ANNUAL REPORT 2017

At the intersection of innovation and collaboration

Bavarian Nordic A/S
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CVR-no. 16271187

Annual Report for the period January 1 - December 31, 2017
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Marianne Philip, Chairman of the General Meeting

BAVARIAN NORDIC

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BUILDING A PROMISING FUTURE ON A SOLID FOUNDATION

LETTER FROM THE CEO & CHAIRMAN

2017 was another landmark year for Bavarian Nordic, comprised of the achievement of a number of significant milestones including new contracts, expansion of industry partnerships and solid progress in the clinical pipeline, but also the disappointment of PROSTVAC and its failure to benefit patients as monotherapy. While the Company has made tremendous strides from its beginnings, there will always be setbacks, as is the nature of drug discovery. However, we have built what we believe to be a robust company, with multiple value-creating assets and a platform which helps differentiate us from the traditional binary nature of many biotech companies. The progress made in 2017, both internally and with our partners, has set the stage for numerous opportunities to benefit patients across the globe, and we are proud to share that progress with you.

With solid revenues from our core business and the recognition of the upfront payment from Bristol-Myers Squibb, we came out of 2017 with a stronger financial position than ever, which provides us great flexibility to execute on our strategy going forward.

The results of the PROSPECT study, while disappointing to us all, represent a development setback in our steadfast ambitions to improve treatments for cancer patients. As we put PROSTVAC monotherapy behind us, we are optimistic about our clinical strategy for immunotherapy combinations with both CV301 and Brachyury, which are now truly unfolding with the initiation of multiple new combination studies in 2018 that will continue to expand our cancer franchise.

We are working with AstraZeneca, Bristol-Myers Squibb, and Roche in combination studies of CV301 and PROSTVAC with checkpoint inhibitors. Our collaborators continue to see the possibilities in our platform and are supplying us with drugs for our combination trials. We are looking forward to exploring the potential

"The progress made in 2017 has set the stage for numerous opportunities to benefit patients across the globe

Paul Chaplin
President & CEO

Gerard van Odijk
Chairman of the Board of Directors

synergistic effect of CV301 in multiple indications working with different partners as part of our strategy to grow a broad cancer immunotherapy pipeline.

A new long-term contract for the supply and final development of freeze-dried IMVAMUNE was awarded, paving the way for future revenue growth. We have initiated planning of the expansion of our Kvistgaard site with a fill and finish plant, which will secure the future manufacturing needs for IMVAMUNE and other products. In parallel we are working to complete the Biologics License Application (BLA) for liquid-frozen IMVAMUNE for submission to the FDA later this year with potential approval in 2019 which would represent another significant milestone for our smallpox vaccine program. Along with the approval of IMVAMUNE, we would be eligible for receipt of a Priority Review Voucher, which could be used to accelerate the review of a future BLA, and is also transferrable. Our partnership with Janssen continues to go from strength to strength. With the expansion of our collaboration to include two new commercial targets, HIV and Hepatitis B, we now have a total of four license agreements in place with nearly US$ 1 billion in outstanding milestones, in addition to potential future royalties, making our relationship with Janssen a long term value driver for the Company. Our most advanced commercial program, MVA-BN RSV also made further progress. MVA-BN RSV is highly differentiated compared to other RSV vaccine candidates and has shown to induce strong and broad immune responses against RSV in an elderly population. Combined with the positive Phase 2 data reported during the year, we have positioned ourselves in the forefront of the development of an RSV vaccine, aiming to fulfil this highly unmet medical need, with infections resulting in hundreds of thousands of hospitalizations and tens of thousands of deaths, annually around the globe. Additional important data from the Phase 2 study, including data

With the expansion of our collaboration with Janssen to include two new commercial targets, we now have a total of four license agreements in place with nearly US$ 1 billion in outstanding milestones.

from subjects receiving a booster dose will emerge during 2018. In parallel, we are exploring the feasibility of a human challenge trial later in 2018, which may provide important information to the design of a Phase 3 field efficacy trial. As we progress our pipeline and platform, our ability and desire to make innovative therapies grow stronger. By nature, our technology presents endless opportunities, but our focus remains on diseases with an unmet need in our continued endeavor to help improve the health and quality of life for children and adults.

Operationally, we have strengthened the executive management team with the two senior appointments. Mr. Henrik Birk was promoted to Executive Vice President, Chief Operating Officer. Since joining Bavarian Nordic in 2008, Henrik has served in positions of increasing responsibility, most recently as Senior Vice President, Strategy, People and Organization. Previously at Coloplast he held various management positions focusing on supply chain and production. We also welcomed Dr. Tommi Kainu to Bavarian Nordic as Chief Business Officer with responsibility for both commercial and governmental affairs, as well as business development.

Partnerships and collaborations are becoming an even more important part of our business as we progress our pipeline, but also an important factor in the continued exploration and development of our platform in areas, we would not be able to pursue ourselves. Tommi brings a scientific background and many years of experience at the U.S. National Institutes of Health and at Boston Consulting Group, working with major global pharmaceutical and biotech companies on product launches, portfolio strategy and business development.

We were also happy to add a new capacity to our Board; Elizabeth McKee Anderson, former worldwide vice president of infectious disease and vaccines for the Janssen Pharmaceutical Companies of Johnson & Johnson, who was elected at the annual general meeting in April. We would like to express our appreciation of the exceptional effort all employees have contributed throughout the year. Furthermore we thank all other stakeholders that collectively have trusted and supported the Company.

Paul Chaplin
President & CEO

Gerard van Odijk
Chairman of the Board of Directors

KEY DEVELOPMENTS 2017/18

IMVAMUNE®

The anticipated contract for supply of freeze-dried IMVAMUNE® smallpox vaccine to the U.S. Government was received in September. The contract, valued at up to USD 539 million, includes an additional bulk supply order of USD 100 million, options valued at USD 299 million for filling and freeze-drying of the bulk vaccine from this contract and the previously awarded bulk supply orders, and options valued at up to USD 140 million for clinical development, regulatory commitments, and parts of the establishment and validation of a fill/finish activities as well as options to acquire additional vaccine bulk and/or freeze-dried doses of IMVAMUNE. In preparation for the supply of freeze-dried vaccines, and to ensure the production capacity to secure the future U.S. stockpile of IMVAMUNE, Bavarian Nordic will invest approximately USD 75 million in the construction of a fill/finish manufacturing line at its facility in Denmark, which is expected to be operational in 2021.

Additional smallpox vaccine contracts were entered during the year; in June we received an order from the Public Health Agency of Sweden for 35.000 doses, with an option to procure additional 100,000 doses. And our long-standing collaboration with the Canadian authorities continued as the Canadian Department of National Defence in October exercised another option for the procurement of 20,000 doses, with 100,000 doses remaining exercisable under the current framework agreement.

The second and final Phase 3 study to support FDA approval of IMVAMUNE was successfully completed in February 2018. The study, which compared the efficacy of IMVAMUNE with ACAM2000®, the current U.S. licensed replicating smallpox vaccine, achieved both primary endpoints and even demonstrated higher (two-fold) levels of neutralizing antibodies for IMVAMUNE than ACAM2000. Preparations are ongoing to support the filing of a Biologics License Application in the second half of 2018.

MVA-BN RSV

Additional clinical data were reported for our universal RSV vaccine candidate, MVA-BN RSV. Most importantly, top-line results from a Phase 2 dose-ranging study in 421 subjects showed that the vaccine was well tolerated and immunogenic at both dose levels investigated, and confirmed the hypothesis that MVA-BN RSV is the first vaccine candidate designed to induce a broad and robust immune response against five distinct RSV proteins following a single vaccination. Follow-up results furthermore demonstrated that the vaccine induced a durable immune response lasting at least 6 months; a period spanning a normal RSV season.

In early 2018, we announced additional data from the study, showing that vaccinated subjects had increased levels of IgA antibodies in the nasal mucosa, which is highly correlated with immune protection against RSV.

KEY DEVELOPMENTS 2017/18

CV301

As part of our strategy to explore our cancer immunotherapy candidate, CV301 in various combinations with immune checkpoint inhibitors across multiple cancers, we entered a drug supply agreement in March 2017 with Roche, who will provide their marketed PD-L1 inhibitor, Tecentriq® (atezolizumab) for a Phase 2 combination trial of CV301 in bladder cancer.

Additionally, in February 2018, we entered into a collaboration with Georgetown University that will investigate the combination of CV301 and durvalumab, AstraZeneca's PD-L1 inhibitor, in patients with metastatic colorectal or pancreatic cancers receiving maintenance chemotherapy, and in March 2018, we entered an agreement with Rutgers Cancer Institute on another Phase 2 trial that will investigate the combination of CV301 and nivolumab, Bristol-Myers Squibb's PD-1 inhibitor, in patients with oligometastatic, microsatellite stable colorectal cancer.

BN-Brachyury

A new clinical trial of our novel cancer immunotherapy candidate, BN-Brachyury, was initiated in January 2018. The study, which will evaluate the safety of a prime-boost dosing schedule, precedes a number of planned Phase 2 trials, including a trial in chordoma patients later in 2018. The vaccine is targeting brachyury, a key driver of cancer metastasis in several tumor types.

PROSTVAC®

In September 2017, after the third interim analysis of the PROSPECT Phase 3 study of PROSTVAC® as a monotherapy in metastatic prostate cancer, the study was discontinued after recommendation from the independent Data Monitoring Committee that the study was unlikely to reach its primary endpoint of overall survival. A new investigator-sponsored Phase 2 combination study of PROSTVAC and nivolumab, Bristol-Myers Squibb's PD-1 inhibitor was initiated in April. Data from this and other ongoing combination trials of PROSTVAC will begin to emerge in 2018, providing early data on the potential synergistic effect of the combination.

Janssen

Our partnership with Janssen was expanded in July 2017 with an additional worldwide license and collaboration agreement on our MVA-BN® technology for vaccines against hepatitis B virus (HBV) and the human immunodeficiency virus (HIV-1). The total potential value of the new agreement is up to USD 879 million including an upfront payment of USD 10 million, USD 33 million in an equity investment by subscription of new Bavarian Nordic shares and up to USD 836 million in milestone payments based upon the achievement of specified development, regulatory and sales milestones, in addition to tiered royalties on future sales.

FINANCIALS

FINANCIAL RESULTS FOR 2017

We met our financial guidance for 2017 with revenues of DKK 1,370 million and a profit before interest and tax (EBIT) of DKK 353 million.

Our cash preparedness at year-end was DKK 2,604 million, which included DKK 2,584 million in cash, cash equivalents and investments in securities and DKK 20 million in undrawn credit lines. Our expectations to the cash preparedness were upgraded in July 2017 to DKK 2,600 million as result of raising DKK 208 million in proceeds from the issue of new shares to Johnson & Johnson Innovation – JJDC, Inc. in connection with the expanded collaboration with Janssen.

For a detailed financial review, see page 56.

Financial performance for 2017 and outlook for 2018

DKK million	2017 guidance	2017 actual	2018 guidance
Revenue	1,300	1,370	500
Income before interest and tax (EBIT)	350	353	(385)
Cash preparedness, year-end	2,600	2,604	1,850

OUTLOOK FOR 2018

In 2018, we expect revenues of approximately DKK 500 million and a loss before interest and tax (EBIT) of approximately DKK 385 million.

With our strategic decision to advance the pipeline, we maintain our research and development costs at similar levels as previous years, and with the establishment of a fill-finish facility to be ready in 2021, we are increasing our investments in the coming years. We are doing this in order to prepare to realize the full value of our contract framework with the U.S. government for supply of freeze-dried IMVAMUNE.

The expected revenues are composed of approximately DKK 350 million from our IMVAMUNE business, including production and storage of bulk vaccine for the U.S. Government and delivery of doses to the Public Health Agency of Canada, and approximately DKK 150 million from ongoing research and development contracts.

Our cash preparedness at year-end is expected to amount to approximately DKK 1,850 million, which includes cash, cash equivalents, investments in securities and the aggregate amount of undrawn credit lines.

Research and development costs will be approximately DKK 510 million of which DKK 110 million will be recognized as production costs. Costs are primarily related to the advancement of the clinical studies of MVA-BN RSV, CV301 in lung and bladder cancers and BN-Brachyury.

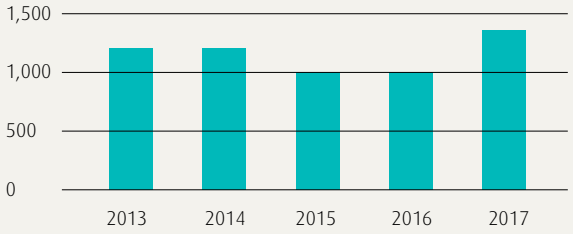
CONSOLIDATED KEY FIGURES

DKK million	2017	2016	2015	2014	2013
Income statement					
Revenue	1,370.2	1,006.7	1,020.6	1,216.8	1,212.5
Production costs	290.6	297.8	415.1	495.1	484.7
Research and development costs	518.4	463.2	386.8	478.9	496.6
Distribution and administrative costs	207.9	212.8	217.1	226.1	197.8
Income before interest and tax (EBIT)	353.2	33.0	1.6	16.7	33.4
Financial items, net	(50.9)	6.5	76.1	47.7	(27.2)
Income before company tax	302.3	39.5	77.6	64.4	6.2
Net profit for the year	181.3	30.6	59.4	25.9	(46.7)
Balance sheet					
Total non-current assets	382.2	541.1	585.0	568.1	551.8
Total current assets	2,770.5	2,282.6	1,404.3	1,319.1	900.4
Total assets	3,152.7	2,823.7	1,989.3	1,887.3	1,452.2
Equity	2,506.3	2,017.2	1,342.5	1,252.1	976.3
Non-current liabilities	399.8	54.7	56.6	51.9	86.7
Current liabilities	246.6	751.8	590.2	583.3	389.3

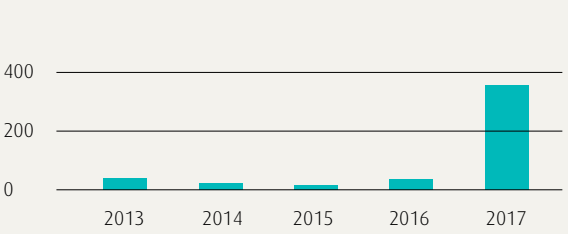
DKK million	2017	2016	2015	2014	2013
Cash flow statement					
Securities, cash and cash equivalents	2,583.7	1,899.9	1,058.2	979.7	532.1
Cash flow from operating activities	216.1	267.6	105.3	338.7	147.1
Cash flow from investment activities	(1,345.2)	(448.2)	(178.1)	(503.7)	(146.5)
– Investment in intangible assets	(22.3)	(43.7)	(28.3)	(53.6)	(111.0)
– Investment in property, plant and equipment	(56.4)	(47.8)	(31.7)	(52.4)	(44.4)
– Net investment in securities	(1,266.6)	(358.3)	(119.3)	(397.8)	7.2
Cash flow from financing activities	613.4	657.2	26.6	216.2	(7.1)
Financial ratios (in DKK) [1]					
Earnings (basic) per share of DKK 10	5.7	1.0	2.1	1.0	(1.8)
Net asset value per share	77.7	64.3	47.9	45.2	37.4
Share price at year-end	224	249	358	198	89
Share price/Net asset value per share	2.9	3.9	7.5	4.4	2.4
Number of outstanding shares at year-end (thousand units)	32,245	31,354	28,020	27,671	26,094
Equity share	79%	71%	67%	66%	67%
Number of employees, converted to full-time, at year-end	420	437	409	422	426

[1] Earnings per share (EPS) is calculated in accordance with IAS 33 "Earning per share". Other financial ratios have been calculated in accordance with the guidelines from the Danish Society of Financial Analysts.

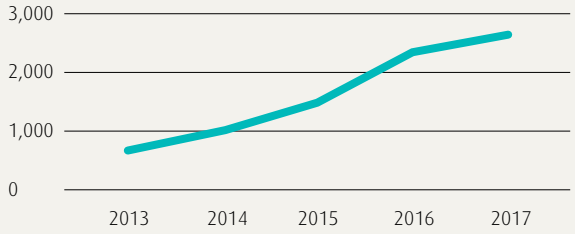
Revenue DKK million



EBIT DKK million



Cash preparedness DKK million



LOOKING AHEAD

The breadth and dynamics of our clinical pipeline offers a multitude of short- and mid-term triggers.

ANTICIPATED SELECTED NEWS FLOW

2018-2019

IMVAMUNE *Preparing for filing of BLA*	• Filing of Biologics License Application (H2, 2018) • Award of Priority Review Voucher upon approval (2019)
RSV *Potential for accelerated efficacy data with human challenge study*	• Report results from booster-study (H1, 2018) • Decide on the feasibility of a human challenge study (H2, 2018)
Janssen partnership *Approaching the first clinical trials in commercial targets*	• Initiate Phase 1 study of MVA-BN HIV+AdVac (H2, 2018*) • Initiate Phase 1 study of MVA-BN HPV+AdVac (H2, 2018*)
CV301 *Clinical strategy materializing with multiple studies in combination with checkpoint inhibitors*	• Initiate Phase 2 study in combination with atezolizumab in bladder cancer (mid 2018) • Initiate Phase 2 study in combination with durvalumab in colorectal cancer (H1, 2018) • Initiate Phase 2 study in combination with nivolumab in colorectal cancer (H1, 2018) • Report initial Phase 2 results (ORR) from combination with pembrolizumab in NSCLC (H2, 2018)
PROSTVAC *Combination with checkpoint inhibitors may warrant further investigation*	• Report initial results from combination study of PROSTVAC and nivolumab in mCRPC (H1, 2018)
BN-Brachyury *Seeking proof of concept in Chordoma as first indication*	• Report results from Phase 1 booster study (XXX) • Initiate Phase 2 study in Chordoma (H2, 2018) • Initiate Phase 2 study in second indication (H2, 2018)

* Janssen is responsible for the clinical development

THIS IS BAVARIAN NORDIC

We develop, manufacture and commercialize a diverse portfolio of novel vaccines for the prevention and/or treatment of life-threatening infectious diseases and cancer.

Our goal is to improve the health and quality of life for children and adults, focusing on indications for which the unmet medical need is high and for which we can harness the power of the immune system to induce a response.

Our proprietary vaccine platform takes a modular approach to live virus vaccine development and is based on the use of different types of poxviruses, notably our MVA-BN viral vector with a favorable safety profile. These viruses can be used in various combinations for both the prime and booster applications in both cancer and infectious diseases.

Our expertise in this field has led to a 15+ year long relationship with the U.S. Government, pursuant to which we have been awarded more than USD 1.8 billion in contracts. Our revenue from these contracts and from our commercial partnerships has enabled us to invest significant capital into research and development activities, the expansion of our production infrastructure and the advancement of our clinical pipeline.

A balanced portfolio strategy

Our various focus areas provide a balanced risk-reward profile for the Company. Revenues from our U.S. smallpox business and other government-sponsored research and development contracts constitute a sound foundation for expanding our pipeline into areas with large commercial potential with medium-to-high risk depending on the disease target. While partnering where necessary and building strong collaborations will continue to be a key part of our commercial strategy, it remains our ambition to market and sell selected in-house developed drugs.

STRATEGY AND FOCUS AREAS

Our strategy aims to secure and maintain a sustainable foundation and includes both several significant near-term triggers as well as long-term prospects within all of the following key focus areas:

1

Maintain the global leadership of our smallpox vaccine franchise

We intend to maximize the value of this franchise by developing a longer lasting freeze-dried formulation of our IMVAMUNE smallpox vaccine, potentially expanding the addressable patient population in the United States, and to expand the end market to include other countries and governments across the world, most notably in Europe.

2

Rapidly advance our pipeline of infectious disease programs

We intend to utilize our proprietary vaccine platforms to expand the infectious disease vaccine pipeline to meet high unmet medical needs by own development and through our collaboration with Janssen, with whom we continue to explore our MVA-BN technology.

3

Establishing a broad and deep cancer immunotherapy franchise

We intend to expand and advance our pipeline by demonstrating that our cancer vaccine candidates can be synergistic with other cancer immunotherapies.

PARTNERSHIPS AND COLLABORATIONS

Partnerships and collaborations with governments and pharmaceutical companies are becoming an ever more important part of Bavarian Nordic's business model and represent essential value drivers for the Company in the coming years.

The Company's development of several late-stage development programs in both cancer and infectious diseases is starting to accelerate. This expanding pipeline represents an opportunity for the Company to determine which assets it will continue to develop on its own, and which assets represent a potential partnering opportunity.

To leverage this potential, and to maximize the value of the MVA-BN platform, the Company appointed Tommi Kainu, MD, PhD as Chief Business Officer in 2017.

Bringing science and business together

Born in Finland, Tommi has resided in Denmark for several years. A trained physician, he brings both a scientific and business background having worked at both the U.S. National Institutes of Health and The Boston Consulting Group, advising major global pharmaceutical and biotech companies on portfolio strategy, business development, late stage development and commercialization.

He is impressed with what Bavarian Nordic has achieved thus far in collab-

> *"The integrated approach makes Bavarian Nordic an exciting company*

Tommi Kainu
Chief Business Officer

orations with governments and industry, advancement of the technology and pipeline as well as the Company's manufacturing capabilities, which all are important factors for Tommi in his work to build and expand commercial relations going forward.

– The integrated approach makes Bavarian Nordic an exciting company, says Tommi, referring to the fact that the Company not only does research and development, but also has its own commercial scale manufacturing facility, which is now being expanded with the addition of a fill/finish line.

– In partnering discussions, the full value chain is an attractive asset for us, because it removes a lot of the hurdles you often face in collaborations with biotechs. With us, partners get a plug and play solution, which reduces risks and uncertainties, and provides a more reliable foundation for the collaboration. It allows for a much more agile co-development process, which partners also see as a huge advantage. We saw that in our Ebola partnership with Janssen in 2014 which quickly evolved to include three additional, commercial indications, he says.

More U.S. contracts on the horizon

Bavarian Nordic has a strong track record in collaborating with multiple agencies within the U.S. government on the development of vaccines for emerging diseases; an area of excellence for the Company which Tommi believes will continue. The recent awarded contract by the Department of Defense to develop a vaccine against equine encephalitis virus is yet another example of this continuing business.

– As we are now transitioning to a freeze-dried formulation of IMVAMUNE, we believe the U.S. government intends to restore the stockpile as it expires, and over time also expand it to cover the requirements for protecting the entire immunocompromised part of the U.S. population. And so our smallpox vaccine business will remain an important revenue driver for many years to come.

"Bavarian Nordic is at the forefront of developing an RSV vaccine

Furthermore, our MVA-BN technology platform has significant unutilized potential which is yet to be explored, thus presenting an additional opportunity for us to benefit from collaboration with U.S. agencies on new projects in the future.

RSV coming into focus

With a strong vaccine platform there are plenty of future commercial opportunities to explore. In addition some of the Company's pipeline programs like RSV will require a commercial partner in the years ahead. There are no approved vaccines for RSV on the market, and analysts foresee a multi-billion dollar market. Just the elderly population, which Bavarian Nordic is initially targeting, is such a large unmet medical need that it could represent a blockbuster market on its own.

– Our vaccine, which is unique in its design has rapidly advanced through the initial clinical stages and generated highly promising results. We are immensely proud of this program and have very high hopes for it, yet we know that a global market such as this will require a commercial partner to adequately fulfill such a pressing need. While we are in a strong position to continue to progress this program towards registration we will, in parallel, continue discussions to find the right partner for the commercial setting, says Tommi.

Reigniting the interest in cancer vaccines

The conclusion of the Phase 3 study of PROSTVAC in 2017 ruled out its potential as a monotherapy in prostate cancer, but the Company still has a strong belief in its cancer vaccine platform. A belief which also resonates with the commercial partner Bristol-Myers Squibb who continues to monitor the development of PROSTVAC and its combination trials, but also sees potential in CV301 in combination with their immune checkpoint inhibitors. The first results from these studies are anticipated later in 2018 which, if successful, could take the collaboration in new directions.

The launch of immune checkpoint inhibitors (ICIs) has revolutionized cancer treatments, and some patients have remarkable responses from being treated with this new class of drugs. Bristol-Myers Squibb has taken a good share of this market with OPDIVO® and YERVOY® which have been approved in multiple cancer indications. But only around 25% of the patients respond to the treatment and thus there is still significant room to improve the performance of ICIs. Early studies suggest that the combination with other immune-modulating agents could pave the way for such improvement.

– All our clinical trials that combine CV301 with immune checkpoint inhibitors are looking at multiple efficacy endpoints to see if we can improve the lives of patients throughout the duration of their disease, including the possibility of increasing the overall response rate (ORR) in patients. This is a relatively short-term endpoint, clinically speaking, and this could give us an early signal as to how the combination strategy is working, Tommi ends.

The first study to deliver initial ORR data is a study in lung cancer. Other trials will follow in a year or two, potentially confirming the future role of cancer vaccines in the therapeutic landscape.

EXISTING COLLABORATIONS

PUBLIC PARTNERSHIPS

U.S. governmental agencies

We have entered into research and development contracts with the U.S. Government worth more than US$ 1.8 billion in revenue, including our 15 year-long partnership on the development and supply of IMVAMUNE smallpox vaccine. Contract partners include Department of Health and Human Services (HHS), National Institutes of Health (NIH), Biomedical Advanced Research and Development Authority (BARDA), Department of Defense (DOD), and the Department of Homeland Security (DHS), spanning multiple disease areas and biological threats.

National Cancer Institute

For 10 years, we have worked with National Cancer Institute (NCI) in the development of novel cancer immunotherapies. As part of the collaboration, we have in-licensed PROSTVAC (for prostate cancer) and CV301 (originally developed as PANVAC) for multiple cancers. The NCI continues to support us by sponsoring new trials of our product candidates.

PRIVATE PARTNERSHIPS

Janssen

Our partnership with Janssen was established in 2014 when Janssen in-licensed our MVA-BN Filo vaccine candidate for use in a prime-boost Ebola vaccine regimen. Since, the partnership has further evolved to include vaccines for human papillomavirus (HPV), human immunodeficiency virus (HIV-1) and hepatitis B virus (HBV). The license agreements and relating works covering all four indications total more than US$ 1.2 billion of which approximately US$ 1 billion are outstanding in milestone payments in addition to potential future royalties.

Janssen's parent company, Johnson & Johnson is a major shareholder of Bavarian Nordic with ownership interests of more than 5%.

Roche

In 2017, we entered a drug supply agreement with Roche, who will provide their marketed checkpoint inhibitor, Tecentriq® (atezolizumab) for a Phase 2 combination trial of CV301 in bladder cancer, which will initiate in 2018.

Bristol-Myers Squibb

In 2015, we entered into an option- and license agreement with Bristol-Myers Squibb on the potential commercialization of PROSTVAC. While the Phase 3 study of PROSTVAC as monotherapy has been discontinued, we continue to collaborate in the investigation of our immunotherapy candidates, including both PROSTVAC and CV301 in combinations with immune checkpoint inhibitors from Bristol-Myers Squibb.

AstraZeneca

MedImmune, the global biologics research and development arm of AstraZeneca has provided their marketed checkpoint inhibitor, IMFINZI® (durvalumab) for a planned clinical trial led by Georgetown University. This trial will evaluate the combination of CV301 and durvalumab in metastatic colorectal or pancreatic cancers.


UNDER CONSTRUCTION
Our new fill/finish facility is expected to be operational in 2021.

THE FILL FINISH LINE IS IN SIGHT

The road to success for any biotech company is long and ever-changing, and is paved with challenges and setbacks along the way. This also holds true for Bavarian Nordic. Yet, the Company has managed to conquer the challenges and come through with its vision to become a fully-fledged biotech company with a validated technology, diverse product portfolio, several industry collaborations and a state-of-the art manufacturing facility, facing a range of emerging new opportunities.

The key to this success? A solid partnership with the U.S. Government on development and supply of IMVAMUNE® smallpox vaccine has formed the backbone of the Company for 15 years, yielding contracts of nearly USD 1.8 billion to date, of which more than USD 500 million are yet to be booked and will contribute to the revenue stream in the coming years.

– One of the first milestones under the initial IMVAMUNE contract awarded by the U.S. Government in 2003 was to show we were able to manufacture and release 5,000 doses of the vaccine. Now, we are annually producing millions of doses. I think that summarizes quite well how far we have come, says Paul Chaplin, President and Chief Executive Officer of Bavarian Nordic.

Most recently, in September 2017, the U.S. Biomedical Advanced Research and Development Authority (BARDA) awarded the Company a USD 539 million contract for the supply of freeze-dried IMVAMUNE to the U.S. Strategic National Stockpile (SNS).

This new formulation of the vaccine which offers a longer shelf life will eventually replace the 20 million doses of liquid-frozen IMVAMUNE in the original stockpile which has now expired. The first steps towards making this upgrade were made already in 2009, when BARDA provided the first round of funding for the development of the freeze-dried vaccine.

Now having completed the required clinical work with the new freeze-dried vaccine, and with a validated manufac-

"The fill/finish line will give us full control of the product cycle as well as ensure the future capacity for our pipeline assets

turing process in place, the Company is basically prepared to supply the new vaccine, and even has a large stock of bulk vaccine prepared, produced under contracts awarded in 2015 and 2016, totaling USD 233 million. Additional bulk vaccine for USD 100 million will be produced over the course of 2017 and 2018 as part of the new base contract. However, one thing remains before the vaccines are ready for delivery to the SNS.

The final piece of the puzzle

Since starting deliveries of IMVAMUNE to the SNS in 2010, Bavarian Nordic has relied on a contract manufacturer for final drug production and filling of the vaccines. Now, with the transition to a new and improved version, that requires a different manufacturing process, the Company is preparing to take upon this task itself; the current facility in Denmark is being expanded with a fill/finish manufacturing line, which will be able to serve both large- and small scale production orders in the future.

– Having mastered production of biological vaccines over for a number of years, the next logical step is to control the entire production cycle. The opportunity we have to complete our manufacturing capabilities by adding this final step in our production is a significant milestone, says Paul Chaplin.

Bavarian Nordic is investing approximately USD 75 million in the project in the coming years, and the U.S. Government will via the recently awarded contract support the process transfer and validation activities with USD 33 million. This strategic investment will allow Bavarian Nordic to recognize the benefits of the full value chain of the manufacturing process, to maintain full control of the product cycle throughout, and to ensure the future capacity for the Company's pipeline assets.

– Being able to handle the entire process from raw material to final drug product gives ourselves and our customers great satisfaction, and I am happy that we are now able to lay the final piece of the puzzle, says Paul Chaplin.

The facility is expected to be operational in 2021 where deliveries of the freeze-dried vaccines to the SNS are expected to start, thus also triggering options of USD 299 million under the new contract for freeze-drying of the bulk vaccine. Meanwhile, the U.S. government retains an option to procure more bulk vaccine which could be finalized at a later stage.

Collectively, the bulk supply orders from 2015-2017 are expected to yield approximately 13 million final vaccine doses, and so the Company expects additional orders over time, initially to replace the expired 20 million doses of IMVAMUNE. However the U.S. Government has previously announced a long-term goal for stockpiling of sufficient non-replicating smallpox vaccine to protect 66 million people, corresponding to 132 million doses, which could represent a much

The 2017 contract

Bulk vaccine production	USD 100 million	(awarded)
Fill/finish of freeze-dried vaccines	USD 299 million	(option)
Process transfer and validation of production	USD 33 million	(option)
Phase 3 support	USD 37 million	(awarded)
Additional research support	USD 70 million	(option)

larger market for IMVAMUNE over time. This leaves the Company with an attractive short, mid- and long term potential from the smallpox vaccine business.

Working towards FDA approval

The build-up and expansion of the production of IMVAMUNE has been a cornerstone for the Company and the collaboration with the U.S. Government. However, no less important is the development of the vaccine, which has been supported by the government all along, and is now also approaching its finish line. The second and final Phase 3 study to support FDA approval was successfully in February 2018.

The study, which compared the efficacy of IMVAMUNE with ACAM2000®, the current U.S. licensed replicating smallpox vaccine, achieved both primary endpoints and even demonstrated higher (two-fold) levels of neutralizing antibodies for IMVAMUNE than ACAM2000. The Company plans to file a Biological License Application to FDA in the second half of 2018. If approved, the Company would also be eligible to receive a Priority Review Voucher, which could be used to accelerate the review of a future BLA, and is also transferrable.

PRODUCT PIPELINE

Our pipeline comprises multiple product candidates which are subject to more than 20 ongoing clinical studies in infectious diseases and cancer. Many of our programs are supported by external funding through either corporate or governmental partnerships.

Product	Indication	Status
Proprietary pipeline		Preclinical / Phase 1 / Phase 2 / Phase 3
IMVAMUNE liquid-frozen*	Smallpox	Phase 3
IMVAMUNE freeze-dried	Smallpox	Phase 2
MVA-BN RSV	Respiratory Syncytial Virus	Phase 2
CV301 + pembrolizumab	Lung cancer (NSCLC)	Phase 2
CV301 + atezolizumab	Bladder cancer	Planned 2018
CV301 + durvalumab	Colorectal cancer	Planned 2018
CV301 + nivolumab	Colorectal cancer	Planned 2018
PROSTVAC combinations	Prostate cancer	Phase 2
BN-Brachyury	Solid tumors	Planned 2018
Partnered programs		
MVA-BN Filo monovalent	Ebola	Phase 3
MVA-BN Filo multivalent	Ebola/Marburg	Phase 2
MVA-BN HPV + AdVac	Chronic HPV infection	Planned 2018
MVA-BN HIV + AdVac	HIV-1	Planned 2018
MVA-BN HBV + AdVac	Hepatitis B	Preclinical

* Approved in Canada and the European Union (marketed as IMVANEX® in the EU). Phase 3 completed in the U.S.

IMVAMUNE®

Smallpox vaccine

IMVAMUNE is the only non-replicating smallpox vaccine approved in Europe for use in the general adult population (marketed under the trade name IMVANEX®). It has furthermore been approved in Canada for use in a public health emergency for adults who are contraindicated to replicating smallpox vaccines.

The development of IMVAMUNE has been funded by the U.S. Government since 2003, through contracts with the National Institute of Allergy and Infectious Diseases (NIAID) of the National Institutes of Health (NIH) and Biomedical Advanced Research and Development Authority (BARDA), a division of the U.S. Department of Health and Human Services (HHS).

IMVAMUNE is currently stockpiled in the U.S. Strategic National Stockpile (SNS) for emergency use in people for whom replicating smallpox vaccines are contraindicated (e.g. people, children, pregnant and nursing mothers with HIV and atopic dermatitis).

Phase 3 completed

As part of the partnership with the U.S. Government, Bavarian Nordic is currently working towards the approval of IMVAMUNE in the U.S. The second and final Phase 3 study to support FDA approval of IMVAMUNE was successfully completed in February 2018.

The randomized, open-label study in 440 volunteers, which compared the efficacy of IMVAMUNE with ACAM2000®, the current U.S. licensed replicating smallpox vaccine, showed that the peak neutralizing antibodies induced by IMVAMUNE were shown to be 2-fold higher than those stimulated by ACAM2000. This met the co-primary endpoint of non-inferiority and was even shown to be a statistically superior immune response. A historical measure of efficacy against smallpox in people vaccinated for the first time was the induction of a vaccine take (pustule, scab and scar) following the skin vaccination (scarification) with replicating smallpox vaccines like ACAM2000. However, the prevention or attenuation of a take in subjects that are re-vaccinated was a historical measure that a subject had a protective immune response against smallpox. Importantly, this co-primary endpoint was also successful. Primary vaccination with IMVAMUNE resulted in a highly attenuated take (reduction in lesion size), and in fact prevented the vaccine take in the majority of subjects re-vaccinated with ACAM2000.

Bavarian Nordic plans to file a Biological License Application in the second half of 2018. If approved, the Company would also be eligible to receive a Priority Review Voucher, which could be used to accelerate the review of a future BLA, and is also transferrable.

Read more
www.bavarian-nordic.com/pipeline/imvamune

MVA-BN RSV

Universal respiratory syncytial virus vaccine

MVA-BN RSV is our product candidate in clinical Phase 2 development for the prevention of RSV. The vaccine has been specifically designed to target 5 different proteins to ensure a broad immune response against both RSV subtypes (A & B). In 2017, we reported top-line results from a randomized, placebo-controlled Phase 2 dose finding study of the vaccine. The study enrolled 421 subjects aged 55 and older into four active arms, which examined the effects of both a high ($5x10^8$) and low ($1x10^8$) dose, administered as either one or two vaccinations (day 0, 28) and compared to a placebo arm.

Results showed that both dose levels investigated were well tolerated and immunogenic, and confirmed the hypothesis that MVA-BN RSV is the first vaccine candidate designed to induce a broad and robust immune response against five distinct RSV proteins following a single shot or booster vaccination.

A single vaccination induced the highest booster responses in both antibodies and T cells against RSV compared to a prime-boost regime. Compared to the subjects receiving placebo, a significant boost (2-4 fold) in antibodies was observed 2 weeks post the single booster vaccination. This included neutralizing and total antibodies (IgG) against RSV, as well as IgA antibodies. Significant T-cell responses (5-10 fold) to all five RSV proteins were observed in the majority of subjects 1 week post the single booster vaccination. Follow-up results from the study have shown that after six months, a persistent antibody response against RSV could still be observed.

Additional follow-up data from the study were reported in early 2018, showing that vaccinated subjects on average had a 1.5-fold increase in IgA antibodies over baseline levels in the nasal mucosa. Previous published studies have shown that in human challenge studies, the presence of IgA antibodies in the mucosa is highly correlated with immune protection in subjects who do not develop symptoms of RSV. In those studies, the level of IgA expression seen was similar to the levels of expression detected post-vaccination with MVA-BN RSV.

Clinical development plan

Eighty-six subjects that received a single vaccination with either dose in Phase 2 are being re-enrolled to receive a single shot of either low or high dose of the vaccine, and will be followed for another RSV season to determine whether a single shot administration of vaccine is required annually, or if it remains effective over multiple seasons. Data from this study will become available later in 2018, upon which we expect to initiate end-of-phase 2 meetings with the FDA.

In parallel, we are exploring the feasibility of a placebo-controlled human challenge study planned for initiation in the second half of 2018. We have partnered with SGS, a global contract research organization, to develop a novel and differentiated approach to the RSV challenge model that will potentially allow us to more accurately assess the protective benefits of the vaccine when subjects are confronted with a virulent RSV infection. If the model is proven efficacious, evidence from this study may assist in the planning and design of late phase RSV studies as well as demonstrating early evidence regarding efficacy of MVA-BN RSV in preventing disease in healthy volunteers subsequently exposed to live RSV.

Read more
www.bavarian-nordic.com/pipeline/mva-bn-rsv

CANCER IMMUNOTHERAPY

Combination treatments with Bavarian Nordic's novel cancer immunotherapies represent a compelling opportunity for improving the lives of patients.

Targeted active immunotherapy candidates for the treatment of cancer are part of a promising field of research, which harnesses the power of the immune system to fight cancer. By creating a robust and broad anticancer immune response, immunotherapies aim to decrease the tumor growth rate, potentially resulting in a prolonged overall survival while maintaining a favorable risk-benefit profile.

Active immunotherapies administered in combination with other immune-modulating agents are hypothesized to confer synergy of improved therapeutic benefit over any single agent.

A new class of immunotherapies, immune checkpoint inhibitors, is quickly becoming an important part of cancer treatment for many patients, and has opened up new hope and expectation that the immune system can truly be harnessed to keep tumors from progressing and help patients live longer. However, responses have only been seen in a minority of the patients.

Novel clinical trial designs seek to combine targeted agents and one or more immune checkpoint inhibitors, with the goal of producing deep and durable antitumor responses, and thus combination treatments with immunotherapies present an opportunity for a greater response in patients who might otherwise not benefit from treatment with a checkpoint inhibitor alone.

CV301

Immunotherapy for multiple cancers

THE STRATEGY UNFOLDS

Our clinical strategy for CV301 is now realized, with four clinical studies, spanning multiple disease settings, in combination with four different checkpoint inhibitors. Our vaccine is in the unique position to potentially demonstrate a broad proof of concept not only in settings where checkpoints have set a new standard of survival, but also in cancers, such as colorectal, where checkpoint inhibitors have yet to demonstrate single-agent activity and may require combinations with other agents.

We believe CV301 equips the immune system with the ability to seek out and destroy tumor cells. CV301 is an immunotherapy candidate that targets two tumor-associated antigens, CEA and MUC-1, long known to be overexpressed in major cancer types. Preclinical data shows that CV301 upregulates PD-L1 by mounting an immune response against a tumor target.

The upregulation of PD-L1 is a marker indicating the tumor is under attack from T-cells, presenting an opportunity for a greater response in patients who might otherwise not benefit from treatment with a checkpoint inhibitor alone.

Throughout the coming year, four Phase 2 studies of CV301 will be enrolling patients throughout the United States. Patients suffering from cancers of the lung, bladder, colon, and/or pancreas will have access to trials with CV301 in combination with various checkpoint inhibitors from Merck, Roche, Bristol-Myers Squibb, and AstraZeneca.

Read more
www.bavarian-nordic.com/pipeline/cv301

Lung cancer

The first study to explore the combination of CV301 with checkpoint inhibitors is targeting patients with non-small cell lung cancer (NSCLC). The study initially focused on establishing the safety of the combination of CV301 and KEYTRUDA® (pembrolizumab) and will progress into a Phase 2 proof of concept study during 2018.

The study will enroll 176 patients who will receive either pembrolizumab with or without chemotherapy, as standard of care, or a combination of CV301 and standard of care (stratified 2:1 in favor of CV301 and standard of care). While the primary endpoint of the study is overall survival (OS), numerous important short-term secondary endpoints including objective response rate (ORR), progression free survival (PFS) and duration of response (DoR) will be evaluated and offer the potential for an early efficacy signal, prior to an overall survival endpoint.

The first data to emerge from this study will be an early look at ORR for the first 60 patients, anticipated in late 2018.

Lung cancer

Lung cancer is the second most common cancer and is the leading cause of cancer death in the United States. About 85% of lung cancers are non-small cell lung cancer (NSCLC), which has different subtypes, including squamous cell carcinoma, adenocarcinoma, and large cell carcinoma. Over 50% of NSCLC patients are diagnosed with advanced/metastatic disease and this trend is not expected to change in the near future. Thus there remains a very high unmet need to extend patients' lives.

About 75% of NSCLC patients are reported to have low or negative PD-L1 expression, which in some patient settings is correlated to a lesser response to checkpoint inhibition. Additionally not all patients experience durable survival improvements with checkpoint inhibition alone. These factors suggest a significant opportunity exists to deploy optimized combination immunotherapy regimens for broader treatment efficacy for many patients.

With the increasing efficacy and treatment options with PD-1 and PD-L1 checkpoint inhibitors, analysts estimate that the global market for NSCLC treatments could increase from approximately USD 6 billion in 2015 to almost USD 27 billion in 2025[1].

[1] GlobalData: Non-Small Cell Lung Cancer (NSCLC) – Global Drug Forecast and Market Analysis to 2025, November 2016

Bladder cancer

During 2018, Bavarian Nordic expects to initiate a Phase 2 study of the combination of CV301 and TECENTRIQ® (atezolizumab), Roche's FDA- and EMA-approved PD-L1 inhibitor, in patients with locally advanced or metastatic urothelial carcinoma (bladder cancer) who have disease progression during or following platinum-containing chemotherapy or are ineligible for platinum-containing chemotherapy. The two-stage designed study will start with enrolment of 13 patients in each arm, establish if a minimum signal of efficacy can be determined, and if so, expand enrolment.

Total enrolment can be up to 68 patients. The study's primary endpoint is ORR with secondary endpoints being OS and PFS.

Bladder cancer

Bladder cancer is a urological malignancy arising from the urinary bladder. In the vast majority of cases (90%), bladder cancer manifests itself as transitional cell carcinoma; however other types include squamous cell carcinoma and adenocarcinomas. Although being the ninth most common cancer worldwide in men and women, with the highest recurrence rate of any malignancy, relatively little is known about its etiology.

Bladder cancer can be subdivided into two clinical groups, the early stage non-muscle invasive setting (in which approximately 70% of all diagnosed patients fall into, and where prognosis is generally positive) and the muscle invasive and metastatic setting (which approximately 30% of newly diagnosed patients fall into and where prognosis is bleak.)

In the seven major markets, the market for bladder cancer treatments is expected to grow from a low US$360 million in 2015 to US$1.17 billion in 2025[2].

[2] GlobalData: Bladder Cancer – Opportunity Analysis and Forecasts to 2025 (published April 2017)

Colorectal cancer

In early 2018, two new additional studies have been introduced into the pipeline, both focused on colorectal and associated cancers, exploring two different indications and two different checkpoint inhibitors.

These studies represent a novel step in the advancement of combinations therapies. While some patients respond to checkpoint inhibition as monotherapy in certain cancers, lung and bladders among them, colorectal cancers have not shown the same responsiveness. Many of these so-called "cold tumors" appear to lack an adequate T-cell response; this renders the checkpoint inhibitor class relatively inert. The combination of vaccine plus checkpoint in these types of indications could demonstrate the ability to take checkpoints where they cannot go alone.

The first study is a dual arm, open label Phase 1/2 study to evaluate the safety and clinical activity of the combination of AstraZeneca's anti-PD-L1 durvalumab with CV301 in combination with maintenance chemotherapy for patients with metastatic colorectal (mCRC) or pancreatic cancer whose disease is stable on, or responding to first-line therapy for metastatic disease.

Following a lead-in safety study, the Phase 2 portion of the study will consist of two parallel trials, enrolling up to 26 patients for each disease setting. The primary endpoint for both arms will be PFS, and there will be a minimal efficacy threshold to ensure adequate activity is seen prior to expanding enrolment. The study will be led by Dr. Michael Pishvaian, Assistant Professor in the Department of Hematology/Oncology at the Lombardi Comprehensive Cancer Center at Georgetown University Medical Center.

The second study is a Phase 2 trial that will enroll up to 74 patients with oligometastatic micro-satellite stable mCRC eligible for complete resection. Prior to surgical resection of their tumors, patients will be randomized to receive four cycles of either chemotherapy plus nivolumab or a combination of chemotherapy, nivolumab, and CV301.

After resection, patients will then continue on with additional treatments in each arm. The multi-center study will be led by Darren R. Carpizo, MD, PhD, director of the Liver Cancer and Bile Duct Cancer Program at Rutgers Cancer Institute.

Colorectal cancer

Colorectal cancer is the fourth leading cause of death related to cancer, and the third most diagnosed cancer globally and thus represents a huge burden on healthcare systems. Mortality and incidence rates from colorectal cancer have steadily decreased in many developed nations, which have been attributed to earlier diagnosis and regular screening of the elderly. However, despite robust screening programs across most of the eight major markets, a significant proportion (10–20%) of patients are diagnosed with late-stage IV metastatic disease and have correspondingly poor prognoses compared to resectable early-stage disease.

In the eight major markets, the market for colorectal cancer treatments is expected to grow from an already high US$8 billion in 2015 to around US$11 billion in 2025[3].

[3] GlobalData: Colorectal Cancer – Global Drug Forecast and Market Analysis to 20 (published January 2017)

PROSTVAC

Prostate cancer immunotherapy

PROSTVAC is a prostate specific antigen (PSA)-targeted immunotherapy candidate which has been investigated in multiple clinical trials across various stages of prostate cancer.

The PROSPECT Phase 3 study, a global randomized, double-blind, placebo-controlled trial of PROSTVAC as monotherapy in 1,297 patients with asymptomatic or minimally symptomatic metastatic castration-resistant prostate cancer, was discontinued in September 2017 after recommendation from the independent Data Monitoring Committee (DMC). Based on a preplanned, third interim analysis, the committee determined that continuation of the study was futile, and that it was unlikely to reach its primary endpoint of overall survival.

Bavarian Nordic and its partners continue to explore the potential of PROSTVAC as combination therapy in early stage prostate cancer, including exploratory studies of PROSTVAC with or without immune checkpoint inhibitors from Bristol-Myers Squibb (ipilimumab and nivolumab).

Initial results from an ongoing Phase 2 combination trial of PROSTVAC and nivolumab as neoadjuvant therapy in patients with localized prostate cancer are anticipated during 2018, which could provide evidence of a clinical benefit of the combination of PROSTVAC and checkpoint inhibitors.

Read more
www.bavarian-nordic.com/pipeline/prostvac

BN-BRACHYURY

Immunotherapy targeting the metastatic process

BN-Brachyury is a novel cancer immunotherapy candidate with potential to treat chordoma (a rare tumor of the spine) as well as other metastatic cancers including triple negative breast cancer and non-small cell lung cancer which are known to have high expression levels of brachyury. Brachyury is a transcription factor that is reported to play a key role in the metastasis and progression of tumors. Tumors that overexpress brachyury are believed to be highly resistant to standard therapies, including radiation and chemotherapy, and are associated with decreased survival rates.

The product candidate consists of a primer (MVA-BN®) and a booster dose (fowlpox), which have been modified to express brachyury and to encode three costimulatory molecules, known as TRICOM. Bavarian Nordic has previously conducted a Phase 1 clinical trial of the primer vaccine (MVA-BN) in 38 patients with chordoma or metastatic solid cancers, which showed the vaccine to be well-tolerated and to induce brachyury-specific T-cell immune responses in the vast majority of patients.

In early 2018, the Company initiated an open-label Phase 1 trial to evaluate the safety and tolerability of the MVA BN® Brachyury vaccine, followed by a brachyury encoded fowlpox (FPV) booster in patients. The trial will enroll up to 10 patients with metastatic or unresectable, locally advanced malignant solid tumors. Patients will receive two prime doses of MVA-BN Brachyury, followed by multiple booster doses with FPV-Brachyury. The primary endpoint of the study is safety and tolerability, and secondary endpoints include immunologic responses as measured by an increase in brachyury-specific T-cells and other tumor-associated antigens, as well as evidence of clinical benefit such as progression-free survival (PFS) and objective response (OR).

Later in 2018, the Company plans to initiate a Phase 2 study that combines the vaccine with radiation in patients with advanced chordoma. Under this program, the vaccine candidate may obtain orphan status with the FDA and also be eligible for the FDA's Orphan Products Clinical Trials Grants Program which supports the clinical development of products for use in rare diseases or conditions where no current therapy exists. At the appropriate time, the Company will also apply for a Breakthrough Therapy Designation with the FDA.

Additional Phase 2 plans include a combination study with a PD-1 or PD-L1 checkpoint inhibitor in an undisclosed indication.

Read more
www.bavarian-nordic.com/pipeline/bn-brachyury

BN-BRACHYURY

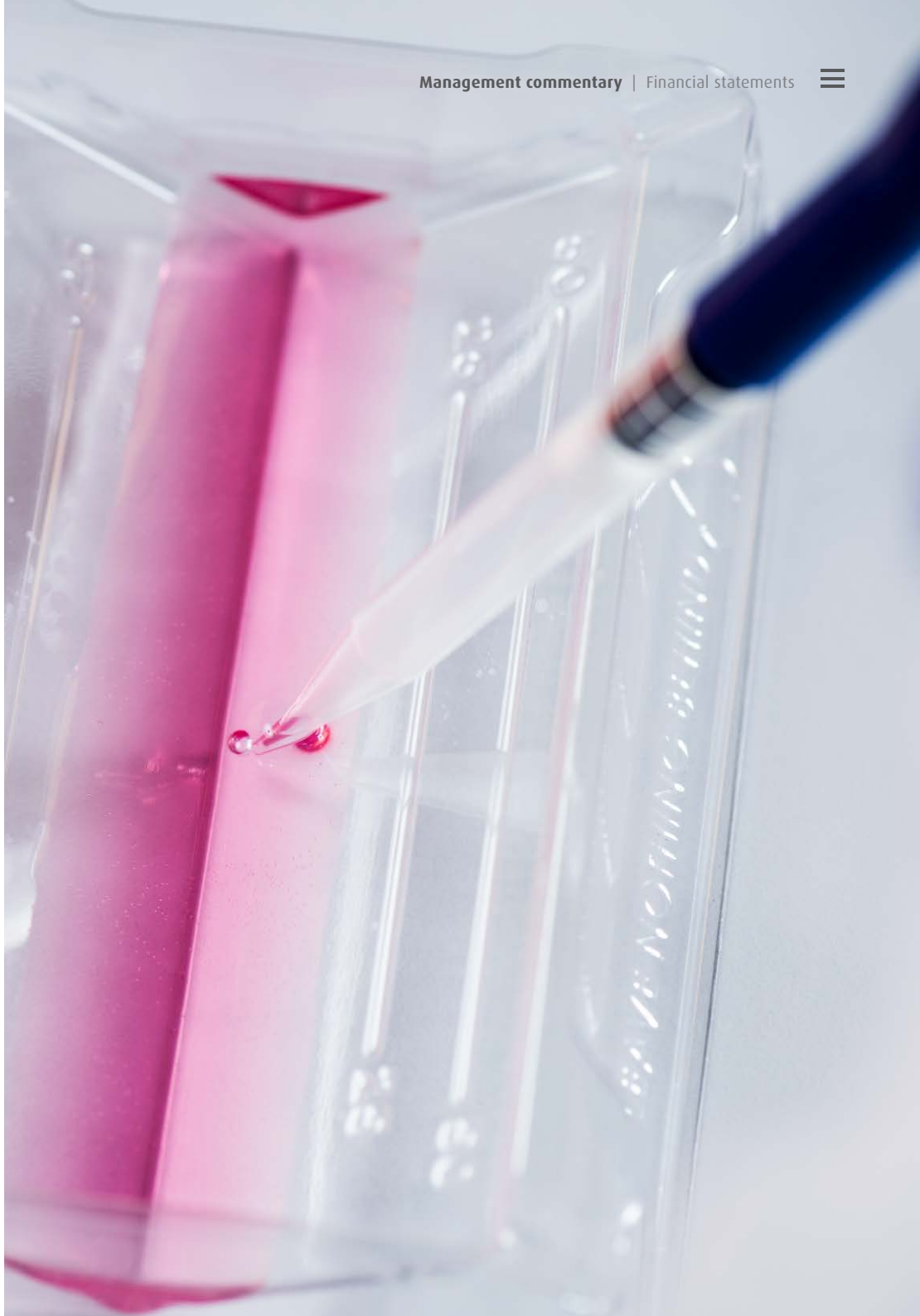
Chordoma

Chordoma is a rare cancer in the spine occurring in just one in one million people per year, corresponding to approximately 300 annual cases in the United States, and about 700 patients in all of Europe.

Chordomas can occur anywhere along the spine, from the head to the tail-bone. About 50% of all chordomas form at the bottom of the spine. About 30% form within the center of the head in an area called the skull base – usually in a bone called the clivus. Skull base chordomas are sometimes called brain tumors because they grow inside the skull toward the brain; however, they do not actually develop from brain cells. The remaining 20% form in the spine at the level of the neck, chest, or lower back.

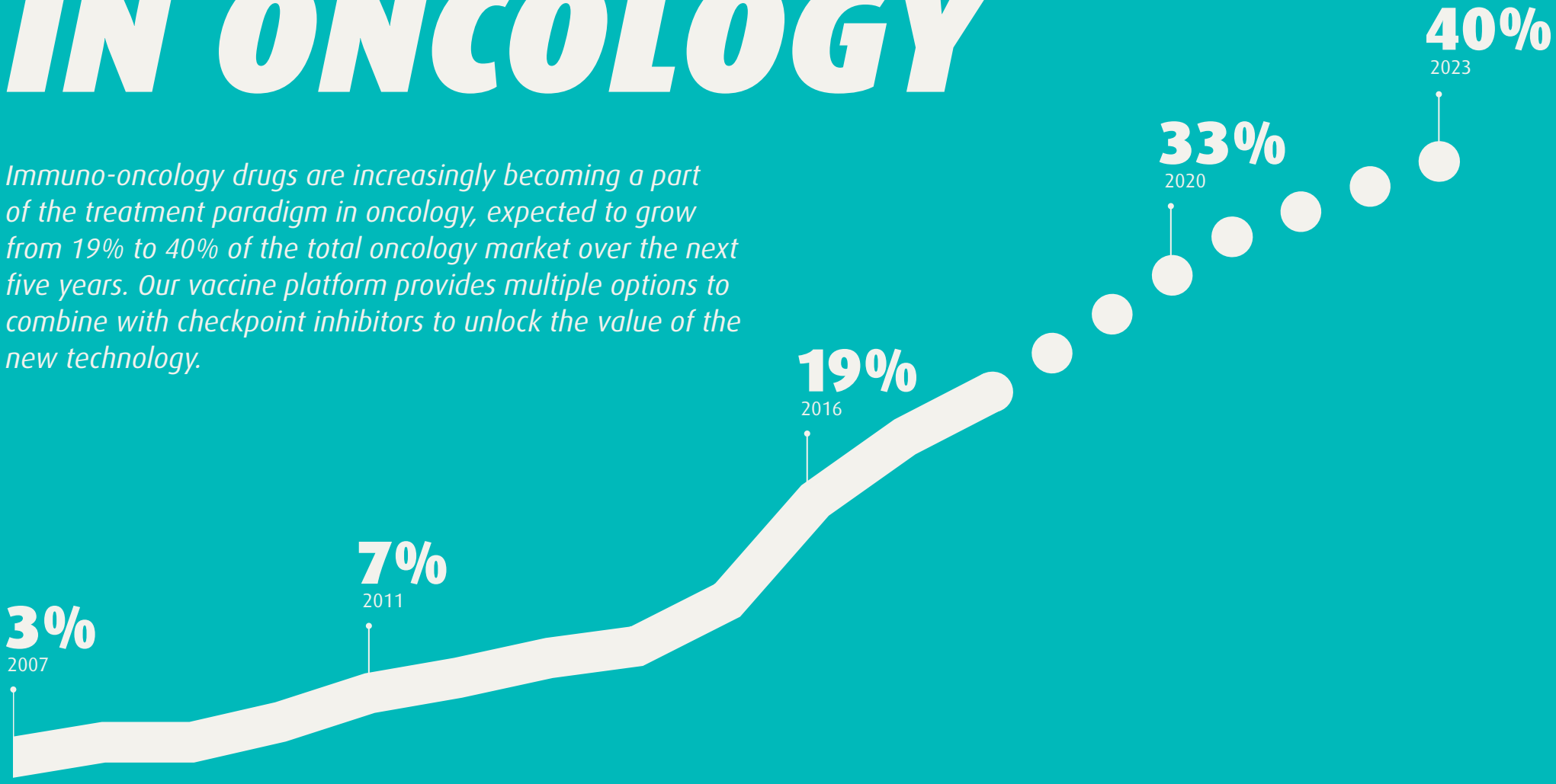
Chordomas can occur at any age, but is most often diagnosed in people in their 50s and 60s. Skull base chordomas occur more frequently in younger patients, while spinal chordomas are more common later in life. About twice as many men are diagnosed with chordoma as women. The overall median survival time with chordoma has been estimated to be approx 6 years, with a survival rate of 70% at 5 years, falling to 40% at 10 years.

As there are currently no approved treatment options available for patients with chordoma, the commercial market value is difficult to assess.



THE NEW WAVE IN ONCOLOGY

Immuno-oncology drugs are increasingly becoming a part of the treatment paradigm in oncology, expected to grow from 19% to 40% of the total oncology market over the next five years. Our vaccine platform provides multiple options to combine with checkpoint inhibitors to unlock the value of the new technology.



Source: GlobalData

PARTNERED PROJECTS

Our partnered programs currently include product candidates licensed to Janssen as part of our broad collaboration to explore the potential of prime-boost vaccination strategies combining Janssen's AdVac technology with our MVA-BN platform.

MVA-BN FILO

Ebola vaccine

MVA-BN Filo is a filovirus vaccine candidate that contains the gene of the glycoproteins of Ebola Zaire, Ebola Sudan and Marburg virus, and therefore is designed to provide protection against the three most common causes of viral hemorrhagic fever.

Preclinical studies conducted at the NIH showed that combining Janssen's adenovirus–based vaccine candidate, Ad26.ZEBOV with Bavarian Nordic's MVA-BN Filo vaccine in a prime-boost vaccine regimen offered rapid, complete and sustained protection against Ebola. While several other vaccine candidates had also shown promising efficacy signals, they lacked the ability to provide long-term protection, which is critical during an outbreak situation.

Together with an array of consortium partners, Janssen is conducting multiple clinical Phase 1, 2 and 3 trials in healthy adults, children, elderly and immunocompromised populations across Europe, USA and Africa with the goal of ultimately registering the vaccine.

In September 2017, Janssen were awarded a contract from BARDA of USD 44.7 million, with options for additional funding, over 5 years to help support the development and potential licensure of the Ebola vaccine regimen. Bavarian Nordic continues to support Janssen in this process with a number of activities relating to MVA-BN Filo, which are also being funded under the contract with BARDA.

MVA-BN HPV

Human papillomavirus vaccine

MVA-BN HPV is being developed for use in a prime-boost vaccine regimen with Janssen's AdVac technology. The prime-boost vaccine represents a novel approach for treating chronic HPV infections as well as preventing precancerous stages of HPV-induced cancer.

A Phase 1 clinical study of the vaccine candidate is planned for initiation in 2018.

With over 300 million estimated infections among men and women annually, HPV is the most prevalent sexually transmitted disease in the world.

HPV is the primary cause of cervical cancer and certain types of head and neck cancer, in addition to a number of more rare cancers. Although vaccines have become available to protect against various high-risk HPV subtypes that can cause cancer, there is an unmet need for a therapeutic approach for chronic infections that may lead to precancerous cell changes. It is estimated, that high-risk HPV types cause approximately 5 percent of all cancers worldwide.

MVA-BN HIV

Human immuno-deficiency virus vaccine

MVA-BN HIV is being developed for use in a prime-boost vaccine regimen with Janssen's AdVac technology

Significant progress has been made in the global battle against HIV/AIDS, including the development of critical antiretroviral treatments and HIV prevention tools, yet the disease remains one of the greatest global health threats of our time.

An estimated 37 million people are currently living with HIV-1 globally, and nearly 2 million people become newly infected each year.

MVA-BN HBV

Hepatitis B vaccine

MVA-BN HBV is being developed for use in a prime-boost vaccine regimen with Janssen's AdVac technology. Preclinical activities are ongoing.

Chronic hepatitis B virus (HBV) causes approximately 650,000 deaths worldwide from cirrhosis and liver cancer, with approximately 60 percent of hepatocellular carcinoma attributed to hepatitis B infection.

Current recommended therapies are unable to cure the infection, requiring most people to continue treatment for life.

CORPORATE INFORMATION

THE BAVARIAN NORDIC SHARE

2017 was a year in extremes for the Bavarian Nordic share. The year started out strong, driven by a solid news flow including positive Phase 2 RSV data showing durable response, another major IMVAMUNE delivery contract with the US Government, new partnerships with Janssen, and new collaborations in the development of CV301. However news that the PROSTVAC Phase 3 study was deemed futile resulted in retraction of the share price. The share price at year-end 2017 was DKK 224.30, versus DKK 249.00 at year-end 2016, a decline of 10% year over year. Over a five year period, the share has yielded a return of 350%.

The share

Bavarian Nordic is listed on the Nasdaq Copenhagen exchange under the symbol BAVA. On December 18, 2017, Bavarian Nordic was included in the leading Danish stock index OMXC25.

The Company's share capital was DKK 322,450,650 by year-end 2017, comprising 32,245,065 shares with a nominal value of DKK 10 each. Each share carries one vote. As part of the new license agreement entered with Janssen, the Company completed a private placement of 512,102 new shares to Johnson & Johnson Innovation – JJDC, Inc. in August 2017, raising gross proceeds of DKK 207 million. In addition, 379,117 new shares were issued as a result of warrant exercise by employees during the year.

By December 31, 2017, there were 1,459,682 outstanding warrants, which entitle warrant holders to subscribe for 1,459,682 shares of DKK 10 each. Thus the fully diluted share capital amounted to DKK 337,047,470 at year-end.

Ownership

As of December 31, 2017, Bavarian Nordic had 47,814 registered shareholders owning 26,554,176 shares. The following shareholders had publicly informed Bavarian Nordic that they own five per cent or more of the Company's shares:

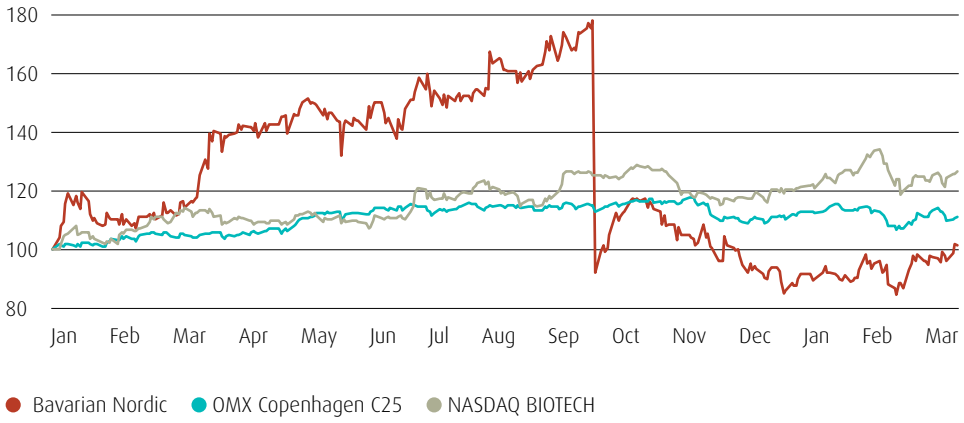
ATP Group, Hillerød, Denmark.
Johnson & Johnson Innovation – JJDC, Inc., New Brunswick, NJ, USA

Bavarian Nordic holds 23,300 own shares as treasury shares, corresponding to 0.07% of the share capital. The shares have been repurchased to hedge obligations under incentive scheme for the Company's board and executive management. See note 28 in the consolidated financial statements.

American Depositary Receipts (ADR)

Bavarian Nordic has established a sponsored Level 1 American Depositary

Share price development compared to indices 2017-2018



Receipt (ADR) program with Deutsche Bank Trust Company Americas. An ADR is a receipt issued by a depositary bank representing ownership of a company's underlying shares. ADR programs are created to enable U.S. investors to hold shares in non-U.S. companies and trade them in the same way as U.S. securities.

Bavarian Nordic ADRs are available for trading in the US over-the-counter (OTC) market, where three ADRs represent one Bavarian Nordic share.

Annual General Meeting

The annual general meeting will be held on Tuesday, April 17, 2018 at 4:00 PM CET, at:

Comwell Borupgaard
Nørrevej 80
DK-3070 Snekkersten

Additional information will become available at: www.bavarian-nordic.com/agm no later than 3 weeks before the annual general meeting.

Investor relations

The Company seeks to maintain an active dialogue with shareholders, analysts, prospective investors and other stakeholders by providing open, honest and accessible information to ensure that they have the requisite knowledge to assess the Company. The Company seeks to do so by, among other things, ensuring timely and correct communication about relevant strategic, economic, financial, operational and scientific affairs of the Company. Corporate management and Investor Relations are widely available to existing as well as potential shareholders via participation in investor conferences, roadshows, investor meetings and conference calls.

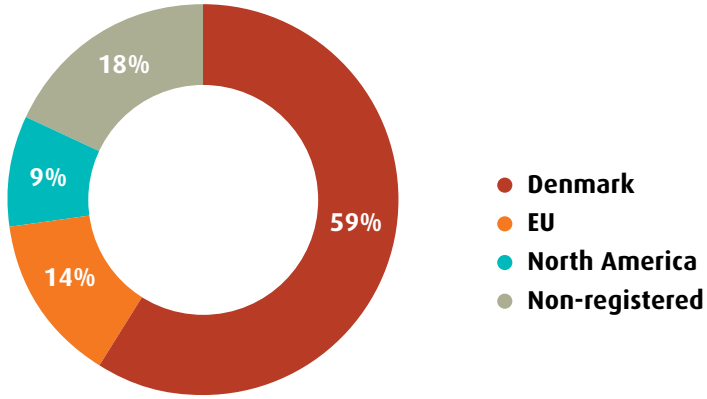
Registered shareholders are offered a range of electronic information services through the shareholder portal, which can be accessed from the Company's website. The portal also offers the opportunity to request admission cards and/or vote by proxy for the general meetings. Shareholders are encouraged to have their shares registered with the Company; registration must be through the holder's custodian bank.

Bavarian Nordic is covered by a dozen domestic and international financial analysts who regularly make research comments and recommendations based on the Company's performance and factors that may influence its business and future development of the share price. A list of analysts can be found on the Company's website.

Financial calendar 2018

April 17, 2018	Annual General Meeting
May 24, 2018	Financial Statements for the first quarter of 2018 (Q1)
Aug 16, 2018	Financial Statements for the first half of 2018 (Q2)
Nov 9, 2018	Financial Statements for the first nine months of 2018 (Q3)

Distribution of share capital



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Read more
Visit the investor relations section on our website to gain access to financial reports, releases, investor presentations, and much more:
www.bavarian-nordic.com/investor

C25

Since December 2017, Bavarian Nordic has been included in the leading Danish stock index OMXC25

CORPORATE SOCIAL RESPONSIBILITY

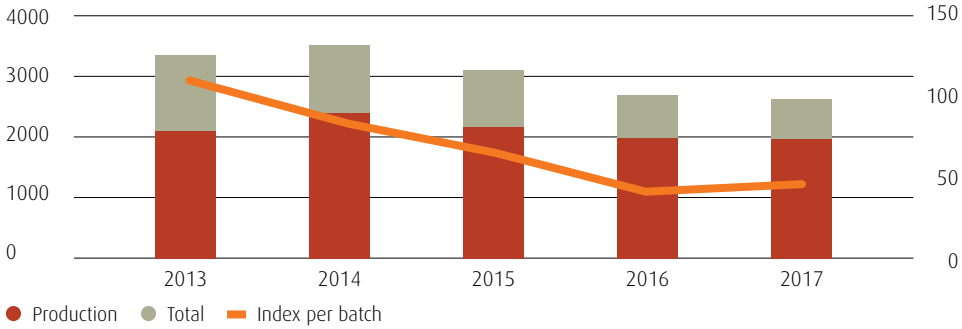
In Bavarian Nordic, we maintain a strong corporate governance structure and communicate openly and transparently about our CSR efforts, which particularly focus on minimizing the environmental impact from our production, but also concentrate on the safety and well-being of our employees, as well as other areas of relevance to our business. We account annually for the development in these areas in our CSR report which constitutes an independent part of the annual report, and also covers sections 99a and 99b of the Danish Financial Statements Act.

With the anticipated further growth of the Company as well as the expansion of our manufacturing facility to include a fill-finish line, we expect increased manufacturing activities in the future. Thus we are not able to lower our overall impact on the environment and climate. However, we are continuously seeking to optimize our processes and improve our efficiency in order to minimize the relative impact.

Our mission is to make significant contributions to improve public health through the discovery and development of novel therapies that could help to protect or sustain people's lives. With this is mind, we believe that our science makes the greater impact.

Read more
Download the full CSR report at www.bavarian-nordic.com/csr

Emissions



Total CO_2 emissions and indexed CO_2 emissions per production batch, base year 2009.

Other non-financial key figures

	2017	2016	2015	2014	2013
Production					
Energy consumption (mWh)	8,916	9,602	8,449	7,905	8,470
Waste water (m^3)	7,486	8,689	7,660	7,856	8,218
Waste (metric tons)	151	154	145	117	125
Recycling of waste	40%	43%	9%	11%	10%
Employees					
Employees, total at year-end	435	457	426	437	440
Sickness absence	3.7%	3.6%	3.9%	3.1%	3.9%
Accidents (frequency per million working hours)	3.9	1.3	8.2	1.4	2.6
Ratio of men to women in management positions	51/49%	48/52%	51/49%	47/53%	54/46%

CORPORATE GOVERNANCE

Bavarian Nordic remains focused on good corporate governance, having implemented the recommendations from the Committee of Corporate Governance (Komitéen for god selskabsledelse) for companies listed on the Nasdaq Copenhagen exchange.

Management believes that the Company is operated in compliance with guidelines and recommendations that support the Company's business model and can create value for Bavarian Nordic's stakeholders. Regularly and at least once a year, Management monitors adherence to the recommendations on corporate governance in order to ensure the best possible utilization of and compliance with the recommendations and legislation.

In accordance with Section 107 b of the Danish Financial Statements Act, Bavarian Nordic has published a statutory report on Corporate Governance for the financial year 2017 on the Company's website: www.bavarian-nordic.com/corporategovernance.

The Board of Directors

The Board of Directors ("the Board") is responsible for the overall strategic management and the financial and managerial supervision of Bavarian Nordic, as well as for regular evaluation of the work of the Corporate Management. In addition, the Board supervises the Company in a general sense and ensures that it is managed in an adequate manner and in accordance with applicable law and the Company's articles of association.

The Board consists of seven external members elected by the shareholders at the annual general meeting for terms of one year; retiring members are eligible for re-election. The Board elects a chairman from among its members. Currently the Board has no employee-elected members as there has been no such request from the employees. The Board discharges its duties in accordance with the rules of procedure of the Board, which are reviewed and updated by all members of the Board.

Board Committees

To support the Board in its duties, the Board has established and appointed a Finance, Risk and Audit Committee and a Nomination and Compensation Committee. These committees are charged with reviewing issues pertaining to their respective fields that are due to be considered at board meetings. Written charters specifying the tasks and responsibilities for each of the committees are available on the Company's website.

For more details on the work and composition of the Board and its committees, reference is made to the statutory report on Corporate Governance on the Company's website.

Diversity in the Board

In 2017, within the predefined time horizon, the Board met its target figure for female board members elected by the general meeting. The target was 15%, corresponding to one member. Considering the Board's current composition as well as the composition of the boards of comparable companies, the Board maintains the target for the period until 2021.

Remuneration of the Board

The fee for the members of the Board has been fixed according to the standards in the market and reflects demands to their competencies and efforts in light of the scope of their work and the number of board meetings. The fee was approved at the Company's general meeting based on a proposal from the

Board. The chairman's fee was 2.5 times and the deputy chairman's fee was 1.5 times the fee of the ordinary board members' fee. The board members' expenses for transportation and housing etc. in connection with board meetings were reimbursed. In addition, the members of the board committees received an additional fixed fee. The chairman of the committees' fee was 1.5 times the fee of the ordinary board committee members.

In 2017, the guidelines for incentive-based remuneration of the Board of Directors and Executive Management were amended by the general meeting to include award of restricted stock units (RSUs) to the Board.

For detailed information on the remuneration of the Board in 2017, see note 8 in the consolidated financial statements.

RISK MANAGEMENT

Risk management is an integrated part of Bavarian Nordic's operations. The Company is identifying material risks that could affect work, future performance or goals, or the interests of the shareholders with the purpose and intention of running the Company in accordance with best practice in the Company's area of business.

During the growth and development of the Company focus on risk management has also increased. In 2017 a new process and tool to further consolidate the operational risk assessment was implemented. As a consequence we have listed the most significant risks in the Company separately under Risk Factors below.

All relevant units in the Company participate in the identification and assessment of operational risk factors in order to address them properly. Risk Management is on the agenda at all Finance, Risk & Audit Committee meetings. The Board of Directors regularly receives reports on these initiatives, which then form part of the Board's overall assessment and decisions about the Company's activities and future.

In 2017, the Company continued its work on securing the robustness and independence in production and thereby decreased the risk of contamination of manufacturing bulk drug substance.

In July the partnership with Janssen was expanded with an additional worldwide license and collaboration agreement on our MVA-BN technology for vaccines against HBV and HIV. The agreement included amongst other an upfront payment of USD 10 million as well as an USD 33 million equity investment by subscription of new Bavarian Nordic shares. This addition to the Bavarian Nordic cash preparedness enables the Company to continue the development of its pipeline.

In September 2017 the Company was awarded a contract from the U.S. Government on freeze-dried IMVAMUNE. The contract valued at up to USD 539 million, includes an additional bulk supply order of USD 100 million. The contract also includes an option for filling and freeze-drying of the bulk vaccine from this contract and the previously awarded bulk supply orders. In order to ensure the production capacity to secure the future U.S stockpile of IMVAMUNE, Bavarian Nordic will invest approximately USD 75 million in the construction of a fill/finish manufacturing facility in Denmark. The filling line is expected to be operational in 2021.

The primary risk to the revenue in 2017 was related to the production and storage of IMVAMUNE bulk to the U.S. Government and thus an important point of focus. The number of IMVAMUNE bulk batches for the U.S. Government will further increase with continued production in 2018 and 2019. With the completion of the new storage facility at the Kvistgaard site in the first quarter of 2017 the Company has secured storage capacity also for the U.S. Government contract award in September 2017.

The primary risks in 2018 relate to the final read out of the Phase 3 trial of IMVAMUNE, data from the Phase 2 booster trial of MVA-BN RSV as well as the

Human Challenge Trial of MVA-BN-RSV, recruitment of patients for the Phase 2 trials of CV301 and Brachyury, production and storage of bulk drug substance of IMVAMUNE to U.S. Government, production of clinical trial material for our various studies and initiation of the construction of the fill/finish manufacturing facility in Denmark.

Risk factors

Expectations and assumptions in the annual report concerning the Company's business - the market for vaccines against smallpox, Ebola, RSV, other infectious diseases and for treatment of cancer - and the Company's revenue, accounting results and expected market share are subject to substantial uncertainty. There is no guarantee that the Company will wholly or partly achieve its expectations for revenue or the profit/loss for the year. The most significant operational risks as identified through the operational risk assessment program are:

- Submission and approval of Biologics License Application (BLA) for IMVAMUNE liquid-frozen
- Construction of the new fill/finish manufacturing facility in Kvistgaard
- Warning letter from FDA and/or failed GMP inspections
- Cyber attacks
- The Human Challenge Model for RSV
- The design of the Phase 3 trial for RSV
- Supply of raw materials
- Damage to the facility
- Breakdown of critical equipment

Other short-to-medium-term uncertainties include but are not limited to the following:

- Securing new IMVAMUNE delivery contracts with the U.S. Government
- Securing IMVAMUNE contracts with other governments
- Maintaining a high efficiency and quality in the production of IMVAMUNE
- Performance and dependence of the Company's subcontractors and most significantly CMOs and CROs
- Collaborative agreements
- Duration and outcome of review processes by various authorities
- Protection of patents and other intellectual property rights
- Clinical development and data from late-stage pipeline projects Risks relating to the Company's technologies, projects and products
- The ability to attract and retain key personnel
- Changes in the U.S. dollar exchange rate and how it affects the free liquidity, future revenue and net finances
- Changes in the interest rates and how it affects net finances and the free liquidity
- Tax risks
- Risks related to IT in general All staff are performing according to the Company's Standard Operational Procedures and Policies and the Code of Conduct in order to reduce risk for production and delivery failures as well as fraud and other losses

The Company's risks further include the ability to enter into collaborations with partners for development, manufacturing, marketing and financial resources. There are additional risks related to sales contracts and the related production and logistics.

Currency risks include the risk arising from sales and production contracts being denominated in currencies other than Danish kroner. Contracts are primarily in U.S. dollars, meaning that other currencies do not represent significant currency risks. The exposure from fluctuations in the U.S. dollar is increased because a significant part of the exposure relates to an internal U.S. dollar denominated loan between the U.S. subsidiary and the parent company in Denmark. This internal loan is not hedged.

Liquidity can be influenced by changes in the USD/DKK exchange rate. Profit or loss from the currency contracts can be settled when the contracts are due for extension. As long as the DKK is linked to the EUR the Company's revenue and costs in EUR will not be hedged.

The Company has a strong intellectual property position. However, due to the complex legal issues in this area, there can be no assurance that the Company can successfully defend the validity of its patents or oppose infringement claims.

Delays or intervention by the authorities in current or future clinical trials could also have a substantial impact on the Company's operations and financial position.

INTERNAL CONTROL

Financial reporting process
The Board of Directors and the Management of Bavarian Nordic are responsible for the Group's control and risk management in connection with the financial reporting process, including compliance with rules and regulations that are relevant in reporting.

The Board has established a Finance, Risk and Audit Committee which reviews and discusses the accounting and audit practices with the Company's auditors elected at the Annual General Meeting and the Corporate Management in accordance with the working framework of the committee.

Bavarian Nordic's main focus is to ensure that its financial statements are in compliance and give a correct and reliable view of the Company's operations and financial position.

Input to a written monthly management report is prepared by each line of business containing explanations for deviations in the central business areas within the Group. The inputs are combined into one group report that is distributed to the Corporate Management monthly. The Board of Directors receives a monthly executive summary of the Group's performance.

The interim financial reports are prepared by group finance and discussed with the auditors.

The annual audit and reporting process includes detailed planning of individual tasks and planning meetings between investor relations (IR), group finance and the auditors, and it is based on an audit strategy approved by the Finance, Risk and Audit Committee.

Internal controls
Bavarian Nordic has policies and procedures for key areas of financial reporting as well as work plans for the month-end closing process, ensuring an in-depth analysis of deviations between actual performance, business plans and budgets, and updated estimates for the financial year. The monthly closing procedures also ensure that all relevant reconciliations are prepared and reviewed and that records coding is in accordance with the requirements and guidelines that the U.S. authorities have in relation to reimbursement of project costs. The accounting and controller functions are responsible for the monthly closing process and reporting to corporate finance.

Financial planning, follow-up and reporting is supported by a group reporting system that shows actual and budgeted financial figures down to the department and account level. All budget holders have access to the group reporting system, which is updated daily with direct links to the Group's ERP system.

In 2016 the Group started working on fulfilling the requirements of the Sarbanes-Oxley Act (SOX). During 2017 the focus has been on describing the risks and the controls to mitigate the risks by preparing control and risk matrixes for all main accounting processes.

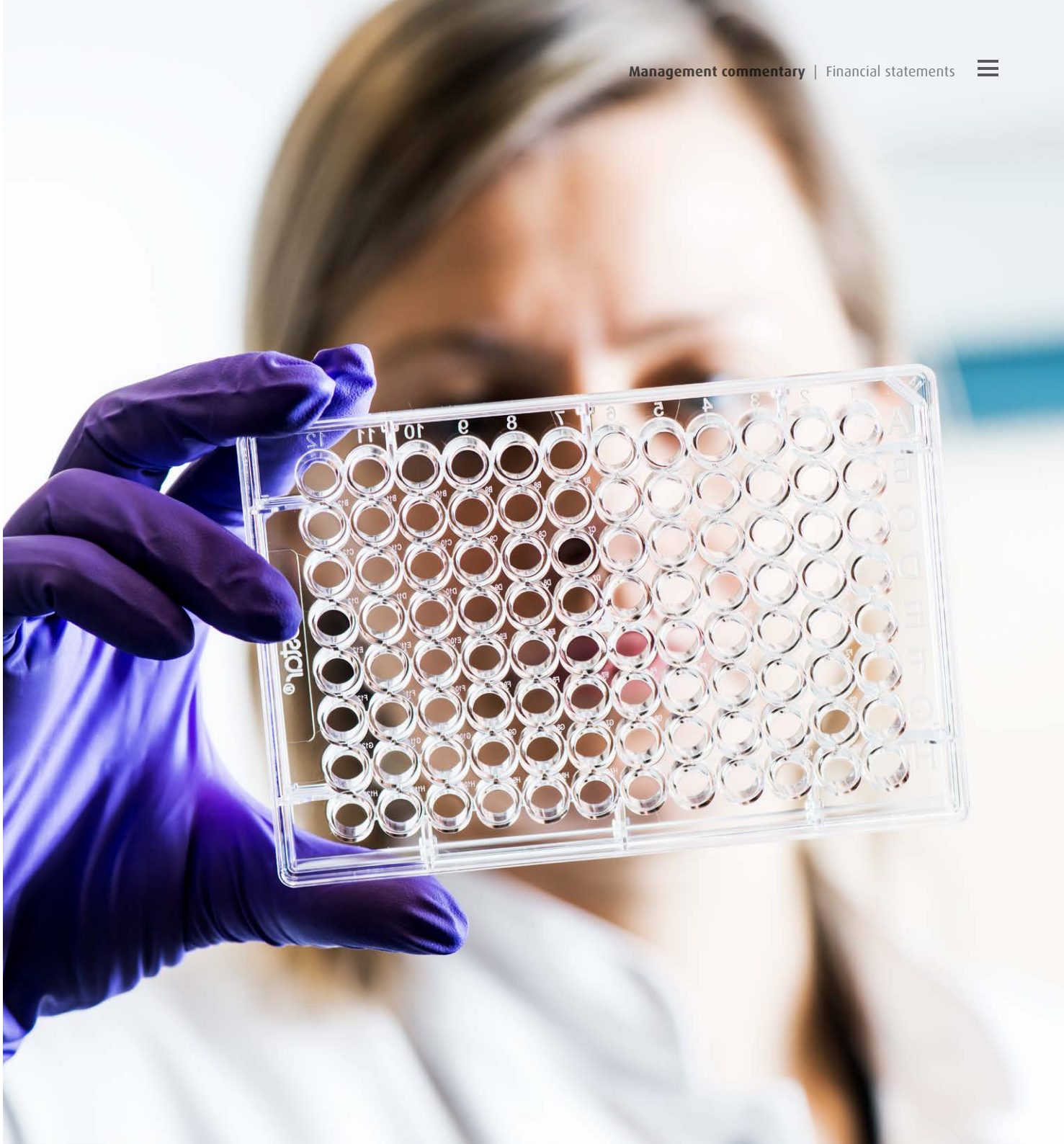
Risk assessment
At least once a year, the Finance, Risk and Audit Committee on behalf of the Board of Directors evaluates the risks connected with the financial reporting process, including the presence of internal controls and guidelines. The Finance, Risk and Audit Committee assesses the Group's organizational structure, including the risk of fraud and the measures to be taken to reduce and/or eliminate such risk. In that regard, any incentive or motive from the Corporate Management to manipulate earnings or perform any other fraudulent action is discussed. The Group's internal controls and guidelines provide a reasonable but not absolute certainty that unlawful use of assets, loss and/or significant errors or deficiencies in relation to the financial reporting process can be avoided.

The Board of Directors has decided not to institute an internal audit at Bavarian Nordic, based on its assessment that the Company's size and complexity does not necessitate such a function.

Control environment
Information technology and computerized systems are widely used in almost any area at Bavarian Nordic. Several processes are automated and key decisions and actions are taken through

electronic interfaces. In the ERP system, a number of user groups have been set up to ensure the required segregation of key functions in the finance department. Incoming invoices are approved electronically, and an approval hierarchy ensures that invoices are approved by the appropriate persons and according to the proxy rules of the Group. Payment proposals are approved through online banking and always by two staff members jointly.

The business procedures in the IT department ensure that all IT development is according to Good Laboratory Practice (GLP), Good Clinical Practice (GCP) and Good Manufacturing Practice (GMP). There are effective procedures for identifying, monitoring and reporting IT risks and security measures set up to respond to emerging events.



MANAGEMENT OF BAVARIAN NORDIC

Board of Directors

Gerard van Odijk

Gerard van Odijk, M.D. is a Dutch national, born in 1957. Independent member of the board since 2008 and chairman since 2014. Current term expires in 2018. Chairman of the Nomination and Compensation Committee since 2015.

Positions: Independent advisor for the pharmaceutical industry and former president and chief executive officer of Teva Pharmaceuticals Europe B.V. Chairman of the board of HTL-Strefa S.A. and Curaeos B.V.

Special competences: Medical qualifications and extensive executive background within publicly traded companies in the international pharmaceutical industry.

Anders Gersel Pedersen

Anders Gersel Pedersen, M.D., Ph.D. is a Danish national, born in 1951. Independent member of the board since 2010 and deputy chairman since 2014. Current term expires in 2018. Member of the Finance, Risk and Audit Committee since 2015.

Positions: Executive vice president of research and development at H. Lundbeck A/S. Deputy chairman of the board of Genmab A/S and member of the board of ALK-Abelló A/S.

Special competences: Scientific qualifications, particularly in oncology, and extensive board and management experience from publicly traded, international pharmaceutical and biotech industries.

Claus Bræstrup

Claus Bræstrup, Dr. Med. is a Danish national, born in 1945. Independent member of the board since 2008. Current term expires in 2018. Member of the Nomination and Compensation Committee since 2015.

Positions: Former president and chief executive officer of H. Lundbeck A/S. Chairman of the board of Saniona AB and Saniona A/S; and member of the board of Evotec AG. Member of the executive board of Kastan ApS.

Special competences: Scientific qualifications and extensive executive experience from publicly traded, international pharmaceutical companies.

Erik Gregers Hansen

Erik Gregers Hansen, M.Sc. is a Danish national, born in 1952. Independent member of the board since 2010. Current term expires in 2018. Chairman of the Finance, Risk and Audit Committee since 2015.

Positions: Chairman of the board of Polaris Management A/S, TTIT A/S, TTIT Ejendomme A/S, TTIT Landbrug A/S and Sirius Holding ApS. Deputy chairman of the board of OKONO A/S, Bagger-Sørensen Fonden, Bagger-Sørensen & Co. A/S and its five subsidiaries, Member of the board of Lauritzen Fonden, Lesanco ApS, Ecco Sko A/S, Farumgade 2B Holding ApS and its subsidiary, MedCan Pharma A/S and Wide Invest ApS. Member of the executive board of Rigas Invest ApS, BFB ApS, Sirius Holding ApS, Tresor ApS, Tresor Asset Advisers ApS, Polaris Invest II ApS and Hansen Advisers ApS.

Special competences: Training and experience in and thorough understanding of managing finance operations and experience with publicly traded companies.

Peter Kürstein

Peter Kürstein, MBA is a Danish national, born in 1956. Independent member of the board since 2012. Current term expires in 2018. Member of the Nomination and Compensation Committee since 2015.

Positions: Former president and chief executive officer, now chairman of the board of Radiometer Medical ApS. Chairman of the board of Ferrosan Medical Devices Holding A/S. Deputy chairman of the board of FOSS A/S, Experimentarium and Ejendomsselskabet Experimentarium A/S. Member of the board of N. Foss & Co. A/S and Den Erhvervsdrivende Fond Gl. Strand, Experimentarium, One Life, Dansk BørneAstma Center and Art Agenda 2030. Chairman of the Danish-American Business Forum and the Business Forum for Better Regulation. Member of the executive board of Mijamax ApS.

Special competences: Extensive board and management experience from publicly traded, international healthcare companies.

Frank Verwiel

Frank Verwiel, M.D., MBA is a Dutch national and resident of the United States, born in 1962. Independent member of the board since 2016. Current term expires in 2018. Member of the Finance, Risk and Audit Committee since 2016.

Positions: Former president and chief executive officer of Aptalis Pharma, Inc. Chairman of the board of ObsEva SA and member of the board of Intellia Therapeutics, Inc., Achillion Pharmaceuticals, Inc. and AveXis, Inc.

Special competences: Extensive strategic, operational and international experience within the pharmaceutical industry.

Elizabeth McKee Anderson

Elizabeth McKee Anderson, M.B.A. is an American national, born in 1957. Independent member of the board since 2017. Current term expires in 2018.

Positions: Former worldwide vice president Global Strategic Marketing and Market Access, Infectious Diseases and Vaccines for Johnson& Johnson. Member of the board of Aro Biotherapeutics Company, Huntsworth plc and REVOLUTION Medicines, Inc. and a member of the advisory board of NAXION, Inc. Furthermore, she is a member of the board of trustees of Bryn Mawr Hospital Foundation and The Wistar Institute. Principal of PureSight Advisory, LLC.

Special competences: Extensive strategic, operational and international experience within the pharmaceutical industry.

Executive Management

Paul Chaplin
President and Chief Executive Officer

Paul Chaplin, Ph.D is a British national, born in 1967. He joined Bavarian Nordic in 1999 as director of immunology. He was appointed executive vice president in 2004 and president and chief executive officer in 2014.

Ole Larsen
Executive Vice President,
Chief Financial Officer

Ole Larsen, M.Sc. is a Danish national, born in 1965. He joined Bavarian Nordic in 2008 as executive vice president and chief financial officer.

Henrik Birk
Executive Vice President,
Chief Operating Officer

Henrik Birk, MBA is a Danish national, born in 1974. He joined Bavarian Nordic in 2008 and has served in various management positions of increasing responsibility. He was appointed executive vice president and chief operating officer in January 2017.

Tommi Kainu
Executive Vice President,
Chief Business Officer

Tommi Kainu, MD, PhD is a Finnish national, born in 1972. He joined Bavarian Nordic in July 2017 from Boston Consulting Group (BCG) where he served for almost two decades, most recently as a partner and managing director. Prior to BCG, Dr. Kainu worked at the National Institutes of Health (USA) in the Cancer Genetics Branch of the National Human Genome Research Institute.

Ownership interests in Bavarian Nordic as of December 31, 2017

	Shares[1]	Net changes during the year	Warrants[2]	Net changes during the year	Restricted stock units[3]	Net changes during the year
Board of Directors						
Gerard van Odijk	11,000	-	5,000	-	1,027	1,027
Anders Gersel Pedersen	3,500	3,000	5,000	(5,000)	616	616
Claus Bræstrup	7,385	-	-	(5,000)	410	410
Erik Gregers Hansen	29,000	-	5,000	-	410	410
Peter Kürstein	11,250	5,000	5,000	(5,000)	410	410
Frank Verwiel	-	-	-	-	410	410
Elizabeth McKee Anderson					410	410
Executive Management						
Paul Chaplin	39,800	-	234,841	55,736	11,517	4,971
Ole Larsen	12,000	-	140,929	1,332	8,090	3,492
Henrik Birk	-	-	43,996	(604)	-	-
Tommi Kainu	-	-	59,881	59,881	-	-

[1] The statement of shareholdings comprises shares that are either owned personally or by companies that are wholly or partially owned by the member of the board or executive management.

[2] In accordance with the Company's remuneration policy and the general guidelines for incentive remuneration, the Board of Directors no longer receives warrants. The last grant of warrants to the board occurred in 2013.

[3] The Board of Directors received restricted stock units as part of their fee in 2017. Members of Corporate Management have received restricted stock units in 2016 and 2017, when the Board of Directors decided to postpone the payment of half of the achieved cash bonus for members of the Corporate Management for 3 years, converting the postponed bonus into restricted stock units.

The award of RSUs to the Board and Corporate Management was made in accordance with the Company's remuneration policy and the general guidelines for incentive remuneration. See also note 8 and 28 in the consolidated financial statements.

FINANCIAL REVIEW 2017

The financial review is based on the Group's consolidated financial information for the year ended December 31, 2017, with comparative figures 2016 in brackets. There is no significant difference in the development of the Group and the Parent Company, except for a write-down of the intercompany receivable in the Parent Company.

In 2017, we generated revenues of DKK 1,370 million (DKK 1,007 million). Earnings before interest and taxes (EBIT) were DKK 353 million (DKK 33 million). The cash preparedness as of December 31, 2017 amounted to DKK 2,604 million (DKK 2,292 million). The cash preparedness consists of cash and cash equivalents of DKK 283 million (DKK 854 million), investments in securities of DKK 2,301 million (DKK 1,046 million) and credit lines of DKK 20 million (DKK 392 million) as of such date, of which DKK 20 million (DKK 392 million) was undrawn.

Income statement

Revenue
Revenue for the year was DKK 1,370 million (DKK 1,007 million).

Revenue from product sales was DKK 874 million (DKK 832 million) and was composed by DKK 823 million (DKK 758 million) from sale of IMVAMUNE bulk drug substance to U.S. Government and DKK 51 million (DKK 74 million) from the sale of IMVAMUNE final drug product to other customers.

Revenue from ongoing development contracts amounted to DKK 97 million (DKK 94 million).

The upfront payment of DKK 399 million received from Bristol-Myers Squibb in March 2015 was recognized as income in September 2017 when the Company followed the recommendation from the independent Data Monitoring Committee to discontinue the PROSPECT study due to futility.

Production costs
Production costs amounted to DKK 291 million (DKK 298 million). Costs related directly to revenue amounted to DKK 283 million (DKK 224 million). Other production costs totaled DKK 8 million (DKK 74 million). The reduction is primarily related to better utilization of the facility. In fourth quarter the production schedule was changed to include further batches, which led to a higher allocation of production overheads, and thereby partly offset the impact from the inventory write-down.

Research and development costs
The total research and development spending was DKK 519 million (DKK 476 million), and includes contract costs recognized as production costs as well as capitalized development costs. Research and development costs shown under production costs were DKK 62 million (DKK 53 million).

Our capitalized research and development costs related to the IMVAMUNE

development project were DKK 9 million (DKK 29 million). The expensed research and development costs related to the IMVAMUNE development project amounted to DKK 70 million (DKK 69 million). As of December 31, 2017, the IMVAMUNE development project has been fully expensed.

Distribution and administrative costs
The distribution costs were DKK 40 million (DKK 39 million) and the administrative costs were DKK 168 million (DKK 174 million).

Financial income and expenses
Financial income was DKK 56 million (DKK 38 million) and consisted of interest on securities DKK 21 million (DKK 16 million), net gains on derivative financial instruments DKK 13 million (loss of DKK 24 million) and adjustment of net present value of the provision for long-term incentive agreement DKK 22 million (DKK 0 million).

Financial expenses were DKK 107 million compared to DKK 31 million in 2016. This increase was primarily attributable to a net foreign exchange loss of DKK 89 million (gain of DKK 18 million). The loss on foreign exchange is primarily related to the internal loan in USD between the Parent Company and Bavarian Nordic, Inc. Fair value adjustments on securities was negative by DKK 12 million, whereas there was a positive fair value adjustment on securities of DKK 4 million in 2016. Interest expenses on debt amounted to DKK 6 million (DKK 4 million).

Tax on income for the year
Tax on the income for the year was an expense of DKK 121 million (expense of DKK 9 million), of which write-down on the tax asset amounted to DKK 89 million, see below. The effective tax rate ended at 40.0% (22.6%).

Liquidity and capital resources
As of December 31, 2017, we had cash and cash equivalents of DKK 283 million and held investments in securities of DKK 2,301 million. We also maintained credit lines of DKK 20 million as of such date, of which DKK 20 million was undrawn.

Cash is required to meet our operating expenses and capital expenditures. We have funded our cash requirements from inception through December 31, 2017 principally with a combination of revenue from product sales, a capital increase through a private placement and the utilization of a loan facility granted by the European Investment Bank.

Cash flows
Net cash provided by operating activities totaled DKK 216 million (DKK 268 million), mainly driven by payments of trade receivables.

Net cash used in investing activities was DKK 1,345 million (DKK 448 million), of which DKK 1,267 million (DKK 358 million) was investment in securities, and DKK 79 million (DKK 92 million) was investment in property, plant and equipment and intangible assets.

Net cash provided by financing activities totaled DKK 613 million (DKK 657 million), primarily from utilization of a loan facility granted by the European Investment Bank of DKK 372 million and issue of shares to Johnson & Johnson Innovation – JJDC, Inc. through a private placement of DKK 207 million. Proceeds from exercise of our warrant programs amounted to DKK 41 million (DKK 37 million).

The net cash flow for 2017 was negative by DKK 516 million (DKK 477 million positive).

Adjusted for investment in securities the net cash flow was positive by DKK 751 million (DKK 835 million).

Balance sheet

The balance sheet total was DKK 3,153 million as of December 31, 2017 (DKK 2,824 million).

Assets
The intangible assets stood at DKK 33 million (DKK 83 million). The IMVAMUNE development project was fully expensed as of December 31, 2017 after completion of the second IMVAMUNE bulk supply order received from U.S. Government in 2016.

Property, plant and equipment stood at DKK 348 million (DKK 326 million).

The tax asset was fully written down in 2017. As stated in the Annual Report for 2016, the utilization of the recognized deferred tax asset was dependent on regulatory approval of PROSTVAC as well as future taxable profits arising from sale of PROSTVAC. After the discontinuation of the PROSPECT study in September 2017, Management assessed that the tax asset

could not be utilized within the coming years. The write-down amounted to DKK 100 million of which DKK 11 million was recognized in equity and DKK 89 million in the income statement.

As per December 31, 2017 the total write-down of the tax asset amounted to DKK 282 million. The Company retains the right to use the tax loss carry forward (DKK 242 million) and the other tax assets (DKK 40 million) that were written-down. Tax asset related to prepayments was reduced by DKK 89 million compared to December 31, 2016 as the upfront payment from Bristol-Myers Squibb was recognized as revenue. The development in the deferred tax asset is shown in note 13.

Inventories stood at DKK 112 million (DKK 147 million), of which IMVAMUNE bulk drug substance and final drug product amounted to DKK 59 million (DKK 85 million) net of write-down.

Receivables stood at DKK 53 million (DKK 166 million), of which trade receivables amounted to DKK 19 million (DKK 130 million). Under the second bulk supply order from U.S. Government, the invoicing took place in concurrence with initiation of production. As per December 31, 2017 all batches under the supply order have been delivered and paid.

As of December 31, 2017, cash and securities stood at DKK 2,584 million (DKK 1,900 million). Bavarian Nordic's cash and cash equivalents are primarily invested in deposit accounts with highly rated banks and in short-term Danish government and mortgage bonds.

Equity

After the transfer of the profit for the year, equity stood at DKK 2,506 million (DKK 2,017 million).

Liabilities

The provision for the long-term incentive agreement with former Division President for Cancer Immunotherapy Reiner Laus (DKK 25 million) was fully reversed as all the predefined milestones were related to successful approval and commercialization of PROSTVAC as a monotherapy. Management assesses that future payments under this agreement is very unlikely. The reversal was recognized as financial items (DKK 22 million) and administrative costs (DKK 3 million) – in line with the historical build-up. For further description of the provision see note 24.

In October 2017, the Company utilized a loan facility granted by the European Investment Bank back in May 2015. The loan is a five year unsecured bullet loan with a fixed interest rate of 3.532% p.a. until the maturity in October 2022. The loan was disbursed in DKK and amounted to DKK 372 million.

Prepayments from customers stood at DKK 80 million (DKK 531 million). The upfront payment from Bristol-Myers Squibb of DKK 399 million was recognized as income in 2017. During 2017 all batches under the second bulk supply order from U.S. Government were delivered and the prepayments fully recognized as revenue. In August 2017, the Company received an upfront payment of DKK 63 million from Janssen Pharmaceuticals, Inc. related to the license and collaboration agreement for developing a vaccine regimen targeting vaccines against hepatitis B virus (HBV) and the human immunodeficiency virus (HIV-1). For detailed information on prepayments, see note 26.

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FINANCIAL STATEMENTS – GROUP

CONSOLIDATED FINANCIAL STATEMENTS

NOTES

Consolidated Income Statements
For the years ended December 31, 2017 and 2016

DKK thousand	Note	2017	2016
Revenue	3	1,370,151	1,006,742
Production costs	4,8,9	290,617	297,793
Gross profit		**1,079,534**	**708,949**
Research and development costs	5,8,9	518,405	463,169
Distribution costs	6,8,9	39,878	38,560
Administrative costs	7,8,9,10	168,057	174,213
Total operating costs		**726,340**	**675,942**
Income before interest and tax (EBIT)		**353,194**	**33,007**
Financial income	11	56,426	37,877
Financial expenses	12	107,340	31,335
Income before company tax		**302,280**	**39,549**
Tax on income for the year	13	120,937	8,949
Net profit for the year		**181,343**	**30,600**
Earnings per share (EPS) – DKK			
Basic earnings per share of DKK 10	14	5.7	1.0
Diluted earnings per share of DKK 10	14	5.7	1.0

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2017 and 2016

DKK thousand	Note	2017	2016
Net profit for the year		**181,343**	**30,600**
Items that may subsequently be reclassified to the income statement:			
Exchange rate adjustments on translating foreign operations		50,896	(14,842)
Change in fair value of financial instruments entered into to hedge future cash flows		130	(259)
Tax on other comprehensive income	13	(57)	57
Other comprehensive income after tax		**50,969**	**(15,044)**
Total comprehensive income		**232,312**	**15,556**

Consolidated Statements of Cash Flow
For the years ended December 31, 2017 and 2016

DKK thousand	Note	2017	2016
Net profit for the year		**181,343**	**30,600**
Adjustment for non-cash items:			
Financial income		(56,426)	(37,877)
Financial expenses		107,340	31,335
Tax on income for the year		120,937	8,949
Depreciation and amortization	9	37,529	45,364
Expensing (amortization) of IMVAMUNE development project	15	69,515	68,785
Share-based payment	8	26,797	18,186
Adjustment for other non-cash items		45,164	2,825
Changes in inventories		35,136	(55,981)
Changes in receivables		114,088	20,711
Changes in provisions		-	(570)
Changes in current liabilities		(462,262)	126,237
Cash flow from operations (operating activities)		**219,161**	**258,564**
Received financial income		19,707	21,311
Paid financial expenses		(16,498)	(3,515)
Paid company taxes		(6,305)	(8,759)
Cash flow from operating activities		**216,065**	**267,601**

	Note	2017	2016
Investments in and additions to intangible assets	15	(22,341)	(43,709)
Investments in property, plant and equipment	16	(56,357)	(47,810)
Disposal of property, plant and equipment		-	1,979
Investments in financial assets		87	(389)
Investments in securities		(2,162,790)	(784,230)
Disposal of securities		896,192	425,976
Cash flow from investment activities		**(1,345,209)**	**(448,183)**
Payment on loans	25	(2,133)	(34,363)
Proceeds from loans	25	372,195	32,389
Proceeds from warrant programs exercised		40,858	37,305
Proceeds from private placement		207,482	664,800
Costs related to issue of new shares		(707)	(40,083)
Purchase of treasury shares		(4,254)	(2,849)
Cash flow from financing activities		**613,441**	**657,199**
Cash flow of the year		**(515,703)**	**476,617**
Cash and cash equivalents as of January 1		853,596	374,063
Currency adjustments		(55,372)	2,916
Cash and cash equivalents as of December 31		**282,521**	**853,596**

Consolidated Statements of Financial Position – Assets
December 31, 2017 and 2016

DKK thousand	Note	2017	2016
Non-current assets			
Software		27,288	5,165
IMVAMUNE development project		-	60,951
Other intangible assets in progress		5,704	16,903
Intangible assets	15	**32,992**	**83,019**
Land and buildings		194,155	202,804
Leasehold improvements		1,329	678
Plant and machinery		56,986	54,903
Other fixtures and fittings, other plant and equipment		20,531	19,057
Assets under construction		74,977	48,894
Property, plant and equipment	16	**347,978**	**326,336**
Other receivables	20	1,216	1,303
Financial assets		**1,216**	**1,303**
Deferred tax assets	13	**-**	**130,473**
Total non-current assets		**382,186**	**541,131**

	Note	2017	2016
Current assets			
Development projects for sale	17	**22,200**	**70,069**
Inventories	18	**111,847**	**146,983**
Trade receivables	19	19,396	130,391
Tax receivables		5,396	2,506
Other receivables	20	22,916	25,396
Prepayments	21	5,012	7,325
Receivables		**52,720**	**165,618**
Securities	23	2,301,197	1,046,301
Cash and cash equivalents		282,521	853,596
Securities, cash and cash equivalents		**2,583,718**	**1,899,897**
Total current assets		**2,770,485**	**2,282,567**
Total assets		**3,152,671**	**2,823,698**

Consolidated Statements of Financial Position – Equity and Liabilities

December 31, 2017 and 2016

DKK thousand	Note	2017	2016
Equity			
Share capital		322,451	313,539
Treasury shares		(233)	(111)
Retained earnings		2,156,883	1,731,898
Other reserves		27,196	(28,089)
Equity		**2,506,297**	**2,017,237**
Liabilities			
Provisions	24	-	24,949
Debt to credit institutions	25	399,760	29,714
Non-current liabilities		**399,760**	**54,663**
Debt to credit institutions	25	2,152	2,136
Prepayment from customers	26	79,617	530,645
Trade payables		82,901	71,958
Company tax		139	72
Other liabilities	22	81,805	146,987
Current liabilities		**246,614**	**751,798**
Total liabilities		**646,374**	**806,461**
Total equity and liabilities		**3,152,671**	**2,823,698**

Consolidated Statements of Changes in Equity
December 31, 2017

DKK thousand	Share-capital	Treasury shares	Retained earnings	Reserves for currency adjustment	Reserves for hedging	Share-based payment	Equity
Equity as of January 1, 2017	**313,539**	**(111)**	**1,731,898**	**(88,398)**	**(202)**	**60,511**	**2,017,237**
Comprehensive income for the year							
Net profit for the year	-	-	181,343	-	-	-	181,343
Other comprehensive income							
Exchange rate adjustments on translating foreign operations	-	-	-	50,896	-	-	50,896
Change in fair value of financial instruments entered into to hedge future cash flows, net	-	-	-	-	73	-	73
Total comprehensive income for the year	**-**	**-**	**181,343**	**50,896**	**73**	**-**	**232,312**
Transactions with owners							
Share-based payment	-	-	-	-	-	26,337	26,337
Warrant programs exercised	3,791	-	45,800	-	-	(8,733)	40,858
Warrant programs expired	-	-	320	-	-	(320)	-
Capital increase through private placement	5,121	-	202,361	-	-	-	207,482
Costs related to issue of new shares	-	-	(707)	-	-	-	(707)
Purchase of treasury shares	-	(122)	(4,132)	-	-	-	(4,254)
Tax related to items recognized directly in equity	-	-	-	-	-	(12,968)	(12,968)
Total transactions with owners	**8,912**	**(122)**	**243,642**	**-**	**-**	**4,316**	**256,748**
Equity as of December 31, 2017	**322,451**	**(233)**	**2,156,883**	**(37,502)**	**(129)**	**64,827**	**2,506,297**

The share capital comprises a total of 32,245,065 shares of DKK 10 as of December 31, 2017 (31,353,846 shares). The shares are not divided into share classes, and each share carries one vote.

Treasury shares

In May 2017, the Board of Directors decided to launch a share buy-back program, under which the Company bought back 12,156 of its own shares (11,144 shares in 2016). The purpose of the share buy-back program was to meet the Company's obligations arising from the share-based incentive program for the Executive Management and the Board of Directors. Under the share-based incentive program payment of half of the achieved cash bonus for 2016 for members of the Executive Management was postponed for 3 years, converting the postponed bonus into restricted stock units to further increase the long-term shared interests between the Executive Management and the Company's shareholders. The Board of Directors is granted restricted stock units corresponding to 50% of the annual fee (excl. committee fee).

For further description of restricted stock units see note 28.

Treasury shares represent 0.07% of the total share capital.

Consolidated Statements of Changes in Equity
December 31, 2016

DKK thousand	Share-capital	Treasury shares	Retained earnings	Reserves for currency adjustment	Reserves for hedging	Share-based payment	Equity
Equity as of January 1, 2016	**280,197**	**-**	**1,066,558**	**(73,556)**	**-**	**69,280**	**1,342,479**
Comprehensive income for the year							
Net profit for the year	-	-	30,600	-	-	-	30,600
Other comprehensive income							
Exchange rate adjustments on translating foreign operations	-	-	-	(14,842)	-	-	(14,842)
Change in fair value of financial instruments entered into to hedge future cash flows, net	-	-	-	-	(202)	-	(202)
Total comprehensive income for the year	**-**	**-**	**30,600**	**(14,842)**	**(202)**	**-**	**15,556**
Transactions with owners							
Share-based payment	-	-	-	-	-	20,629	20,629
Warrant programs exercised	5,642	-	40,341	-	-	(8,678)	37,305
Warrant programs expired	-	-	120	-	-	(120)	-
Capital increase through private placement	27,700	-	637,100	-	-	-	664,800
Costs related to issue of new shares	-	-	(40,083)	-	-	-	(40,083)
Purchase of treasury shares	-	(111)	(2,738)	-	-	-	(2,849)
Tax related to items recognized directly in equity	-	-	-	-	-	(20,600)	(20,600)
Total transactions with owners	**33,342**	**(111)**	**634,740**	**-**	**-**	**(8,769)**	**659,202**
Equity as of December 31, 2016	**313,539**	**(111)**	**1,731,898**	**(88,398)**	**(202)**	**60,511**	**2,017,237**

The share capital comprises a total of 31,353,846 shares of DKK 10 as of December 31, 2016 (28,019,671 shares). The shares are not divided into share classes, and each share carries one vote.

Transactions on the share capital

DKK thousand	2017	2016	2015	2014	2013
Share capital as of January 1	313,539	280,197	276,712	260,944	260,944
Issue of new shares	8,912	33,342	3,485	15,768	-
Share capital as of December 31	**322,451**	**313,539**	**280,197**	**276,712**	**260,944**

Rules on changing Articles of Association

Changing the Articles of Association requires that the resolution passes by at least 2/3 of the votes as well as 2/3 of the voting capital represented.

Note 1

Significant accounting policies

Basis of preparation

The consolidated financial statements for Bavarian Nordic have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and Danish disclosure requirements for the consolidated financial statements of listed companies. Danish disclosure requirements for the presentation of consolidated financial statements are imposed by the Statutory Order on Adoption of IFRS issued under the Danish Financial Statements Act and by the Nasdaq Copenhagen.

The accounting policies are unchanged from last year except for changes due to implementation of new and revised standards that were effective January 1, 2017.

The consolidated financial statements are presented in Danish kroner (DKK), which is the functional currency of the parent company.

The consolidated financial statements are presented on a historical cost basis, apart from derivative financial instruments, securities and liability relating to phantom shares, which are measured at fair value.

The accounting policies have been consistently applied for the financial year and for the comparative figures.

In the narrative sections of the consolidated financial statements comparative figures for 2016 are shown in brackets.

Implementation of new and revised standards and interpretations

The International Accounting Standards Board (IASB) has issued new standards and revisions to existing standards and new interpretations which are mandatory for accounting periods commencing on or after January 1, 2017. The implementation of new or revised standards and interpretations that are in force have not changed the accounting policies and thus not affected net profit for the year or the financial position.

Standards and interpretations not yet in force

At the date of publication of the consolidated financial statements, a number of new and amended standards and interpretations have not yet entered into force or have not yet been adopted by the EU. Therefore, they are not incorporated in the consolidated financial statements.

The following standards are in general expected to change the current accounting regulation most significantly:

IASB has issued IFRS 9 "Financial Instruments" with effective date January 1, 2018. IFRS 9 "Financial Instruments" is part of IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement", and the new standard will change the classification, presentation and measurement of financial instruments and hedging requirements. The Company has assessed whether IFRS 9 "Financial instruments" has an impact on the current consolidated financial statements.

Under the new standard classification and measurement of financial assets is based on the business model for managing the assets on their contractual cash flow. As the Group's securities solely consist of bonds that are managed and whose performance is evaluated on a fair value basis, under IFRS 9 they will be measured at fair value through profit and loss as of today under IAS 39. Furthermore, the new standard requires impairment of financial assets to be measured under an expected credit loss model opposed to an incurred credit loss model under IAS 39. As the Group's customers are predominantly public authorities and renowned pharmaceutical companies, the credit risk on the Group's receivables is considered very low, thus the change in the measurement of impairment will have an insignificant effect on the Group's financial statements. Consequently, the new standard will not have any material impact on the consolidated financial statements as the new standard does not change the Company's current measurement of financial instruments. Implementation of the new standard will change the presentation and require additional disclosures in the notes.

IFRS 15 "Revenue from Contracts with Customers" is effective for annual periods beginning on or after 1 January 2018. Entities will apply a five step model to determine when, how and at what amount revenue is to be recognized depending on whether certain criteria are met. The Company has assessed whether IFRS 15 "Revenue from Contracts with Customers" has an impact on the accounting for current significant agreements. The new standard will not have any material impact on the consolidated financial statements as the Company already take the IFRS 15 revenue recognition criteria into consideration when revenue from major partnership agreements are recognized. Implementation of the new standard will require additional disclosures in the notes.

IFRS 16 "Leases" was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019. IFRS 16 is expected to have an impact on the Group as a lessee, as all leases (except for short term leases and leases of asset of low value) shall be recognized on balance as the right-of-use asset and lease liability measured at the present value of future lease payments defined as economically unavoidable payments. The right-of-use asset is subsequently depreciated in a similar way to other assets such as tangible assets over the lease term and interest shall be calculated on the lease liability similar to finance leases under IAS 17. Consequently, the change will also impact the presentation in the income statement and the statement of cash flows.

The Company has assessed whether IFRS 16 "Leases" has an impact on the current consolidated financial statements. The new standard is estimated to increase the Group's income before interest and tax (EBIT) by approximately DKK 1-2 million and increase total assets and total liabilities by approximately DKK 45-50 million based on the lease contracts in effect as of December 31, 2017.

Note 1
Significant accounting policies – continued

Accounting policies
The accounting policies for specific line items are described in the notes to the financial statements. Set out below is a description of the accounting policies for the basis of consolidation, foreign currency translation and the cash flow statement.

Recognition and measurement
Income is recognized in the income statement when generated. Assets and liabilities are recognized in the balance sheet when it is probable that any future economic benefit will flow to or from the Group and the value can be reliably measured. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described in the description of the accounting policies in the respective notes to the financial statements.

Basis of consolidation
The consolidated financial statements include Bavarian Nordic A/S and the subsidiaries in which the Group holds more than 50% of the voting rights or otherwise has control.

Principles of consolidation
The consolidated financial statements are prepared on the basis of the financial statements of the parent company and the individual subsidiaries, and these are prepared in accordance with the Group's accounting policies and for the same accounting period.

Intra-group income and expenses together with all intra-group profits, receivables and payables are eliminated on consolidation. In the preparation of the consolidated financial statements, the book value of shares in subsidiaries held by the parent company is set off against the equity of the subsidiaries.

Foreign currency translation
On initial recognition, transactions denominated in currencies other than the Group's functional currency are translated at the exchange rate ruling at the transaction date.

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date.

Exchange differences between the exchange rate at the date of the transaction and the exchange rate at the date of payment or the balance sheet date, respectively, are recognized in the income statement under financials. Property, plant and equipment and intangible assets, inventories and other nonmonetary assets acquired in foreign currency and measured based on historical cost are translated at the exchange rates at the transaction date.

On recognition in the consolidated financial statements of subsidiaries whose financial statements are presented in a functional currency other than Danish kroner (DKK), the income statements are translated at the average exchange rates of the respective months. Balance sheet items are translated at the exchange rates at the balance sheet date.

Exchange differences arising on the translation of foreign subsidiaries' opening balance sheet items to the exchange rates at the balance sheet date and on the translation of the income statements from average exchange rates of the respective months to exchange rates at the balance sheet date are recognized as other comprehensive income.

Segment reporting
The Group does not prepare segment reporting internally and therefor only reports one operating segment externally.

Geographic spilt of revenue and revenue from major customers is disclosed in note 3 to the consolidated financial statements. Geographic location of non-current assets is disclosed in note 15 and 16 to the consolidated financial statements.

Cash flow statement
The cash flow statement is prepared in accordance with the indirect method on the basis of the Group's net profit for the year. The statement shows the Group's cash flows broken down into operating, investing and financing activities, cash and cash equivalents at year end and the impact of the calculated cash flows on the Group's cash and cash equivalents.

Cash flows in foreign currencies are translated into Danish kroner (DKK) at the exchange rate on the transaction date.

In the cash flows from operating activities, net profit for the year is adjusted for non-cash operating items and changes in working capital.

Cash flows from investing activities include cash flows from the purchase and sale of intangible assets, property, plant and equipment, investments and securities.

Cash flows from financing activities include cash flows from the raising and payment of loans and capital increases.

Additionally, cash flows from assets held under finance leases are recognized by way of lease payments made.

Net asset value per share:

$$\frac{\text{Equity}}{\text{Number of shares at year-end}}$$

Share price/Net asset value per share:

$$\frac{\text{Market price per share}}{\text{Net asset value per share}}$$

Equity share, %:

$$\frac{\text{Equity} \times 100}{\text{Total assets}}$$

Earnings per share and diluted earnings per share are calculated in accordance with IAS 33 "Earnings per share" and specified in note 14.

Note 2

Significant accounting estimates, assumptions and uncertainties

In the preparation of the consolidated financial statements, Management makes a number of accounting estimates which form the basis for the presentation, recognition and measurement of the Group's assets and liabilities.

The recognition and measurement of assets and liabilities often depends on future events that are somewhat uncertain. In that connection, it is necessary to assume a course of events that reflects Management's assessment of the most probable course of events.

In connection with the preparation of the consolidated financial statements, Management has made a number of estimates and assumptions concerning carrying amounts. Management has made the following accounting judgments which significantly affect the amounts recognized in the consolidated financial statements:

- Revenue recognition (note 3)
- Deferred tax asset (note 13)
- Inventories, including impairment and production overheads (note 18)

Please refer to the specific notes for further description of the significant accounting estimates and assumptions used.

Change in accounting estimates
The discontinuation of the PROSPECT study in September 2017 has changed the assumptions used for prior years accounting estimates and has resulted in a write-down of the deferred tax asset and a reversal of the provision for long term incentives.

Note 3

Revenue

DKK thousand	2017	2016
IMVAMUNE sale	874,307	831,783
Sale of goods	874,307	831,783
Upfront payment, PROSTVAC	398,538	-
IMVAMUNE sale, development results	-	80,746
Contract work	97,306	94,213
Sale of services	495,844	174,959
Revenue	**1,370,151**	**1,006,742**
Total revenue includes:		
Fair value adjustment concerning financial instruments entered into to hedge revenue	-	(11,979)
Geographic split of revenue:		
USA	1,252,592	894,615
Holland	66,202	37,881
Canada	31,994	44,832
Other geographic markets	19,363	29,414
Revenue	**1,370,151**	**1,006,742**

No revenue has been achieved on the Danish market in 2017 and 2016.

Revenue for the following customer represent more than 10% of total revenue:

- Biomedical Advanced Research and Development Authority (BARDA), USA, DKK 840.3 million (DKK 875.9 million including the remaining IMVAMUNE holdback of DKK 80.7 million).

Accounting for BMS PROSTVAC Agreement
In March 2015, the Company entered into an Option and License Agreement with Bristol-Myers Squibb (BMS) under which the Group received an upfront option grant payment of DKK 399 million (USD 60 million).

In accordance with the Group's accounting policy, Management assessed whether the upfront option

Note 3
Revenue – continued

payment represented a transfer of goods or services that had value to BMS on a stand-alone basis. As Management concluded that no goods or services had been transferred at that time, the upfront option payment of DKK 399 million was recognized as a prepayment from customers. Recognition as revenue would take place once the Company has delivered top-line PROSPECT data to BMS.

The upfront payment was recognized as income in September 2017, when the Company followed the recommendation from the independent Data Monitoring Committee to discontinue the PROSPECT study due to futility. Top-line PROSPECT data has been delivered to BMS.

The Option and License Agreement also included an option exercise and license payment, additional incremental payments as well as regulatory and sales milestones. Management assesses that these payments will not materialize after the discontinuation of the PROSPECT study.

The National Cancer Institute (NCI) has rights to 10% of the upfront option payment of USD 60 million, which was paid by us in 2015, as well as 10% of the option exercise and license payment of USD 80 million, if and when BMS exercises the option.

Accounting for license and collaboration agreements with Janssen Pharmaceuticals, Inc.
The Company has concluded three license and collaboration agreements with Janssen Pharmaceuticals, Inc. The revenue recognition is further described in note 26.

Significant accounting estimates

Whether a component of a multiple element contract has value to the partner on a stand- alone basis is based on an assessment of specific facts and circumstances and is associated with judgement. This applies also to the assessment of whether a license transfers rights associated with ownership of an intangible asset. Furthermore, allocation of the total consideration of a contract to separately identifiable components requires considerable estimates and judgement to be made by Management. At inception and throughout the life of a contract Management is performing an analysis of the agreement with its partners based on available facts and circumstances at each assessment date such as historical experience and knowledge from the market to the extent obtainable. This includes also an understanding of the purpose of the deliverables under the contract and the negotiation taken place prior to concluding the contract. ■

Accounting policies

Revenue comprises the fair value of the consideration received or receivable for sales of goods and income derived from development services including sale of delivered development services under the IMVAMUNE development project. Revenue is measured net of value added tax, duties, etc. collected on behalf of a third party and discounts. The revenue is recognized when it is probable that future economic benefits will flow to the Group and these benefits can be measured reliably and when any significant risks and rewards of ownership of the goods or right to the services are transferred and the Group no longer retains managerial responsibility for, or control of, the goods or services sold.

Agreements with commercial partners generally include non-refundable upfront license and collaboration fees, milestone payments, the receipt of which is dependent upon the achievement of certain clinical, regulatory or commercial milestones, as well as royalties on product sales of licensed products, if and when such product sales occur, and revenue from the supply of products. For these agreements that include multiple elements, total contract consideration is attributed to separately identifiable components on a reliable basis that reasonably reflects the selling prices that might be expected to be achieved in stand alone transactions provided that each component has value to the partner on a stand-alone basis. The then allocated consideration is recognized as revenue in accordance with the principles described above.

Sales of goods and licences that transfer the rights associated with ownership of an intangible asset are recognized at a point in time when control is transferred. Revenue from development services and licences that do not transfer the right of ownership to an intangible asset are recognized over time in line with the execution and delivery of the work. If multiple components are not separable, they are combined into a single component and recognized over the period where the Group is actively involved in development and deliver significant services to the collaboration partner. ■

Note 4

Production costs

DKK thousand	2017	2016
Cost of goods sold, IMVAMUNE sale	221,210	171,517
Contract costs	61,772	52,747
Other production costs	7,635	73,529
Production costs	**290,617**	**297,793**

Other production costs amounted to DKK 7.6 million (DKK 73.5 million), of which write-downs of inventory totaled DKK 23.2 million (DKK 21.0 million). The reduction in other production costs is primarily related to better utilization of the facility. In fourth quarter the production schedule was changed to include further batches, which led to a higher allocation of production overheads and thereby partly offset the impact from the inventory write-down.

The development in write-downs is shown in note 18.

Accounting policies

Production costs consist of costs incurred in generating the revenue for the year. Costs for raw materials, consumables, production staff and a proportion of production overheads, including maintenance, depreciation and impairment of tangible assets used in production as well as operation, administration and management of the production facility are recognized as production costs. In addition, the costs related to excess capacity and write-down to net realisable value of goods on stock are recognized as production costs. ■

Note 5

Research and development costs

DKK thousand	2017	2016
Research and development costs incurred this year	519,226	476,367
Of which:		
Contract costs recognized as production costs (note 4)	(61,772)	(52,747)
Capitalized development costs (note 15)	(8,564)	(29,236)
	448,890	394,384
Expensing (amortization) of prior-year costs attributable to the IMVAMUNE development project (note 15)	69,515	68,785
Research and development costs recognized in the income statement	**518,405**	**463,169**

Following the discontinuation of the PROSPECT study in September 2017, the PROSTVAC development project for sale has been expensed by DKK 47.9 million, cf. note 17.

Research and development costs include expenses for external clinical research organizations, or CRO's, of DKK 153.8 million in 2017 (DKK 196.0 million).

Note 5

Research and development costs – continued

Accounting policies

Research and development costs include salaries and costs directly attributable to the Group's research and development projects, less government grants. Furthermore, salaries and costs supporting direct research and development, including costs of patents, rent, leasing and depreciation attributable to laboratories, and external scientific consultancy services, are recognized under research and development costs. No indirect or general overhead costs that are not directly attributable to research and development activities are included in the disclosure of research and development expenses recognized in the income statement.

Contract research costs incurred to achieve revenue are recognized under production costs. Research costs are expensed in the year they occur.

Development costs are generally expensed in the year they occur. In line with industry custom, capitalization of development costs does not begin until it is deemed realistic that the product can be completed and marketed and it is highly likely that a marketing authorization will be received. In addition, there must be sufficient certainty that the future earnings to the Group will cover not only production costs, direct distribution and administrative costs, but also the development costs.

Grants that compensate the Group for research and development expenses incurred are set off against the costs of research and development at the time when a final and binding right to the grant has been obtained. ■

Significant accounting estimates

Management assesses that the Group has met the criteria for capitalize the development costs attributable to the development of IMVAMUNE, as the RFP-3 contract with the U.S. Government initially comprised the delivery of 20 million doses and an option to buy additional doses. The Group has delivered 28 million doses to the U.S. Government for emergency use. In July 2015, May 2016 and September 2017, the Company obtained orders to deliver further IMVAMUNE batches to the U.S. Government.

Although the development activities are performed on behalf of the U.S. Government, the output of the IMVAMUNE development activities are applicable generally on a global basis as the underlying technology currently being developed represents the platform technology that, subject to relevant approvals, benefits any jurisdiction for production, sale and delivery of IMVAMUNE.

The product has received regulatory approval in both the EU and Canada. Regulatory approval in the United States is pending completion of the last Phase 3 study and subsequent submission and approval of a BLA. The Group intends to and believes that it has adequate technical, financial and other resources to complete the Phase 3 study and file for FDA approval. Historical sale shows that there is a market for sale of smallpox vaccine and management believes that the Group's smallpox vaccine is likely to generate probable future economic benefits for the Group.

Capitalization of the development costs attributable to this development project began at the date of regulatory approval of the applicable clinical trial.

Capitalized development costs regarding the registration of IMVAMUNE are expensed (amortized) and recognized in the income statement under research and development costs when the related income on delivery of the development results have been earned and recognized as revenue. When the development has been completed and IMVAMUNE has been approved by the FDA, the remaining carrying amount will be amortized in concurrence with the delivery of doses over the expected economic life of the asset, i.e. unit of production amortization method. Management believes that the unit of production amortization method reflects the pattern in which the future economic benefits arising from the IMVAMUNE development asset are expected to be consumed by the Group.

As per December 31, 2017 the IMVAMUNE development project has been fully expensed, cf. note 15. ■

Note 6

Distribution costs

Accounting policies

Distribution costs include costs incurred for distribution of goods sold and sales campaigns, including costs for sales and distribution personnel, advertising costs and depreciation and amortization of property, plant and equipment and intangible assets used in the distribution process. ■

Note 7

Adminstrative costs

Accounting policies

Administrative costs include costs of Executive Management, staff functions, administrative personnel, office costs, rent, lease payments and depreciation not relating specifically to production, research and development activities or distribution costs. ■

Note 8

Staff costs

DKK thousand	2017	2016
Wages and salaries	293,191	284,308
Contribution based pension	23,599	21,651
Social security expenses	12,153	12,425
Other staff expenses	25,619	24,910
Share-based payment, see specification in note 28	26,797	18,186
Staff costs	**381,359**	**361,480**
Staff expenses are distributed as follows:		
Production costs	145,153	142,591
Research and development costs	116,092	111,364
Distribution costs	18,041	13,676
Administrative costs	98,061	92,302
Capitalized salaries	4,012	1,547
Staff costs	**381,359**	**361,480**
Average number of employees converted to full-time	439	429
Number of employees as of December 31 converted to full-time	420	437

The Group only has defined contribution plans and pays regular fixed contributions to independent pension funds and insurance companies.

DKK thousand	2017	2016
Staff costs include the following costs:		
Board of Directors:		
Gerard van Odijk (Chairman):		
Remuneration	930	925
Share-based payment	375	23
Anders Gersel Pedersen (Deputy chairman):		
Remuneration	585	590
Share-based payment	225	23
Claus Braestrup:		
Remuneration	425	425
Share-based payment	150	23
Erik Gregers Hansen:		
Remuneration	490	495
Share-based payment	150	23
Peter Kürstein:		
Remuneration	430	420
Share-based payment	150	23
Frank Verwiel:		
Remuneration	505	320
Share-based payment	150	-
Elizabeth McKee Anderson:		
Remuneration	312	-
Share-based payment	150	-
Remuneration to Board of Directors	**5,027**	**3,290**

Note 8
Staff costs – continued

DKK thousand	2017	2016
Executive Management:		
Paul Chaplin (CEO):		
Salary	5,245	5,548
Paid bonus	969	1,179
Other employee benefits	704	958
Share-based payment	4,527	3,362
Ole Larsen (CFO):		
Salary	3,474	3,388
Paid bonus	680	828
Other employee benefits	180	176
Contribution based pension	347	339
Share-based payment	3,197	2,445
Henrik Birk (COO):		
Salaries	2,160	-
Paid bonus	400	-
Other employee benefits	157	-
Contribution based pension	216	-
Share-based payment	926	-
Tommi Kainu (CBO) - 6 months:		
Salaries	1,193	-
Other employee benefits	96	-
Contribution based pension	119	-
Share-based payment	587	-
Remuneration to Executive Management	**25,177**	**18,223**
Total management remuneration	**30,204**	**21,513**

Restricted stock units

In March 2017, Paul Chaplin was granted 3,314 restricted stock units (excl. matching shares) (4,364 restricted stock units in 2016) corresponding to a value of DKK 1.0 million (DKK 1.2 million) at grant. Ole Larsen was granted 2,328 restricted stock units (excl. matching shares) (3,066 restricted stock units in 2016) corresponding to a value of DKK 0.7 million (DKK 0.8 million) at grant.

In April 2017, the members of the Board of Directors were granted in total 3,693 restricted stock units corresponding to 50% of their fixed fee corresponding to a value of DKK 1.3 million.

For further description of restricted stock units see note 28.

Warrants

In November 2017 Paul Chaplin was granted 55,736 warrants (58,100 warrants) with a fair value of DKK 4.5 million (DKK 3.2 million), Ole Larsen was granted 31,332 warrants (40,800 warrants) with a fair value of DKK 2.5 million (DKK 2.2 million), Henrik Birk was granted 19,396 warrants with a fair value of DKK 1.6 million and Tommi Kainu was granted 32,926 warrants with a fair value of DKK 2.6 million (based on Black-Scholes). At accesion in July 2017 Tommi Kainu was granted 26,955 warrants with a fair value of DKK 2.6 million (based on Black-Scholes), cf. note 28.

CEO and President of the Company Paul Chaplin and CFO Ole Larsen constitute the Corporate Management in the Parent Company.

Changes in provisions for incentive agreement with former Division President for Cancer Immunotherapy Reiner Laus, are recognized in administrative costs. See note 24 for further details.

Incentive programs for Executive Management and other employees are disclosed in note 28.

Members of the Executive Management have contracts of employment containing standard terms for members of the Executive Management of Danish listed companies, including the periods of notice that both parties are required to give and competition clauses. If a contract of employment of a member of the Executive Management is terminated by the Company without misconduct on the part of such member, the member of the Executive Management is entitled to compensation, which, depending on the circumstances, may amount to a maximum of 8-18 months' remuneration. In the event of a change of control the compensation can amount to 24 months' remuneration.

Note 9

Depreciation and amortization

DKK thousand	2017	2016
Depreciation and amortization included in:		
Production costs	31,919	38,991
Research and development costs	2,694	2,018
Administrative costs	2,916	4,355
Depreciation and amortization	**37,529**	**45,364**
Hereof loss from disposed fixed assets	239	1,283

Depreciations have decreased as significant assets acquired in 2006 were fully depreciated by the end of 2016/beginning of 2017.

Note 10

Fees to auditor appointed at the annual general meeting

DKK thousand	2017	2016
Audit of financials statements	1,500	1,461
Other assurance services	66	2,056
Tax advisory	1,640	755
Other services	656	1,067
Fees	**3,862**	**5,339**

In 2016, other assurance services related to first and second filing of an initial public offering of American Depositary Shares ("ADSs").

The fee for non-audit services provided to the Group by Deloitte Statsautoriseret Revisionspartnerselskab, Denmark, amounted to DKK 1.7 million in 2017 (DKK 3.4 million) and consisted of assistance related to filing of an Advanced Price Agreement (APA), assistance with compliance reviews, and other accounting and tax advisory services.

Note 11

Financial income

DKK thousand	2017	2016
Financial income from bank and deposit contracts	644	272
Interest income from financial assets not measured at fair value in the income statement	644	272
Financial income from securities	20,817	15,640
Fair value adjustments on securities	-	3,542
Net gains on derivative financial instruments at fair value through the income statement (held for trading)	12,720	-
Adjustment of net present value of provisions	22,245	-
Net foreign exchange gains	-	18,423
Financial income	**56,426**	**37,877**

Following the discontinuation of the PROSPECT study in September 2017 the net present value of the provision for the long-term incentive agreement with former Division President for Cancer Immunotherapy Reiner Laus has been fully reversed leading to a financial income of DKK 22.2 million in 2017, cf. note 24.

Net foreign exchange gains in 2016 are mainly related to the increasing USD.

Accounting policies

Interest income is recognized in the income statement at the amounts relating to the financial year. Financial income also includes net positive value adjustments of financial instruments and securities, net currency gains and net positive adjustment of the net present value of provisions. ■

Note 12

Financial expenses

DKK thousand	2017	2016
Interest expenses on debt	5,678	3,678
Interest expenses on financial liabilities not measured at fair value through the income statement	5,678	3,678
Fair value adjustments on securities	12,319	-
Adjustment of net present value of provisions	-	3,386
Net loss on derivative financial instruments at fair value through the income statement (held for trading)	-	24,271
Net foreign exchange losses	89,343	-
Financial expenses	**107,340**	**31,335**

Net foreign exchange losses for 2017 are mainly related to the decreasing USD and include DKK 45.0 million (gain of DKK 12.1 million) of unrealized losses related to intercompany receivable with Bavarian Nordic, Inc.

Accounting policies

Interest expenses are recognized in the income statement at the amounts relating to the financial year. Financial expenses also include net negative value adjustments of financial instruments and securities, net currency losses and net negative adjustment of the net present value of provisions. ■

Note 13

Tax for the year

DKK thousand	2017	2016
Tax recognized in the income statement		
Current tax on profit for the year	2,876	2,897
Adjustments to current tax for previous years	613	6,926
Current tax	**3,489**	**9,823**
Change in deferred tax	120,244	7,127
Adjustments to deferred tax for previous years	(2,796)	(8,001)
Deferred tax	**117,448**	**(874)**
Tax for the year recognized in the income statement	**120,937**	**8,949**
Tax on income for the year is explained as follows:		
Income before company tax	302,280	39,549
Calculated tax (22.0%) on income before company tax	66,502	8,701
Tax effect on:		
Different tax percentage in foreign subsidiaries	(1,405)	(1,670)
Non-recognized deferred tax asset on current year losses in foreign subsidiaries	5,675	6,226
Income ()/expenses that are not taxable/deductible for tax purposes	(5,465)	1,819
Change in non-recognized deferred tax asset	(30,927)	(5,053)
Write-down of deferred tax asset	88,740	-
Adjustments to deferred tax for previous years	(2,796)	(8,001)
Adjustments to current tax for previous years	613	6,926
Other corrections	-	1
Tax on income for the year	**120,937**	**8,949**
Tax recognized in other comprehensive income		
Tax on change in fair value of financial instruments entered into to hedge future cash flows	57	(57)
Tax recognized in equity		
Tax on share based payment	12,968	20,600

Tax on income is an expense of DKK 120.9 million (DKK 8.9 million), corresponding to an effective tax rate of 40.0% (22.6%). The effective tax rate for 2017 is impacted by the write-down of the tax asset and change in non-recognized tax asset.

Accounting policies

Income tax for the year comprises current tax and deferred tax for the year. The part relating to the profit for the year is recognized in the income statement, and the part attributable to items in the comprehensive income is recognized in the comprehensive income statement. The tax effect of costs that have been recognized directly in equity is recognized in equity under the relevant items. Current tax receivable is recognized in the balance sheet under current tax.

Current tax payable but not yet paid is recognized in the balance sheet under current liabilities. Deferred tax is measured using the balance sheet liability method on all temporary differences between accounting values and tax values. Deferred tax liabilities arising from temporary tax differences are recognized in the balance sheet as a liability.

Deferred tax assets arising from temporary deductible differences and tax losses carried forward are recognized when it is probable that they can be realized by offsetting them against taxable temporary differences or future taxable profits. At each balance sheet date, it is assessed whether it is probable that there will be sufficient future taxable income for the deferred tax asset to be utilized.

Deferred income tax is provided on temporary taxable differences arising on investments in subsidiaries, unless the parent company is able to control the timing when the deferred tax is to be realized and it is likely that the deferred tax will not be realized within the foreseeable future. Deferred tax is calculated at the tax rates applicable on the balance sheet date for the income years in which the tax asset is expected to be utilized. ■

Significant accounting estimates

Management is required to make an estimate in the recognition of deferred tax assets. The assessment is based on latest budgets and forecasts approved by Board of Directors that include revenue from existing and future contracts for the sale of IMVAMUNE and other development projects.

Previous years recognition of the tax asset has been dependent on regulatory approval of PROSTVAC as well as future taxable profits arising from sales of PROSTVAC and other products. Following the discontinuation of the PROSPECT study Management assesses that the taxable income for the next couple of years will be negative whereas the defered tax asset can not be utilized within the foreseeable future. Therefore the tax asset has been fully written-down as of December 31, 2017. ■

Note 13

Tax for the year – continued

2017

DKK thousand	January 1, 2017	Recognized in the income statement	Recognized in other comprehensive income/ equity	December 31, 2017
Intangible assets	(3,763)	9,129	-	5,366
Property, plant and equipment	3,363	3,239	-	6,602
Development projects for sale	(24,039)	41,459	-	17,420
Prepayment from customers	89,209	(89,209)	-	-
Financial instruments	57	-	(29)	28
Share-based payment	23,504	(11,043)	(2,020)	10,441
Tax losses carried forward	224,142	17,717	-	241,859
Write-down	(182,000)	(88,740)	(10,976)	(281,716)
Recognized deferred tax assets	**130,473**	**(117,448)**	**(13,025)**	**-**

2016

DKK thousand	January 1, 2016	Recognized in the income statement	Recognized in other comprehensive income/ equity	December 31, 2016
Intangible assets	(12,443)	8,680	-	(3,763)
Property, plant and equipment	734	2,629	-	3,363
Development projects for sale	(39,233)	15,194	-	(24,039)
Accrued project costs	(148)	148	-	-
Obligations	960	(960)	-	-
Prepayment from customers	89,274	(65)	-	89,209
Financial instruments	-	-	57	57
Share-based payment	58,210	(14,106)	(20,600)	23,504
Tax losses carried forward	234,788	(10,646)	-	224,142
Write-down	(182,000)	-	-	(182,000)
Recognized deferred tax assets	**150,142**	**874**	**(20,543)**	**130,473**

Deferred tax

Recognized deferred tax assets relate to temporary differences between the tax base and accounting carrying amount and tax losses carried forward.

Deferred tax assets arising from temporary deductible differences and tax losses carried forward are recognized to the extent they are expected to be offset against future taxable income.

Recognized tax losses carried forward relate to Bavarian Nordic A/S and the two Danish subsidiaries Aktieselskabet af 1. juni 2011 I and BN Washington D.C. Holding A/S.

The tax value of non-recognized tax losses carried forward in Bavarian Nordic A/S and the two Danish subsidiaries amounts to DKK 241.9 million (DKK 182.0 million), whereas the tax value of non-recognized temporary deductible differences amounts to DKK 39.8 million (DKK 0 million) as a result of the write-down. Tax rate used for Danish entities is 22%.

At Group level the non-recognized tax asset for temporary differences that arose upon elimination of internal transfers of development projects for sale amounts to DKK 10.1 million (DKK 41.0 million). The decrease is related to write-down of PROSTVAC development project for sale.

The tax value of non-recognized tax losses carried forward in subsidiary Bavarian Nordic, Inc. amounts to DKK 87.7 million (DKK 187.5 million) of which DKK 9.9 million (DKK 11.1 million) relates to state tax and DKK 77.8 million (DKK 176.4 million) relates to federal tax (tax rate of 21%; 2016: 35%). The tax value of non-recognized tax credits carried forward in subsidiary Bavarian Nordic, Inc. amounts to DKK 69.0 million (DKK 79.6 million) of which DKK 33.4 million (DKK 33.5 million) relates to state tax and DKK 35.6 million (DKK 46.1 million) relates to federal tax. As Bavarian Nordic, Inc. has moved from California to North Carolina the state tax losses and state tax credit carried forward will most likely never be utilized.

Bavarian Nordic GmbH and Bavarian Nordic Washington DC, Inc. have no tax losses carried forward.

The Company's right to use the recognized tax losses carried forward is not time-limited.

Note 14

Earnings per share (EPS)

DKK thousand	2017	2016
Net profit for the year	181,343	30,600
Earnings per share of DKK 10	5,7	1,0
Diluted earnings per share of DKK 10	5,7	1,0
The weighted average number of ordinary shares for the purpose of diluted earning per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:		
Weighted average number of ordinary shares (thousand units)	31,649	30,101
Weighted average number of treasury shares (thousand units)	(19)	(7)
Weighted average number of outstanding ordinary shares used in the calculation of basic earnings per share (thousand units)	31,630	30,094
Average dilutive effect of outstanding warrants under incentive schemes	252	238
Weighted average number of outstanding ordinary shares used in the calculation of diluted earnings per share (thousand units)	31,882	30,332
Outstanding warrants have been included in the calculation of diluted earnings per share.		
2017-programs	397,860	-
2016-program	438,759	450,300
2015-program	304,663	313,824
2014-program	257,000	457,500
2013-programs	61,400	227,317
2012-programs	-	35,611
Outstanding warrants, cf. note 28	**1,459,682**	**1,484,552**

Accounting policies

Earnings per share is calculated as the profit or loss for the year compared to the weighted average of the issued shares in the financial year. The basis for the calculation of diluted earnings per share is the weighted-average number of ordinary shares in the financial year adjusted for the dilutive effects of warrants. ■

Note 15

Intangible assets

Accounting policies

Intangible assets are measured at historic cost less accumulated amortization and impairment losses. Development projects that meet the requirements for recognition as assets are measured at direct cost relating to the development projects.

Capitalized development costs regarding the registration of IMVAMUNE under the RFP-3 contract with the U.S. Government are expensed (amortized) and recognized in the income statement under research and development costs when the related income on delivery of the development results have been earned and recognized as revenue, which may be before the completion of the development project and obtaining of approval. When the development has been completed and IMVAMUNE has been approved by the FDA, the remaining carrying amount will be amortized in concurrence with the delivery of doses over the expected economic life of the asset, i.e. unit of production amortization method. Management believes that the unit of production amortization method reflects the pattern in which the future economic benefits arising from the IMVAMUNE development asset are expected to be consumed by the Group when selling IMVAMUNE products to U.S. Government and other non-U.S. countries.

Expensing (amortization) of capitalized development costs prior to the completion of the development project is shown under cost of the IMVAMUNE development project in the table on the next page. Amortization made after obtaining approval is shown under accumulated amortization.

The criteria for capitalization is described in note 5 "Research and development costs".

Purchased rights or rights acquired in connection with acquisitions which fulfil the requirements for recognition are measured at cost. Amortization is provided on a straight-line basis over the useful economic lives of the assets, max. 15 years.

Software is amortized on a straight-line basis over 3 years.

Impairment

The carrying amounts of intangible assets carried at cost or amortized cost are tested at least annually to determine whether there are indications of any impairment in excess of that expressed in normal amortization. If that is the case, the asset is written-down to the recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Impairment losses on intangible assets are recognized under the same line item as amortization of the assets.

For development projects in progress, the recoverable amount is assessed annually, regardless of whether any indications of impairment have been found. ■

Note 15

Intangible assets – continued

				2017
DKK thousand	**Software**	**IMVAMUNE development project**	**Other intangible assets in progress**	**Total**
Costs as of January 1, 2017	62,338	60,951	16,903	140,192
Additions	8,073	8,564	5,704	22,341
Transfer	16,903	-	(16,903)	-
Disposals	(388)	-	-	(388)
Expensed (amortized) related to sale of development results	-	(69,515)	-	(69,515)
Exchange rate adjustments	(51)	-	-	(51)
Cost as of December 31, 2016	**86,875**	**-**	**5,704**	**92,579**
Amortization as of January 1, 2017	57,173	-	-	57,173
Amortization	2,853	-	-	2,853
Disposals	(388)	-	-	(388)
Exchange rate adjustments	(51)	-	-	(51)
Amortization as of December 31, 2017	**59,587**	**-**	**-**	**59,587**
Carrying amount as of December 31, 2017	**27,288**	**-**	**5,704**	**32,992**

Geographical split of intangible assets – 2017

Denmark	32,542
Germany	450
Total intangible assets	**32,992**

IMVAMUNE development project includes development costs related to the registration of IMVAMUNE under the RFP-3 contract.

The IMVAMUNE development project has been fully expensed as of December 31, 2017.

Other intangible assets in progress include investments in software.

Note 15

Intangible assets – continued

				2016
DKK thousand	**Software**	**IMVAMUNE development project**	**Other intangible assets in progress**	**Total**
Costs as of January 1, 2016	58,006	100,500	4,495	163,001
Additions	1,337	29,236	13,136	43,709
Transfer	728	-	(728)	-
Transfer from tangible assets	2,259	-	-	2,259
Expensed (amortized) related to sale of development results	-	(68,785)	-	(68,785)
Exchange rate adjustments	8	-	-	8
Cost as of December 31, 2016	**62,338**	**60,951**	**16,903**	**140,192**
Amortization as of January 1, 2016	54,812	-	-	54,812
Amortization	2,352	-	-	2,352
Exchange rate adjustments	9	-	-	9
Amortization as of December 31, 2016	**57,173**	**-**	**-**	**57,173**
Carrying amount as of December 31, 2016	**5,165**	**60,951**	**16,903**	**83,019**

Geographical split of intangible assets – 2016

Denmark	82,731
Germany	288
Total intangible assets	**83,019**

Note 16

Property, plant and equipment

Accounting policies

Property, plant and equipment include land and buildings, production equipment, leasehold improvements, office and IT equipment and laboratory equipment and is measured at cost less accumulated depreciation and impairment losses.

Cost includes the costs directly attributable to the purchase of the asset, until the asset is ready for use. For assets constructed by the Group cost includes materials, components, third-party suppliers and labour.

Interest expenses on loans to finance the construction of property, plant and equipment are included in cost if they relate to the construction period. Other borrowing costs are recognized in the income statement.

Depreciation is charged over the expected economic lives of the assets, and the depreciation methods, expected lives and residual values are reassessed individually for the assets at the end of each financial year. Assets are depreciated on a straightline basis over their estimated useful lives as follows:

Buildings:	10-20 years
Installations:	5-15 years
Leasehold improvements:	5 years
Office and IT equipment:	3-5 years
Laboratory equipment:	5-10 years
Production equipment:	3-15 years

Management reviews the estimated useful lives of material property, plant and equipment at the end of each financial year.

Impairment

The carrying amounts of property, plant and equipment carried at cost or amortized cost are tested annually to determine whether there are indications of any impairment in excess of that expressed in normal depreciation. If that is the case, the asset is written-down to the recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Impairment losses on property, plant and equipment are recognized under the same line item as depreciation of the assets. ■

Note 16

Property, plant and equipment – continued

						2017
DKK thousand	**Land and buildings**	**Leasehold improve-ment**	**Plant and machinery**	**Other fixtures and fittings, other plant and equipment**	**Assets under construction**	**Total**
Costs as of January 1, 2017	312,049	9,888	279,566	77,774	48,894	728,171
Additions	2,204	342	375	2,070	51,366	56,357
Transfer	5,806	707	14,105	4,671	(25,289)	-
Disposals	-	-	-	(4,383)	-	(4,383)
Exchange rate adjustments	-	9	-	(107)	6	(92)
Cost as of December 31, 2017	**320,059**	**10,946**	**294,046**	**80,025**	**74,977**	**780,053**
Depreciation and impairment losses as of January 1, 2017	109,245	9,210	224,663	58,717	-	401,835
Depreciation	16,659	397	12,397	4,984	-	34,437
Disposals	-	-	-	(4,110)	-	(4,110)
Exchange rate adjustments	-	10	-	(97)	-	(87)
Depreciation and impairment losses as of December 31, 2017	**125,904**	**9,617**	**237,060**	**59,494**	**-**	**432,075**
Carrying amount as of December 31, 2017	**194,155**	**1,329**	**56,986**	**20,531**	**74,977**	**347,978**

Mortgage loans of DKK 29.7 million are secured by mortgages totaling DKK 50.0 million on the property Bøgeskovvej 9/Hejreskovvej 10A, Kvistgaard. In addition, as of December 31, 2017, mortgage deeds for a total of DKK 75.0 million have been issued. The carrying amount of assets mortgaged in security of mortgage loans is DKK 251.1 million.

Geographical split of property, plant and equipment – 2017

Denmark	334,909
Germany	11,582
USA	1,487
Total property, plant and equipment	**347,978**

Note 16

Property, plant and equipment – continued

DKK thousand	Land and buildings	Leasehold improve-ment	Plant and machinery	Other fixtures and fittings, other plant and equipment	Assets under construction	Total
						2016
Costs as of January 1, 2016	312,117	9,396	257,292	73,840	33,828	686,473
Additions	162	518	215	5,423	41,492	47,810
Transfer	-	-	22,137	277	(22,414)	-
Transfer to intangible assets	-	-	-	-	(2,259)	(2,259)
Disposals	(228)	-	(78)	(1,737)	(1,752)	(3,795)
Exchange rate adjustments	(2)	(26)	-	(29)	(1)	(58)
Cost as of December 31, 2016	**312,049**	**9,888**	**279,566**	**77,774**	**48,894**	**728,171**
Depreciation and impairment losses as of January 1, 2016	93,507	8,994	203,730	54,482	-	360,713
Depreciation	15,739	243	21,011	4,736	-	41,729
Disposals	-	-	(78)	(443)	-	(521)
Exchange rate adjustments	(1)	(27)	-	(58)	-	(86)
Depreciation and impairment losses as of December 31, 2016	**109,245**	**9,210**	**224,663**	**58,717**	**-**	**401,835**
Carrying amount as of December 31, 2016	**202,804**	**678**	**54,903**	**19,057**	**48,894**	**326,336**

Mortgage loans of DKK 31.9 million are secured by mortgages totaling DKK 50.0 million on the property Bøgeskovvej 9/Hejreskovvej 10A, Kvistgaard. In addition, as of December 31, 2016, mortgage deeds for a total of DKK 75.0 million have been issued. The carrying amount of assets mortgaged in security of mortgage loans is DKK 257.7 million.

Geographical split of property, plant and equipment – 2016

Denmark	317,495
Germany	8,688
USA	153
Total property, plant and equipment	**326,336**

Note 17

Development projects for sale

DKK thousand	2017	2016
Development projects for sale January 1	70,069	70,069
Write-down	(47,869)	-
Development projects for sale December 31	**22,200**	**70,069**
Specification:		
PROSTVAC	-	47,869
CV301	22,040	22,040
Brachyury	160	160
Development projects for sale	**22,200**	**70,069**

As part of the Group's business model and core operations, the Group acquires licenses for further development with subsequent disposal of the licenses either through a sale or by entering into a partnership agreement under which the licenses are assumed to be effectively transferred to the partner.

Following the discontinuation of the PROSPECT study in September 2017 the asset has been written-down by DKK 47.9 million, corresponding to the value related to PROSTVAC. The write-down has been recognized as research and development costs.

As further described in the Management Commentary, Management are optimistic about the clinical strategy for immunotherapy combinations with both CV301 and Brachyury, which are unfolding with the initiation of multiple new combination studies in 2018 that will continue to expand the Company's cancer franchise. The Company has collaborations with both Bristol-Myers Squibb and Roche on CV301 combination trials. Management assesses no need for a revaluation of the CV301 and Brachyury development projects for sale.

Accounting policies

Development projects for sale consist of licenses that have been acquired with the intent to further develop the technology and subsequently disposal of the licenses either through a sale or by entering into a partnership agreement under which the licenses are assumed to be transferred to the partner. Only the license payments to acquire the licenses are capitalized whereas all costs related to further development of the technology are expensed in the year they occur unless the criteria for recognition as an asset are met.

At initial recognition acquired licenses are measured at cost. Subsequently the acquired licenses are measured at the lower of cost and net realisable value.

The net realisable value is the estimated sales price in the ordinary course of business less relevant sales costs determined on the basis of marketability. ■

Note 18

Inventories

DKK thousand	2017	2016
Raw materials and supply materials	31,805	38,887
Work in progress	129,607	206,943
Manufactured goods and commodities	3,140	11,850
Write-down on inventory	(52,705)	(110,697)
Inventories	**111,847**	**146,983**
Write-down on inventory as of January 1	(110,697)	(89,889)
Write-down for the year	(23,199)	(21,012)
Use of write-down	81,191	-
Reversal of write-down	-	204
Write-down on inventory as of December 31	**(52,705)**	**(110,697)**
Cost of goods sold amounts to, cf. note 4	221,210	171,517

"Out-of-specification" products written-down in previous years have been discarded during 2017.

Accounting policies

Inventories except for raw materials are measured at the lower of cost using the weighted average cost formula method less write-downs for obsolescence and net realisable value. Raw materials are measured at cost based on the FIFO method.

For raw materials, cost is determined as direct acquisition costs incurred. The cost of finished goods produced in-house and work in progress includes raw materials, consumables, filling cost, QC testing and direct payroll costs plus indirect costs of production.

Indirect costs of production include indirect materials and labour as well as maintenance of and depreciation on the machinery used in production processes, factory buildings and equipment used and cost of production administration and management.

The net realisable value is the estimated sales price in the ordinary course of business less relevant sales costs determined on the basis of marketability, obsolescence and changes in the expected sales price. ■

Significant accounting estimates

Production overheads are measured on the basis of actual costs. The basis of the actual costs is reassessed regularly to ensure that they are adjusted for changes in the utilization of production capacity, production changes and other relevant factors.

Biological living material is used, and the measurements and assumptions for the estimates made may be incomplete or inaccurate, and unexpected events or circumstances may occur, which may cause the actual outcomes to later deviate from these estimates. It may be necessary to change previous estimates as a result of changes in the assumptions on which the estimates were based or due to new information or subsequent events, for which certainty could not be achieved in the earlier estimates.

Estimates that are significant to the financial reporting are made in the determination of any write-downs of inventories as a result of "out-of-specification" products, expiry of products and sales risk. ■

Note 19

Trade receivables

DKK thousand	2017	2016
Trade receivables from IMVAMUNE sale	5,587	96,807
Trade receivables from contract work	13,809	33,584
Trade receivables	**19,396**	**130,391**

There are no overdue receivables and there is no provision for bad debts as no losses are expected on trade receivables.

Accounting policies

Receivables are measured at initial recognition at fair value and subsequently at amortized value usually equal to the nominal value, net of impairment, to counter the loss after an individual assessment of risk of loss. ■

Note 20

Other receivables

DKK thousand	2017	2016
Deposits	1,216	1,303
Receivable VAT and duties	10,715	14,947
Interest receivables	12,201	10,449
Other receivables	**24,132**	**26,699**
Classified as:		
Non-current assets	1,216	1,303
Current assets	22,916	25,396
Other receivables	**24,132**	**26,699**

Accounting policies

Receivables are measured at initial recognition at fair value and subsequently at amortized value usually equal to the nominal value, net of impairment, to counter the loss after an individual assessment of risk of loss. ■

Note 21

Prepayments

DKK thousand	2017	2016
Accrued project costs	491	-
Other prepayments	4,521	7,325
Prepayments	**5,012**	**7,325**

Accounting policies

Prepayments recognized under assets include costs paid in respect of subsequent financial years, including project costs incurred that relate to revenue of subsequent years. Prepayments are measured at cost. ■

Note 22

Other liabilities

DKK thousand	2017	2016
Derivative financial instruments at fair value	129	36,509
Liability relating to phantom shares	2,723	18,047
Payable salaries, holiday accrual etc.	59,960	60,698
Deposit and prepaid rent from sub-tenants	1,640	-
Other accrued costs	17,353	31,733
Other liabilities	**81,805**	**146,987**

For a further description of financial instruments see note 23. The phantom share programs are described in note 28.

Accounting policies

Derivative financial instruments and liability relating to phantom shares are measured at fair value. For further details regarding measurement of fair value for phantom shares see note 28.

Other financial liabilities are measured at initial recognition at fair value less any transaction costs. Subsequent other financial liabilities are measured at amortized cost using the effective interest method, whereby the difference between proceeds and the nominal value is recognized in the income statement as a financial expense over the period. Amortized cost usually equal to the nominal value. ■

Note 23

Financial risks and financial instruments

DKK thousand	2017	2016
Categories of financial instruments		
Trade receivables	19,396	130,391
Other receivables	24,132	26,699
Loan and receivables	**43,528**	**157,090**
Cash and cash equivalents	282,521	853,596
Cash and cash equivalents	**282,521**	**853,596**
Securities	2,301,197	1,046,301
Financial assets measured at fair value through the income statement	**2,301,197**	**1,046,301**
Debt to credit institutions	401,912	31,850
Trade payables	82,901	71,958
Other liabilities	78,953	92,431
Financial liabilities measured at amortized cost	**563,766**	**196,239**
Derivative financial instruments at fair value through the income statement (currency)	-	36,250
Liability relating to phantom shares	2,723	18,047
Financial liabilities measured at fair value through the income statement	**2,723**	**54,297**
Derivative financial instruments to hedge future cash flows (interest)	129	259
Financial liabilities used as hedging instruments	**129**	**259**

Accounting policies

Derivative financial instruments

On initial recognition, derivative financial instruments are measured at the fair value on the settlement date.

Directly attributable costs related to the purchase or issuance of the individual financial instruments (transaction costs) are added to the fair value on initial recognition, unless the financial asset or the financial liability is measured at fair value with recognition of fair value adjustments in the income statement. Subsequently, they are measured at fair value at the balance sheet date based on the official exchange rates, market interest rates and other market data such as volatility adjusted for the special characteristics of each instrument.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as fair value hedges of a recognized asset or a recognized liability are recognized in the income statement together with any changes in the value of the hedged asset or hedged liability. Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as effective hedges of future transactions are recognized as comprehensive income. The ineffective portion is recognized immediately in the income statement. When the hedged transactions are realized, cumulative changes are recognized in the income statement together with the hedged transaction or in respect of a non-financial item as part of the cost of the transactions in question.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognized as financials in the income statement as they occur.

Securities

Securities consist of listed bonds, which are measured at fair value on initial recognition and as of the balance sheet date. Bonds with a maturity of less than three months on the date of acquisition are recognized in the line item “Cash and cash equivalents”. The Group’s portfolio of securities is treated as "financial items at fair value through profit or loss", as the portfolio is accounted for and valued on the basis of the fair value in compliance with the Group’s investment policy.

Both realized and unrealized value adjustments are recognized in the income statement under financials. ■

Note 23

Financial risks and financial instruments – continued

Policy for managing financial risks

Through its operations, investments and financing the Group is exposed to fluctuations in exchange rates and interest rates. These risks are managed centrally in the Parent Company, which manages the Group's liquidity. The Group pursues a treasury policy approved by the Board of Directors. The policy operates with a low risk profile, so that exchange rate risks, interest rate risks and credit risks arise only in commercial relations. The Group therefore does not undertake any active speculation in financial risk.

The Group's capital structure is regularly assessed by the Board of Directors relative to the Group's cash flow position and cash flow budgets.

Market risks

The Group is exposed to interest rate and foreign exchange risks as described below. Management believes that the Group is not sensitive to price risks as its raw material purchases make up a very modest part of its total production costs.

Interest rate risk

It is the Group's policy to hedge interest rate risks on loans whenever it is deemed that interest payments can be hedged at a satisfactory level relative to the related costs. Hedging will then consist of interest rate swaps that convert floating rate loans to fixed rate loans. The interest rate risk involved in placing cash funds and investing in securities is managed on the basis of duration.

Exchange rate risks

The Group's exchange rate exposure is primarily to USD and EUR. The exchange rate exposure to USD is hedged to the greatest possible extent by matching incoming and outgoing payments denominated in USD, looking at maximum one year ahead. Regular assessments are made of whether the remaining net position should be hedged by currency forward contracts or currency option contracts.

The exposure to EUR is not hedged as management believes that fluctuations in EUR are limited due to the Danish fixed-rate policy which we expect to be maintained. Thus the fluctuations in EUR do not have a significant impact on financial performance.

Exchange rate risks on recognized financial assets and liabilities

DKK thousand	Cash and cash equivalents, securities	Receivables	Liabilities	Net position
2017				
EUR	12,489	1,158	(29,487)	(15,840)
USD	204,170	17,976	(27,883)	194,263
2016				
EUR	50,273	25,320	(34,699)	40,894
USD	472,102	106,499	(67,649)	510,952

Sensitivity analysis on exchange rates

DKK thousand	Likely change in exchange rate	Hypothetical change in equity	Hypothetical change in profit
2017			
Change if higher USD-rate than actual rate	15%	21,446	78,466
Change if higher EUR-rate than actual rate	1%	(52)	(994)
2016			
Change if higher USD-rate than actual rate	15%	65,476	127,517
Change if higher EUR-rate than actual rate	1%	314	(567)

The table above shows the net effect it would have had on equity and profit for the year if the year-end exchange rates of USD and EUR had been 15% or 1%, respectively, higher than the actual exchange rates. A corresponding fall in the actual exchange rates would have had an opposite (positive/ negative) effect on profit and equity.

Note 23

Financial risks and financial instruments – continued

Derivative financial instruments not designated as hedge accounting

Currency forward contracts and currency option contracts which are not designated as hedge accounting are classified as held for trading with fair value adjustments recognized through the income statement.

The open currency contracts as per December 31, 2016 are specified below. There was no open currency contracts as per December 31, 2017.

Currency contracts held for trading **2016**

DKK thousand	Residual maturity	Contract amount based on agreed rates	Fair value as of December 31
Currency option contracts			
Buy put option of USD 25 million (USD rate 6.60)	3 months	165,000	487
Sell call option of USD 37.5 million (USD rate 6.8285)	3 months	256,069	(9,686)
Buy put option of USD 25 million (USD rate 6.60)	4 months	165,000	727
Sell call option of USD 37.5 million (USD rate 6.8285)	4 months	256,069	(9,950)
Buy put option of USD 25 million (USD rate 6.60)	5 months	165,000	1,180
Sell call option of USD 37.5 million (USD rate 6.8285)	5 months	256,069	(10,661)
Currency swap contracts			
Sell USD 20 million	1 month	132,610	(8,347)
Total			**(36,250)**

Hedging of expected future cash flows

In 2016 the Company refinanced the old mortgage loans (fixed rate) and obtained a new mortgage loan with floating rate. The Company also concluded an interest rate swap to convert the floating rate loan to a fixed rate loan.

Cash flow hedge

DKK thousand	Contract amount based on agreed rates	Fair value as of December 31	Fair value adjustment recognized in other comprehensive income
2017			
Interest rate swap			
DKK – fixed rate 0.9625% p.a. (expiry 2031)	29,782	(129)	130
		(129)	**130**
2016			
Interest rate swap			
DKK – fixed rate 0.9625% p.a. (expiry 2031)	31,869	(259)	(259)
		(259)	**(259)**

Cash risks

The Group´s bank deposits are placed in deposit accounts without restrictions. The Group's cash and cash equivalents totaled DKK 282.5 million as of December 31, 2017 (DKK 853.6 million).

The Group's fixed rate bond portfolio expires as shown below. Amounts are stated excluding interest.

Note 23

Financial risks and financial instruments – continued

Bond portfolio	2017		2016	
DKK thousand	Fair value as of December 31	Effective interest	Fair value as of December 31	Effective interest
Within 0-2 years	866,277	-2.4%	601,326	-0.3%
Within 3-5 years	922,573	0.0%	131,635	0.1%
After 5 years	512,347	1.6%	313,340	2.5%
Total	**2,301,197**	**-0.6%**	**1,046,301**	**0.6%**

Fluctuations in interest rate levels affect the Group's bond portfolio. An increase in the interest rate level by 1 percentage point relative to the interest rate level on the balance sheet date would have had a negative impact of DKK 32 million on the Group´s profit and equity (negative impact of DKK 23 million). A corresponding decrease in the interest rate level would have had a positive impact of DKK 32 million on profit and equity (positive impact of DKK 23 million).

Maturity of financial liabilities (including interest)				2017
DKK thousand	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
Credit institutions	15,578	434,329	19,827	469,734
Trade payables	82,901	-	-	82,901
Other liabilities	81,815	-	-	81,815
Non-derivative financial liabilities	**180,294**	**434,329**	**19,827**	**634,450**
Derivative financial liabilities	**129**	**-**	**-**	**129**

Maturity of financial liabilities (including interest)				2016
Credit institutions	2,465	9,677	22,321	34,463
Trade payables	71,958	-	-	71,958
Other liabilities	110,550	-	-	110,550
Non-derivative financial liabilities	**184,973**	**9,677**	**22,321**	**216,971**
Derivative financial liabilities	**36,509**	**-**	**-**	**36,509**

With respect to the Group´s debt to credit institutions, an increase in the applicable interest rate by 1 percentage point would have had a negative impact on the Group's profit and equity of DKK 0.9 million (DKK 0.3 million). A corresponding decrease in the interest rate would have had an equivalent positive impact.

In May 2015, the Group secured a loan facility of EUR 50 million from the European Investment Bank (EIB) in support of the Group's research and development of vaccines against Ebola and other infectious diseases as well as cancer immunotherapies. The loan facility, which is unsecured, was fully utilized in October 2017 with a net proceed of DKK 372.2 million. The loan is a five year bullet loan with a fixed interest of 3.532%.

The Group has a credit facility of DKK 20 million (DKK 20 million) at Nordea Denmark. As of December 31, 2017, DKK 0.3 million (DKK 0.3 million) of the credit facility is utilized for bank guarantees.

Credit risks

The primary credit risk relates to trade receivables. The Group´s customers are predominantly public authorities and renowned pharmaceutical companies, and the credit risk on the Group's receivables is therefore considered to be very low.

As of December 31, 2017 and December 31, 2016, none of the receivables were overdue.

Cash and cash equivalents are not deemed to be subject to any special credit risk as they are deposited with Nordea. The bond portfolio is invested in either Danish government bonds, Danish mortgage bonds or bonds issued by Danish banks with high ratings.

Optimization of capital structure

Management regularly assesses whether the Group´s capital structure best serves the interests of the Group and its shareholders. The overall goal is to ensure that the Group has a capital structure which supports its long-term growth target.

Note 23

Financial risks and financial instruments – continued

Fair value hierarchy for financial instruments measured at fair value			2017
DKK thousand	**Level 1**	**Level 2**	**Total**
Securities	2,301,197	-	2,301,197
Financial assets measured at fair value through the income statement	**2,301,197**	**-**	**2,301,197**
Derivative financial instruments to hedge future cash flow (interest)	-	(129)	(129)
Financial liabilities used as hedging instruments	**-**	**(129)**	**(129)**
Liability relating to phantom shares	-	(2,723)	(2,723)
Financial liabilities measured at fair value through the income statement	**-**	**(2,723)**	**(2,723)**

Fair value hierarchy for financial instruments measured at fair value			2016
DKK thousand	**Level 1**	**Level 2**	**Total**
Securities	1,046,301	-	1,046,301
Financial assets measured at fair value through the income statement	**1,046,301**	**-**	**1,046,301**
Derivative financial instruments to hedge future cash flow (interest)	-	(259)	(259)
Financial liabilities used as hedging instruments	**-**	**(259)**	**(259)**
Derivative financial instruments at fair value through the income statement (currency)	-	(36,250)	(36,250)
Liability relating to phantom shares	-	(18,047)	(18,047)
Financial liabilities measured at fair value through the income statement	**-**	**(54,297)**	**(54,297)**

Securities (level 1)
The portfolio of publicly traded government bonds and publicly traded mortgage bonds is valued at listed prices and price quotas.

Derivative financial instruments (level 2)
Currency forward contracts, currency option contracts and currency swap contracts are valued according to generally accepted valuation methods based on relevant observable swap curves and exchange rates. Liability relating to phantom shares is determined using the Black-Scholes. The valuation is based on observable share price, interest rates and volatility rates.

Note 24

Provisions

DKK thousand	2017	2016
Provisions as of January 1	24,949	25,796
Revaluation during the year	(24,949)	(277)
Payments during the year	-	(570)
Provisions as of December 31	**-**	**24,949**
Long-term incentive agreements:		
Reiner Laus	-	24,949
Provisions as of December 31	**-**	**24,949**

DKK thousand	**Due within 1 year**	**Due between 1 and 5 years**	**Due after 5 years**	**Total**
2016	-	21,352	3,597	24,949

As part of an agreement entered into between the Company and the former Division President for Cancer Immunotherapy Reiner Laus regarding the Company's purchase of his shares in Bavarian Nordic, Inc. (formerly BN ImmunoTherapeutics, Inc.) in December 2009, Reiner Laus is entitled to receive a consideration triggered upon successful achievement of certain predefined milestones related to PROSTVAC as a monotherapy. In addition, a separate agreement regarding cancellation of certain contractual rights for Reiner Laus' sale of shares in Bavarian Nordic, Inc. entitles Reiner Laus to a consideration upon successful achievement of certain pre-defined milestones related to PROSTVAC as a monotherapy. The agreement remains unchanged after Reiner Laus' resignation.

Following the discontinuation of the PROSPECT study in September 2017 Management assesses future payments under this agreement very unlikely as all the predefined milestones are related to successful approval and commercialization of PROSTVAC as a monotherapy. Therefore the provision for contingent payments has been fully reversed.

The reversal has been recognized as respectively financial items (DKK 22.2 million) and administrative costs (DKK 2.7 million) - in line with the historical build-up.

The total outstanding consideration to Reiner Laus amounts to a maximum of DKK 55.9 million (DKK 63.5 million). The risk-adjusted net present value amounts to DKK 0 million (DKK 24.9 million).

Note 24
Provisions – continued

Accounting policies

Provisions are recognized when the Group has an obligation as a result of events in the current or in previous financial years with a probability that the obligation will result in an outflow of the Group's financial resources.

Provisions are measured as the best estimate of the costs needed at the balance sheet date to settle obligations. Provisions also include contingent payments at the conclusion of agreements, contracts, etc. Contingent payments are measured at fair value calculated as the probability that the results, which trigger future payments, are achieved and a fixed discount factor. Where payment is subject to continuing employment with the Group, the provision is built up over the vesting period. Changes to the assessed fair value of the contingent payments due to changes in risk factors are recognized in administrative costs. Adjustment of net present value is recognized as a financial item. ■

Note 25
Debt to credit institutions

DKK thousand	Due within 1 year	Due between 1 and 5 year	Due after 5 years	Total
2017				
Mortgage [1]	2,152	8,610	18,955	29,717
European Investment Bank (loan in DKK) [2]	-	372,195	-	372,195
Total	**2,152**	**380,805**	**18,955**	**401,912**
2016				
Mortgage [1]	2,136	8,570	21,144	31,850
Total	**2,136**	**8,570**	**21,144**	**31,850**

[1] Floating interest - swapped to fixed interest of 0.9625% - expiry 2031
[2] Fixed interest of 3.532% – bullet loan with expiry 2022

The fair value of the debt amounts to DKK 402.3 million (DKK 32.2 million). The fair value of mortgage debt is based on the market value of the underlying bonds, whereas the fair value of the European Investment Bank is based on a discounted cash analysis flow of future payments of interest and principal by applying a market based discount rate.

Cash flow from financing activities

DKK thousand	January 1, 2017	Cash movement	December 31, 2017
2017			
Mortgage	31,850	(2,133)	29,717
European Investment Bank (loan in DKK)	-	372,195	372,195
Total liabilities from financing activities	**31,850**	**370,062**	**401,912**

The table details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flow as cash flows from financing activities.

Accounting policies

Loans are measured at the time of borrowing at fair value less any transaction costs. Subsequently, mortgage debt is measured at amortized cost. This means that the difference between the proceeds of the loan and the amount to be repaid is recognized in the income statement over the term of the loan as a financial expense using the effective interest method. ■

Note 26

Prepayment from customers

DKK thousand	2017	2016
Prepayment from customers as of January 1	530,645	405,789
Prepayments received during the year	704,813	143,655
Recognized as income during the year	(1,155,841)	(18,799)
Prepayment from customers as of December 31	**79,617**	**530,645**

Accounting policies

Prepayments are recognized under liabilities and will be recognized in the income statement as the delivery of paid products takes place. ■

In May 2016, Biomedical Advanced Research and Development Authority (BARDA) placed the second bulk supply order of IMVAMUNE valued at USD 100 million. Under this contract the Company has invoiced the bulk drug substance (BDS) product upon approval by BARDA of the documentation confirming the initiation of production for each BDS batch. The payments are recognized as prepayments. Recognition of revenue has occurred in concurrence with release of each produced and tested BDS batch. During 2017 all batches have been delivered and the prepayments fully recognized as revenue. Under this contract BARDA also prepaid DKK 5.6 million for storage of the BDS batches. As per December 31, 2017, recognition of DKK 5.4 million in revenue is outstanding.

In March 2015, the Company signed an agreement that provided Bristol-Myers Squibb (BMS) an exclusive option to license and commercialize PROSTVAC. At signing the Company received an upfront option grant payment of DKK 398.5 million ($60 million). The upfront payment was recognized as a prepayment from customers. Following the discontinuation of the PROSPECT study in September 2017 the Company has provided BMS with top-line PROSPECT data and the upfront payment has been recognized as revenue.

In December 2015, the Company signed a license and collaboration agreement with Janssen Pharmaceuticals, Inc. (Janssen). Under the agreement, Janssen will acquire exclusive rights to the Group's MVA-BN® technology for use in a prime-boost vaccine regimen together with Janssen's own AdVac® technology with the purpose of targeting all cancers induced by human papillomavirus (HPV). Under the terms of the agreement, the Group received an upfront payment of DKK 61.7 million (USD 9 million) in January 2016. The full upfront payment was recognized as a prepayment. Since the development project is in a very early stage (pre pre-clinical), Management has assessed that the exclusive license grant does not have a separate value for Janssen and therefore no part of the prepayment has been allocated to this deliverable. The prepayment will be allocated to the development work that the Group has to perform under the agreement. Recognition of revenue occurs in concurrence with work performed. As per December 31, 2017, recognition of DKK 11.3 million in revenue is outstanding. There is no repayment obligation.

In August 2017, the Company signed a license and collaboration agreement with Janssen Pharmaceuticals, Inc. (Janssen). The collaboration grants Janssen the exclusive rights to Bavarian Nordic's MVA-BN® technology for two additional programs. Under the terms of the agreement, the Group received an upfront payment of DKK 62.9 million (USD 10 million) in September 2017. The full upfront payment was recognized as a prepayment. Since the development project is in a very early stage (pre pre-clinical), Management has assessed that the exclusive license grant does not have a separate value for Janssen and therefore no part of the prepayment has been allocated to this deliverable. The prepayment will be allocated to the development work that the Group has to perform under the agreement. Recognition of revenue occurs in concurrence with work performed. As per December 31, 2017, recognition of DKK 62.9 million in revenue is outstanding. There is no repayment obligation.

In 2012, the Company was contracted by the U.S. Government to complete a study covering the possible long-term storage of frozen Bulk Drug Substance (BDS), including collection of long-term stability data on frozen BDS. The contract has a total value of USD 5 million, which is being paid out in 6 seperate payments. In 2016 the Company received the last two payments of each DKK 3.2 million. The payments are recognized as revenue in concurrence with recognition of the cost of the study. As of December 31, 2017, the prepayments have been fully recognized as revenue.

Note 27

Related party transactions

The Executive Management and Board of Directors of Bavarian Nordic A/S are considered related parties.

Besides the remuneration of the Board of Directors and the Executive Management, cf. note 8 and note 24, and the share-based payments, cf. note 28, there are no transactions with related parties.

Transactions with subsidiaries are eliminated in the consolidated financial statements, in accordance with the accounting policies.

Note 28

Share-based payment

Accounting policies

Share-based incentive plans in which employees can only opt to buy shares in the Company (warrants) are measured at the equity instruments' fair value at the grant date and recognized in the income statement over the vesting period. The balancing item is recognized directly in equity. The fair value on the date of grant is determined using the Black-Scholes model.

Cash-based incentive programs in which employees can have the difference between the agreed exercise price and the actual share price settled in cash (phantom shares) are measured at fair value at the date of grant and recognized in the income statement over the period when the final right of cash-settlement is obtained. Granted rights are subsequently re-measured on each balance sheet date and upon final settlement, and any changes in the fair value of the programs are recognized in the income statement. The balancing item is recognized under other liabilities.

The fair value of the cash-based incentive programs is determined using the Black-Scholes model.

Restricted stock units are measured at fair value at grant date. Based on the achieved cash bonus for members of the Executive Management, subject to the Board of Directors' decision on the portion that should be converted to restricted stock units, the number of restricted stock units are calculated by dividing the allocated cash bonus amount by the share price of the Company at grant date. As the cash bonus has already been accrued and expensed in the income statement, the grant of restricted stock units has no additional impact on the income statement. The accrued liability for the converted cash bonus is reclassified to equity. Matching shares are measured at the same fair value as the initial restricted stock units and expensed over the three year vesting period. The balancing item is recognized directly in equity. Restricted stock units granted to the Board of Directors are expensed at grant date with the balancing item recognized directly in equity. ■

Incentive plans

In order to motivate and retain key employees and encourage the achievement of common goals for employees, management and shareholders, the Company has established incentive plans by way of warrant programs and restricted stock unit programs, the latter only for Executive Management and Board of Directors. Furthermore, the Company has established three-year phantom share programs for all employees of the Group.

Warrants

The Board of Directors has been granting warrants to the Company´s management and selected employees of the Company and its subsidiaries. Up until 2013, the Company´s Board of Directors were also granted warrants, but in 2014 it was decided to change the remuneration structure for the Board of Directors.

The warrants are granted in accordance with the authorizations given to the Board of Directors by the shareholders. The Board of Directors has fixed the terms of and the size of the grants of warrants, taking into account authorizations from the shareholders, the Group's guidelines for incentive pay, an assessment of expectations of the recipient´s work efforts and contribution to the Group´s growth, as well as the need to motivate and retain the recipient. Grant takes place on the date of establishment of the program. Exercise of warrants is by default subject to continuing employment with the Group. The warrants granted are subject to the provisions of the Danish Public Companies Act regarding termination of employees prior to their exercise of warrants in the case of recipients who are subject to the act.

Note 28

Share-based payment – continued

Warrant overview **2017**

	Outstanding as of January 1	Additions	Exercised	Annulled	Terminated	Outstanding as of December 31	Can be exercised as of December 31	Average exercise price (DKK)
May 2012	18,111	-	(2,700)	-	(15,411)	-	-	54
August 2012	17,500	-	(10,000)	-	(7,500)	-	-	59
August 2013	157,317	-	(98,917)	-	-	58,400	58,400	74
December 2013	70,000	-	(67,000)	-	-	3,000	3,000	97
August 2014	457,500	-	(200,500)	-	-	257,000	257,000	131
December 2015	313,824	-	-	(9,161)	-	304,663	-	367
December 2016	450,300	-	-	(11,541)	-	438,759	-	260
July 2017	-	26,955	-	-	-	26,955	-	430
November 2017	-	373,856	-	(2,951)	-	370,905	-	303
Total	**1,484,552**	**400,811**	**(379,117)**	**(23,653)**	**(22,911)**	**1,459,682**	**318,400**	

	Outstanding as of January 1	Additions	Exercised	Annulled	Terminated	Transferred	Outstanding as of December 31
Board of Directors	35,000	-	(15,000)	-	-	-	20,000
Corporate Management	318,702	87,068	(30,000)	-	-	-	375,770
Other Executive Management	-	79,277	(20,000)	-	-	44,600	103,877
Other employees	887,073	234,466	(155,667)	(23,653)	(1,500)	(98,147)	842,572
Resigned employees	243,777	-	(158,450)	-	(21,411)	53,547	117,463
Total	**1,484,552**	**400,811**	**(379,117)**	**(23,653)**	**(22,911)**	**-**	**1,459,682**
Weighted average exercise price (DKK)	**211**	**-**	**108**	**307**	**56**	**-**	**266**
Weighted average share price at exercise (DKK)			**281**				

Number of warrants which can be exercised as of December 31, 2017	318,400
at a weighted average exercise price of DKK	121

Note 28

Share-based payment – continued

Warrant overview							2016
	Outstanding as of January 1	**Additions**	**Exercised**	**Annulled**	**Terminated**	**Transferred**	**Outstanding as of December 31**
Board of Directors	50,000	-	(15,000)	-	-	-	35,000
Corporate Management	269,802	98,900	(50,000)	-	-	-	318,702
Other employees	877,200	351,400	(261,727)	(21,178)	-	(58,622)	887,073
Resigned employees	427,603	-	(237,448)	-	(5,000)	58,622	243,777
Total	**1,624,605**	**450,300**	**(564,175)**	**(21,178)**	**(5,000)**	**-**	**1,484,552**
Weighted average exercise price (DKK)	**148**	**260**	**66**	**367**	**54**	**-**	**211**
Weighted average share price at exercise (DKK)			**232**				
Number of warrants which can be exercised as of December 31, 2016							192,928
at a weighted average exercise price of DKK							71

Specification of parameters for Black-Scholes model	Aug. 2013	Dec. 2013	Aug. 2014	Dec. 2015	Dec. 2016	Jul. 2017	Nov. 2017
Average share price	68.00	82.00	117.50	334.00	222.50	383.50	259.50
Average exercise price at grant	73.90	96.50	131.40	366.85	260.20	430.45	303.03
Expected volatility rate	36.4%	35.4%	39.7%	53.8%	44.6%	44.1%	52.4%
Expected life (years)	3.3	3.3	3.3	3.3	3.0	3.0	3.0
Expected dividend per share	-	-	-	-	-	-	-
Risk-free interest rate p,a,	0.78%	0.74%	0.63%	0.25%	-0.48%	-0.46%	-0.55%
Fair value at grant [1)]	16	17	29	115	54	98	80

[1)] Fair value of each warrant at grant date applying the Black-Scholes model

The expected volatility is based on the historical volatility.

Recognized costs in 2017 DKK 22.8 million compared to DKK 18.4 million in 2016.

Note 28

Share-based payment – continued

Exercise periods	Can be exercised wholly or partly in a period of 14 days commencing from the day of publication of:			
November 2017	Annual Report 2020	Interim Report Q1 2021	Interim Report Q2 2021	Interim Report Q3 2021
	Annual Report 2021	Interim Report Q1 2022	Interim Report Q2 2022	Interim Report Q3 2022
July 2017	Interim Report Q2 2020	Interim Report Q3 2020	Annual Report 2020	Interim Report Q1 2021
	Interim Report Q2 2021	Interim Report Q3 2021	Annual Report 2021	Interim Report Q1 2022
December 2016	Annual Report 2019	Interim Report Q1 2020	Interim Report Q2 2020	Interim Report Q3 2020
	Annual Report 2020	Interim Report Q1 2021	Interim Report Q2 2021	Interim Report Q3 2021
December 2015	Annual Report 2018	Interim Report Q1 2019	Interim Report Q2 2019	Interim Report Q3 2019
	Annual Report 2019	Interim Report Q1 2020	Interim Report Q2 2020	Interim Report Q3 2020
August 2014	Interim Report Q3 2017	Annual Report 2017	Interim Report Q1 2018	Interim Report Q2 2018
	Interim Report Q3 2018	Annual Report 2018	Interim Report Q1 2019	Interim Report Q2 2019
December 2013	Annual Report 2016	Interim Report Q2 2017	Annual Report 2017	Interim Report Q2 2018
August 2013	Interim Report Q3 2016	Interim Report Q1 2017	Interim Report Q3 2017	Interim Report Q1 2018

Phantom shares

In 2014, the Company established a three-year phantom share program covering all employees in the Group. The employees receive up to six phantom shares per month free of charge during the period from January 1, 2015 to December 31, 2017. Each employee who is a full-time employee during the entire term of the plan will be eligible to receive a maximum of 216 phantom shares.

In 2015, the Company established a three-year phantom share program covering all employees in the Group. The employees receive up to six phantom shares per month free of charge during the period from January 1, 2016 to December 31, 2018. Each employee who is a full-time employee during the entire term of the plan will be eligible to receive a maximum of 216 phantom shares.

In 2016, the Company established a three-year phantom share program covering all employees in the Group except for Executive Management and other employees receiving warrants. The employees receive up to four phantom shares per month free of charge during the period from January 1, 2017 to December 31, 2019. Each employee who is a full-time employee during the entire term of the plan will be eligible to receive a maximum of 144 phantom shares.

In 2017, the Company established a three-year phantom share program covering all employees in the Group except for Executive Management and other employees receiving warrants. The employees receive up to four phantom shares per month free of charge during the period from January 1, 2018 to December 31, 2020. Each employee who is a full-time employee during the entire term of the plan will be eligible to receive a maximum of 144 phantom shares.

Grants are made on a monthly basis during the life of the programs as long as the employee is employed with the Group.

On expiry of the programs, the employees may exercise the phantom shares granted to them and thus be entitled to a cash bonus calculated on the basis of the increase in the price of the Company's shares. The exercise is conditional on the price of the Company's shares being at least DKK 5 higher than the exercise price at the time of exercise.

On expiry of the programs, former employees are entitled to settlement of the phantom shares granted during their term of employment.

Note 28

Share-based payment – continued

2017-2019 phantom share program	2017
Outstanding as of January 1	-
Granted during the year	18,234
Outstanding phantom shares as of December 31	**18,234**
Liability in DKK thousand as of December 31	**953**
Specification of parameters for Black–Scholes model	
Share price December 31	224
Average share exercise price	260
Expected volatility rate	52%
Expected life (years)	2.0
Expected dividend per share	-
Risk-free interest rate p.a.	0.05%

The expected volatility is based on the historic volatility.

The expense in respect of phantom shares granted in 2017 provided a cost of DKK 1.0 million.

The liability is included in other liabilities, cf. note 22.

2016-2018 phantom share program	2017	2016
Outstanding as of January 1	29,082	-
Granted during the year	29,920	29,082
Outstanding phantom shares as of December 31	**59,002**	**29,082**
Liability in DKK thousand as of December 31	**770**	**1,027**
Specification of parameters for Black–Scholes model		
Share price December 31	224	249
Average share exercise price	367	367
Expected volatility rate	52%	48%
Expected life (years)	1.0	2.0
Expected dividend per share	-	-
Risk-free interest rate p.a.	-0.09%	0.03%

The expected volatility is based on the historic volatility.

Phantom shares granted in 2017 provided an expense of DKK 0.4 million, whereas the revaluation of previously granted phantom shares provided an income of DKK 0.7 million, net income DKK 0.3 million (net expense 2016: DKK 1.0 million).

The liability is included in other liabilities, cf. note 22.

Note 28

Share-based payment – continued

2015-2017 phantom share program	2017	2016	2015
Outstanding as of January 1	57,894	29,140	-
Granted during the year	29,994	28,754	29,140
Outstanding phantom shares as of December 31	**87,888**	**57,894**	**29,140**
Liability in DKK thousand as of December 31	**1,059**	**3,727**	**5,110**
Specification of parameters for Black–Scholes model			
Share price December 31	224	249	358
Average share exercise price	212	212	212
Expected volatility rate	-	48%	54%
Expected life (years)	-	1.0	2.0
Expected dividend per share	-	-	-
Risk-free interest rate p.a.	-	-0.12%	0.20%

The expected volatility is based on the historic volatility.

Phantom shares granted in 2017 provided an expense of DKK 0.3 million, whereas the revaluation of previously granted phantom shares provided an income of DKK 3.0 million, net income DKK 2.7 million (net income 2016: DKK 1.4 million).

The liability is included in other liabilities, cf. note 22.

The 2015-2017 program will exercise in January 2018 with an exercise price corresponding to the average share price for the period December 29, 2017 - January 12, 2018.

2014-2016 phantom share program	2017	2016	2015	2014
Outstanding as of January 1	87,168	58,846	29,836	-
Granted during the year	-	28,322	29,010	29,836
Exercised during the year	(84,010)	-	-	-
Expired during the year	(3,158)	-	-	-
Outstanding phantom shares as of December 31	**-**	**87,168**	**58,846**	**29,836**
Liability in DKK thousand as of December 31	**-**	**13,293**	**15,380**	**3,221**
Specification of parameters for Black–Scholes model				
Share price December 31		249	358	198
Average share exercise price		97	97	97
Expected volatility rate		-	54%	49%
Expected life (years)		-	1.0	2.0
Expected dividend per share		-	-	-
Risk-free interest rate p,a,		-	0.12%	-0.06%

The 2014-2016 program was exercised January 2017 at a share price of DKK 284.

Revaluation of granted phantom shares and reversal of not exercised phantom shares provided a net cost of DKK 2.4 million (net income 2016: DKK 2.1 million).

Note 28

Share-based payment – continued

Restricted stock units

In March 2017, the Board of Directors decided to postpone the payment of half of the achieved cash bonus for members of the Executive Management for 3 years, converting the postponed bonus of DKK 1.7 million into 5,642 unconditional restricted stock units using the share price of the Company at grant date (DKK 292). The Board of Directors decided to grant additional restricted stock units free of charge on expiry of the 3 years (so-called "matching shares") upon the recipient still being employed. One matching share is granted for each two acquired restricted stock units. The maximum number of matching shares is 2,821. The initial granted restricted stock units and the potential matching shares total 8,463 shares. At the annual general meeting in April 2017, the Board of Directors were granted a total of 3,693 unconditional restricted stock units corresponding to 50% of the annual fixed fee (excl. committee fee). The restricted stock units will be delivered after 3 years.

In May 2017, the Company bought back 12,156 of its own shares to meet the obligation to deliver up to 12,156 shares to the members of the Executive Management and the Board of Directors in March/April 2020.

Outstanding restricted stock units **2017**

	Outstanding as of January 1	Granted during the year	Outstanding as of December 31	Value at grant date (DKK)	Vesting date
Executive Management bonus for 2016:					
Conversion of cash bonus	-	5,642	5,642	292	March 2020
Matching shares	-	2,821	2,821	292	March 2020
Board of Directors	-	3,693	3,693	365	April 2020
Executive Management bonus for 2015:					
Conversion of cash bonus	7,430	-	7,430	270	March 2019
Matching shares	3,714	-	3,714	270	March 2019
Total	**11,144**	**12,156**	**23,300**		

Outstanding restricted stock units **2016**

	Outstanding as of January 1	Granted during the year	Outstanding as of December 31	Value at grant date (DKK)	Vesting date
Executive Management bonus for 2015:					
Conversion of cash bonus	-	7,430	7,430	270	March 2019
Matching shares	-	3,714	3,714	270	March 2019
Total	**-**	**11,144**	**11,144**		

The grant of the initial restricted stock units to the Executive Management (5,642 shares) had no impact on the income statement for 2017, as the corresponding cash bonus (DKK 1.7 million) was accrued in 2016, though the amount has been reclassified from "Salary and wages" to "Share-based payment" in the staff cost note (note 8). The obligation related to the matching shares amount to DKK 0.8 million measured at the same fair value as the initial restricted stock units (DKK 292). The obligation will be expensed over the three year vesting period. During 2017, DKK 0.6 million has been expensed and recognized as share-based payment (incl. grants of matching shares from 2016). The grant of restricted stock units to the Board of Directors (3,693 shares) was fully expensed at grant (DKK 1.3 million).

Total share-based payments

Below a specification of all share-based payments expensed in 2017 and 2016. The amounts reconcile to note 8.

DKK thousand	2017	2016
Warrants	22,786	18,370
2017-2019 phantom share program	953	-
2016-2018 phantom share program	(257)	1,027
2015-2017 phantom share program	(2,668)	(1,383)
2014-2016 phantom share program	2,432	(2,087)
Restricted stock units	3,551	2,259
Total	**26,797**	**18,186**

Note 29

Contingent liabilities and other contractual obligations

DKK thousand	2017	2016
Operational leasing		
Leasing obligations for cars and office equipment.		
The operational leasing agreements are irrevocable up to 51 months.		
– Due within 1 year	2,543	1,907
– Due between 1 and 5 years	2,972	1,981
Minimum leasing cost recognized in net profit for the year	2,156	1,868
Rental commitments		
Rental agreements for laboratory and offices facilities.		
The rental agreements are irrevocable from 6 to 68 months.		
– Due within 1 year	16,392	17,221
– Due between 1 and 5 years	34,075	50,268
– Due after 5 years	-	951
Minimum rental cost recognized in net profit for the year	19,901	20,599

In January 2017, Bavarian Nordic, Inc. concluded a sub-lease agreement for it's previous facility in Redwood City, California. Bavarian Nordic, Inc.'s rent commitment towards the landlord is included in above numbers with DKK 15.7 million (DKK 22.2 million). The sub-lease agreement covers the remaining lease period and will contribute with an income of a similar amount.

DKK thousand	2017	2016
Collaborative agreements		
Contractual obligations with research partners for long-term research projects.		
– Due within 1 year	56,418	52,134
– Due between 1 and 5 years	63,239	136,472
Other contractual obligations		
Other obligations include among other things purchase commitments related to filling of vaccines.		
– Due within 1 year	13,201	18,978
– Due between 1 and 5 years	9,237	9,479

The Group has license agreements with the National Cancer Institute (NCI) and Public Health Service (PHS) in the U.S. for PROSTVAC, CV301 and Brachyury, respectively. The agreements include contingent liabilities for the Group to pay performance-based royalties, if and when certain milestone events are achieved. Further, the agreements include potential contingent liabilities for the Group to pay additional sublicensing royalties on the fair market value of consideration received, if and when the Group grants such sublicenses. Payments considered remote are not included in the amounts above.

Note 29

Contingent liabilities and other contractual obligations – continued

The PROSPECT study

Bavarian Nordic, Inc. has signed a contract with PPD Development, LP regarding implementation/ management of the PROSPECT study. Bavarian Nordic, Inc. may terminate the contract with one month's notice. Upon termination of the contract before the study has been completed Bavarian Nordic, Inc. shall reimburse PPD Development, LP for all non-cancelable obligations to third parties as well as any obligations agreed on for the purpose of winding down the study.

Incentive agreements

The total outstanding consideration regarding incentive agreements with Reiner Laus amounts to a maximum of DKK 55.9 million. As per December 31, 2017 the provision amounts to DKK 0 million. For further description of the incentive agreement see note 24.

Company mortgage

The Company has by letter of indemnity (DKK 150 million) granted Nordea Bank Denmark a floating charge on unsecured claims arising from the sale of goods and services and stocks of raw materials, intermediate products and finished products. The floating charge secures the operating credit line of DKK 20 million and the line for trading in financial instruments (DKK 50 million).

Lawsuits

Based on Management's assessment the Group is not involved in any lawsuits or arbitration cases which could have a material impact on the Group's financial position or results of operations.

Note 30

Significant events after the balance sheet date

On March 8, 2018, the Company announced a new collaboration with Rutgers Cancer Institute on a Phase 2 trial that will investigate the combination of CV301 and nivolumab, Bristol-Myers Squibb's PD-1 inhibitor, in patients with oligometastatic, microsatellite stable colorectal cancer.

On February 26, 2018, the Company announced a new collaboration with Georgetown University that will investigate CV301, the Company's targeted immunotherapy candidate, and durvalumab (IMFINZI™), AstraZeneca's PD-L1 inhibitor, in combination with maintenance chemotherapy for patients with metastatic colorectal or pancreatic cancers.

On February 6, 2018, the Company announced positive results from a Phase 3 pivotal study of its investigational, non-replicating smallpox vaccine, IMVAMUNE®. The study achieved both of its primary endpoints, demonstrating IMVAMUNE's efficacy in comparison to ACAM2000®, the current U.S. licensed replicating smallpox vaccine.

On January 31, 2018, the Company announced that CFO Ole Larsen will depart from the Company to pursue new opportunities. The planned transition will take place within 2018 once an appropriate candidate has been identified.

On January 19, 2018, the Company announced the initiation of a Phase 1 clinical trial of BN-Brachyury, a novel cancer immunotherapy candidate designed to target brachyury, a key driver of cancer metastasis in several tumor types.

Except as noted above, there have been no significant events between December 31, 2017 and the date of approval of these financial statements that would require a change to or additional disclosure in the financial statements.

Note 31

Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and Corporate Management and authorized for issue on March 12, 2018.

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FINANCIAL STATEMENTS – PARENT

FINANCIAL STATEMENTS OF THE PARENT COMPANY

NOTES

Income Statements

For the years ended December 31, 2017 and 2016

DKK thousand	Note	2017	2016
Revenue		1,370,151	1,006,742
Production costs	3,4	290,734	297,793
Gross profit		**1,079,417**	**708,949**
Research and development costs	2,3,4	671,359	474,651
Distribution costs	3	40,242	38,991
Administrative costs	3,4	205,717	229,167
Total operating costs		**917,318**	**742,809**
Income before interest and tax (EBIT)		**162,099**	**(33,860)**
Income from investments in subsidiaries	10	7,457	8,055
Financial income	5	69,894	47,076
Financial expenses	6	473,430	32,915
Income before company tax		**(233,980)**	**(11,644)**
Tax on income for the year	7	109,788	(4,123)
Net profit for the year		**(343,768)**	**(7,521)**
Proposed appropriation of net profit:			
Retained earnings		**(343,768)**	**(7,521)**

Notes with reference to the consolidated financial statements	**Note**
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Production costs	4
Distribution costs	6
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Statements of Financial Position – Assets

December 31, 2017 and 2016

DKK thousand	Note	2017	2016
Non-current assets			
Software		26,838	4,877
IMVAMUNE development project		-	60,951
Other intangible assets in progress		5,704	16,903
Intangible assets	8	**32,542**	**82,731**
Land and buildings		193,556	202,112
Leasehold improvements		363	678
Plant and machinery		56,986	54,903
Other fixtures and fittings, other plant and equipment		12,192	14,063
Assets under construction		71,812	45,739
Property, plant and equipment	9	**334,909**	**317,495**
Investments in subsidiaries	10	105,661	98,464
Receivables from subsidiaries	10	-	395,724
Other receivables		1,035	1,035
Financial assets		**106,696**	**495,223**
Deferred tax assets	7	**-**	**130,457**
Total non-current assets		**474,147**	**1,025,906**

	Note	2017	2016
Current assets			
Development projects for sale	11	**68,300**	**256,747**
Inventories	12	**111,038**	**146,193**
Trade receivables		19,396	130,391
Tax receivables		5,396	2,506
Other receivables		23,757	29,766
Prepayments		4,566	6,070
Receivables		**53,115**	**168,733**
Securities		2,301,197	1,046,301
Cash and cash equivalents		267,805	839,010
Securities, cash and cash equivalents		**2,569,002**	**1,885,311**
Total current assets		**2,801,455**	**2,456,984**
Total assets		**3,275,602**	**3,482,890**

Statements of Financial Position – Equity, provisions and liabilities

December 31, 2017 and 2016

DKK thousand	Note	2017	2016
Equity			
Share capital		322,451	313,539
Treasury shares		(233)	(111)
Retained earnings		2,169,222	2,216,069
Reserve for development costs		22,189	40,949
Other reserves		47,406	50,668
Equity		**2,561,035**	**2,621,114**
Provisions	14	**-**	**24,949**
Liabilities			
Credit institutions		399,760	29,714
Non-current liabilities		**399,760**	**29,714**
Credit institutions		2,152	2,136
Prepayment from customers		79,617	530,645
Trade payables		67,646	59,332
Payables to subsidiaries		101,792	105,820
Other liabilities	13	63,600	109,180
Current liabilities		**314,807**	**807,113**
Total liabilities		**714,567**	**836,827**
Total equity, provisions and liabilities		**3,275,602**	**3,482,890**

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Statements of Changes in Equity

December 31, 2017

DKK thousand	Share capital	Treasury shares	Retained earnings	Reserve for development costs	Other reserves	Equity
Equity as of January 1, 2017	313,539	(111)	2,216,069	40,949	50,668	2,621,114
Net profit for the year	-	-	(343,768)	-	-	(343,768)
Exchange rate adjustments	-	-	(259)	-	-	(259)
Change in fair value of financial instruments entered into to hedge future cash flows	-	-	-	-	130	130
Tax on equity postings	-	-	-	-	(57)	(57)
Share-based payment	-	-	-	-	26,337	26,337
Warrant program exercised	3,791	-	45,800	-	(8,733)	40,858
Warrant recharged	-	-	34,778	-	-	34,778
Warrant program expired	-	-	320	-	(320)	-
Capital increase through private placement	5,121	-	202,361	-	-	207,482
Costs related to issue of new shares	-	-	(707)	-	-	(707)
Purchase of treasury shares	-	(122)	(4,132)	-	-	(4,254)
Reserve for development costs	-	-	18,760	(18,760)	-	-
Tax related to items recognized directly in equity	-	-	-	-	(20,619)	(20,619)
Equity as of December 31, 2017	**322,451**	**(233)**	**2,169,222**	**22,189**	**47,406**	**2,561,035**

Transactions on the share capital and rules on changing Articles of Associations, see statement of changes in Group equity.

Other reserves consist of costs for share-based payments and hedging reserves.

Note 1

Significant accounting policies and significant accounting estimates, assumptions and uncertainties

Accounting policies

The financial statements of the Parent Company Bavarian Nordic A/S have been prepared in accordance with the Danish Financial Statements Act (Class D) and other accounting regulations for companies listed on Nasdaq Copenhagen.

The financial statements are presented in Danish kroner (DKK), which also is the functional currency of the Parent Company. The accounting policies are unchanged from previous year.

The accounting policies have been consistently applied for the financial year and for the comparative figures.

The accounting policies are the same as for the consolidated financial statements with the following additions. See description of the accounting policies in the consolidated financial statements.

In the narrative sections of the financial statements comparative figures for 2016 are shown in brackets.

Supplementary accounting policies for the Parent Company

Accounting policies for investments in subsidiaries are described in note 10.

Pursuant to the schedule requirements of the Danish Financial Statements Act, entries recognized in the statement of comprehensive income in the consolidated financial statements are recognized directly in the statement of changes in equity in the Parent Company's financial statements.

Warrant recharged to subsidiaries is treated as the Parent Company's issuance of equity in exchange for cash. The recharge is subsequently recognized in the income statement under the cost plus agreements with the subsidiaries. Income tax effects relating to warrant recharged is recognized in the income statement.

As allowed under section 86 (4) of the Danish Financial Statements Act, no cash flow statement has been prepared for the Parent Company, as it is included in the consolidated cash flow statement. ■

Significant accounting estimates, assumptions and uncertainties

In preparation of the financial statements for the Parent Company, Management makes a number of accounting estimates which form the basis for the preparation, recognition and measurement of the Company's assets and liabilities.

Management has made the following accounting judgments which significantly affect the amounts recognized in the financial statements:

- Investments in subsidiaries (note 10)
- Receivables from subsidiaries (note 10)

Please refer to the specific note for further description of the significant accounting estimates and assumptions used. ■

Note 2

Research and development costs

DKK thousand	2017	2016
Research and development costs incurred this year	672,180	487,849
Of which:		
Contract costs recognized as production costs	(61,772)	(52,747)
Capitalized development costs (note 8)	(8,564)	(29,236)
	601,844	405,866
Amortization of prior-year costs attributable to the IMVAMUNE development project (note 8)	69,515	68,785
Research and development costs recognized in the income statement	**671,359**	**474,651**

Write-down of the PROSTVAC development project for sale has been included by DKK 188.4 million, cf. note 11.

Note 3
Staff costs

DKK thousand	2017	2016
Wages and salaries	198,926	185,598
Contribution based pension	17,440	16,127
Social security expenses	1,728	1,783
Other staff expenses	20,756	18,833
Share-based payment	24,707	13,804
Staff costs	**263,557**	**236,145**
Staff expenses are distributed as follows:		
Production costs	137,228	134,596
Research and development costs	28,105	23,566
Distribution costs	15,812	10,623
Administrative costs	81,879	67,277
Capitalized salaries	533	83
Staff costs	**263,557**	**236,145**
Average number of employees converted to full-time	280	279
Number of employees as of December 31 converted to full-time	252	290

The Corporate Management consists of CEO and President of the Company Paul Chaplin and CFO Ole Larsen.

Remuneration to Corporate Management, other Executive Management and the Board of Directors is dislosed in the consolidated financial statements note 8.

Incentive programs for management and other employees are disclosed in the consolidated financial statements note 28.

The CEO's contract of employment contains standard terms for members of the management of Danish listed companies, including the extended period of notice that both parties are required to give. For the Company, the notice is maximum 18 months. In the event of a change of control, the term of notice for the Company will be extended to maximum 24 months.

The CFO's contract of employment contains standard terms for members of the management of Danish listed companies, including the extended period of notice that both parties are required to give. For the Company, the notice is maximum 12 months. In the event of a change of control, the term of notice for the Company will be extended to maximum 24 months.

Note 4

Depreciation and amortization

DKK thousand	2017	2016
Depreciation and amortization included in:		
Production costs	31,699	38,925
Research and development costs	1,243	1,112
Administrative costs	2,418	2,252
Depreciation and amortization	**35,360**	**42,289**
Hereof profit ()/loss from disposed fixed assets	244	-

Note 5

Financial income

DKK thousand	2017	2016
Financial income from bank and deposit contracts	644	272
Financial income from subsidiaries	13,468	10,722
Financial income from securities	20,817	15,640
Fair value adjustments on securities	-	3,542
Net gain on derivative financial instruments at fair value in the income statement	12,720	-
Adjustment of net present value of provisions	22,245	-
Net foreign exchange gains	-	16,900
Financial income	**69,894**	**47,076**

Accounting policies

See consolidated financial statements note 11. ■

Note 6

Financial expenses

DKK thousand	2017	2016
Interest expenses on debt	5,673	3,674
Financial expenses to subsidiaries	1,630	1,584
Fair value adjustments on securities	12,319	-
Adjustment of net present value of provisions	-	3,386
Net loss on derivative financial instruments at fair value in the income statement	-	24,271
Net foreign exchange losses	79,078	-
Write-down of receivables from subsidiaries, cf. note 10	374,730	-
Financial expenses	**473,430**	**32,915**

Accounting policies

See consolidated financial statements note 12. ■

Note 7

Tax for the year

DKK thousand	2017	2016
Tax recognized in the income statement		
Current tax on profit for previous years	7	6,392
Currrent tax	**7**	**6,392**
Change in deferred tax	112,580	(2,514)
Adjustments to deferred tax for previous years	(2,799)	(8,001)
Deferred tax	**109,781**	**(10,515)**
Tax for the year recognized in the income statement	**109,788**	**(4,123)**
Tax on income for the year is explained as follows:		
Income before company tax	(233,980)	(11,644)
Calculated tax (22.0%) on income before company tax	(51,476)	(2,562)
Tax effect on:		
Income from investments in subsidiaries	(1,641)	(1,772)
Permanent differences	65,641	1,820
Current tax on profit for previous years	7	6,392
Write-down on tax assets	100,056	-
Adjustments to deferred tax for previous years	(2,799)	(8,001)
Tax on income for the year	**109,788**	**(4,123)**
Tax recognized in equity		
Tax on change in fair value of financial instruments entered into to hedge future cash flows	57	(57)
Tax on share based payment	20,619	30,241
Tax for the year recognized in equity	**20,676**	**30,184**

DKK thousand	January 1, 2017	Recognized in the income statement	Recognized in equity	December 31, 2017
Intangible assets	(3,763)	9,129	-	5,366
Property, plant and equipment	3,363	3,239	-	6,602
Development projects for sale	(24,039)	41,459	-	17,420
Receivable from subsidary	-	11,338	-	11,338
Prepayment from customers	89,209	(89,209)	-	-
Financial instruments	57	-	(29)	28
Share-based payment	23,504	(3,392)	(9,671)	10,441
Tax losses carried forward	224,126	17,711	-	241,837
Write-down of deferred tax assets	(182,000)	(100,056)	(10,976)	(293,032)
Recognized deferred tax assets	**130,457**	**(109,781)**	**(20,676)**	**-**

Accounting policies and significant accounting estimates

See consolidated financial statements note 13. ■

Permanent differences relate to write-down of the intercompany receivable (cf. note 10) partly offset by the reversal of provisions for long term incentives (cf. note 14).

Deferred tax

Recognized deferred tax assets relate to temporary differences between valuations for accounting and taxation purposes and tax losses carried forward.

For further disclosures see the consolidated financial statements note 13.

Note 8

Intangible assets

				2017
DKK thousand	**Software**	**IMVAMUNE development project**	**Other Intangible assets in progress**	**Total**
Costs as of January 1, 2017	60,235	60,951	16,903	138,089
Additions	7,585	8,564	5,704	21,853
Transfer	16,903	-	(16,903)	-
Expensed (amortized) related to sale of development results	-	(69,515)	-	(69,515)
Cost as of December 31, 2017	**84,723**	**-**	**5,704**	**90,427**
Amortization as of January 1, 2017	55,358	-	-	55,358
Amortization	2,527	-	-	2,527
Amortization as of December 31, 2017	**57,885**	**-**	**-**	**57,885**
Carrying amount as of December 31, 2017	**26,838**	**-**	**5,704**	**32,542**
Carrying amount as of December 31, 2016	**4,877**	**60,951**	**16,903**	**82,731**

Accounting policies

See consolidated financial statements note 15. ■

The IMVAMUNE development project has been fully expensed as of December 31, 2017.

Note 9

Property, plant and equipment

DKK thousand	Land and buildings	Leasehold improve-ment	Plant and machinery	Other fixtures and fittings, other plant and equipment	Assets under construction	Total
						2017
Costs as of January 1, 2017	311,098	2,702	279,566	37,711	45,739	676,816
Additions	2,202	-	376	211	48,259	51,048
Transfer	5,806	-	14,104	2,276	(22,186)	-
Disposals	-	-	-	(4,588)	-	(4,588)
Cost as of December 31, 2017	**319,106**	**2,702**	**294,046**	**35,610**	**71,812**	**723,276**
Depreciation as of January 1, 2017	108,986	2,024	224,663	23,648	-	359,321
Depreciation	16,564	315	12,397	3,313	-	32,589
Disposals	-	-	-	(3,543)	-	(3,543)
Depreciation as of December 31, 2017	**125,550**	**2,339**	**237,060**	**23,418**	**-**	**388,367**
Carrying amount as of December 31, 2017	**193,556**	**363**	**56,986**	**12,192**	**71,812**	**334,909**
Carrying amount as of December 31, 2016	**202,112**	**678**	**54,903**	**14,063**	**45,739**	**317,495**

Accounting policies

See consolidated financial statements note 16. ■

For collateral see the consolidated financial statements note 16.

Note 10

Investment in subsidiaries

	2017	
DKK thousand	**Investments in subsidiaries**	**Receivables from subsidiaries**
Costs as of January 1, 2017	186,609	395,724
Additions	-	26,424
Exchange rate adjustments	-	(47,418)
Cost as of December 31, 2017	**186,609**	**374,730**
Net revaluation as of January 1, 2017	(88,145)	-
Net share of profit/loss for the year	7,457	-
Write-down	-	(374,730)
Exchange rate adjustments	(260)	-
Net revaluation as of December 31, 2017	**(80,948)**	**(374,730)**
Carrying amount as of December 31, 2017	**105,661**	**-**
Carrying amount as of December 31, 2016	**98,464**	**395,724**

Company summary	**Domicile**	**Ownership**	**Voting rights**
Subsidiaries			
Bavarian Nordic GmbH	Germany	100%	100%
Bavarian Nordic, Inc.	USA	100%	100%
Aktieselskabet af 1. juni 2011 I	Denmark	100%	100%
BN Washington D.C. Holding A/S	Denmark	100%	100%
Bavarian Nordic Washington DC, Inc.	USA	100%	100%
Representative office			
Bavarian Nordic A/S	Singapore		

Accounting policies

Investments in subsidiaries are recognized and measured under the equity method. This means that, in the balance sheet, investments are measured at the pro rata share of the subsidiaries' equity plus or less unamortized positive, or negative, goodwill and plus or less unrealized intra-group profits or losses.

Subsidiaries with a negative equity value are measured at zero value, and any receivables from these subsidiaries are written-down by the Company's share of such negative equity if it is deemed irrecoverable. If the negative equity exceeds the amount receivable, the remaining amount is recognized under provisions if the Company has a legal or constructive obligation to cover the liabilities of the relevant subsidiary.

Upon distribution of profit or loss, net revaluation of investments in subsidiaries is transferred to the net revaluation reserve according to the equity method under equity, if the net revaluation is positive. If the net revaluation is negative, it is recognized in retained earnings in equity.

Goodwill is calculated as the difference between cost of the investments and the fair value of the assets and liabilities acquired which have been measured at fair value at the date of acquisition. The amortization period for goodwill is usually five years. Investments in subsidiaries are written-down to the lower of recoverable amount and carrying amount. Income from investments in subsidiaries contains pro rata share of subsidiaries profits or losses after elimination of unrealized intra-group profits and losses. ■

Significant accounting estimates

As of December 31, 2017, Bavarian Nordic, Inc. had a negative equity of DKK 383 million (DKK 417 million), and the Parent Company's receivable from Bavarian Nordic, Inc. was DKK 375 million (DKK 396 million). In such a situation, Management estimates whether there are any events or other circumstances that indicate that the receivable may not be recoverable. Following the discontinuation of the PROSPECT study in September 2017, Management assesses that Bavarian Nordic, Inc. will not have any significant cash flows from sale in the coming years. Therefore the receivable has been fully written-down as of December 31, 2017. ■

Note 11

Development projects for sale

DKK thousand	2017	2016
Development projects for sale January 1	256,747	257,514
Write-down	(188,447)	-
Royalty payments	-	68,300
Adjustment to royalty payment	-	(69,067)
Development projects for sale December 31	**68,300**	**256,747**

In 2011, Bavarian Nordic A/S and Bavarian Nordic, Inc. signed a sub-license agreement that transferred the right to use PROSTVAC to Bavarian Nordic A/S. Under the agreement Bavarian Nordic A/S paid an upfront of DKK 138.6 million (USD 25 million) in December 2011. The upfront payment was recognized as an intangible asset and amortized over 15 years. In 2015 the asset was reclassified to "Development projects for sale".

According to the sub-license agreement Bavarian Nordic A/S paid DKK 146.7 million (USD 22.1 million) to Bavarian Nordic, Inc. in royalty payment in March 2015 upon receipt of the upfront option payment from Bristol-Myers Squibb. The royalty payment was adjusted by DKK 69.1 million (USD 10.3 million) in 2016 when Bavarian Nordic filed an application for an Advanced Price Agreement on future split of PROSTVAC income (allocation of 19.6% instead of 36.8%).

Following the discontinuation of the PROSPECT study in September 2017, the development project related to PROSTVAC has been fully written-down by DKK 188.4 million. The expense has been recognized as research and development costs.

In January 2016 Bavarian Nordic, Inc. and Bavarian Nordic A/S concluded a sublicense agreement regarding CV301 and Brachyury with an upfront royalty payment of DKK 68.3 million (USD 10 million).

Accounting policies

See consolidated financial statements note 17. ■

Note 12

Inventories

DKK thousand	2017	2016
Raw materials and supply materials	30,996	38,097
Work in progress	129,607	206,943
Manufactured goods and commodities	3,140	11,850
Write-down on inventory	(52,705)	(110,697)
Inventories	**111,038**	**146,193**
Write-down on inventory as of January 1	(110,697)	(89,889)
Write-down for the year	(23,199)	(21,012)
Use of write-down	81,191	-
Reversal of write-down	-	204
Write-down on inventory as of December 31	**(52,705)**	**(110,697)**
Cost of goods sold amounts to	221,210	171,517

Accounting policies and significant accounting estimates

See consolidated financial statements note 18. ■

Note 13
Other liabilities

DKK thousand	2017	2016
Derivative financial instruments at fair value in the income statement	129	36,508
Liability relating to phantom shares	2,086	13,664
Payable salaries, holiday accrual etc.	47,514	44,167
Other accrued costs	13,871	14,841
Other liabilities	**63,600**	**109,180**

Accounting policies
See consolidated financial statements note 22. ■

For further details of derivative financial instruments, see consolidated financial statements note 23.
The phantom share programs are disclosed in the consolidated financial statements note 28.

Note 14
Provisions

DKK thousand	2017	2016
Provisions as of January 1	24,949	25,226
Revaluation during the year	(24,949)	(277)
Provisions as of December 31	**-**	**24,949**

DKK thousand	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
2016	-	21,352	3,597	24,949

Accounting policies
See consolidated financial statements note 24. ■

Provisions include accruals for Reiner Laus, see further description in the consolidated financial statements note 24.

Note 15

Related party transactions

The Corporate Management and Board of Directors of Bavarian Nordic A/S are considered related parties as they have significant influence over the Company.

Main intercompany transactions:
Bavarian Nordic GmbH provides research and development services to Bavarian Nordic A/S mainly in relation to the Group's infectious diseases business.

Bavarian Nordic, Inc. provides research and development services to Bavarian Nordic A/S mainly in relation to the clinical development of PROSTVAC and CV-301.

Bavarian Nordic Washington DC, Inc. provides services to Bavarian Nordic A/S in terms of commercial affair work towards the U.S. Government, with the purpose of ensuring an efficient communication and service to U.S. authorities, in order to maintain existing contracts and explore new product/contract opportunities on the U.S. market.

All services are delivered under cost plus agreements and on arms lengh conditions.

Internal interests are presented in note 5 and note 6. Guarantees for subsidiaries are presented in note 18.

Apart from intra-group transactions mentioned above and the remuneration of the Board of Directors and Corporate Management, cf. note 8, note 24 and note 28 in the consolidated financial statements, there are no transactions with related parties.

Note 16

Lease and rent commitments

DKK thousand	2017	2016
Due within 1 year	4,486	4,701
Due between 1 and 5 years	3,018	2,687
Commitments according to rent and lease agreements until expiry	**7,504**	**7,388**

Note 17

Contingent liabilities and other contractual obligations

DKK thousand	2017	2016
Collaborative agreements		
Contractual obligations with research partners for long-term research projects.		
– Due within 1 year	52,693	47,902
– Due between 1 and 5 years	2,404	1,411
Other contractual obligations		
Other obligations include among other things security services and IT licenses.		
– Due within 1 year	13,059	18,742
– Due between 1 and 5 years	9,180	9,479

Repayment obligation
Repayment obligation regarding received prepayments see the consolidated financial statements note 29.

Joint taxation
The Company is jointly taxed with all Danish subsidiaries. As the administration company the Company stands surety with the other companies in the joint taxation of Danish corporate taxes and as of July 1, 2012, also withholding taxes on dividends, interest and royalties. Corporation taxes and withholding taxes payable in the joint taxation pool was DKK 0 as of December 31, 2017. Any adjustments of the taxable joint taxation income or taxes withheld at source may have the effect that the Company's liability increases.

Incentive agreements, Company mortgage, Lawsuits
See the consolidated financial statements note 29.

Note 18

Mortgages and collateral

DKK thousand	2017	2016
Guarantees for subsidiaries		
The Parent Company stands surety for a credit facility to a subsidiary of a maximum of	4,034	4,276
The Parent Company stands surety for letter of credit to subsidiaries of a maximum of	3,947	3,943

Bavarian Nordic A/S has signed a guarantee in favor of Bavarian Nordic, Inc.'s landlord in North Carolina. As guarantor Bavarian Nordic A/S guarantees the full and complete payment by Bavarian Nordic, Inc. of the rent and all other sums payable under the lease contract. The rent for the lease period (until August 2022) amounts to DKK 5.5 million.

Mortgages
See description regarding property, plant and equipment in note 16 in the consolidated financial statements.

Note 19

Significant events after the balance sheet date

See description in note 30 in the consolidated financial statements.

STATEMENT BY MANAGEMENT ON THE ANNUAL REPORT

The Board of Directors and the Corporate Management have today considered and approved the annual report of Bavarian Nordic A/S for the financial year January 1 - December 31, 2017.

The consolidated financial statements are presented in accordance with International Financial Reporting Standards as adopted by the EU. The parent financial statements are presented in accordance with the Danish Financial Statements Act. Further, the annual report is prepared in accordance with Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at December 31, 2017 as well as of the results of their operations and the Group's cash flows for the financial year January 1 - December 31, 2017.

In our opinion, the management commentary contains a fair review of the development of the Group's and the Parent's business and financial matters, the results for the year and of the Parent's financial position and the financial position as a whole of the entities included in the consolidated financial statements, together with a description of the principal risks and uncertainties that the Group and the Parent face.

We recommend the annual report for adoption at the Annual General Meeting.

Kvistgaard, March 12, 2018

Corporate Management

Paul John Chaplin
President and CEO

Ole Larsen
Executive Vice President and CFO

Board of Directors

Gerard W. M. van Odijk
Chairman of the Board

Anders Gersel Pedersen
Deputy chairman

Claus T. Bræstrup

Erik Gregers Hansen

Peter H. Kürstein-Jensen

Frank A. G. M. Verwiel

Elizabeth M. Anderson

INDEPENDENT AUDITOR'S REPORTS

To the shareholders of Bavarian Nordic A/S

Opinion
We have audited the consolidated financial statements and the parent financial statements of Bavarian Nordic A/S for the financial year January 1 – December 31, 2017, which comprise the income statement, statement of financial position, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the statement of comprehensive income and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at December 31, 2017 and of the results of its operations and cash flows for the financial year January 1 – December 31, 2017 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Further, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position at December 31, 2017 and of the results of its operations for the financial year January 1 – December 31, 2017 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our audit book comments issued to the Finance, Risk and Audit Committee and the Board of Directors.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, 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.

To the best of our knowledge and belief, we have not provided any prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No 537/2014.
After Bavarian Nordic A/S was listed on Nasdaq OMX Copenhagen in 1998, we were appointed auditors at the Annual General Meeting held on May 27, 1999 for the 1999 financial year. We have been reappointed annually at the annual general meeting for a total consecutive engagement period of 19 years up to and including the 2017 financial year.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year January 1 – December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter		How the matter was addressed in the audit
Revenue under the BARDA contracts for IMVAMUNE		
Revenue recognized under the Biomedical Advanced Research and Development Authority (BARDA) contracts with the U.S. Government related to IMVAMUNE amounted to DKK 840 million in 2017 (DKK 876 million in 2016). Contracts with BARDA include multiple elements, and recognition of revenue is significant and requires subjective evaluations. Management therefore exercises judgement in determining whether the Group has fulfilled all of its performance obligations.	Management's assessment includes whether it is probable that future economic benefits from the sale of IMVAMUNE bulk drug substance will flow to the Group, the benefits can be measured reliably, ownership of the goods and services is transferred to BARDA, and the Group no longer retains managerial responsibility for, or control of, the goods sold and services delivered to BARDA. *Refer to notes 2 and 3 in the consolidated financial statements.*	Based on our risk assessment procedures on the Group's business process and internal controls for revenue under the BARDA contracts, we tested the appropriateness of the Group's revenue recognition. We read the BARDA contracts, discussed them with Management and evaluated the related accounting treatment. During the audit, we tested whether the performance obligations for revenue recognized under the BARDA contracts were met in 2017. We also evaluated the financial statements disclosures related to revenue.
Revenue under the BMS PROSTVAC agreement		
Revenue recognized under the Bristol-Myers Squibb (BMS) agreement related to PROSTVAC amounted to DKK 399 million in 2017, representing the exclusive up-front option payment received from BMS in 2015. Revenue is recognized when it is assessed that the deliverables transferred have value to BMS on a stand-alone basis and the Group has no further performance obligations related to the option payment. The PROSTVAC agreement with BMS includes multiple elements, and recognition of revenue is complex and significant, and requires subjective evaluations. In particular, it requires Management to exercise judgment to ensure that revenue under the PROSTVAC agreement is recognized when the deliverables are made. Based on the recommendation from the independent Data Monitoring Committee in September 2017, Management has decided to discontinue the PROSPECT study due to futility. Consequently, Management has assessed that no further performance obligations related to the option payment exist. *Refer to notes 2 and 3 in the consolidated financial statements.*		Based on our risk assessment procedures on the Group's business process and internal controls for revenue under the BMS PROSTVAC agreement, we tested the appropriateness of the Group's revenue recognition. We read the BMS PROSTVAC agreement, discussed it with Management and evaluated the related accounting treatment. During the audit, we tested that the performance obligations under the agreement were met in 2017, and that the option payment is recognized as revenue in the income statement for 2017. We also evaluated the financial statements disclosures related to revenue.

INDEPENDENT AUDITOR'S REPORTS
– continued

Changes from the previous year
As stated in the consolidated financial statements for 2016, the utilization of the deferred tax asset recognized at December 31, 2016 was based on Management's expectations that it was more probable than not that PROSTVAC would generate significant future revenues as well as future taxable profits from sales of PROSTVAC and other products.

As Management decided in September 2017 to discontinue the PROSPECT study due to futility, the deferred tax assets was reevaluated. Consequently, Management assessed that the deferred tax asset in Denmark cannot be utilized within existing contracts and therefore the deferred tax asset has been written down in full.

The deferred tax asset in Denmark is therefore no longer significant to the consolidated financial statements at December 31, 2017, and we have not considered the measurement of the deferred tax asset in Denmark a key audit matter for 2017.

Statement on the management commentary
Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

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

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Management's responsibilities for the consolidated financial statements and the parent financial statements
Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act as well as the preparation of parent financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of

accounting in preparing the consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent 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 ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and these parent financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, 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 Group's and the Parent'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 in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent'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 consolidated financial statements and the parent 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 Group and the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and

INDEPENDENT AUDITOR'S REPORTS
– continued

whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- 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 those charged with governance 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 those charged with governance 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent 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.

Copenhagen, March 12, 2018

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FORWARD-LOOKING STATEMENT

This annual report contains forward looking statements. The words “believe”, “expect”, “anticipate”, “intend” and “plan” and similar expressions identify forward looking statements. Actual results or performance may differ materially from any future results or performance expressed or implied by such statements. The important factors that could cause our actual results or performance to differ materially include, among others, risks associated with product discovery and development, uncertainties related to the outcome and conduct of clinical trials including unforeseen safety issues, uncertainties related to product manufacturing, the lack of market acceptance of our products, our inability to manage growth, the competitive environment in relation to our business area and markets, our inability to attract and retain suitably qualified personnel, the unenforceability or lack of protection of our patents and proprietary rights, our relationships with affiliated entities, changes and developments in technology which may render our products obsolete, and other factors. For a further discussion of these risks, please refer to the section “Risk Management” in this annual report. Bavarian Nordic does not undertake any obligation to update or revise forward looking statements in this annual report nor to confirm such statements in relation to actual results, unless required by law.

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