of Directors

Jan H. Egberts

Chairperson of the Board/Member of Compensation Committee
Attendance: Board meetings: 16/16
Compensation Committee: 7/7

Jan H. Egberts holds 14,500 shares and no share options in Photocure.

Dr. Egberts has over 30 years of experience in the pharmaceutical and medical devices sector. Currently, Dr. Egberts serves as the Managing Partner of Veritas Investments, a private investment company focused on investments in the healthcare industry. Previous positions include strategic consultant at McKinsey & Co. in New York and other locations, various business development and general management positions of increasing responsibilities in the USA at Merck & Co. Johnson & Johnson and Molnlycke Health Care, Senior Industry Advisor, Healthcare Investments for 3i, CEO of OctoPlus, a publicly traded specialty pharmaceutical company in the Netherlands, and CEO of Agendia, a molecular diagnostics company.

- Elected year 2017
- Position: Managing Partner of Veritas Investments
- Education: MD and MBA
- Other assignments: Chairman at Nordic Nanovector. Board member at Pharming, Viroclinics, LeadPharma, CHDR, SigmaScreening, NLC Investments and Mellon Medical

Einar Antonsen

Director
Attendance: Board meetings: 6/6

Einar Antonsen holds 13,500 shares and no share options in Photocure.

Einar Antonsen is a finance professional with over 25 years of experience from Corporate Finance, Institutional Sales, Banking and as CFO. From year 2000 he spent 15 years as a partner in Fearnley Securities working with Corporate Finance and Institutional Sales, before starting his own advisory firm EAdvisors in 2015. EAdvisors provides independent consultancy advice to companies on Strategic Development, M&A, ECM and DCM. Antonsen serves as Executive Director in MFDevCo and as Chairman of the board at G2W Ventures. He has a BSc in Business Administration and an MBA from the American Graduate School of International Business.

- Elected year 2019
- Position: CEO of EAdvisors
- Education: B.Sc. and MBA
- Other assignments: Executive Director in MFDevCo, Chairman of the board at G2W Ventures

Johanna Holldack

Director/Member of Compensation Committee
Attendance: Board meetings: 16/16
Compensation Committee: 3/3

Johanna Holldack holds no shares and no share options in Photocure.

Dr. Holldack has international operational experience from pharma companies, including clinical trials, drug approvals, IPOs and licensing. She has also managed several mergers and acquisitions. In addition, Dr. Holldack has venture capital experience from Swiss-based Aravis Venture where she was a partner for 5 years. Her industry career spans over 20 years including management and executive positions at Behringwerke, Chiron, MediGene, Borean Pharma, Telormedix and Trethera Corporation.

- Elected year 2017
- Position: CEO Kupando GmbH
- Education: MD
- Other assignments: Advisor to Spark at Charite, Berlin

Gwen Melincoff

Director/Member of the Audit Committee
Attendance: Board meetings: 16/16
Audit Committee: 5/5

Gwen Melincoff holds 1,000 shares and no share options in Photocure.

Gwen Melincoff has over 25 years of leadership experience in the biotechnology and pharmaceutical industries. From 2014 to 2016, she served as Vice President of Business Development at BTG International Inc., and from 2004 to 2013, she was Senior Vice President of Business Development at Shire Pharmaceuticals. Additionally, she led the Strategic Investment Group (SIG), Shire's $50MM corporate venture fund which was started in 2010.

- Elected year 2017
- Position: Independent consultant
- Education: B.Sc. in Biology, M.Sc. in Management
- Other assignments: Board member at Collegium Pharmaceutical Inc., Soleno Therapeutics, Protalix Biotherapeutics and a Venture Advisor at Agent Capital.

Tom Pike

Director/Chairperson of the Compensation Committee
Attendance: Board meetings: 16/16
Compensation Committee: 7/7

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

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

- Elected year 2014
- Position: Life Science Industry Professional
- Education: B.Sc. Honors in Pharmacology
- Other assignments: Chairman at Credio AS. Board member at Vectron Biosolutions AS, Kaydence AS and Vingmed Holding AS

Tove Lied Ringvold

Director/Chairperson of the Audit Committee
Attendance: Board meetings: 6/6
Audit Committee: 2/2

Tove Lied Ringvold holds no shares and no share options in Photocure.

Tove Lied Ringvold has 20 years of experience in international corporate banking covering large private and publicly owned companies, mainly in the marine industries. Ringvold is an experienced finance professional with extensive competence in financing, risk management and capital structures. She served as Executive Director in Nordea Corporate and Investment Banking (Norway) until 2018, and is currently senior advisor in the Norwegian Ministry of Trade, Industry and Fisheries. Ringvold holds a Siviløkonom degree from Norwegian School of Economics and Business Administration, Bergen, Norway.

- Elected year 2019
- Position: Senior Advisor, Ministry of Trade, Industry and Fisheries
- Education: M.Sc. in Economics and Business Administration ("Siviløkonom")

Grannum R. Sant

Director/Member of the Audit Committee
Attendance: Board meetings: 16/16
Audit Committee: 5/5

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

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

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

Corporate Governance Policy and Annual Review

Review of policy adopted by the Board 6 April 2020

Photocure is committed to Good Corporate Governance

Photocure ASA (“**Photocure**” or the “**Company**”) has made a strong commitment to ensure trust in the Company and to enhance shareholder value through effective decision-making and improved communication between the management, the board of directors and the shareholders. The Company’s framework for corporate governance is intended to decrease business risk, maximize value and utilize the Company’s resources in an efficient, sustainable manner, to the benefit of shareholders, employees and society at large.

The Company will seek to comply with the Norwegian Code of Practice for Corporate Governance (the “**Corporate Governance Code**”), last revised on 17 October 2018 and available at the Norwegian Corporate Governance Board’s web site www.nues.no, to the extent not considered unreasonable due to the Company size and stage of development. The principal purpose of the Corporate Governance Code is (i) to ensure that listed companies implement corporate governance that clarifies the respective roles of shareholders, the board of directors and senior management more comprehensively than what is required by legislation and (ii) to ensure effective management and control over activities with the aim of securing the greatest possible value creation over time in the best interest of companies, shareholders, employees and other parties concerned.

The Company is subject to reporting requirements for corporate governance under the Accounting Act section 3-3b as well as Oslo Børs “Continuing obligations of stock exchange listed companies” section 7. The board of directors will include a report on the Company’s corporate governance in each annual report including an explanation of any deviations from the Corporate Governance Code. The corporate governance framework of the Company is subject to annual reviews and discussions by the board of directors.

The following provides a discussion of the Company’s corporate governance in relation to each section of the Corporate Governance Code for the financial year 2019. Photocure’s compliance with the Code is detailed in this report and section numbers refer to the Corporate Governance Code:

1. Implementation and reporting on Corporate Governance

The Company will seek to comply with the Corporate Governance Code. The board of directors shall include a report on the Company's corporate governance in its annual report, including an explanation of any deviations from the Corporate Governance Code.

Non-conformance with the recommendation: None

2. Business

Photocure's business is clearly defined in the Company's articles of association (the "**Articles of Association**"). The Company's objectives, strategies and risk profiles should be evaluated at least annually to create value for shareholders. Objectives and strategies are presented in the annual report and the Company's website www.photocure.com.

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

"*The purpose and main business of the Company is to operate business related to medical use of photodynamic technology and other medical methods of treatment, and anything thereby connected.*"

The board of directors of the Company has adopted several corporate governance guidelines, including rules of procedure for the board of directors, instructions for the audit committee, instructions for the compensation committee, insider manuals, manual on disclosure of information and guidelines for corporate social responsibility.

Non-conformance with the recommendation: None

3. Equity and dividends

CAPITAL STRUCTURE

At 31 December 2019, the Company's consolidated equity was NOK 208.6 million, an equity ratio of 81%. The board of directors considers this equity level to be satisfactory. The company had at 31 December 2019 no interest-bearing debt. The Company's capital structure and financial strength is continuously considered in light of its objectives, strategy and risk profile.

DIVIDEND POLICY

Photocure is focusing its resources on building a specialty pharma company and the board of directors will recommend payment of dividends in line with the Company's results, financial position and outlook. The Company has, due to its level of development, uneven revenue streams and net cash flows, and does not expect to pay recurring dividends until justified by recurring cash flows. The dividend policy is disclosed in the annual report.

The ordinary general meeting resolves the annual dividend, based on the proposal by the board of directors. The amount proposed sets an upper limit for the general meeting's resolution.

CAPITAL INCREASES AND ISSUANCE OF SHARES

The board of directors' is authorized by the general meeting to resolve increases of the Company's share capital. The authorization is restricted to defined purposes, and does not last longer than to the Company's next annual general meeting.

PURCHASE OF OWN SHARES

The board of directors is authorized by the general meeting to purchase the Company's own shares on behalf of the Company. The authorization is restricted to defined purposes, and does not last longer than to the Company's next annual general meeting.

Non-conformance with the recommendation: None

4. Equal treatment of shareholders and transactions with related parties

PRE-EMPTION RIGHTS TO SUBSCRIBE

According to the Norwegian Public Limited Liability Companies Act, the Company's shareholders have pre-emption rights in share offerings against cash contribution. Such pre-emption rights may however be set aside, either by the general meeting or by the board of directors if the general meeting has granted a board authorization which allows for this. Any resolution to set aside pre-emption rights will be justified by the common interests of the Company and the shareholders, and such justification will be publicly disclosed through a stock exchange notice from the Company.

TRADING IN OWN SHARES

Photocure owns a total of 16,624 own shares. Photocure has acquired 1,694 own shares during 2019.

In the event of a future share buy-back program, the board of directors will aim to ensure that all transactions pursuant to such program will be carried out either through the trading system at Oslo Børs or at prevailing prices at Oslo Børs. In the event of such program, the board of directors will take the Company's and shareholders' interests into consideration and aim to maintain transparency and equal treatment of all shareholders. If there is limited liquidity in the Company's shares, the Company shall consider other ways to ensure equal treatment of all shareholders.

TRANSACTIONS WITH CLOSE ASSOCIATES

The board of directors aim to ensure that any not immaterial future transactions between the Company and shareholders, a shareholder's Parent company, members of the board of directors, executive personnel or close associates of any such parties are entered into on arms-length terms. For any such transactions which do not require approval by the general meeting pursuant to the Norwegian Public Limited Liability Companies Act, the board of directors will on a case-by-case basis assess whether a fairness opinion from an independent third party should be obtained.

Non-conformance with the recommendation: None

5. Shares and negotiability

The shares of the Company are freely transferable. There are no restrictions on ownership, trading and voting for shares in the Company pursuant to the Articles of Association.

Non-conformance with the recommendation: None

6. General meetings

The board of directors will make its best efforts with respect to the timing and facilitation of general meetings to ensure that as many shareholders as possible may exercise their rights by participating in general meetings, thereby making the general meeting an effective forum for the views of shareholders and the board of directors.

NOTIFICATION

The notice for a general meeting, with reference to or attached support information on the resolutions to be considered at the general meeting, shall as a principal rule be sent to shareholders individually, or to their depository banks, no later than 21 days prior to the date of the general meeting. The notice of meeting includes information regarding shareholders' rights, guidelines for registering and voting at the meeting.

The board of directors will seek to ensure that the resolutions and supporting information distributed are sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered at the meeting. The notice and support information, as well as a proxy voting form, will normally be made available on the Company's website www.photocure.com no later than 21 days prior to the date of the general meeting.

PARTICIPATION AND EXECUTION

Pursuant to the Articles of Association section 9 shareholders who want to participate at the general meeting shall notify the Company thereof within five days prior to the general meeting

To the extent deemed appropriate or necessary, the board of directors will seek to arrange for the general meeting to vote separately on each candidate nominated for election to the Company's corporate bodies.

The chairperson of the board, the chief executive officer and the chief financial officer shall, as a general rule, be present at the annual general meeting. The board of directors and the chairperson of the nomination committee shall, as a general rule, be present at general meetings. The auditor should attend the ordinary general meeting and any extraordinary general meetings to the extent required by the agenda items or other relevant circumstances.

The chairperson of the board will normally be chairing the general meetings. The board of directors will seek to ensure that an independent chairperson is appointed if considered necessary based on the agenda items or other relevant circumstances.

The Company will aim to prepare and facilitate the use of proxy forms which allow separate voting instructions to be given for each item on the agenda, and nominate a person who will be available to vote on behalf of shareholders as their proxy.

Non-conformance with the recommendation: Photocure is a small company and with directors living abroad, the Company has so far not required directors´ attendance in general meetings.

7. Nomination Committee

The nomination committee is governed by the Articles of Association section 7. In addition, the Company's general meeting adopts instructions for the nomination committee.

The nomination committee shall consist of two or three members who shall be shareholders or shareholder representatives. The members shall be elected by the general meeting for a term of one year. The nomination committee shall give its recommendation to the general meeting on election of and compensation to members of the board of directors and members of the nomination committee. The proposals shall be justified.

Shareholders are encouraged to submit proposals to the nomination committee for candidates for election to the board of directors. Such proposals must be in writing and justified and be submitted minimum 2 months before the general meeting if they are to be considered by the nomination committee.

The nomination committee currently consists of the following three members: Hans Peter Bøhn (chairperson), Jónas Einarsson, and Lars Viksmoen. The current members have been elected by the general meeting with a term until the Company's ordinary general meeting in 2020. All members are independent of the board of directors and senior management.

Non-conformance with the recommendation: None

8. Composition and independence of the Board of Directors

Pursuant to the Articles of Association section 5, the Company's board of directors shall consist of three to seven members. The board of directors currently consists of the following seven members: Jan H Egberts (chairperson), Einar Antonsen, Johanna Holldack, Gwen Melincoff, Tom Pike, Tove Lied Ringvold and Grannum R. Sant. The chairperson of the board has been elected by the general meeting. The term of office for members of the board of directors is one year at a time.

All members of the board are considered independent of the Company's senior management, material business contacts and the Company's main shareholders.

The Company's annual report provides information to illustrate the expertise of the members of the board of directors and their record of attendance at board meetings. Board members are encouraged to own shares in the Company.

Non-conformance with the recommendation: None

9. The work of the Board of Directors

THE RULES OF PROCEDURE FOR THE BOARD OF DIRECTORS

The board of directors is responsible for the over-all management of the Company, and shall supervise the Company's day-to-day management and the Company's activities in general.

The Norwegian Public Limited Liability Companies Act regulates the duties and procedures of the board of directors. In addition, the board of directors has adopted supplementary rules of procedures, which provides further regulation on inter alia the duties of the board of directors and the chief executive officer, the division of work between the board of directors and the chief executive officer, the annual plan for the board of directors, notices of board proceedings, administrative procedures, minutes, board committees, transactions between the Company and the shareholders and confidentiality.

The board shall produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation. The chief executive officer shall at least once a month, by attendance or in writing, inform the board of directors about the Company's activities, position and profit trend.

The board of directors' consideration of material matters in which the chairperson of the board is, or has been, personally involved, shall be chaired by some other member of the board.

The board of directors shall evaluate its performance and expertise annually, and make the evaluation available to the nomination committee.

The board of directors has adopted rules of procedures for the board of directors, which inter alia include guidelines for notification by members of the board of directors and senior management if they have any material direct or indirect interest in any transaction entered into by the Company.

THE AUDIT COMMITTEE

The Company's audit committee is governed by the Norwegian Public Limited Liability Companies Act and a separate instruction adopted by the board of directors.

The members of the audit committee are appointed by and among the members of the board of directors. A majority of the members shall be independent of the Company's senior management, and at least one member shall have qualifications within accounting or auditing. Board members who are also members of the senior management cannot be members of the audit committee.

The principal tasks of the audit committee are to:

- prepare the board of directors' supervision of the Company's financial reporting process;
- monitor the systems for internal control and risk management;
- have continuous contact with the Company's auditor regarding the audit of the annual accounts; and
- review and monitor the independence of the Company's auditor, including in particular the extent to which services other than auditing provided by the auditor or the audit firm represent a threat to the independence of the auditor.

The audit committee currently consists of the following three members: Tove Lied Ringvold (chairperson), Gwen Melincoff and Grannum R. Sant.

THE COMPENSATION COMMITTEE

The Company's compensation committee is governed by a separate instruction adopted by the board of directors. The members of the compensation committee are appointed by and among the members of the board of directors, and shall be independent of the Company's senior management.

The principal tasks of the compensation committee are to prepare:

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

The compensation committee currently consists of the following three members: Tom Pike (chairperson), Jan H. Egberts and Johanna Holldack.

Non-conformance with the recommendation: None

10. Risk management and internal control

The board of directors should on an ongoing basis assess the Company's risks. Each year, as a minimum, the board of directors has a thorough assessment of the significant parts of the Group's business and outlook, in order to identify risks and potential risks, and remedy any incident that have occurred. The board of directors may engage external expertise if necessary. The objective is to have the best possible basis for, and control of, the Company's situation at any given time.

In addition to the annual risk assessment, the management should present quarterly financial statements that will inform the board and shareholders on current business performance, including risk. These reports should be subject to review at the board meetings.

Significant risks include strategic risks, financial risks, liquidity risks and operational risks. The Company's significant risks are assessed on an ongoing basis and at least once a year by the board.

The Company's finance function is responsible for the preparation of the financial statements and to ensure that these are prepared and reported according to applicable laws and regulations and in accordance with IFRS. 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.

Non-conformance with the recommendation: None

11. Remuneration of the Board of Directors

The remuneration of the board of directors shall be decided at the Company's general meeting, and should reflect the board of directors' responsibility, expertise, time commitment and the complexity of the Company's activities. The remuneration is not linked to the Company's performance.

The nomination committee shall give a recommendation as to the size of the remuneration to the board of directors. Pursuant to the instructions for the nomination committee, the recommendation should normally be published on the Company's website at least 21 days prior to the general meeting that will decide on the remuneration.

The Company has not granted share options to board members.

Any remuneration in addition to normal fees to the members of the Board should be specifically identified in the annual report.

Members of the board of directors and/or companies with which they are associated should not take on specific assignments for the Company in addition to their appointment as a member of the board unless approved by the board of directors. The remuneration for such additional duties should be approved by the board of directors.

Non-conformance with the recommendation: None

12. Remuneration of the senior management

The board of directors shall in accordance with the Norwegian Public Limited Liability Companies Act prepare separate guidelines for the stipulation of salary and other remuneration to key management personnel. The guidelines shall include the main principles applied in determining the salary and other remuneration of the senior management, and shall ensure convergence of the financial interests of the senior management and the shareholders. It should be clear which aspects of the guidelines that are advisory and which, if any, that are binding thereby enabling the general meeting to vote separately on each of these aspects of the guidelines.

The board of directors aims to ensure that performance-related remuneration of the senior management in the form of equity-based compensation, annual bonus programs or the like, if used, are linked to value creation for shareholders or the Company's earnings performance over time. Performance-related remuneration should be subject to an absolute limit. Furthermore, the Company aims to ensure that such arrangements are based on quantifiable factors which the employee in question can influence.

The board of directors has established guidelines for remuneration of the key employees of the Company, and the guidelines will be presented to the annual general meeting in 2020. The remuneration guidelines are included in note 23 to the annual accounts. The compensation scheme for the Company´s senior management is based on a fixed salary, performance related bonus (capped based on fixed salary) and a restricted shares program. Performance-related remuneration is linked to value creation for the shareholders over time, and is based on quantifiable factors which the employees in question can influence.

Non-conformance with the recommendation: None

13. Information and communications

GENERAL

The Company has targeted investor relation activities with the aim to consistently provide the market with timely and accurate information.

The Company's reporting of financial and other information is based on openness and takes into account requirements for equal treatment of all investors.

The board of directors has adopted a separate manual on disclosure of information, which sets forth the Company's disclosure obligations and procedures. The board of directors will seek to ensure that market participants receive correct, clear, relevant and up-to-date information in a timely manner, taking into account the requirement for equal treatment of all participants in the securities market.

The Company will each year publish a financial calendar, providing an overview of the dates for major events such as its ordinary general meeting and publication of interim reports.

INFORMATION TO SHAREHOLDERS

The Company shall have procedures for establishing discussions with important shareholders to enable the Board to develop a balanced understanding of the circumstances and focus of such shareholders. Such discussions shall be done in compliance with the provisions of applicable laws and regulations.

All information distributed to the Company's shareholders will be published on the Company's web site at the same time as it is sent to shareholders. The chairperson of the board and the chief executive officer are authorized to speak on behalf of the Company, and delegate such authority as is appropriate in relevant cases.

Non-conformance with the recommendation: None

14. Take-overs

In the event the Company becomes the subject of a take-over offer, the board of directors shall ensure that the Company's shareholders are treated equally and that the Company's activities are not unnecessarily interrupted. The board of directors shall also ensure that the shareholders have sufficient information and time to assess the offer.

The board of directors will not attempt to influence, hinder or complicate the submission of bids for the acquisition of the Company's operations or shares, or prevent the execution thereof. There are no defense mechanisms against take-over bids in the Articles of Association, nor have other measures been implemented to specifically hinder acquisitions of shares in the Company. The board of directors has not established written guiding principles for how it will act in the event of a take-over bid, as such situations are normally characterized by concrete and one-off situations which make a guideline challenging to prepare.

In the event a take-over was to occur, the board of directors will consider the relevant recommendations in the Corporate Governance Code and whether the concrete situation entails that the recommendations in the Corporate Governance Code can be complied with or not.

Non-conformance with the recommendation: The Company has not established separate principles for how to act in a take-over situation as described.

15. Auditor

The Company's external auditor is KPMG AS.

On an annual basis, the board of directors reviews with the auditor the Company's internal control procedures, including identified risk areas and proposals for improvement, as well as the main features of the plan for the audit of the Company.

Furthermore, the auditor participates in meetings of the board of directors that deal with the annual accounts and, at least once a year, carries out a review of the Company's procedures for internal control in collaboration with the audit committee. At least one board meeting with the auditor shall be held each year in which no member of the senior management is present.

The board of directors has established guidelines in respect of the use of the auditor by the senior management for services other than the audit.

The remuneration to the auditor will be approved by the ordinary general meeting. The board of directors will report to the general meeting details of fees for audit work and any fees for other specific assignments.

Non-conformance with the recommendation: None

Statement of Comprehensive Income

PARENT		AMOUNTS IN NOK 1,000		GROUP	
2019	2018		Notes	2019	2018
124,357	114,950	Sales revenues	1,2,3	213,908	173,237
67,648	8,273	Signing fees and milestone revenues	1,2,3	67,648	8,273
192,005	123,223	Total revenues		281,556	181,510
-22,584	-16,837	Cost of goods sold	5	-22,512	-17,147
169,422	106,386	Gross profit		259,044	164,363
785	2,337	Other income		-	-
-10,965	-10,252	Indirect manufacturing expenses	6	-10,965	-10,252
-13,644	-19,145	Research and development expenses	6	-13,644	-19,145
-44,182	-41,595	Marketing and sales expenses	6	-148,738	-121,301
-45,510	-42,353	Other operating expenses	6	-42,960	-37,368
-113,517	-111,008	Total other income and expenses recurring		-216,307	-188,066
55,905	-4,621	Operating profit/loss(-) before restructuring		42,737	-23,703
0	-10,683	Restructuring		0	-14,199
55,905	-15,304	Operating profit/loss(-)		42,737	-37,902
10,190	19,421	Financial income	10	7,978	3,652
-4,720	-2,464	Financial expenses	10	-4,813	-2,464
5,470	16,957	Net financial profit/loss(-)		3,165	1,188
61,375	1,653	Profit/loss(-) before tax		45,902	-36,714
-14,032	6	Tax expense	11	-14,070	6
47,343	1,659	Net profit/loss(-)		31,832	-36,708
		Currency translation		-197	-308
0	0	Total other comprehensive income items that may be reclassified to profit & loss		-197	-308
47,343	1,659	Comprehensive income		31,635	-37,016
		Earnings per share (Amounts in NOK):	12		
		Basic		1.46	-1.70
		Diluted		1.46	-1.70

Statement of Financial Position

PARENT 2019	PARENT 2018	AMOUNTS IN NOK 1,000	Notes	GROUP 2019	GROUP 2018
		ASSETS			
965	880	Machinery and equipment	13	2,040	2,141
11,605	22,502	Intangible assets	13	11,605	22,502
0	747	Contract assets	3	0	747
11,478	-	Contract receivable	3	11,478	-
3,996	-	Right-of-use assets	4	7,008	-
291,576	266,963	Loan to group company	24	-	-
5,528	5,528	Shares in subsidiary	14	-	-
38,345	52,377	Deferred tax asset	11	38,345	52,377
363,492	348,998	Total non-current assets		70,476	77,767
15,022	17,848	Inventories	15	16,410	18,582
11,128	11,224	Accounts receivable	16, 18	24,665	20,371
15,072	5,399	Other receivables	16, 18	20,481	7,643
122,660	105,960	Cash and short term deposits	17, 19	125,320	106,833
163,882	140,430	Total current assets		186,876	153,429
527,375	489,428	Total assets		257,352	231,196
		EQUITY AND LIABILITIES			
10,898	10,890	Share capital	20	10,898	10,890
64,261	63,656	Other paid-in capital		64,261	63,656
416,954	369,612	Retained earnings		133,431	101,797
492,114	444,157	Total equity		208,590	176,342
2,238	1,849	Pension liabilities	8	3,088	2,401
3,935	-	Lease liabilities	4	6,948	-
6,174	1,849	Total non-current liabilities		10,036	2,401
4,283	8,982	Accounts payable	16, 22	5,121	10,182
3,884	4,343	Employee withholding taxes and social security tax		3,884	4,343
0	7,064	Contract liabilities	3	0	7,064
20,920	23,033	Other current liabilities	16, 22	29,721	30,864
29,088	43,422	Total current liabilities		38,725	52,453
35,261	45,271	Total liabilities		48,762	54,854
527,375	489,428	Total equity and liabilities		257,352	231,196

Oslo, 6 April 2020
Photocure ASA

Jan H. Egberts Chairperson	Grannum R. Sant Director	Tom Pike Director	Tove Lied Ringvold Director
Gwen Melincoff Director	Einar Antonsen Director	Johanna Holldack Director	Daniel Schneider President and CEO

Statement of Changes in Equity

PARENT *(Amounts in NOK 1,000)*	Issued capital	Treasury shares	Other paid-in equity	Translation reserve	Retained earnings	Total equity
Equity as of 31 December 2017	**10,779**	**-31**	**57,771**	**0**	**378,577**	**447,095**
Adjustments initial applications of IFRS 15 & IFRS 9					-10,626	-10,626
Adjusted equity beginning of period	10,779	-31	57,771	0	367,952	436,470
Comprehensive income:						
Net profit for the year					1,659	1,659
Other comprehensive income that may be reclassified to p&l			-		-	0
Total comprehensive income	0	0	0	0	1,659	1,659
Transaction with owners:						
Capital increase	111		6,229			6,339
Buy back own shares		-377				-377
Employees' options			64			64
Total transaction with owners	111	-377	6,293	0	0	6,026
Equity as of 31 December 2018	**10,890**	**-408**	**64,063**	**0**	**369,611**	**444,157**
Adjustments initial applications of IFRS 16					0	0
Adjusted equity beginning of period	10,890	-408	64,063	0	369,611	444,156
Comprehensive income:						
Net profit for the year					47,343	47,343
Other comprehensive income that may be reclassified to p&l			-		-	0
Total comprehensive income	0	0	0	0	47,343	47,343
Transaction with owners:						
Capital increase	9		605			614
Buy back own shares						0
Employees' options						0
Total transaction with owners	9	0	605	0	0	614
Equity as of 31 December 2019	**10,898**	**-408**	**64,669**	**0**	**416,954**	**492,113**

GROUP *(Amounts in NOK 1,000)*	Issued capital	Treasury shares	Other paid-in equity	Translation reserve	Retained earnings	Total equity
Equity as of 31 December 2017	**10,779**	**-31**	**57,771**	**413**	**149,148**	**218,080**
Adjustments initial applications of IFRS 15 & IFRS 9					-10,747	-10,747
Adjusted equity beginning of period	10,779	-31	57,771	413	138,400	207,332
Comprehensive income:						
Net profit for the year					-36,708	-36,708
Other comprehensive income that may be reclassified to p&l			-	-308	-	-308
Total comprehensive income	0	0	0	-308	-36,708	-37,017
Transaction with owners:						
Capital increase	111		6,229			6,339
Buy back own shares		-377				-377
Employees' options			64			64
Total transaction with owners	111	-377	6,293	0	0	6,026
Equity as of 31 December 2018	**10,890**	**-408**	**64,064**	**105**	**101,692**	**176,342**
Adjustments initial applications of IFRS 16					0	0
Adjusted equity beginning of period	10,890	-408	64,064	105	101,692	176,342
Comprehensive income:						
Net profit for the year					31,832	31,832
Other comprehensive income that may be reclassified to p&l			-	-197	-	-197
Total comprehensive income	0	0	0	-197	31,832	31,635
Transaction with owners:						
Capital increase	9		605			614
Buy back own shares						0
Employees' options			0			0
Total transaction with owners	9	0	605	0	0	614
Equity as of 31 December 2019	**10,898**	**-408**	**64,669**	**-92**	**133,524**	**208,590**

Statement of Cash Flows

PARENT		AMOUNTS IN NOK 1,000		GROUP	
2019	2018		Notes	2019	2018
61,375	1,653	Profit/loss(-) before tax		45,901	-36,714
14,780	12,968	Ordinary depreciation & amortisation	13	16,213	13,211
-2,534	-3,378	Deferred income milestones	3	-2,534	-3,378
0	63	Share-based payments expense	7	0	63
392	624	Pension costs	8	687	785
-1,696	-1,125	Interest income		-1,696	-1,125
-2,212	-15,770	Unrealized currency (gain)/loss loan subsidiary	10	-	-
-486	-43	Unrealized currency (gain)/loss other		-486	-43
523	52	Other items		237	-188
		Changes in			
2,825	1,149	- inventories		2,173	970
1,901	2,834	- trade and other receivables		-5,654	-1,515
-4,699	-5,355	- trade and other payables		-5,062	-4,899
482	5,433	- provisons and other accruals		1,576	10,021
-22,956	-	Changes in contract receivable		-22,956	-
-4,530	-1,846	Changes in contract liabilities	3	-4,530	-1,846
-3,057	-	Settlement employee benefits		-3,179	
0	533	Tax payable/(refunded)	11	-37	533
40,109	-2,208	Net cash flow from operating activities		20,655	-24,124
1,696	1,125	Interest received		1,696	1,125
-22,400	-23,725	Loan to subsidiary	24	-	-
-694	-398	Investments in machinery and equipment	13	-921	-1,630
151	-	Sale of fixed assets (sales price)		151	-
-316	-559	Development expenditures and Intangible assets	13	-316	-559
-21,564	-23,557	Net cash flow from investing activities		610	-1,064
-2,458	-3,228	Instalments non-current lease liability and reclassifications	4	-3,391	-3,310
-	6,339	Proceeds from exercise of share options	7	-	6,339
614	-	Share capital increase employees		614	-
-	-377	Buy back (-) / Sale own shares		-	-377
-1,844	2,734	Net cash flow from financing activities		-2,777	2,652
16,701	-38,233	Net change in cash during the year		18,487	-22,535
105,960	128,991	Cash and cash equivalents as of 01 January		106,833	129,368
122,660	105,960	Cash and cash equivalents as of 31 December		125,320	106,833

Accounting principles 2019

I. General information

The annual accounts for 2019 for Photocure ASA (the Parent Company) and its subsidiary Photocure Inc (together the Group or Photocure) were approved for publication by the Board of Directors on 6 April 2020.

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

II. Basis for preparation of the annual accounts

The annual accounts for the Group and the Parent Company have been prepared on the basis of historical cost, with the exception of in money market funds that is valued at fair value.

The Group and the Parent Company's annual accounts are prepared in accordance with International Financial Reporting Standards (IFRS) as specified by the International Accounting Standards Board and implemented by the EU as per 31 December 2019.

Photocure ASA 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.

Photocure performs the sales and distribution of Hexvix in the Nordic market and in the US through its wholly owned subsidiary Photocure Inc under the trade name Cysview. Photocure Inc has USD (US dollars) as its functional currency.

III. Changes in significant accounting policies

IFRS 16

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. The standard is effective for annual period beginning on or after 1 January 2019.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated.

The Group applied IFRS 16 only to contracts that were previously identified as office rental agreements. Other contracts in the Group related to rental and use of assets were not reassessed for whether there is a lease under IFRS 16 because those contracts are of low value items or the contracts are of short term.

Previously, the Group classified office leases as operating rental cost. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019 (see Note 4).

Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of sublease of offices or accrued lease payments.

The adoption of IFRS 16 do not have a significant impact on Photocure's statement of financial position as future lease payments under existing office lease contracts are limited, ref. Note 4.

IV. Disclosures regarding new standards not yet effective

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group. The new and amended standards and interpretations from IFRS that were adopted by the EU with effect from 2019 did not have any significant impact on the reporting in 2019.

V. Use of judgements and estimates.

In preparation of these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized, and information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment in the financial statements as of 31 December 2019, are included in the following notes:

- Note 3 Revenue: the assumptions in the application of IFRS 15 for the license contracts and various considerations in the five-step model.
- Note 11 Recognition of deferred tax asset: available future taxable profit against which tax losses carried forward can be used.
- Note 13 Development expenditures: key assumptions underlying the capitalized development costs
- Note 24 Long term loan subsidiary: impairment and key assumptions underlying the balance sheet value in Parent company.

VI. Summary of important guidelines for accounting for the Group

A. CLASSIFICATION

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

- They are expected to be realized in the Group's ordinary operating cycle or are kept for sale or consumption;
- They are expected to be realized within 12 months of the balance sheet date; or
- They are in the form of cash or a cash equivalent.
- All other assets/liabilities are classified as fixed assets/long-term liabilities

B. CURRENCY

Monetary items in foreign currencies are converted at closing rate of exchange. In the absence of any statement to the contrary, realized and unrealized exchange rate gains and losses are included in financial income or expenses. Transactions in foreign currencies are recorded at the exchange rate on the date of transaction. Assets and liabilities in foreign currencies are translated into NOK at the exchange rate applicable on the balance sheet date.

Income and expenses in foreign subsidiaries are translated into NOK at the average exchange rate for the financial statement period. The assets and liabilities of the foreign subsidiaries are translated to NOK at exchange rates at the reporting date

C. PROPERTY, PLANT AND EQUIPMENT

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

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

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

D. INTANGIBLE ASSETS

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

Intangible development expenditures are amortized on a straight-line basis in the profit and loss over the remaining patent period for the approved product and indication as follows:
- Product development 4 - 10 years

E. IMPAIRMENT

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

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

F. RESEARCH AND DEVELOPMENT COSTS

Research costs are expensed as incurred. Development costs are recognized in the balance sheet as intangible assets only if there is an identifiable asset that is expected to generate future financial benefits, and when the costs of such an asset can be reliably measured. Development costs are recognized in the balance sheet as intangible assets if all the following criteria are fulfilled:

- It is technically possible to complete the asset so that it can be available for use or for sale;
- The purpose is to complete the asset for use or for sale;
- The Group is able to use or sell the asset;
- The asset will provide future financial benefits, a market exists for the asset or the output of the asset or that the asset is useful if it is to be used internally.
- Sufficient technical, financial or other resources are available to carry out the development and to use or sell it, and
- The opportunity exists to reliably measure costs associated with the intangible asset.

When all the criteria listed above have been met, costs related to development are to be recognized in the balance sheet. Development costs that have been expensed in previous accounting periods cannot be recognized in the balance sheet at a later date. Cost-sharing of research and development expenses with license partners is booked as a reduction in costs.

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

- Regulatory work and services related to new products or product development based on new clinical trials up to and including phase 3, are classified as R&D costs
- Regulatory work and services for new markets based on existing clinical data are classified as marketing costs

G. INVESTMENT IN SUBSIDIARY COMPANIES

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

H. INVENTORIES

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

I. FINANCIAL ASSETS AND LIABILITIES

Recognition and measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument. A trade receivable without a significant financing component is initially measured at the transaction price. All other financial assets are initially measured at fair value plus, for an item not at fair value through, transaction costs that are directly attributable.

A financial asset is subsequently measured at amortised cost if it meets both of the following criteria and is not designated as at Fair Value Through Profit and Loss (FVTPL):

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Trade receivables, loan to group companies, and other receivables meet both of these criteria and are measured at amortised cost using effective interest rate method.

A debt investment is subsequently measured at Fair Value through Other Comprehensive Income (FVOCI) if it meets both of the following criteria and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Photocure has no financial asset that meet both of these criteria. All financial assets not classified as measured at amortised cost or FVOCI as described above are subsequently measured at FVTPL. Photocure's investments in money market funds are measured at FVTPL.

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 rate method.

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.

Impairment

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.
The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. The Group uses an allowance matrix based on historical losses adjusted for forward-looking information. For other financial assets measured at amortised cost the ECLs are probability-weighted estimates of credit losses discounted at the effective interest rate of the financial asset.

J. REVENUE RECOGNITION

The Group has applied IFRS 15 from 1 January 2018
The core principle in that framework is that revenue should be recognized dependent on the transfer of promised goods or services to the customer for an amount that reflects the consideration which should be received in exchange for those goods or services. The objective is to provide a five-step approach to revenue recognition that includes identifying contracts with customers, identifying performance obligations, determining transaction prices, allocating transaction prices to performance obligations, and recognizing revenue when or as performance obligations are satisfied.

In the customer contracts in Photocure regarded to be within the scope of IFRS 15, the up-front fees not related to a separate performance obligation will be recognized over the term of the contract upon the delivery of goods. The contract term has to be determined and in Photocure this is regarded to be equal to the expiry date of the patents in the relevant market areas.
If the promise to grant the license is distinct from other promised goods or services in the contract, the promise to grant the license is a separate performance obligation. A license contract with a customer is a right to use Photocure's intellectual property as it exists at the point in time at which the license is granted.

The total transaction price is allocated between the performance obligations based on the relative stand-alone selling price. The transaction price allocated to the license may consist of up-front fee, different milestone payments and sales based royalty payments. The part of the transaction price related to variable milestone payments are estimated as the most likely amount, but constrained which currently means that these revenues will be recognized if and when the relevant milestone are achieved. Sales based royalty is recognized when the subsequent sales occur.

Revenues for the sale of products are recorded on the date of delivery, when both control and risk essentially have been transferred to the buyer.

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

K. GOVERNMENT GRANTS

Government grants are booked at the same time as the income that it shall generate or the cost that it shall reduce. Grants received for product development or manufacture are first booked as reduction of costs when the conditions for the grant in question have been met and the applications are granted. Grants received for product development that are capitalized, are reported as reduction of gross expenditures and the net expenditures are regarded as the intangible assets.

L. LICENSE COSTS

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

M. PENSIONS

Photocure ASA has an agreement with a life assurance company concerning contribution-based pensions for Photocure's employees. Pension contributions are paid into the employee's contribution account with the life assurance company. The Company's payment of contributions is expensed in the period it is accrued. Any prepayments made to the contribution fund are recognized in the balance sheet.

Salary to senior management employees in Photocure ASA 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.

Employees residing in the United States participate in a 401(k), a tax-qualified, defined-contribution pension account defined in subsection 401(k) of the Internal Revenue Code. In addition, Photocure Inc has established an additional unfunded pension coverage for senior managers accruing annually an amount equal to 4% of salary and earned bonus.

The calculated pension obligation pursuant to these schemes are interest-bearing.

N. SHARE REMURATION AND OTHER BENEFITS RELATED TO SHARE BASED REMUNERATION

Employees have been offered share options to the Company's shares as an element of the Group's employee incentive policy up to 2017. The share options have been decided to be reintroduced as part of the long-term incentive from 2019. If the Group has own shares, the Group may allot own shares instead of issuing new shares when share options are exercised. All share options are offered at strike prices that reflect the market price +10% of the shares at the time of allotment of the rights.

The fair value is expensed over the share options vesting period and the Company's equity is increased correspondingly. The fair value of share options is calculated according to the Black-Scholes model. Each program is calculated separately with the actual strike price and duration of the program. The share options cease to be valid immediately on the employee's resignation from the Company.

Employer's social security contributions on outstanding share options are accrued as personnel costs based on the intrinsic value of the rights.

Employees may receive an award related to annual base salary at the time of granting with which the employees are obliged to buy shares at fair value in the Company. The award is offered to the employees according to the Board's discretion. The plan is a performance base remuneration element reflecting the underlying long-term value creation of the company. The participant receiving the grant is required to invest the net amount after tax into shares in the Company ("Restricted

Stocks"), that will be subject to a three years' lock up period. The Company will, on behalf of the employee, seek to facilitate the share purchase with the use of treasury shares or share capital increases. The board of directors has decided further terms and conditions for the Restricted Stock plan including lock-up and termination of employment.

The fair value of the amount payable to employees in respect of restricted shares, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the liability are recognized in profit or loss.

O. TAX

The tax expense in the income statement includes both the income tax payable for the period and changes in deferred tax. Deferred tax in Norway is calculated at rate of 22% and in the USA at a total rate of 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.

In the US the tax years 2017 and prior, businesses were able to offset current taxable income by claiming net operating losses (NOLs), generally eligible for a two-year carryback and 20-year carryforward. Starting in tax year 2018, NOLs cannot be carried back, but can be indefinitely carried forward. In addition, NOLs for tax years beginning in 2018 will be subject to an 80-percent limitation. The 80 percent limitation on NOL deductions applies to losses generated in tax years beginning after December 31, 2017. NOLs generated in 2017 and earlier would retain their 20-year life and be available to offset 100 percent of taxable income, subject to certain limitations. Companies will have to track their NOLs in different buckets based on date (pre and post December 31, 2017)

The book value of assets in connection with deferred tax is reviewed on every balance sheet date and is reduced to the degree that there is no longer any objective proof that there will be sufficient taxable profits to utilize all or parts of assets in connection with deferred tax. Non-recognized assets in connection with deferred tax are reviewed every balance sheet date and are included to the degree that it is probable that future taxable profits will allow the recovery of assets in connection with deferred tax. Each taxable entity in the Group are treated separately.

P. EARNINGS PER SHARE

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

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

Q. PROVISIONS

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

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

R. CONTINGENT LIABILITIES AND ASSETS

Contingent liabilities are defined as:

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

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

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

S. EVENTS AFTER THE BALANCE SHEET DATE

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

T. CASH FLOW STATEMENT

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

U. EQUITY

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

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

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

V. LEASE AGREEMENTS

The main rule is that the right of use is recognized in the balance sheet as a fixed assets, but is shown separately from fixed assets owned by the company on a separate line in the balance sheet "Right of use assets". Although a lease is a right to use an asset and not a purchase of an asset, the classification in the balance sheet follows the leased asset.

The net present value of the lease liability is calculated by discounting the rental payments with the implicit interest rate of the lease, or the business's marginal borrowing rate if the implicit interest rate is unknown.

According to IFRS 16 depreciation is calculated for the right of use assets and interest on the lease liability. Depreciation is presented together with other depreciation, while interest cost is included in financial expenses in the income statement.

The leased assets are depreciated over their useful lives. This is the shorter of the rental period and the assets economic life. If we look at an isolated agreement, the cost will be higher in the beginning of the rental period because the interest element is then large. In later rental periods, interest costs fall in line with a reduction in the rental obligation.

W. SEGMENT REPORTING

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

Notes to the Financial Statements for 2019

1

PARTNERSHIPS

In 2011 Photocure entered into an agreement with Ipsen Pharma SAS (Ipsen) for marketing, sales and distribution of Hexvix in most of Europe and rest of the world excluding the US, Nordic region and certain other countries.

In August 2015 Photocure appointed BioSyent Pharma Inc. as our exclusive distributor for the commercialization of Cysview in Canada. In May 2015 Photocure appointed Juno Pharmaceuticals as our exclusive distributor for the registration and commercialization of Hexvix in Australia and New Zealand.

Photocure entered in July 2019 into a license agreement providing Asieris MediTech Co with a world-wide license to develop and commercialize Cevira® for the treatment of HPV induced cervical precancerous lesions. Under the agreement, Photocure will receive signing fees, development- and approval milestones, in addition to sales royalties.

2

OPERATING SEGMENTS

The operating segments follow the current business model for Photocure which consists of two segments: Commercial Franchise and Development Portfolio. The Commercial segment include the Hexvix/Cysview products and is broken down into own sales and partner sales by market segments and other sales. The Development segment is split by development of commercial products and pipeline products. Sales revenue from own sales in Commercial segment consists of Hexvix sales to pharmaceutical wholesalers in Nordic markets and sales of Cysview to hospitals in the US. Sales through partners comprise mainly sales of Hexvix to Ipsen in Europe outside the Nordic region and royalties from sales by Ipsen to end users. Milestone revenue within partner subsegment include deferred milestone payments in accordance with implementation of IFRS 15.

Other Sales in the Commercial segment consists of the resale of the HIVEC product from Combat and Allumera royalties from Bellus.

The contract revenue from the Asieris licence agreement achieved in 2019 is classified as milestone revenues under the Development portfolio, cf. note 3.

Operating costs are charged directly to the respective segment involved if directly related. Indirect manufacturing costs are allocated based on sales within the commercial segment and other indirect costs are allocated based on time and resources utilized within the different subsegments. Government research grants are offset against operating expenses.

1 Jan - 31 December 2019	Commercial Franchise				Development Portfolio			
Amounts in NOK 1,000	Hex/Cys Own sales	Hex/Cys Partner	Other Sales	Total Sales	Hex/Cys Develop.	Pipeline	Total R&D	Grand Total
Sales Revenues	146,877	66,337	694	213,909	-	-	-	213,909
Milestone revenues	-	2,534	-	2,534	-	65,115	65,115	67,648
Cost of goods sold	-9,089	-13,086	-337	-22,512	-	-	-	-22,512
Gross profit	137,788	55,785	357	193,930	-	65,115	65,115	259,045
Gross profit of sales %	94 %	80 %	51 %	89 %				89 %
R&D	-	-	-	-	-1,822	-1,822	-3,644	-3,644
Sales & marketing	-136,411	-9,269	-	-145,679	-903	-1,988	-2,891	-148,570
Other & allocations	-19,221	-19,176	-2,516	-40,913	-2,423	-4,545	-6,968	-47,882
Operating expenses	-155,631	-28,445	-2,516	-186,593	-5,148	-8,355	-13,503	-200,096
EBITDA before restructuring	-17,844	27,340	-2,159	7,337	-5,148	56,759	51,612	58,949
Depreciation and Amortization				-6,015			-10,198	-16,213
EBIT before restructuring				1,322			41,414	42,736

1 Jan - 31 December 2018	Commercial Franchise				Development Portfolio			
Amounts in NOK 1,000	Hex/Cys Own sales	Hex/Cys Partner	Other Sales	Total Sales	Hex/Cys Develop.	Pipeline	Total R&D	Grand Total
Sales Revenues	110,725	62,209	303	173,237	-	-	-	173,237
Milestone revenues	-	3,378	4,895	8,273	-	-	-	8,273
Cost of goods sold	-6,562	-10,514	-71	-17,147	-	-	-	-17,147
Gross profit	104,163	55,073	5,127	164,363	-	-	-	164,363
Gross profit of sales %	94 %	83 %	77 %	90 %				90 %
R&D	-	-	-	-	-2,363	-6,962	-9,325	-9,325
Sales & marketing	-113,961	-6,258	-	-120,219	-	-994	-994	-121,213
Other & allocations	-18,123	-17,630	-	-35,753	-1,357	-7,206	-8,563	-44,317
Operating expenses	-132,084	-23,888	-	-155,972	-3,721	-15,162	-18,883	-174,855
EBITDA before restructuring	-27,921	31,185	5,127	8,391	-3,721	-15,162	-18,883	-10,492
Depreciation and Amortization				-2,921			-10,290	-13,211
EBIT before restructuring				5,470			-29,173	-23,703

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

3 CONTRACT REVENUE

Performance obligation product deliveries

The agreement with Ipsen Pharma entails the licensing of sales rights for the product Hexvix world wide except the Nordic countries and the USA. The agreement represent both a performance obligation for the delivery of license and an obligation to supply of the Hexvix product. These performance obligations are not related to specific deliveries but to the running supply of products to Ipsen until the agreement is terminated. Ipsen pay quarterly royalty based on net sales in the markets less prepayment of products deliverred.

Received up-front payment related to this contract has been deferred and has been recognized as revenue in line with transfer of control of the goods. The contract term was estimated to be equal to the expiry date of the patents in the relevant market areas that was medio September 2019 for main countries.

Sales revenue recognized under IFRS 15 for product delivery to Ipsen is deferred to the point in time the products are delivered from Ipsen to their customers in markets protected by patent. In markets without patent the revenue is recognized at the point in time the goods is delivered to Ipsen.

For the general supply of products Photocure satisfy the contractual performance obligation upon delivery of products according to the delivery terms agreed. Invoices are issued at that point in time and the payment term is usually within 30 days. No discounts are provided to the customers and no return of products are accepted within the expiry of the products.

Performance obligation license

Photocure entered a lisence agreement with Asieris for the pipeline product Cevira in July 2019. The agreement is based on a "ready for Phase 3 study" concept and this study will be carried out by Asieris in China from 2020. Photocure has in the agreement with Asieris promised to transfer the rights for Cevira (license) and deliver the active substance for the phase 3 study and later potential commercialization. Asieris will be responsible for the remaining development of Cevira and pay all the costs.The license is a right to use Photocure's intellectual property as it existed at the contract date. The active substance will not be further developed or changed by Photocure for use by Asieris. The transfer of the license and the delivery of the active substance are by Photocure regarded as two separate performance obligations.

Asieris has in 2019 paid up-front fee of USD 5 million, in addition there are agreed several milestones and potential sales royalty if a commercial product is approved. The total transaction price is allocated between the two performance obligations based on the relative stand-alone selling price. The transaction price allocated to the license consist of signing fee, different milestone payments and sales based royalty payments. The part of the transaction price related to milestone payments are estimated as the most likely amount, but constrained which currently means that these revenues will be recognized if and when the relevant milestone are achieved. Milestone revenues include USD 5 million of signing fees and USD 3 million of committed and timed development milestones. Revenue recognition is based on contract value in USD based on currency rates at time of executed contract and discounted. Revenue for the sale of active substance is recognized when the customer takes control of the goods, which is at the time of shipment.

Contract balances Ipsen

The timing effect of recognition of sales of products under IFRS 15 is calculated to be NOK 4.5 million 31 December, 2018 and disclosed as contract liability. The timing effect as of 31 December 2019 is zero giving increased sales revenue of NOK 4.5 million and a corresponding decrease of contract liabilities.

Under IFRS 15 up-front fees not related to a separate performance obligation are recognized over the term of the contract upon the delivery of goods. Deferred contract revenue as of 31 December, 2018 is calculated to NOK 2.5 million and disclosed as part of the contract liability balance of NOK 7.1 million. As of 31 December 2019 remaining deferred contract revenue is zero resulting in increased Milestones revenues of NOK 2.5 million and a corresonding decrease in contract liability.

Related contract costs incurred to fulfil the deferred revenue of the contract as of 31 December 2018 has a remaining balance of NOK 0.7 million and disclosed as Contract assets. The amortization of the contract asset is allocated on a straight line basis to the remaining patent protection period from contract entered in 2011 to expiration of the patent in 2019. This result in amortization of contract assets of NOK 0.7 million in 2019 and remaining contact assets of zero as of 31 December 2019.

Contract balances Asieris

The contract revenue receivable from Asieris is most likely USD 8 million at signing of the agreement and this correspond to NOK 65.1 million. The remaining contract receivable as of 31 December 2019 is USD 3 million in committed development milestones that are due with USD 1.5 million in 2020 and rest in 2021. The net present value of the contract receivable is USD 2.6 millon corresponding to NOK 22.9 million based on currency rates at end of 2019. The contract receivable is split in a current and an equal non-current balance of NOK 11.5 million.

The milestone revenue under Other sales in 2018 from Bellus Medical is not based on contractual performance obligations by Photocure but agreed down payment terms for the sale of the Allumera product rights in USA.

The geographical revenue information is based on the location of the end customers.
The signing fees and milestone revenue are not included in the following table.

Amounts in NOK 1,000	Group sales revenues	
Geographical information	2019	2018
Nordic countries	48,868	47,221
United States	98,704	63,807
Own sales	147,572	111,028
Partner countries Europe	65,641	61,614
Partner countries rest of world	695	595
	213,908	173,237

Revenue recognition by segments							
1 Jan - 31 December 2019	Commercial Franchise				Development Portfolio		Grand Total
Amounts in NOK 1,000	Hex/Cys Own sales	Hex/Cys Partner	Other Sales	Total Sales	Hex/Cys Develop.	Pipeline	
Contract revenue at point in time				-		65,115	65,115
Contract revenue over time		61,807		61,807		0	61,807
Reverse of deferred revenue		7,064		7,064		0	7,064
Sales order revenue	146,877		694	147,571		0	147,571
	146,877	68,871	694	216,442	0	65,115	281,557

1 Jan - 31 December 2018	Commercial Franchise				Development Portfolio		Grand Total
Amounts in NOK 1,000	Hex/Cys Own sales	Hex/Cys Partner	Other Sales	Total Sales	Hex/Cys Develop.	Pipeline	
Contract revenue at point in time			4,895	4,895	-	0	4,895
Contract revenue over time		60,363		60,363		0	60,363
Reverse of contract liabilities		5,224		5,224		0	5,224
Sales order revenue	110,725		303	111,028		0	111,028
	110,725	65,587	5,198	181,510	0	0	181,510

4 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Group has initially adopted IFRS 16 'Leases' from 1 January 2019. The Group has adopted IFRS 16 using the cumulative effect method and accordingly, the information presented for 2018 has not been restated.

The effect of initially applying this standard is mainly attributed to the following:
- The adoption of IFRS 16 have an impact on Photocure's recognition of operating expenses as the amortisation of the right-of-use assets replace office rental costs as reported operating lease.
- The lease liability is measured at the present value of the lease payments that are not paid at the commencement, discounted using the Groups incremental borrowing rate as the discount rate.

The following table summarizes the impacts of transition to IFRS 16 at 1 January 2019 and 31 December 2019.

Impacts on transition			
Amounts in NOK 1,000		01.01.2019	31.12.2019
	Dicount rate	Value	Value
Right-of-use assets Norway	2.60 %	6,393	3,996
Right-of-use assets US	5.20 %	3,958	3,013
Total lease assets		10,351	7,008
Lease liability		(10,351)	(6,948)
Total non-current liabilities		(10,351)	(6,948)

Impacts for the period	
Amounts in NOK 1,000	01.01.2019 - 31.12.2019
	Value
Amortisation of assets	3,429
Interest expenses	236
Costs IFRS 16	3,664

Lease liability payment plan	Value
Lease liability instalments due 2020	3,479
Lease liability instalments due 2021	2,559
Lease liability instalments due 2022	910
Lease liability payments	6,948

5 COST OF GOODS SOLD

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

6 INCOME STATEMENT CLASSIFIED BY NATURE

Amounts in NOK 1,000		Group		Parent	
	Note	2019	2018	2019	2018
Sales revenues	2	213,908	173,237	124,357	114,950
Signing fees and milestone revenues	2	67,648	8,273	67,648	8,273
Cost of goods sold		-22,512	-17,147	-22,584	-16,837
Gross profit		259,044	164,363	169,421	106,386
Other income		0	0	785	2,337
Payroll expenses	7	-123,109	-99,369	-50,245	-54,785
R&D costs excluding payroll expenses/other operating expenses		-1,761	-3,742	-1,761	-3,742
Ordinary depreciation and amortisation	13	-16,213	-13,211	-14,780	-12,968
Other operating expenses		-75,224	-71,744	-47,516	-41,849
Total operating expenses recurring		-216,307	-188,066	-113,517	-111,007
Operating profit / loss (-) before restructuring		42,737	-23,703	55,905	-4,621

Specification of Other operating expenses:	2019	2018	2019	2018
Marketing expenses	18,167	15,601	5,493	6,335
Profit split coverage US	-	-	10,324	13,390
Travel expenses	20,748	17,297	4,713	3,447
Patent costs, legal and other fees	22,932	22,248	17,544	15,728
Other expenses	13,377	16,598	9,443	2,949
Total other operating expenses	75,224	71,744	47,516	41,849

7 PERSONNEL EXPENSES

Amounts in NOK 1,000		Group		Parent	
	Note	2019	2018	2019	2018
Salaries		96,727	86,592	36,511	39,346
Employer’s social security contributions on salaries, etc.		10,361	9,824	5,247	5,817
Option costs incl employer's social security contributions		1,975	595	1,975	595
Pension costs	8	5,070	5,160	3,144	3,628
Other benefits		8,977	11,008	3,368	15,696
Hereoff restructuring		-	-13,810	-	-10,297
Total payroll expenses		123,109	99,369	50,245	54,785
No. of full-time equivalent positions		67	71	26	28

Share-based remuneration

As part of the company’s incentive policy, employees have been offered share options to the company’s shares (the term ‘options’ is also used). Allocated share options are vested over three years, one third each year. The rights are no longer valid after five years or immediately on resignation of the employee. No share options are allocated to members of the Board of Directors. No options were granted in 2018 and 2019.

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

	2019		2018	
	Number	Average exercise price (NOK)	Number	Average exercise price (NOK)
Outstanding at start of year	381,868	37.02	737,669	35.53
Granted during the year	-	-	-	0.00
Forfeited during the year	-	-	170,367	38.02
Exercised during the year	150,168	32.78	185,434	30.18
Expired during the year	-	-	-	0.00
Outstanding at end of year	231,700	39.76	381,868	37.02
Vested options as per 31 December	231,700	39.76	367,533	36.98

The average weighted life of outstanding share options was 1.2 years at 31 December 2019 and 1.7 years at 31 December 2018.

The exercise prices and the average life of outstanding share options as per 31 December 2019 were as follows:

Average remaining life	No. of options	Exercise price NOK
1 year	188,700	40.15
2 year	43,000	38.06
Total	231,700	

Calculation method for market value of employee share options:
The market value of share options is calculated according to the Black-Scholes method. Volatility is calculated on the basis of the development in the historical share price equal to the lifetime of the options. This assumes that historical volatility indicates future volatility, which is not necessarily the case. Strike prices are set as the listed price plus 10% at the time of allocation. Risk-free interest is based on the interest for Norwegian government bonds. Each option programme is calculated separately with the actual exercise price and duration of the programme. The exercise date for the options is calculated on the basis of historical experience in the company and is differentiated between senior management and other employees. The interest advantage is insignificant and has not been included in the accounts. The table below shows the values that have been used in the model.

	2017	2016
Dividends (NOK)	0.00	0.00
Expected volatility (%)	48.33	41.22
Historical volatility (%)	48.33	41.22
Risk-free interest (%)	0.87	0.48
Expected life of options (years)	3.50	3.50

8 PENSION COSTS

Photocure ASA has an agreement with a life assurance company concerning contribution-based pensions for Photocure's employees. The contribution plan match the revised national regulations for pension. The contributions are 6% of the employee's ordinary salary up to 7.1 times the basic amount (G) of the Norwegian National Insurance scheme, and thereafter 16% up to 12 x G. The national insurance cover pension for salaries to 7.1 G. Pension contributions are paid into the employee's contribution account with the life assurance company. As of 31 December 2019 and 31 December 2018, the company had immaterial deposits in the premium and the contribution fund.

Photocure Inc matches its employee's contribution to the 401(k) plan dollar for dollar up to 4% of salary for the employees that elect to join the plan. There is a salary maximum set by the IRS, which was $280,000 in 2019.

Photocure has entered into pension agreements with senior management in the form of un-funded pensions for salaries exceeding coverage by insurance. This un-funded pension liability is interest-bearing.

The pension cost for the year is calculated as follows:

Amounts in NOK 1,000	Group		Parent	
	2019	2018	2019	2018
Total pension costs, contribution scheme in life assurance	4,387	4,221	2,752	3,003
Total pension costs, company scheme	683	939	392	624
Total	5,070	5,160	3,144	3,628

9 AUDITING FEES

Amounts in NOK 1,000 ex VAT	Group and parent	
	2019	2018
Statutory auditing	325	361
Other attestation services	24	23
Other services excluding auditing	45	22
Tax advice	78	211
Total	473	617

10 FINANCIAL INCOME AND EXPENSE

Amounts in NOK 1,000	Group		Parent	
	2019	2018	2019	2018
Interest income	1,696	1,185	1,696	1,185
Foreign exchange gains	6,282	2,467	8,494	18,236
Total financial income	7,978	3,652	10,190	19,421
Foreign exchange losses	4,078	2,192	4,078	2,192
Other financial expense	735	272	642	272
Total financial expense	4,813	2,464	4,720	2,464

The foreign exchange gain in the Parent company include unrealised exchange gain of the long term loan to the subsidiary that is nominated in USD. The exchange rate NOK/USD increased to 8.82 as of December 31, 2019 compared to exchange rate of 8.76 at end of previous year.
This is resulting in an unrealised gain of NOK 2.2 million in 2019 compared to a gain of NOK 15.8 million in 2018. In the consolidated accounts the unrealised gain/loss is eliminated against the change in equity as part of other comprehensive income.

Other financial expenses in 2019 include interest expense for the long-term lease liabilty with NOK 236 thousand for the Group and NOK 142 thousand for Parent company.

The licence agreement with Asieris in July 2019 with contract revenue of USD 8 million has led to realized and unrealised currency gains of NOK 2.9 million in 2019 because of the USD currency strengthening towards NOK in the second half of the year.

11 TAX

Amounts in NOK 1,000	Parent & Group	
	2019	2018
Income tax expense		
Tax payable	-	-533
Changes in deferred tax	14,032	526
Total income tax expense	14,032	-6
Tax base calculation		
Profit before income tax	61,375	1,654
Permanent differences *)	1,988	910
Change in temporary differences	-6,145	-8,062
(Utilized)/Increased tax loss carried forward	-57,218	5,499
Tax base	0	0
Temporary differences		
Receivables	-568	-108
Inventories	1,122	3,174
Non current assets	-1,436	-1,164
Long term currency loans	58,890	74,907
Contract revenue	22,956	-
Provisions	-6,077	-13,269
Pensions	-2,238	-4,903
Gains and loss account	31,462	39,328
Total	104,110	97,966
Tax loss carried forward	-278,404	-336,041
Net temporary differences	-174,294	-238,076
Deferred tax liability (asset)	-38,345	-52,377

Amounts in NOK 1,000	Parent & Group	
	2019	2018
Reconciliation of effective tax rate		
Expected income taxes at statutory tax rate	13,503	380
Permanent differences	437	209
Effect refund withholding tax prior year	-	-533
Effect change tax rate Norway	-	2,381
Prior year adjustment	91	-
Recognition of previously unrecognized tax losses	-	-2,443
Income tax expense	14,032	-6
Effective tax rate in % **)	22.9 %	-0.4 %

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

*) Permanent differences consist of non deductible costs, non taxable income and deduction for development cost through the SkatteFunn concept.
**) Tax expense related to profit before tax.

The Parent company has a taxable profit in 2019 of NOK 57.1 million compared to a loss in 2018 of NOK 5.5 million. The deferred tax asset is of this reason decreased to NOK 38.3 million compared to NOK 52.4 million as of 31 December 2018. Photocure apply a profit/loss split method for the business in US and a share of the US related revenue and expenses are included in the Parent company. The basis for recognition of a tax asset in Norway are the predicted future profit according to the business plan for all major markets and that temporary differences for the coming years will be reversed. The remaining deferred tax asset is of this reason maintained as of 31 December 2019.

It is Photocure's judgement that the operation in the US will be profitable and this will contribute to the pre-tax result in the Parent company through the profit/loss split method. This is based on a cash flow model taking into account a balanced view of the market share for Cysview in the US compared to partner sales of Hexvix in Europe and Photocure's own sales in the Nordic region. The expansion of the US sales and marketing force has continued in 2019 and enable Photocure Inc to cover larger parts of the US market in order to gain further market shares. The installed base of blue light cystoscopes in US at the end of 2019 has increased apr 40% compared to last year end. After the year-end 2019 Photocure announced that the United States Patent and Trademark Office has granted a patent covering the use of Blue Light Cystoscopy with Hexvix/Cysview as neoadjuvant therapy in the treatment of bladder cancer in patients who are scheduled for a cystectomy.

Photocure continues to see growth opportunities in the Nordic and major European countries, not at least in the surveilance market with flexible cystoscopes which is 2-3 times bigger than the rigid cystoscopy market. Several studies have been published highlighting and verifying key clinical benefits including the positive impact of Hexvix/Cysview on reduced disease progression, bladder cancer detection and the safety of repeated use of Hexvix/Cysview. The basis for the recognition of the tax asset is the assessment that there are convincing evidence that the deferred tax benefit will be utilized.

There is no expiry on losses to be carried forward in Norway while it expires after 20 years in US according to tax legislation valid to end of 2017. The new US tax legislation valid for taxable years from 2018 have no expiry of loss carried forward but a 80% limit in utilization.

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

Amounts in NOK 1,000	2019		2018	
Unrecognised deferred tax assets	Amount	Tax effect	Amount	Tax effect
Net deductible temporary differences	-1,185	-333	-1,508	-428
Tax losses	141,221	39,697	125,706	35,731
Total	140,036	39,364	124,198	35,303

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

Amounts in NOK 1,000	2019		2018	
	Amount	Expiry date	Amount	Expiry date
Expire	135,012	2030 - 2037	122,384	2030 - 2037
Never expire	6,208		3,322	-
Total	141,221		125,706	

12 EARNINGS PER SHARE

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

	2019	2018
Figures indicate the number of shares		
Ordinary shares 1 January	21,779,008	21,557,910
Effect of treasury shares	-15,839	-9,616
Effect of share options exercised		17,781
Effect of shares issued	14,855	16,905
Weighted average number of shares, 31 December	21,778,024	21,582,980
Effect of outstanding share options	56,784	47,512
Weighted average number of diluted shares, 31 December	21,834,808	21,630,492

Amounts in NOK 1,000	2019	2018
Net profit/loss(-)	31,832	-36,708
Earnings per share		
Earnings per share in NOK basic	1.46	-1.70
Earnings per share in NOK diluted	1.46	-1.70

13 INTANGIBLE ASSETS, MACHINERY AND EQUIPMENT

Amounts in NOK 1,000

	Intangible assets			Right-of-use	Machinery and Equipment		
Group	Product Development	Software Systems	Total	Office Lease	Production	Office	Total
Accumulated cost at 31 December 2017	50,510	3,433	53,943		3,324	5,223	8,547
Additions	559	237	796		228	1,328	1,556
Disposals and scrapping			0		-3,324	-76	-3,400
Accumulated cost at 31 December 2018	51,069	3,670	54,739	-	228	6,475	6,703
Additions		316	316	10,439	204	717	921
Disposals and scrapping			0			-829	-829
Accumulated cost at 31 December 2019	51,069	3,986	55,055	10,439	432	6,363	6,795
Accumulated depreciation at 31 December 2017	20,019	609	20,628		3,324	3,955	7,279
Amortization and depreciation	10,943	665	11,608		13	1,590	1,603
Disposals and scrapping			0		-3,324	-996	-4,320
Accumulated depreciation at 31 December 2018	30,962	1,274	32,236	-	13	4,549	4,562
Amortization and depreciation	10,479	735	11,214	3,430	95	1,475	1,570
Disposals and scrapping			0			-1,377	-1,377
Accumulated depreciation at 31 December 2019	41,441	2,009	43,450	3,430	108	4,647	4,755
Book value at 31 December 2019	9,628	1,977	11,605	7,008	324	1,716	2,040
Book value at 31 December 2018	20,107	2,396	22,503	-	215	1,926	2,141

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

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

Photocure has carried out a clinical study in US for the approved product Cysview and based on the study obtained a marketing approval for repeated use and use in combination with flexible cystoscopies in US. Photocure has capitalized accumulated study costs NOK 46.2 million as of 31 December 2019 for these development expenditures. The development expenditures are amortized on a straight-line basis in the profit and loss from the start of the expenditure project over the remaining patent period for the approved product and indication.

The study addressed safety and efficacy questions regarding repeat use of Cysview and safety and efficacy in the detection of pre-cancerous lesions (CIS).
In addition to fulfill the post marketing commitments in US, the results of the study has been used to expand the indication for use of Cysview.

The Right-of-use assets comprise the office lease contracts covered by IFRS 16 from January 1, 2019, cf Note 4. The office lease asset for the Parent company cover the part of the rental in use by company excluding subrented space. The calculation of the lease asset is excluding utility services shared by the tenants.

The Parent company has a rental agreement for premises at Hoffsveien 4 in Oslo ending August 2021. The agreement include a right to sub rent part of the premises and this right has been utilized. The net rent amounts to NOK 2.6 million for the period 1 January 2020 through 31 December 2020. The net rent for the remaining period until the expiry of the agreement amounts to NOK 1.8 million. Annual regulation of the rent corresponds to the change in the consumer price index.

Photocure Inc rents office premises at Carnegie Center, Princeton, New Jersey from 1 April 2011 through 10 December 2022. Photocure Inc utilized in 2017 an option to increase the space leased by 551 feet and to extend the agreement until 10 December 2022. The rent commitment for the period 1 January 2020 to 31 December 2020 is NOK 1.2 million while the rent for the remaining period until the expiry of the agreement amounts to NOK 2.4 million.

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

14 OTHER INVESTMENTS

In the balance sheet of Parent company 100% of shares in the subsidiary Photocure Inc are included with book value NOK 5.5 million as of 31 December 2019 and NOK 5.5 million as of 31 December 2018.

15 INVENTORIES

Amounts in NOK 1,000	Group		Parent	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
Raw materials	1,231	1,095	1,231	1,095
Resale products	44	71	44	71
Semi-finished and finished goods	15,135	17,417	13,747	16,682
Total inventories	16,410	18,583	15,022	17,848

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 net realisable value. Provisions and write-downs of inventories are included in cost of goods sold in the income statement.

Stock of resale products comprises from 2018 medical disposable equipment according to the distribution agreement with Combat Medical for the bladder chemotherapy business.

16

FINANCIAL RISK

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

(I) Organisation of financial risk management

Photocure has an international business operation and is exposed to currency risk, interest rate risk, commodity price risk, liquidity risk and credit risk. Responsibility for managing financial risk is placed with the management of the company, including financing, interest rate and currency management as well as risk within the business areas and the risk associated with the company's business processes. Financial risk is also monitored by the Board of Directors.

Centralised risk management

Photocure has a centralised finance department. This department ensures the company's financial freedom to act both long and short term, and to monitor and manage financial risk in collaboration with the individual business units within the company. The finance department maintains communication with the company's bank connections, and carries out hedging transactions regarding interest and currency. Required authorisations for borrowing and entering into derivative agreements are to be granted by the Board of Directors. All transactions involving financial instruments are backed by an underlying commercial hedging requirement.

Commercial operations – production, sales and marketing

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

(II) Classes of financial risk

Interest rate risk

Photocure does not have any interest-bearing debt with exception for pension liability, and the company's interest rate risk is mainly associated with the company's holdings of cash and cash equivalents. The main strategy is to diversify the risk and invest in money market funds and bond funds with low risk, high liquidity and short duration. More than 90% of the investments are denominated in NOK and are not hedged.

Liquidity risk

A main objective of Photocure's financial policy is to ensure that the company has the financial freedom to act both short and long term to achieve strategic and operational goals. Photocure is to have sufficient funds to cover known capital requirements during the forthcoming 12 months in addition to a strategic reserve. The Company monitors the cash flows on long and short term through planning and reporting. Photocure does not have any loan agreements that involve covenants or other financial requirements.

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

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

Amounts in NOK 1,000	Remaining period				
	Less than 1 month	1–3 months	3–12 months	1–5 years	Total
31-Dec-19					
Accounts payable	4,871	250			5,121
Withholding tax and social securities	2,220	1,664			3,884
Other current liabilities	3,990	7,515	18,216	0	29,721
31-Dec-18					
Accounts payable	18,113	500			18,613
Withholding tax and social securities	2,653	1,690			4,343
Other current liabilities	8,364	9,000	12,500	1,000	30,864

Credit risk
Management of credit risk associated with accounts receivable and other operational receivables is dealt with as a part of the commercial risk and is followed up continuously as a part of normal operations. Photocure is primarily exposed to credit risk associated with accounts receivable and other short-term receivables. Photocure's sales are made to license partners, pharmaceutical wholesalers in the Nordic region and hospitals in USA. The credit risk is limited as the counterparties are mainly large companies that are not related to each other. Photocure's credit risk is considered moderate and the Company does not use credit insurance.

Currency risk
As NOK is the Company's presentation currency, Photocure is exposed to translation risk associated with the company's foreign net exposure. Photocure's revenues and costs are incurred in different currencies, primarily EUR, USD, GBP, SEK and DKK. Photocure is therefore exposed to exchange rate fluctuations. The company regularly monitors the need for hedging of large transactions. Bank accounts in foreign currencies are used actively to reduce exposure to all the main currencies, and currency risk is to some degree naturally hedged in EUR, USD, SEK and DKK by having both revenues and costs in the same currency. However Photocure have in 2019 a cash surplus in EUR and a cash deficit in USD.

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
2019	+ 10 %	-10,975
2019	- 10 %	10,975
2018	+ 10 %	-4,105
2018	- 10 %	4,105

17 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
Money market funds	89,671			89,671
Total	89,671	-	-	89,671

18 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-19	31-Dec-18	31-Dec-19	31-Dec-18
Accounts receivable	24,665	20,371	10,992	10,645
Accounts receivable intercompany			135	579
Total	24,665	20,371	11,128	11,224
Royalty	3,080	4,495	3,080	4,495
Contract receivable, short term cf note 3	11,019		11,019	
Other receivables	6,382	3,148	972	904
Total other receivables	20,481	7,643	15,072	5,399

Loan to the subsidiary is disclosed in note 24.

Age breakdown of group accounts receivable	Not yet due	0-30 days	30-60 days	60-90 days	Over 90 days	Total
31 December 2019	16,991	6,292	885	496	0	24,665
31 December 2018	15,823	3,666	730	152	0	20,371

Photocure's sales are mainly to license partners, pharmaceutical wholesalers in the Nordic region and hospitals in the U.S. The credit risk is limited as the counterparties are mainly large and non-affiliated companies/hospitals.

Photocure has implemented the expected loss model under IFRS 9 on trade receivables. The expected loss as of December 31, 2019 amounts to NOK 0.9 million compared to NOK 0.3 million as of 31 December 2018. Realised bad debt loss' in 2019 and 2018 have been immaterial. Credit risk and foreign exchange risk in regard to trade accounts receivable are dealt with in more detail in Note 16.

19 CASH AND SHORT TERM DEPOSITS

Amounts in NOK 1,000	Group		Parent	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
Cash and cash equivalents, restricted (1)	4,118	4,330	4,118	4,330
Cash and cash equivalents, non-restricted	31,531	23,389	28,871	22,516
Money market funds, non-restricted	89,671	79,114	89,671	79,114
Total	125,320	106,833	122,660	105,960

(1) Restricted cash and cash equivalents at 31 December 2019 include security for employees' withholding tax in of NOK 1.6 million, while the remaining amount refers to deposit for rent of office.

20 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 2018	21,779,008	0.50	10,889,504
Share capital at 31 December 2019	21,796,387	0.50	10,898,194
Treasury shares:			
Holdings of treasury shares at 31 December 2017	809		405
Buy-back of treasury shares	13,000	0.50	6,500
Buy-back of restricted shares	1,121	0.50	561
Holdings of treasury shares at 31 December 2018	14,930		7,465
Buy-back of treasury shares	0	0.50	0
Buyback of restricted shares	1,694	0.50	847
Holdings of treasury shares at 31 December 2019	16,624		8,312

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

At the General Meeting 9 May 2019, the Board of Directors of Photocure ASA was granted authorisation to issue up to 2.7 million shares. Of this authorisation, (a) 2.18 million shares are linked to financing of the Company's development, while (b) 0.5 million shares are associated with the issue of shares to the Company's employees. Subscription of shares under the incentive program shall be subscribed at the market price with an addition of 10% at the time of allocation of the employee share options. At the General Meeting the Board of Directors was granted authorisation to purchase treasury shares to 1.1 million shares. 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 2020. Previously issued authorisations have expired.

The table below indicates the status of authorisations at 31 December 2019:

Figures indicate the number of shares	Purchase, treasury shares	Ordinary share issue	Employee share issues
Authorisation issued at the General Meeting on 9 May 2019	1,089,819	2,179,638	500,000
Share issues after the General Meeting on 9 May 2019	0	0	0
Purchase of treasury shares after the General Meeting 9 May 2019	-1,694	0	0
Remaining under authorisations at 31 December 2019	1,088,125	2,179,638	500,000

231 700 share options have been allocated to employees 31 December 2019 (see note 7).

Ownership structure

The major shareholders in Photocure as of 31 December 2019 were:

	Shares	Shareholding
High Seas AS	2,220,000	10.2 %
Verdipapirfondet KLP Aksjenorge	700,000	3.2 %
Radiumhospitalets Forskningsstiftelse	653,319	3.0 %
Verdipapirfondet Fondsfinans Norge	560,000	2.6 %
Myrlid AS	522,000	2.4 %
Nordnet Livsforsikring AS	521,276	2.4 %
Kommunale Landspensjonskasse	500,000	2.3 %
MP Pensjon PK	367,209	1.7 %
Vicama AS	329,530	1.5 %
Danske Bank A/S	322,769	1.5 %
Vinterstua AS	260,402	1.2 %
Beeline AS	239,894	1.1 %
BNP Paribas Securities Services	232,309	1.1 %
Nordnet Bank AB	206,849	0.9 %
Skøien AS	200,000	0.9 %
Kristianro AS	181,087	0.8 %
Egeland Holding AS	180,000	0.8 %
JPMorgan Chase Bank, N.A., London	167,890	0.8 %
Lehre Holding AS	164,390	0.8 %
Billington Erik	162,000	0.7 %
Total of 20 largest shareholders	8,690,924	39.9 %
Treasury shares	16,624	0.1 %
Total other shareholders	13,088,839	60.1 %
Total number of shares	21,796,387	100.0 %

Shares owned, directly or indirectly, by members of the Board of Directors, the President and CEO and senior management and their closely related associates as of 31 December 2019:

Name	Position	No. of shares	Restricted shares	No. of share options*
Jan H. Egbert	Chairperson of the board	14,500	-	-
Einar Antonsen	Board member	13,500	-	-
Gwen Melincoff	Board member	1,000	-	-
Tom Pike	Board member	3,400	-	-
Daniel Schneider	President and CEO	15,000	18,353	-
Geoffrey Coy	Vice President and General Manager of US Operations	-	-	-
Erik Dahl	Chief Financial Officer	3,500	7,133	25,500
Grete Hogstad	Vice President Strategic Marketing	13,878	5,566	21,000
Kari Myren	Head of Global Medical Affairs and Clin. Dev.	-	962	-
Gry Stensrud	Vice President Technical Development & Operations	1,845	5,344	26,300

* See note 7 for additional information about the share options.

21 CAPITAL STRUCTURE

The Group is financed by equity and had no interest-bearing debt at 31 December 2019 and 31 December 2018 with exception for the pension liability according to note 8.

22 ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

Amounts in NOK 1,000	Group		Parent	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
Accounts payable	5,121	10,182	3,410	7,638
Accounts payable, intercompany			873	1,344
Total	5,121	10,182	4,283	8,982
Accrued bonus, holiday pay, salaries	18,613	19,031	11,949	12,272
Accrued royalty liability	1,037	1,630	1,037	1,630
Short term portion of pension liability	0	3,179	0	3,057
Miscellaneous other accrued costs	10,070	7,025	7,934	6,075
Total other current liabilities	29,721	30,864	20,920	23,033

Accrued royalty liability concerns agreements with external parties for the right to use patented technology. The liability is calculated as royalty on sales of products accrued in the last period and as a share of any signing fees and milestone payments received.
Accrued bonus, holiday pay, salaries include accrual for restricted share allotment with NOK 1.651 as of 31 December 2019 compared to NOK 3,452 previous year end. Final allotment for the Group to be decided by the Board of Directors.

23 REMUNERATION OF MANAGEMENT AND BOARD OF DIRECTORS

Amounts in NOK 1,000	Directors' fees paid	Salaries paid	Restricted share bonuses accrued	Bonuses accrued	Benefits in kind	Pension cost	Total
Senior management 2019							
President and CEO*)		3,717		1,425	8	250	5,400
Chief Financial Officer		1,823		306	16	257	2,402
Head, US Cancer Commercial Operations until June*)		2,040		-	170	119	2,328
VP and General Manager of US Operations from September*)		834		204	70	134	1,242
Head, Nordic Cancer Commercial Operations		1,594		-	27	174	1,795
VP Strategic Marketing		1,599		192	85	205	2,081
VP Technical Development and Operations		1,426		240	20	167	1,852
VP Medical		1,553		258	21	187	2,019
Total senior management		14,586	-	2,625	417	1,492	19,120
Board of Directors 2019							
Chairperson of the Board	503						503
Members of the Board	1,450						1,450
Total remuneration	1,953	14,586	-	2,625	417	1,492	21,073
*) Remunerations paid in USD:							
President and CEO		422		162		28	613
Head, US Cancer Commercial Operations until June		232			19	14	265
VP and General Manager of US Operations from September		95		23	8	15	141

Amounts in NOK 1,000	Directors' fees paid	Salaries paid	Restricted share bonuses accrued	Bonuses accrued	Benefits in kind	Pension cost	Total
Senior management 2018							
President and CEO until June 2018		1,274	-	-	264	401	1,939
President and CEO until from November 2018 *)		2,229	1,041	92	-	147	3,509
Chief Business Officer until May 2018 *)		1,233	-	-	91	114	1,438
VP Research and Development until November 2018		1,058	-	66	360	97	1,580
Chief Financial Officer		1,833	146	143	156	235	2,513
VP Strategic Marketing		1,526	107	132	216	197	2,178
VP Technical Development and Operations		1,345	107	115	19	160	1,746
Head, US Cancer Commercial Operations *)		2,890	130	373	462	229	4,084
Head, Nordic Cancer Commercial Operations		1,395	80	135	146	170	1,926
Total senior management		14,783	1,612	1,055	1,713	1,750	20,913
Board of Directors 2018							
Chairperson of the Board	486						486
Members of the Board	1,680						1,680
Total remuneration	2,166	14,783	1,612	1,055	1,713	1,750	23,079
*) Remunerations paid in USD:							
President and CEO		274	128	11	-	18	431
Chief Business Officer until May 2018		152	-	-	11	14	177
Head, US Cancer Commercial Operations		355	16	46	57	28	502

Key mangement and Directors transactions

The Group used the professional services of its Chairperson of the Board and one of its Directors in relation to consulting services during 2018. The consulting services relates to work beyond regular board duties. Contracts are based on market rates and conditions for such services. The amount billed by the Director of USD 7.5 thousands was paid by Photocure in 2019. The amount billed by the Chairperson of NOK 146 thousands was paid by Photocure in 2018.

THE BOARD OF DIRECTORS' DECLARATION ON DETERMINATION OF SALARIES AND OTHER REMUNERATION FOR SENIOR MANAGEMENT 2019

1. General

This declaration is prepared by the board of directors in Photocure ASA ("Photocure" or the "Company") in accordance with the Norwegian Public Limited Liability Companies Act (the "Companies Act") section 6-16a, for consideration at the annual general meeting on 10 June 2020.

Principles in this declaration regarding allocation of shares, subscription rights, options and any other form of remuneration stemming from shares or the development of the official share price in the Company are binding on the board of directors when approved by the general meeting. Such guidelines are described in section 3.2. Other guidelines are precatory for the board of directors. If the board of directors decides to deviate from these guidelines, the reasons for this change shall be stated in the minutes of the board of directors' meeting.

The principles set out for the determination of salaries and other remuneration for senior management in this declaration shall apply for the financial year 2020 and until new principles are resolved by the general meeting in accordance with the Companies Act. The annual general meeting in 2021 will review how the principles set out in this declaration have been pursued in 2020 and deal with the principles for 2021 in accordance with the Companies Act.

2. Main principles

Senior management remuneration in Photocure and group companies shall be determined based on the following main principles:

2.1 Remuneration shall be competitive, but not leading

Senior management remuneration shall, as a general guideline, be suited to attract and retain skilled leaders in order to enhance value creation in the Company and support the alignment of interests between management and shareholders. Total remuneration should, as a general rule, be at level with remuneration for senior management in comparable industries, businesses and positions in the country in which the individual manager resides.

2.2 Remuneration shall be motivational

Senior management remuneration shall be structured to drive motivation and encourage improvements in results and shareholder value. In general, the remuneration consists of five elements: base salary, short term incentives, long term incentives, benefits in kind and pension benefits.

The variable remuneration, short term and long term, is linked to value generation for shareholders over time. The variable remuneration is determined both by the achievement of individual and companywide key performance indicators and goals. Instrumental is that senior managers, both individually and as a team, can influence achievement of the key performance indicators and goals.

The long term incentives are tied to the development of the share price of the Company and in accordance with section 3.2 of this declaration.

2.3 Remuneration shall be comprehendible and acceptable both internally and externally

The remuneration system shall not be unduly difficult to explain to the general public and should not involve disproportional complexity for the administration.

2.4 Remuneration shall be flexible, allowing adjustments over time

To be able to offer competitive remuneration, the Company must have a flexible system that can accommodate changes as the Company and markets evolve.

3. Principles regarding benefits offered in addition to base salary

The base salary is the main element of the senior manager's remuneration. Additional and variable remuneration elements are, at time of grant, subject to determination of specific maximum amounts depending on the position of the employee.

The following refers to the individual benefits which are granted in addition to base salary. Unless specifically mentioned, no special terms, conditions or allocation criteria apply to the benefits mentioned.

3.1 Additional benefits

3.1.1 Short term incentive / cash bonus scheme

The Company has established a bonus scheme for senior management. These schemes are reviewed at least annually. Bonus schemes are tied to the achievement of strategic, operational and financial goals for the Company determined by the board of directors and adherence to compliance matters as well as achievement of personal goals. Personal goals for senior management are approved by the board of directors at the start of the year.

The Chief Executive Officer of the Company has a bonus agreement of up to 40% of base salary, while other members of the senior management team have bonus agreements from 20% to 35% of their base salary.

3.1.2 Pension plans and insurance

Senior managers in Norway participate in Photocure's pension scheme, which is a contribution scheme that involves payment of between 6% and 16% of the employee's salary, up to a maximum of 12 times the basic amount (Grunnbeløp) of the Norwegian National Social Security Scheme (Folketrygden). Photocure has established pension coverage for senior managers in Norway for salary above 12 G. The scheme is a contribution-based operating pension with provisions corresponding to 16% of salary above 12 G. In the event of resignation, full pension rights are conditional upon at least five years' employment, while less than 3-years' employment carries no rights. The pension schemes also cover in the event of disability.

Senior managers residing in the United States participates in a 401(k), a tax-qualified, defined-contribution pension account defined in subsection 401(k) of the Internal Revenue Code. In addition, Photocure has established an additional pension coverage contributing annually an amount equal to 4% of salary and earned bonus.

The Company compensates senior management for health and life insurance plans in line with standard conditions for senior positions, in addition to mandatory occupational injury insurance required under Norwegian Law.

3.1.3 Severance schemes

The Chief Executive Officer has a period of notice of thirty (30) days. In addition, and in accordance with detailed regulations, the Chief Executive Officer is entitled to a lump sum amount equal to 12 months of his base salary and prorated performance bonus adjusted for degree of bonus-objectives achieved at time of termination and also a lump sum related to a health care premium calculated for 12 months of coverage. Vice President and General Manager of US Operations has a period of notice of 30 (thirty) days and is under certain conditions entitled to a lump sum amount equal to 6 months of his base salary. Other senior management has a period of notice between 3 and 12 months.

3.1.4 Benefits in kind

Senior managers will normally be given the benefits in kind that are common market practice, i.e., telephone expenses, a laptop, free broadband connection, newspapers and car allowance if applicable. There are no special restrictions on the type of other benefits that can be agreed on.

3.1.5 Loans and guarantees

No loans are granted, nor are any securities provided for members of the senior management team, the board of directors, employees or other persons in elected corporate bodies.

3.1.6 Other benefits

It may be used other variable elements in the remuneration or awarded other special benefits than those mentioned above, provided that this is considered expedient for attracting and/or retaining a manager. No special limitations have been placed on the type of benefits that can be agreed.

3.2 Binding principles for shares and other types of benefits related to shares or share price trends

The Company operates an equity-settled, performance based compensation plan (option program) for its senior managers and selected personnel.

The option program is designed to create an ownership culture to ensure alignment between shareholders and senior employees of the Company. The program is an important tool to attract and retain high caliber employees as the Company has transformed itself from a technology-based company to a therapeutic area-focused commercial stage pharmaceutical company with focus on bladder cancer. In particular, the Company needs to adjust compensation structure to the regions where it operates. As the largest growth potential for the Company is in U.S., the Company needs to adjust to U.S. practices.

Senior management and selected employees will be eligible for option awards, including new hires, as decided by the board of directors. Awards will be on a discretionary basis taking into account performance, organizational level, location and position, and importance of retention. The option program has a performance-based remuneration element reflecting the underlying long term value creation of the Company. The board of directors shall, amongst others, take into consideration the Company's goals, strategies and performance as well as targeted individual performance for each participant.Total Company award will depend on goal achievement.

Company goals are mainly financial and related to growth and profitability, as are individual goals designed for the specific position. Company goals are mainly related to revenue growth and EBITDA. Individual performance goals are position specific and designed to support achievement of Company goals. All individual goals for senior management are approved by the board of directors.

Senior management are for 2020 measured as follows:

- CEO: Company goals 100%
- Other senior management: Company goals 70% / Individual goals 30%

The terms for the options for each individual, including any limits, are determined by the board of directors within the board of director's authorizations as resolved by the Company's general meeting. The board of directors will exercise discretion as to who will receive an equity award in any given year. This decision is based on recommendations made by the compensation committee. Awards will normally be granted on an annual basis based on Company performance and within the maximum size of the awards approved at the Company's annual general meeting. The number of outstanding options shall not exceed 9 % of the Company's total outstanding shares at any point in time.

The intention is that options will be granted annually with a strike price based on the weighted average share price 30 trading days after the annual general meeting with an additional premium of 10% on top of the calculated average price. Grants may also be made in connection with new recruitments. The share options shall vest over three years, with 25% vesting after one year, 25% after two years, and the remaining 50% after three years. Any non-exercised options expire five years after grant. In the event of a change of control, all unvested options shall become fully vested and exercisable.

To avoid the risk of extreme payouts, the options shall have a cap on the maximum pay out of the share option. This cap shall equal 7 times the stock price at the time of grant.

To ensure long term ownership, shares following exercise of options by senior management shall be held for at least 2 years after exercise, except shares to be sold to cover costs including purchase amount and tax. In the event of a change of control, all shares may be sold.

In case of termination of employment, all options unvested as well as vested but not exercised at the time of expiry of employment will lapse. If the option holder is dismissed, unvested options as well as vested but not exercised options will lapse upon dismissal, unless the board of directors decides otherwise.

The option strike price may be subject to adjustments in the event of share split, combination of shares, dividend payment and/or other distribution. In the event of change of control or a merger the options may vest in full.

The board of directors may alter, reduce or eliminate the granting of any new options as well as exercise of any issued options in accordance with its terms, including to decide on cash compensation as replacement for any cancelled options, based on the overall situation of the Company or other special circumstances.

The board of directors shall decide the further terms and conditions for the share options.

Proposed authorization

To recruit and retain experienced managers and key employees to support the commercial activities and growth, particularly in U.S., the Company needs to offer competitive compensation. The option program is an important element of this.

The board of directors proposes that the 2020 annual general meeting authorizes the board of directors to grant, during the period from the 2020 annual general meeting until the 2021 annual general meeting, up to 500,000 options as determined by the board of directors.

4. Remuneration to senior managers in other Photocure companies

All companies in the Photocure group are to follow the main principles for the determining of senior management salaries and remuneration as set out in this declaration. Photocure aims at coordinating management remuneration policy and the schemes used for variable benefits throughout the group.

5. Statement on executive salary policy and consequences of agreements on remuneration in the previous financial year
Remuneration, including pension and insurances, severance schemes, benefits in kind and other benefits granted to senior management are discussed in note 23 to the annual accounts for the financial year 2019.
The annual report and annual accounts for 2019 are available on the web site of the Company, www.photocure.com.

The Company's previous restricted shares program was replaced with a share option program from 2019. The agreements entered into with senior management during the financial year 2019 are entered into in accordance with the principles for determining senior management salaries and remuneration as approved by the general meeting in 2019.

The board of directors believes that the guidelines for share-based remuneration promote value creation in the Company and that the impact they have on the Company and shareholders is positive.

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

Share options for senior management 2019	Share options awarded	Expired share options	Share options exercised	Holding of share options at 31 December 2019	Average exercise price
President and CEO	-	-	-	-	-
Chief Financial Officer	-	-	24,000	25,500	40.15
VP Strategic Marketing	-	-	24,000	21,000	40.15
VP Technical Development and Operations	-	-	27,000	26,300	40.15
Head of Global Medical Affairs and Clin. Dev.	-	-	-	-	-
VP and General Manager of US Operations	-	-	-	22,500	40.15
Head, Nordic Cancer Commercial Operations	-	-	23,300	27,800	40.15
Total	-	-	98,300	123,100	

Share options for senior management 2018	Share options awarded	Expired share options	Share options exercised	Holding of share options at 31 December 2018	Average exercise price
President and CEO	-	-	-	-	-
Chief Financial Officer	-	-	14,000	49,500	36.58
VP Strategic Marketing	-	-	13,000	45,000	36.22
VP Technical Development and Operations	-	-	-	53,300	36.42
Head, US Cancer Commercial Operations	-	-	38,800	22,500	40.15
Head, Nordic Cancer Commercial Operations	-	-	13,000	51,100	36.79
Total	-	-	78,800	221,400	

24 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. Photocure ASA has the ownership to the patent rights and the trade mark and is responsible in the Group for development and manufacturing of the product.

Photocure Inc purchases the completed product from the Parent company and distributes in the United States. The transfer price method implemented is the profit & loss split method (PSM). The PSM divides the combined profit or loss between the transacting related entities based on what would be anticipated if the entities had been transacting at arm's length. A contribution analysis for sale of Cysview compares the split of profit or loss between Photocure Inc and Photocure ASA based on the value of the functions performed by each of the related parties, taking account of assets used and the risks assumed by both parties.

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

It is Photocure's judgment that the operation in the US will be profitable. This is based on a cash flow model taking into account a balanced view of the market share for Cysview in the US compared to sales of Hexvix in Europe and Photocure's own sales in the Nordic region. The expansion of the US sales and marketing force has continued in 2019 and enables Photocure Inc to cover larger parts of the US market in order to gain further market shares.

Effective from January 2018 bluelight cystoscopy with Cysview has been reimbursed by the CMS (U.S. Centers for Medicare & Medicaid Services) at hospital outpatient departments. This decision provides recognition of the clinical benefits of Cysviewx and is an important foundation for future growth in the US.

In February 2018 Photocure announced that the Food and Drug Administration (FDA) approved the post marketing commitments for the US market approval of Cysview. FDA in addition approved the new drug application to expand the indication for Blue Light Cystoscopy (BLC) with Cysview to include flexible cystoscopes, which are used in the ongoing surveillance of patients with bladder cancer. The approval also expanded the indication by including the detection of pre cancer lesions (CIS lesions) in bladder cancer patients as well as the repeated use of BLC with Cysview.

Amounts in NOK 1,000		
Transactions and intercompany balances Photocure Inc:	2019	2018
Sales of products	9,102	5,363
Sales of services	785	2,337
Total subsidiary	9,886	7,700

	31-Dec-19	31-Dec-18
Accounts receivables	135	579
Long term loan given	291,576	266,964
Accounts payables	-873	-1,344
Total subsidiary	290,838	266,200
Guarantees to bank in favor of subsidiary for requested security	2,072	2,058

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

25 SUBSEQUENT EVENTS

Photocure is following the development related to the Covid-19 situation closely and has implemented strict measures to ensure the safety of patients, customers, employees and business partners while maintaining an uninterrupted level of service and supply. Additional measures are continuously considered.

As of the date of this report, the direct impact on Photocure's business from the Covid-19 pandemic is limited. However, the Company expects this pandemic to affect healthcare systems as the burden of managing the virus increases in the coming weeks and months. Photocure's production of Hexvix/Cysview is running at full capacity with no disruptions, but transport and supply chain services may be disrupted and Photocure's services and support may be restricted by government and healthcare organizations in the future. Should Photocure experience a temporary disruption, the Company has current inventory of Hexvix/Cysview that will last until the end of 2020. Short and long term business development and operations may be affected by the Covid-19 situation in various ways. It is currently not possible to quantify all such effects given the ongoing rapid development. Photocure has a strong cash position to support ongoing business and carries no interest-bearing debt.

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To the General Meeting of Photocure ASA

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Photocure ASA, which comprise:

- The financial statements of the parent company Photocure ASA (the Company), which comprise the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Photocure ASA and its subsidiaries (the Group), which comprise the statement of financial position as at 31 December 2019, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Deferred tax asset

Reference is made to Note 11 Tax in the financial statements

The Key Audit Matter	*How the matter was addressed in our audit*
The Group has recognized a deferred tax asset of NOK 38,3 million in the Company and Group's financial statements as of 31 December 2019. The recognized deferred tax asset relates to deductible temporary differences and unused tax losses in the Company in Norway. Management has assessed that there is convincing evidence that it is probable that taxable profits from the product Hexvix®/Cysview ®, will be available in the future, against which unused tax losses in Norway can be utilized. Due to the application of the profit/loss split method for the business in the US, future taxable profits in Norway are not only dependent on the development for Hexvix® in Europe, but also the market development for Cysview ® in the US. We have determined this to be a key audit matter, due to the inherent uncertainty in forecasting the amount of future taxable profits.	Our audit procedures included, among others: • Comparing historical cash flow development in mature markets with expected future cash flows in new markets for Cysview ® • Evaluating the appropriateness of key assumptions in the estimated future taxable profit analysis prepared by management, including profit and cash flow growth, the impact of the expiry of patents and the reversal of significant temporary differences • Comparing financial performance with the original forecasts, to evaluate the reliability of management's prognoses related to future taxable profit • Evaluating management's sensitivity analysis to assess the impact of reasonable changes in key assumptions including future sales in the US for Cysview ® • Evaluating the adequacy of the financial statement disclosures in the financial statements. From the evidence obtained, we consider management's assessment of the value of the deferred tax assets to be acceptable.

2. Loan to Group company

Reference is made Note 24 Related Parties – Companies in the financial statements

The Key Audit Matter	*How the matter was addressed in our audit*
Photocure ASA has one subsidiary, Photocure Inc, that was established in order to carry out the marketing-, selling- and distribution activities for the Cysview ® product in the US. Photocure ASA has a long-term loan to Photocure Inc. that is recognized at NOK 291,6 million in the Company's financial statement as of 31 December 2019. We have determined risk of impairment of the loan to be a key audit matter, due to the inherent uncertainty in Photocure Inc. and the Group's ability to successfully commercialize the individual product concerned.	Our audit procedures in this area included, among others: • Challenging management and applying our own knowledge of the business and the industry to identify any indicators of impairment of the loan • Assessing the impairment documentation prepared by management • Evaluating the appropriateness of key assumptions in the impairment documentation, including profit and cash flow growth, the impact of the expiry of patents, discount rate and agree these with the relevant key assumptions used in valuation of deferred tax asset • Comparing historical cash flow development in mature markets in Europe with expected future cash flows in the US market • Evaluating management's sensitivity analysis to assess the impact of reasonable changes in key assumptions like future sales in the US for Cysview ® • Evaluating the adequacy of the financial statement disclosures in the Company's financial statement From the evidence obtained, we consider management's assessment of the carrying value of the loan to Photocure Inc. to be acceptable.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

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

Oslo, 6 April 2020
KPMG AS

Geir Moen
State Authorised Public Accountant

Alternative Performance Measures

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

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

Photocure uses the following alternative performance measures.

EBITDA and EBIT

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

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

The reconciliation to the IFRS accounts is as follows:

All amounts in NOK 1,000	2019 1.1-31.12	2018 1.1-31.12
Gross profit	259,045	164,363
Operating expenses excl amortization & depreciation	-200,095	-174,855
EBITDA before restructuring	58,950	-10,492
Amortization & depreciation	-16,213	-13,211
EBIT before restructuring	42,737	-23,703

Recurring EBITDA equals EBITDA before restructuring. In 2018 Photocure incurred NOK 14.2 million in restructuring costs. Photocure choose to measure before restructuring costs because adjustments of these items give a better basis for an evaluation of future results.

Revenue growth in constant currency

Photocure's business is conducted internationally and in respective local currency. Less than 10% of the revenue is conducted in Norwegian kroner, Photocure's functional currency. Fluctuations in foreign exchange rates may have a significant impact on reported revenue in Norwegian kroner. To eliminate the translational effect of foreign exchange and to better understand the revenue development in the various regions Photocure provides calculated revenue growth information by region and total for the Company.

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

	2019 1.1-31.12	2018 1.1-31.12
USD (NOK per 1 USD)	8.80	8.13
EUR (NOK per 1 EUR)	9.85	9.60
DKK (NOK per 100 DKK)	131.93	128.80
SEK (NOK per 100 SEK)	93.05	93.63

Other Measures

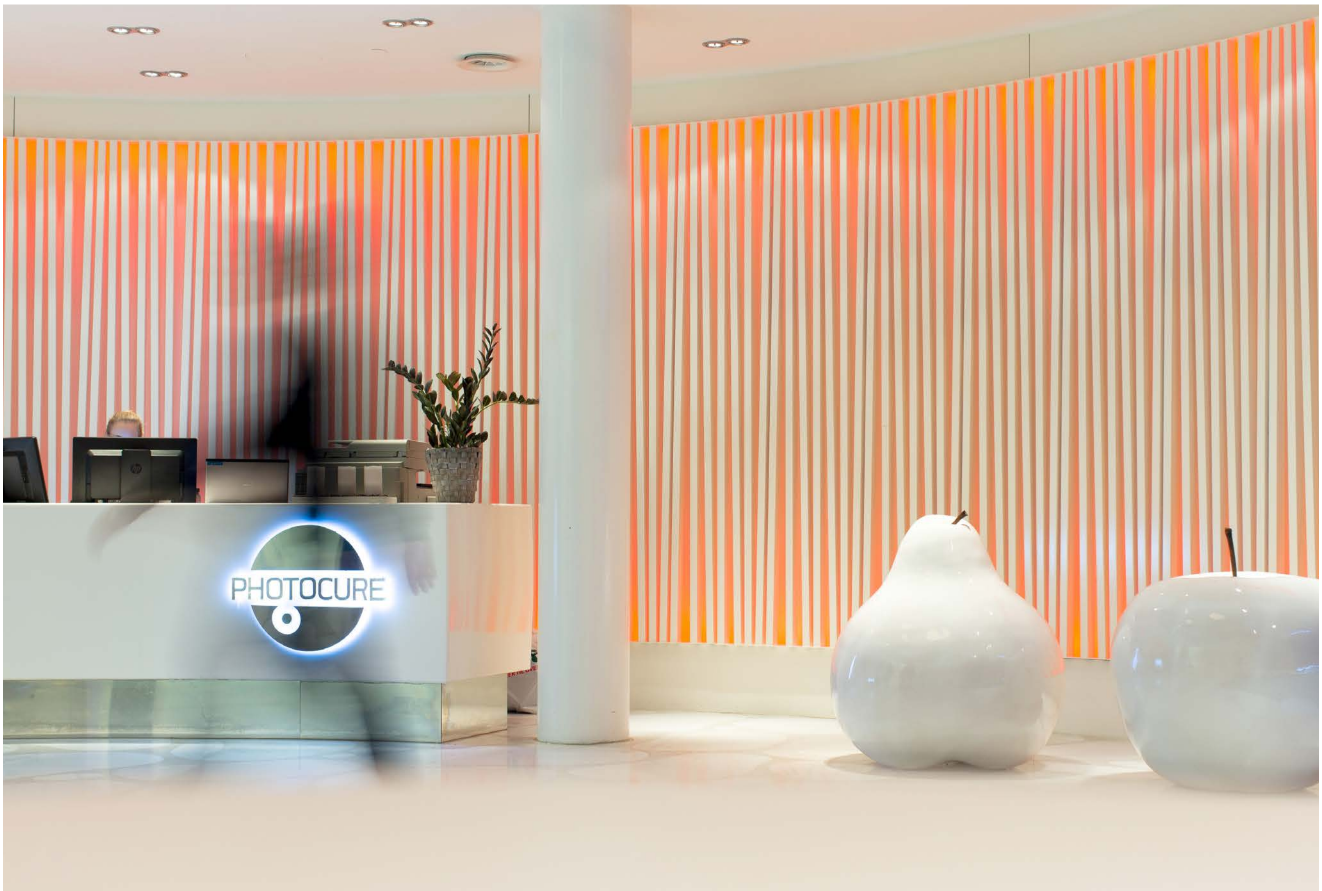
In-market sales

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

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

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

All amounts in NOK 1,000	2019 1.1-31.12	2018 1.1-31.12
In-market sales	330,261	284,809



PHOTOCURE®

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