ANNUAL REPORT 2016

BAVARIAN NORDIC

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STRONG PIPELINE PROGRESS

LETTER FROM THE CEO & CHAIRMAN

2016 was an important year for Bavarian Nordic, both in the advancement and diversification of our clinical pipeline, and from a financial perspective as well.

Gerard van Odijk
Chairman of the Board of Directors

Paul Chaplin
President & CEO

The year has seen the initiation of six clinical trials, positive data from our first clinical study in RSV, and the expansion of our partnerships. Financially we continue to see revenues from our core businesses, providing us with yet another breakeven result, and additional capital inflows from both new and existing investors which has allowed us to triple our cash preparedness over the past three years. We are happy to report that the company we present to you today is a stronger and more capable company than we have ever known, and while we are proud of all we have accomplished, we remain steadfast in our belief that the best is yet to come.

Operationally, the company has expanded its expertise and capabilities with the appointment of key personnel. The hiring of Dr. Christopher Heery as Chief Medical Officer and the addition of Henrik Birk to our executive management team as Chief Operating Officer have been extremely valuable additions. Chris brings with him a wealth of knowledge from his time at the National Cancer Institute (NCI), both from a clinical and research perspective. Henrik has been a dedicated member of the Bavarian Nordic team, who has worked his way up through positions of increasing responsibility, and his vision and counsel are a welcome addition to executive management. Along with the hiring of Chris, management and the Board decided to utilize this opportunity to consolidate the U.S. operations of the company on the east coast, opening a new facility in the famed Research Triangle area of North Carolina. This move strategically places our U.S. operations in close proximity to our partners both in the U.S. Government and the pharmaceutical industry.

We furthermore strengthened the Board with the election of Dr. Frank Verwiel at the annual general meeting. Having served as an observer to the Board since 2015, Frank's extensive international experience from biotech companies, particularly in the U.S., is a valuable addition to the Board.

Clearly a large focus remains on the readout of PROSPECT, our global phase 3 study of PROSTVAC in metastatic prostate cancer. We are all anticipating these data and are confident in the potential of our platform and the likelihood of a successful outcome. We have already seen the conclusion of two interim analyses, and anticipate the third is likely to occur in the middle of 2017, with final overall survival data toward the end of the year. All efforts are ongoing to ensure we have a timely submission for approval, and if approved, that the product is available as soon as possible to the benefit of patients. While our belief in a positive outcome is as strong as ever, we know that success can never be guaranteed. It is with this in mind that we have built a complete company with multiple value-creating assets and a platform designed to differentiate us from the traditional binary nature that many biotech companies encounter.

> **"For the fifth consecutive year, we have generated more than DKK 1 billion in revenues**

The U.S. Government continue to support us with the initiation of new studies, not only with NCI in the exploration of PROSTVAC in earlier stages of prostate cancer, but also with other government agencies as they explore the potential of our vaccine candidates in new disease targets. The order of USD 100 million worth of bulk IMVAMUNE received in May 2016 means that we will have manufactured and stored a total of USD 233 million worth of bulk IMVAMUNE which the U.S. Government has highlighted will be finished as freeze-dried IMVAMUNE. It is our expectation that a tender process will be initiated this year, which

could allow us to continue to supply IMVAMUNE to the U.S. Government for years to come. As we await the future orders it is important not to forget the phase 3 liquid-frozen IMVAMUNE study which will report data in the second half of 2017. The successful conclusion of this study will allow us to file for approval of IMVAMUNE in the U.S. Along with the approval of IMVAMUNE, we would be eligible for receipt of a Priority Review Voucher, which is a transferable voucher allowing for faster review with the FDA.

With our partners in the pharma industry we are making great progress. We continue to work with Janssen to advance a path forward for Ebola, our commercial collaboration continues to take shape as we lay the foundation for an HPV study, and we have now supplied the remaining undisclosed commercial candidates for evaluation. With Bristol-Myers Squibb, we continue to have active dialogue as we both prepare for final PROSTVAC data and the potential submission of a Biologics License Application. We have also seen the initiation of the first of two combination studies of PROSTVAC with checkpoint inhibitors from Bristol-Myers Squibb, with the second to begin shortly, and they continue to see the possibility of our platform by agreeing to provide us with OPDIVO®, at no cost, for our new combination study of CV301 in lung cancer. Similarly, we have recently entered an agreement with Roche to supply Tecentriq® for a combination study in bladder cancer, and we are looking forward to exploring the potential synergistic effect of CV301 in multiple indications as part of our strategy to grow a broad cancer immunotherapy pipeline.

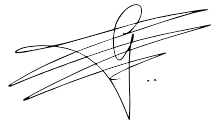
> **"With our partners in the pharma industry we are making great progress**

The advancement of our infectious disease pipeline continues as well with the announcement of positive phase 1 data from our RSV program. MVA-BN RSV is highly differentiated compared to other RSV vaccine candidates and was shown to induce strong and broad immune responses against RSV in an elderly population. The ongoing phase 2 study, which is fully recruited, will report data in the middle of 2017. These data will not only provide us with additional safety data and dosing information, but also with a mechanistic proof of concept.

As we progress our pipeline and platform, our ability and desire to make innovative therapies only become stronger. As we continue making new discoveries, we expect to further expand our pipeline in the near-term with existing development projects.

We would like to thank our employees, partners, patient volunteers, and investors in Bavarian Nordic. Your collective support has helped to create the company you see today.

Paul Chaplin
President & CEO



Gerard van Odijk
Chairman of the Board of Directors

VACCINES FOR A BETTER WORLD

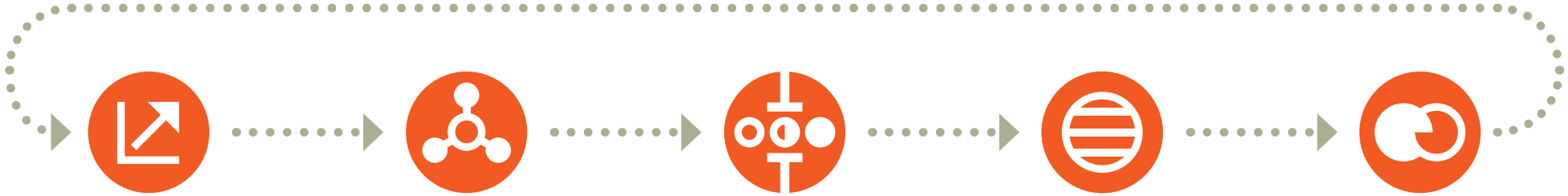
At Bavarian Nordic we develop, manufacture and commercialize a diverse portfolio of novel vaccines for the prevention and/or treatment of life-threatening infectious diseases and cancer. We focus on indications for which the unmet medical need is high and for which we can harness the power of the immune system to induce a response.

OUR VACCINE PIPELINE

Product	Indication	Commercial Rights	Status
Infectious diseases			Phase 1 / Phase 2 / Phase 3
IMVAMUNE liquid-frozen*	Smallpox	Bavarian Nordic	
IMVAMUNE freeze-dried	Smallpox	Bavarian Nordic	
MVA-BN Filo monovalent**	Ebola	Janssen	
MVA-BN Filo multivalent	Ebola/Marburg	Janssen	
MVA-BN RSV	Respiratory Syncytial Virus	Bavarian Nordic	
MVA-BN HPV	Chronic HPV Infection	Janssen	
Cancer Immunotherapy			
PROSTVAC monotherapy	Prostate cancer (mCRPC)	Bristol-Myers Squibb	
PROSTVAC combinations***	Prostate cancer (localized and metastatic)	Bristol-Myers Squibb	
CV301 + nivolumab	Lung cancer (NSCLC)	Bavarian Nordic	
MVA-BN Brachyury	Solid Tumors	Bavarian Nordic	

* Approved in Canada and the European Union (marketed as IMVANEX® in the EU). Phase 3 ongoing in the U.S.
** Multiple Janssen-sponsored Phase 1, 2 and 3 clinical studies ongoing
*** Multiple NCI-sponsored Phase 2 clinical studies ongoing

COMPETITIVE ADVANTAGES



Existing revenue generation advances our growth

Our existing revenue generation from our research and development, supply contracts, and commercial partnerships can be used to invest in the advancement of our clinical pipeline.

Modular and proprietary vaccine technology

Our 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.

Commercial-scale cGMP production facility

Our ability to effectively and efficiently produce our live virus vaccines has been demonstrated by our production of more than 28 million doses of IMVAMUNE smallpox vaccine and more than 2 million doses of our MVA-BN Filo product candidate for Ebola to date, as well as production of all clinical materials.

Ongoing relationships with government agencies

We have entered into research and development contracts with the U.S. Government worth more than USD 1.2 billion in revenue. Contract partners include HHS, NIH, BARDA, NCI, DOD, and the DHS, spanning multiple disease areas and biological threats.

Collaborations with Bristol-Myers Squibb and Janssen

We have a global commercialization agreement for PROSTVAC with Bristol-Myers Squibb. In addition, we have a partnership with Janssen, under which we have out-licensed our MVA-BN vaccine technology for Ebola and HPV vaccines.

OUR STRATEGY IN ACTION

Spurred by significant industry and public-private partnerships and a strong financial position, we have created a diverse platform for future growth. 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. Furthermore we intend to expand the end market to include other countries and governments across the world, most notably in Europe.

2016 accomplishments

- Received USD 100 million bulk vaccine order from U.S. Government
- Received additional order from Canada for IMVAMUNE valued at USD 7.7 million
- Completed enrollment of Phase 3 non-inferiority study of liquid-frozen formulation of IMVAMUNE; last study required for seeking U.S. approval of IMVAMUNE

2017/2018 anticipated developments

- Award of contract for freeze-dried IMVAMUNE from the U.S. Government
- Report results from Phase 3 non-inferiority study of IMVAMUNE and file for approval of liquid-frozen formulation
- Receipt of Priority Review Voucher from the FDA (post IMVAMUNE approval)

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 as we have with RSV. We also intend to achieve global leadership in Ebola preparedness through our collaboration with Janssen, with whom we will also continue to explore our MVA-BN technology, initially focusing on a therapeutic HPV vaccine.

2016 accomplishments

- Reported Phase 1 data for MVA-BN RSV
- Initiated and completed enrollment of Phase 2 study of MVA-BN RSV

2017/2018 anticipated developments

- Report Phase 2 results for MVA-BN RSV (2017)
- Determine appropriate clinical pathway to approval of MVA-BN RSV
- Finalize clinical development of prime-boost Ebola
- Initiate Phase 1 study of MVA-BN HPV with Janssen
- Potential license agreement with Janssen for MVA-BN in two additional infectious diseases

OUR STRATEGY IN ACTION – *continued*

3 Maximize PROSTVAC's commercial potential as monotherapy and in combination regimens

We believe that PROSTVAC has significant commercial potential as both a monotherapy and as part of a combination regimen in multiple stages of prostate cancer. We therefore seek to maximize this potential through our collaborations with Bristol-Myers Squibb and NCI.

2016 accomplishments

- Interim analyses #1 and #2 of the PROSPECT Phase 3 study conducted by the Independent Data Monitoring Committee
- Three new investigator-sponsored Phase 2 clinical studies initiated, both as monotherapy and in combinations

2017/2018 anticipated developments

- Report Phase 3 interim #3 and top-line results for PROSTVAC (2017)
- Bristol-Myers Squibb to decide on PROSTVAC license
- Initiation of Phase 2 combination study of PROSTVAC, ipilimumab and nivolumab (2017)
- Results from ongoing Phase 2 trials with NCI

4 Establish a broad and deep cancer immunotherapy franchise

We intend to expand and advance our pipeline by demonstrating that our vaccine candidates, CV301 and MVA-BN Brachyury, can be synergistic with other cancer immunotherapies.

2016 accomplishments

- Initiated proof of concept study of CV301 in combination with nivolumab in lung cancer (NSCLC)

2017/2018 anticipated developments

- Complete initial safety component and initiate randomized enrollment of Phase 2 combination trial of CV301 and nivolumab in lung cancer (2017)
- Initiation of Phase 2 combination study of CV301 and atezolizumab in bladder cancer
- Initiation of investigator-sponsored Phase 2 combination trials of CV301 and other immune-modulating agents in additional cancer indications
- Initiation of NCI-sponsored Phase 2 trials of MVA-BN Brachyury (2017)

FINANCIALS

FINANCIAL RESULTS FOR 2016

DKK million	2016 guidance	2016 actual	2017 guidance
Revenue	1,000	1,007	1,300
Income before interest and tax (EBIT)	–	33	350
Cash preparedness, year-end	2,300	2,292	2,400

We met our financial guidance for 2016 with revenues of DKK 1,007 million and a profit before interest and tax (EBIT) of DKK 33 million.

Cash preparedness at December 31, 2016 was DKK 2,292 million. Our expectations to the cash preparedness were upgraded in April 2016 to DKK 1,900 million after successfully raising DKK 665 million in a private placement, and again in January 2017 to DKK 2,300 million, primarily as a result of payments for IMVAMUNE deliveries, which were received earlier than expected.

For a detailed financial review, see page 52.

Research and development costs, expected distribution

DKK million	2017 guidance
Research and development costs to occur	425
Of which:	
Contract costs recognized as production costs	(45)
Capitalized development costs	(10)
	370
Expensing (amortization) of prior-year costs attributable to the IMVAMUNE development project	70
Research and development costs to be recognized in the income statement	**440**

OUTLOOK FOR 2017

In 2017, we expect revenue of approximately DKK 1,300 million and a profit before interest and tax (EBIT) of approximately DKK 350 million.

Revenue of DKK 399 million is expected from recognition of the upfront payment received from Bristol Myers Squibb (BMS) as part of the global license option for PROSTVAC. This is based upon the assumption that we provide BMS with top-line PROSPECT (Phase 3) data in the second half of 2017.

Revenues of approximately DKK 800 million are expected from the production of bulk material of IMVAMUNE for the U.S. Government, as well as from delivery of doses of IMVAMUNE to the Public Health Agency of Canada.

Additional revenues of approximately DKK 100 million are expected from ongoing research and development contracts.

The cash preparedness at the end of the year is expected to increase to approximately DKK 2,400 million. Cash preparedness includes cash and cash equivalents, investments in securities and the aggregate amount of undrawn credit lines. This includes a EUR 50 million unsecured loan from the European Investment Bank, which the Company anticipates drawing on.

As of the reporting date, all known external USD exposure is hedged.

Total research and development costs of approximately DKK 425 million are expected, primarily related to the conclusion of the PROSPECT study, the ongoing RSV Phase 2 study, finalization of the IMVAMUNE liquid-frozen Phase 3 study, and the CV301 proof of concept study in lung cancer.

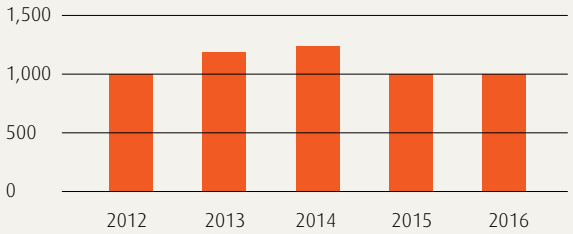
CONSOLIDATED KEY FIGURES

DKK million	2016	2015	2014	2013	2012
Income statement					
Revenue	1,006.7	1,020.6	1,216.8	1,212.5	1,016.6
Production costs	297.8	415.1	495.1	484.7	513.6
Research and development costs	463.2	386.8	478.9	496.6	340.1
Distribution and administrative costs	212.8	217.1	226.1	197.8	194.6
Income before interest and tax (EBIT)	33.0	1.6	16.7	33.4	(31.7)
Financial items, net	6.5	76.1	47.7	(27.2)	(17.0)
Income before company tax	39.5	77.6	64.4	6.2	(48.7)
Net profit for the year	30.6	59.4	25.9	(46.7)	(240.0)
Balance sheet					
Total non-current assets	541.1	585.0	568.1	551.8	644.3
Total current assets	2,282.6	1,404.3	1,319.1	900.4	894.9
Total assets	2,823.7	1,989.3	1,887.3	1,452.2	1,539.2
Equity	2,017.2	1,342.5	1,252.1	976.3	999.7
Non-current liabilities	54.7	56.6	51.9	86.7	54.2
Current liabilities	751.8	590.2	583.3	389.3	485.3

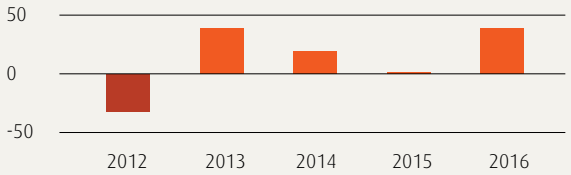
DKK million	2016	2015	2014	2013	2012
Cash flow statement					
Securities, cash and cash equivalents	1,899.9	1,058.2	979.7	532.1	549.9
Cash flow from operating activities	267.6	105.3	338.7	147.1	20.1
Cash flow from investment activities	(448.2)	(178.1)	(503.7)	(146.5)	71.0
– Investment in intangible assets	(43.7)	(28.3)	(53.6)	(111.0)	(24.3)
– Investment in property, plant and equipment	(47.8)	(31.7)	(52.4)	(44.4)	(20.9)
– Net investment in securities	(358.3)	(119.3)	(397.8)	7.2	116.4
Cash flow from financing activities	657.2	26.6	216.2	(7.1)	(9.6)
Financial ratios (in DKK) [1]					
Earnings (basic) per share of DKK 10	1.0	2.1	1.0	(1.8)	(9.2)
Net asset value per share	64.3	47.9	45.2	37.4	38.3
Share price at year-end	249	358	198	89	50
Share price/Net asset value per share	3.9	7.5	4.4	2.4	1.3
Number of outstanding shares at year-end (thousand units)	31,354	28,020	27,671	26,094	26,094
Equity share	71%	67%	66%	67%	65%
Number of employees, converted to full-time, at year-end	437	409	422	426	450

[1] Earnings per share (EPS) is calculated in accordance with IAS 33 "Earning per share". Other financial ratios have been calculated in accordance with "Anbefalinger og Nøgletal 2015" (Recommendations and Financial Ratios 2015)

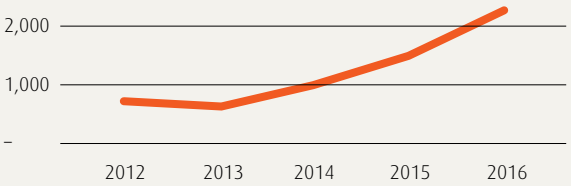
Revenue DKK million



EBIT DKK million



Cash preparedness DKK million



OUR TECHNOLOGY

Our live virus vaccine platform uses three poxviruses: MVA-BN, vaccinia, and fowlpox. These poxviruses are designed to enhance the immune system through the production of antibodies and the stimulation of T-cells. Poxviruses are a family of viruses that have been extensively studied as vaccine vectors, or delivery vehicles. These viruses have larger DNA genomes than other viruses, which allow for insertion of genetic material encoding for multiple and relatively large antigens, which are toxins or foreign substances that induce an immune response. Each of these poxviruses has certain desirable attributes that contribute to the versatility of our platform and the potentially favorable safety profile and effectiveness of our vaccines.

Our cancer immunotherapy candidates are designed as prime-boost vaccines that employ one or more poxviruses and incorporates three human immune costimulatory molecules (TRICOM: TRIad of COstimulatory Molecules) engineered to enhance immune system response to the tumor target. This technology has been licensed from the NCI and the United States Public Health Service (PHS).

Both the priming and boosting doses encode one or more tumor-associated antigens, intended to activate the body's immune system against these antigens. This heightens a key role of the immune system, which is the detection of these antigens, which many tumor cells produce, to permit subsequent targeting for eradication.

MVA-BN

A core component of our live virus vaccine platform is Modified Vaccinia Ankara-Bavarian Nordic (MVA-BN), our proprietary and patented vaccine technology. To develop the MVA-BN vector, we created a further attenuated version of the MVA virus that was administered to more than 100,000 individuals against smallpox in Germany in the 1970s.

MVA-BN is approved as a smallpox vaccine in Canada and the EU (under the trade names IMVAMUNE and IMVANEX respectively). However, MVA-BN is capable of acting as a delivery vehicle for DNA-expressing diseases other than smallpox. MVA-BN is a particularly good vector as it is based on the vaccinia virus, which induces strong immune-stimulation. However it is non-replicating and therefore unable to cause disease induction in patients, leading to its favorable safety profile. The inability to replicate in human cells and the favorable safety profile of MVA-BN in severely immune compromised animals makes MVA-BN a highly attractive vaccine candidate, particularly for high risk populations, such as young children, immune compromised and elderly, who all have weakened and/or immature immune systems. MVA-BN has been shown to have a favorable safety profile in more than 8,500 people, which includes more than 1,000 immune compromised individuals such as HIV infected subjects, atopic dermatitis patients and cancer patients. As a result, we believe MVA-BN is an adaptable vaccine technology suitable for addressing a wide variety of infectious diseases and cancers.

Prime-boost vaccination – for a stronger and longer response

In order to increase the effectiveness of live virus vaccines, many vaccines are delivered through repeated vaccination to "boost" immune responses. The basic prime-boost strategy involves priming the immune system to a target antigen delivered by one vector and then selectively boosting this immunity by re-administration of the antigen with one or more subsequent vectors. The key strength of this strategy is that greater levels of immunity are established than can be attained by a single vaccine administration. Prime-boosting permits the potential synergistic enhancement of immunity to the target antigen. Hence MVA-BN or vaccinia can be used, followed by multiple fowlpox boosts in order to create a greater synergistic immune response, which is typically reflected in an increased number of T-cells directed at the specific antigen.

THE TIME IS NOW FOR CANCER VACCINES

He built his career at the National Cancer Institute (NCI) and has played a key role in the clinical development of PROSTVAC, CV301 and MVA-BN Brachyury as well as other novel immunotherapies. His broad experience in immuno-oncology and relationship with multiple scientists, companies and institutions had left him in high demand, and for Christopher Heery, already planning a career move, it was an excellent opportunity to focus his research, and essentially a matter of choosing the right path. He joined Bavarian Nordic as new Chief Medical Officer in 2016.

Christopher Heery
Appointed new Chief Medical Officer of Bavarian Nordic in 2016

– I had been approached by many potential industry jobs, but when Paul (Chaplin) called and offered the opportunity to focus in on the work around Bavarian Nordic's vaccine platform, I saw the opportunity as too good to pass up. Bavarian Nordic is an established company with a unique platform technology and excellent growth. It is science-driven and the products we make are likely going to directly impact the quality of patients' lives over the next few years and beyond, Chris says.

Collaboration is key

While he enjoys the responsibility and the ability to work in a more strategic and focused direction at Bavarian Nordic, Chris appreciates his time with NCI and knows the importance of this relationship.

– Our collaboration with the NCI is one of our most treasured resources at Bavarian Nordic. The colleagues at NCI offer valuable insight on strategy decisions, connections to investigators, and the ability for us to do clinical trials in rare or specific patient populations that would otherwise be very costly and/or logistically difficult for a company our size. And our oncology platform started based on the exceptional work of the team at NCI. It is our job now to ensure that, together, we can demonstrate the utility of the platform in patients, he says.

> **"The products we make are likely going to directly impact the quality of patients' lives over the next few years and beyond**

The time is now for cancer vaccines

In his new role as CMO, Chris is also leading the company's development in infectious disease vaccines, and this has added a new dimension to his work, which he highly appreciates. However he still has a heartfelt interest in the oncology field and his extensive knowledge in this field will be key over coming years.

– The field of immuno-oncology is moving rapidly, which is definitely a good thing for patients with cancer, but we still have a lot of work to do to decide how agents will best be used for a given patient at a given stage of a certain disease. This complexity can seem never-ending. It is our job to, first, show we have some level of efficacy with our vaccines and then, second, identify the patients most likely to benefit, and then, third, learn how we can use our vaccines in combination with other agents to help the most patients possible. The good news, this type of work is already happening and is becoming more standard. We plan to be a part of that rapid development in the near future and beyond, he says.

For years, vaccines for oncology were unlikely to cause tumor regression in advanced cancers for a number of reasons. In the last few years, checkpoint inhibitors have demonstrated that there is a role for the immune system in causing tumor regression, resulting in increased interest and funding for trials involving the immune response.

– We have known for years that we can generate the type of immune responses in patients that can kill tumor cells in vitro (in a dish), but that has not resulted in tumors shrinking frequently enough in patients to merit rapid vaccine development through regulatory pathways. Now, with the rise of interest and the number of potential agents that may unleash the effects of vaccines, we stand at an inflection point where we can demonstrate, definitively, that vaccines can improve the lives of patients with advanced cancer, he ends.

CANCER IMMUNOTHERAPY

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 eliciting 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.

MAKING A GOOD THING BETTER

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

While active cancer immunotherapies show evidence for meaningful prolonged survival when given as monotherapies, immunotherapies administered in combination with other immune modulating agents are hypothesized to confer synergy of improved therapeutic benefit over any single agent, without significant intensification of the tolerability profile. Initial clinical studies combining PROSTVAC with anti-androgen or radiation therapies, either concomitantly or sequentially, have shown potential for therapeutic synergies with these treatment combinations.

> "An opportunity for broader treatment efficacy

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, rational 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.

PROSTATE CANCER

PROSTVAC

Prostate cancer immunotherapy candidate in late-stage Phase 3 development.

PROSTVAC is a prostate specific antigen (PSA)-targeted immunotherapy candidate designed to enhance or stimulate the body's immune response, specifically T cells that will home to and kill prostate cancer cells, altering the course of the disease and improving overall survival of patients with prostate cancer. PROSTVAC employs two poxviruses (vaccinia and fowlpox) in a prime-boost vaccine regimen. A robust data package has been established that includes 18 ongoing or completed clinical studies, comprising more than 2,000 patients, the majority of which have been actively treated with PROSTVAC, which has been generally well-tolerated.

The main findings from completed studies include:

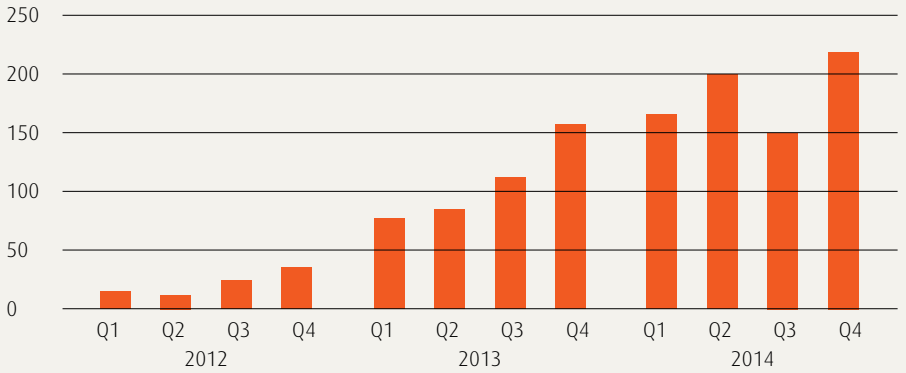
- An extension of the median overall survival in patients with advanced prostate cancer by 8-10 months compared to either their median predicted survival, or placebo-controlled patients.
- Induction of a robust T cell response in the majority of the patients treated. This T cell response is induced to PSA and to other prostate associated antigens (not encoded by the vaccine); a process known as antigen cascade or spreading.
- Potential synergies resulting from combining PROSTVAC at various stages of the cancer progression with anti-androgen therapy (e.g. enzalutamide), checkpoint inhibitors (e.g. ipilimumab), taxane-based chemotherapy (e.g. docetaxel) or radiation therapy.

The PROSPECT Phase 3 trial

PROSTVAC is currently the subject of a global randomized, double-blind, placebo-controlled Phase 3 trial (PROSPECT) in 1,297 patients with asymptomatic or minimally symptomatic metastatic castration-resistant prostate cancer (mCRPC).

The primary objective of the trial is to determine whether the overall survival (OS) of patients receiving PROSTVAC in either of the treatment arms, with or without the addition of granulocyte macrophage colony-stimulating factor (GM-CSF), is superior to that of patients receiving placebo. While the prior placebo-controlled Phase 2 trial included the use of GM-CSF, additional clinical work has shown that it may not be required, and therefore the PROSPECT trial has been designed to potentially rule out the need for GM-CSF.

PROSPECT enrollment by quarters, number of patients



PROSTATE CANCER – *continued*

The trial is being conducted under a Special Protocol Assessment agreement (SPA) with the FDA. An SPA is an agreement between a sponsor of a clinical trial and the FDA that, barring the occurrence of certain circumstances, the proposed design of a Phase 3 trial, including its clinical endpoints and statistical analyses are acceptable for support of regulatory approval after the trial has concluded. The SPA for this trial requires a hazard ratio of 0.82 or less, which is the equivalent of an approximately 18% reduction in risk of death.

The study was fully enrolled in January 2015. While the recruitment of patients occurred primarily between 2012 and 2014, it is worth noting that the recruitment rate was higher toward the latter half of the study, as is common.

Patient demographics and characteristics

The PROSPECT trial has enrolled a total of 1,297 patients at more than 200 investigative sites in 15 countries (36% in North America, 38% in Western Europe and 26% in other countries). While a full vaccination schedule includes a total of seven injections (one vaccinia-primer and six fowlpox-boosts), the average number of injections received by each patient in the trial was 6.1, compared to 5.4 injections in the randomized Phase 2 trial, which enrolled 125 patients. We believe the increased number of injections has potential to improve the clinical outcome for patients receiving the active drug.

The PROSPECT trial was designed to enroll patients who we believe have a sufficient life expectancy to benefit from the drug. Using the randomized

Progress report 2016 and up to present

January/February

Two Phase 2 studies of PROSTVAC were initiated by NCI. The first study is investigating the combination of PROSTVAC and docetaxel in 38 patients with non-metastatic castration sensitive prostate cancer receiving androgen deprivation therapy. The second study is investigating PROSTVAC in 80 patients with biochemically recurrent prostate cancer.

February

After review of the first interim analysis of the PROSPECT study, the Data Monitoring Committee informed Bavarian Nordic that the trial should continue without modification as planned.

July

After review of the second interim analysis of the PROSPECT study, the Data Monitoring Committee informed Bavarian Nordic that the trial should continue without modification as planned.

October

A Phase 2 clinical study of PROSTVAC in combination treatment with ipilimumab as neoadjuvant therapy in 75 patients with localized prostate cancer was initiated at the University of California, San Francisco (UCSF), who is also sponsor of the study.

PROSTATE CANCER – *continued*

Phase 2 trial as a guide, certain entry criteria were amended to better identify patients who are hormone refractory, or showing increases in PSA with no evidence of disease progression, with metastatic disease, but with certain limitations with regard to markers known to identify rapid disease progression. Patients were monitored for markers such as PSA doubling time, alkaline phosphatase levels and minimum PSA values in an effort to determine which patients would progress less rapidly and therefore have a better chance of benefiting from our immunotherapy based approach.

Final results anticipated in the second half of 2017

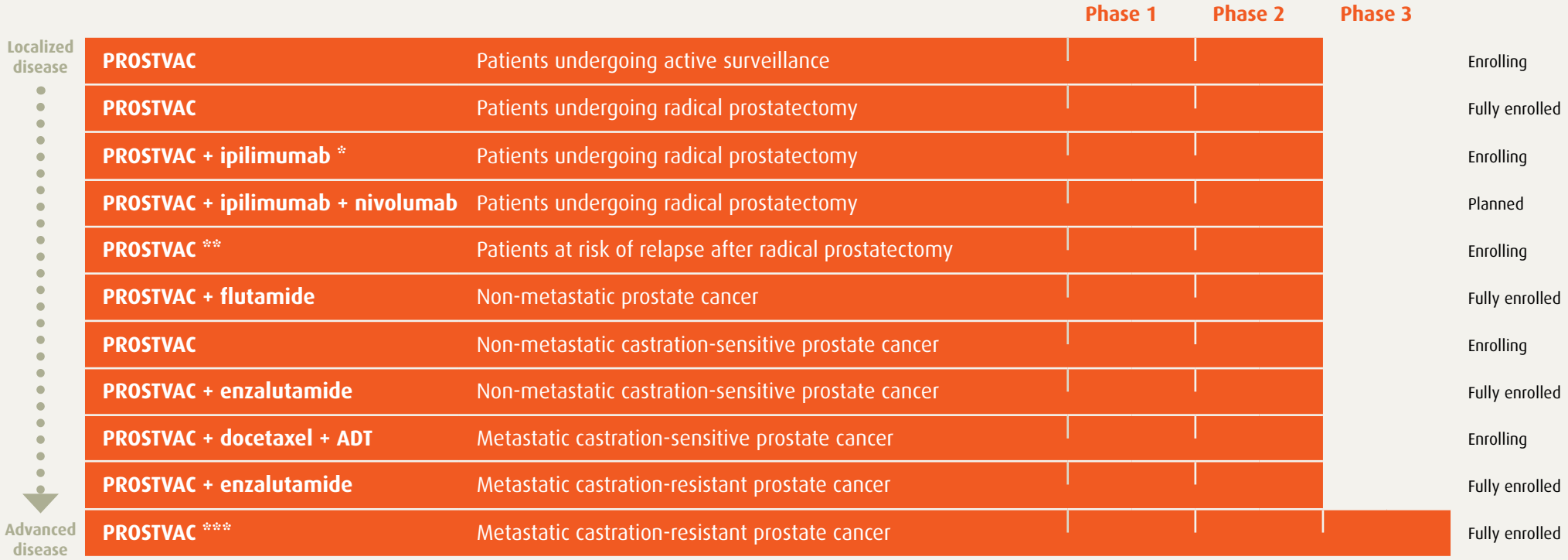
The PROSPECT trial is designed to detect a difference in survival between active treatment and placebo at final analysis, which will occur at 534 events (deaths) in each comparison of the two treatment arms versus placebo. However, three pre-specified interim analyses of data have been integrated into the statistical plan to evaluate whether the trial should continue as planned or potentially be stopped early for efficacy or futility. The efficacy and futility hurdles for these interim analysis are, what the Company considers to be, high, and it is the Company's continued belief that the study will continue to the final OS analysis. The first two interim analyses occurred at 214 and 321 events respectively, both confirming that the study should continue without modification as recommended by the independent Data Monitoring Committee (DMC). The third interim analysis will occur after 427 events and is anticipated around mid-2017 and final results are expected in the second half of 2017. The company remains blinded to all data.

Exploring the full potential of PROSTVAC in combination trials

To leverage the full potential of PROSTVAC, Bavarian Nordic and its partners are conducting exploratory combination studies of PROSTVAC with or without agents from Bristol-Myers Squibb's immuno-oncology portfolio, including ipilimumab (YERVOY®) and nivolumab (OPDIVO®). These studies will investigate the potential synergies of combining PROSTVAC with one or more checkpoint inhibitors in early stages of prostate cancer. In addition to a series of planned, ongoing and completed NCI-sponsored studies of PROSTVAC as single or combination therapy, these studies will add to the clinical experience, thus potentially broadening the future commercial value of PROSTVAC.

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

ONGOING AND PLANNED PROSTVAC STUDIES



Unless otherwise indicated, studies are sponsored by the National Cancer Institute

* Sponsor: University of California, San Francisco

** Sponsor: Medical University of South Carolina

*** Sponsor: Bavarian Nordic

LUNG CANCER

CV301

Immunotherapy candidate in Phase 2 development for non-small cell lung cancer; bladder cancer study in the planning.

Lung cancer is the second most common cancer and is the leading cause of cancer death in the United States. Each year, more people die of lung cancer than of colon, breast and prostate cancers combined.

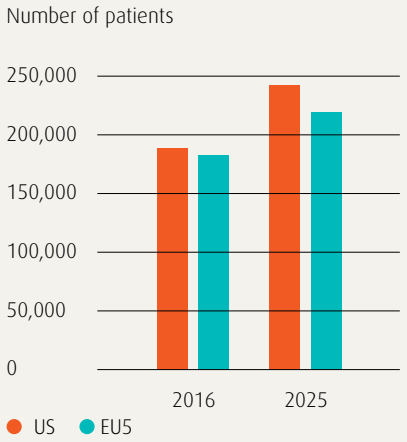
About 85% of lung cancers are non-small cell lung cancer (NSCLC), which has different subtypes, including squamous cell carcinoma, adenocarcinoma, and large cell carcinoma. Over 50% of NSCLC patients are diagnosed with advanced/metastatic disease and this trend is not expected to change in the near future. 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.

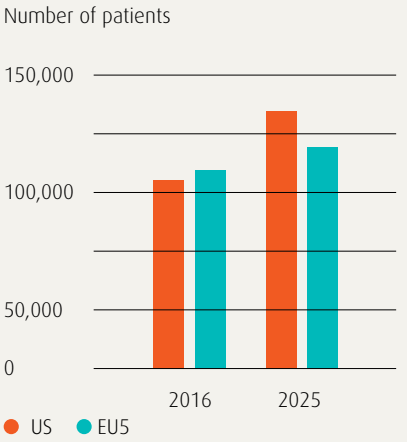
With the increasing efficacy and treatment options with PD-1 and PD-L1 checkpoint inhibitors, analysts estimate that the global market for NSCLC treatments could increase from approximately USD 6 billion in 2015 to almost USD 27 billion in 2025 .

Lung cancer is a competitive area and Bavarian Nordic is pleased to be a part of this potential revolution in the treatment paradigm to improve the lives for lung cancer patients.

Non-small cell lung cancer
Estimated new cases – all stages



Non-small cell lung cancer
Estimated new cases – advanced disease



LUNG CANCER – continued

CV301

CV301 is a novel immunotherapy candidate that targets two tumor-associated antigens, CEA and MUC-1, which are overexpressed in major cancer types. Similar to PROSTVAC, CV301 uses a prime/boost dosing schedule albeit using MVA-BN as a primer, followed by multiple fowlpox boosts, and encodes the TRICOM costimulatory molecules.

The development of CV301 focuses on combination treatments with other immune-modulating agents such as checkpoint inhibitors as the understanding in the disease pathophysiology evolves with respect to the immune system. The options for modulation of the immune system for cancer treatment are increasing and the development of CV301 will also evolve to take advantage of these options. From a functional standpoint, CV301 has the potential to be combined with most cancer immune modulators. We believe CV301 equips the immune system with the ability to seek out and destroy tumor cells. 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.

Bavarian Nordic is sponsoring a proof-of-concept study (MAGNI-lung-01) which is currently ongoing in the U.S. In this study CV301 is tested in combination with OPDIVO® (nivolumab), a PD1 inhibitor to explore the safety and efficacy in non-small cell lung cancer patients who have failed a prior platinum-containing chemotherapy. OPDIVO is marketed by Bristol-Myers Squibb, who also provided the drug for the study.

The trial is designed with an initial safety component, enrolling up to 40 patients, and a randomized portion which will enroll 120 patients who will receive either nivolumab (monotherapy) or a combination of CV301 and nivolumab.

While the primary endpoint of the study is overall survival, numerous important secondary endpoints including objective response rate, progression free survival and duration of response will be evaluated and offer the potential for an early efficacy signal, prior to an overall survival endpoint.

Bavarian Nordic has also entered a collaboration with Roche to evaluate the combination of CV301 and Tecentriq® (atezolizumab), Roche's FDA-approved PD-L1 inhibitor, in bladder cancer. Roche will provide the drug for the study, which is expected to be initiated around the end of 2017.

Based on the outcome of these studies, as well as the broadly applicable mechanism of action, CV301 is expected to become an interesting asset.

Read more
www.bavarian-nordic.com/pipeline/cv-301

Progress report 2016 and up to present

August
A drug supply agreement was entered with Bristol-Myers Squibb, providing OPDIVO® (nivolumab) for the proof-of-concept study of CV301 in non-small cell lung cancer.

December
The proof-of-concept study (MAGNI-lung-01) of CV301 in non-small cell lung cancer was initiated in the U.S.

March 2017
A drug supply agreement was entered with Roche, providing Tecentriq® (atezolizumab) for a planned Phase 2 combination trial of CV301 in bladder cancer.

A NEW PATH

MVA-BN Brachyury

Immunotherapy candidate targeting the metastatic process. Phase 1 completed.

MVA-BN Brachyury is a novel cancer immunotherapy candidate, designed to induce a robust T-cell immune response against brachyury, a tumor-associated antigen that is overexpressed in major solid tumor indications, as well as several rare, ultra-orphan cancer indications. Brachyury 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 current therapies and are associated with decreased survival rates.

While Bavarian Nordic retains worldwide commercial rights to MVA-BN Brachyury in multiple cancer indications, the clinical development is sponsored by the NCI with whom we continue to work to evaluate the product candidate. Clinical Phase 2 studies are expected to be initiated in 2017.

Read more

www.bavarian-nordic.com/pipeline/mva-bn-brachyury

INFECTIOUS DISEASES

We have leveraged our live virus vaccine platform to create a commercial smallpox vaccine and a pipeline of infectious disease vaccine candidates. While most of the development is sponsored by the U.S. Government or our partner Janssen, we have initiated our own program for the development of an RSV vaccine, which we believe represents a significant opportunity.

RSV

MVA-BN RSV

RSV vaccine candidate in Phase 2 development

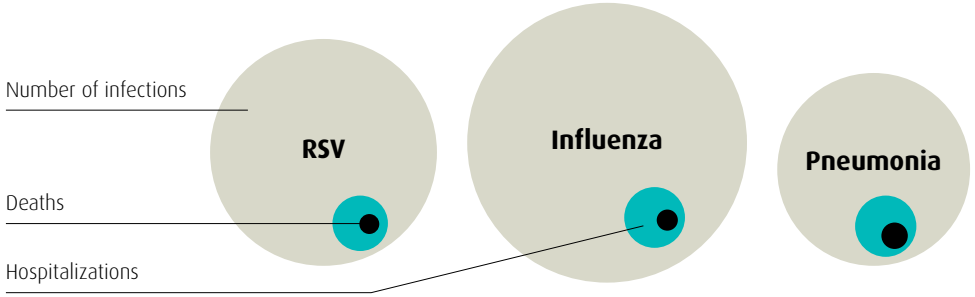
RSV (respiratory syncytial virus) has been recognized as a significant cause of respiratory illness in all age groups. It is highly infectious and the most common cause of lower respiratory tract infection in infants and children worldwide, resulting in a high number of hospitalizations. RSV infections are also a serious health concern in the elderly and in adults with cardio-pulmonary disease.

According to estimates from WHO, RSV infects more than 64 million people globally each year and causes a similar number of deaths as influenza, yet unlike influenza, there is no vaccine to prevent RSV.

There are only two subtypes of RSV, A and B, which are typically present either simultaneously or alternately during yearly epidemics. Bavarian Nordic has designed a broad-spectrum RSV vaccine candidate, intended to protect against both RSV subtypes.

Disease burden for RSV

compared to influenza and pneumonia in U.S. adults aged 65 or older



	RSV	Influenza*	Pneumonia
Number of infections	2,400,000	2,900,000	1,300,000
Hospitalizations	200,000	260,000	340,000
Deaths	14,000	15,000	22,000

* Average of 3 past seasons, 2010-2013; includes vaccine averted cases

CDC, Falsey et al. NEJM, 2005; Falsey et al. JID, 1995; MMWR 13 Dec 2013; Huang, et al. Vaccine, 2011; Jackson, et al. Clin Infect Dis 2004; Reed et al. PLOS One, 2015

RSV – continued

MVA-BN RSV

MVA-BN RSV is our product candidate in clinical development for the prevention of RSV. The vaccine has been specifically designed to target 5 different RSV proteins to ensure a broad immune response against both RSV subtypes (A & B). Extensive preclinical studies have shown that MVA-BN RSV induces a balanced immune response comprised of both antibodies and T cells, in a similar fashion to the natural response to an RSV infection.

Results from a Phase 1 study in 63 healthy adults, aged 18-65, were reported in May 2016, demonstrating that MVA-BN RSV was well tolerated and induced a significant increase in antibodies and T cells in humans against both RSV subtypes. Also of note was the production of IgA, a specialized antibody that is transported from the blood to the mucosal surfaces (e.g. nose, throat, lungs) potentially allowing for protection against RSV at the point of infection/inflammation. These results provide a clear rationale for moving into larger trials, and Bavarian Nordic initiated a Phase 2 dose finding study in 400 elderly subjects in October 2016 with anticipated results in 2017.

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

Progress report 2016 and up to present

May
Top-line results from the first-in-human study of MVA-BN RSV were reported. The randomized, placebo-controlled Phase 1 trial evaluated the safety, tolerability and immunogenicity of the vaccine. The results were also presented in September at the 10th International Respiratory Syncytial Virus Symposium in Patagonia, Argentina.

October
The first Phase 2 clinical study of MVA-BN RSV was initiated in the US and completed enrollment of 400 subjects in December. Healthy adults aged 55 or older were randomized into five groups of 80 subjects each. Subjects received one or two administrations four weeks apart of different doses of MVA-BN RSV or placebo, in order to identify the optimal dose and schedule for future studies.

SMALLPOX

IMVAMUNE®
Non-replicating 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 vaccine is available for governments for use under national emergency rules. Although not yet approved in the United States, IMVAMUNE is currently stockpiled by the U.S. Government for emergency use in people for whom replicating smallpox vaccines are contraindicated (e.g. people with HIV and atopic dermatitis). Registration studies are underway to support FDA approval for use of the vaccine in the entire population.

Legislation was passed in the U.S. in December 2016 that boosts funding for medical research, eases the development and approval of experimental treatments and reforms federal policy on mental health care. Along with these provisions, this legislation now allows for Medical Counter Measures (MCMs) such as IMVAMUNE, once approved, to qualify for a Priority Review Voucher, which is a transferable voucher allowing for faster review of a Biologics License Application with the FDA.

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) and Biomedical Advanced Research and Development Authority (BARDA), a division of the U.S. Department of Health and Human Services (HHS). Contracts awarded to date for the development and supply of the vaccine exceed USD 1.2 billion, including awards to

Progress report 2016 and up to present

May
BARDA ordered bulk supply of IMVAMUNE, valued at USD 100 million. This order, which will be produced and revenue recognized in 2017, follows a USD 133 million bulk order in 2015.

June
The Public Health Agency of Canada (PHAC) exercised an option for the supply of 171,000 doses of IMVAMUNE to the national stockpile at a total value of USD 7.7 million. This option builds upon an initial order of 189,000 doses, comprising a total of 360,000 doses ordered by PHAC during 2014-2016.

November
Enrollment was completed in a Phase 3 clinical study designed to demonstrate non-inferiority between IMVAMUNE and ACAM2000, the current U.S. licensed, and replicating smallpox vaccine. This is the second and final study agreed with the U.S. Food and Drug Administration (FDA) to support the registration of liquid-frozen IMVAMUNE.

SMALLPOX – continued

advance MVA-BN as a broad technology platform for the development of medical countermeasures against other potential biological threats.

U.S. stockpiling of IMVAMUNE

Our initial contract to supply 20 million doses of liquid-frozen IMVAMUNE to the U.S. Strategic National Stockpile (SNS) was completed in 2013. Subsequently, with completion in 2015, we have delivered 8 million doses to partly replenish the stockpile.

The U.S. Government has a long-term stated goal for stockpiling of sufficient non-replicating smallpox vaccine to protect 66 million people, representing 132 million doses of IMVAMUNE.

As part of this strategy, we were awarded a USD 95 million contract in 2009 to develop a freeze-dried formulation of IMVAMUNE, which we believe indicates the U.S. Government's desire to develop an improved formulation of IMVAMUNE to replace the liquid-frozen formulation currently stockpiled in the SNS. The freeze-dried formulation has a potential shelf life of approximately 10 or more years and potentially no storage limitations.

As part of the transition to freeze-dried IMVAMUNE, BARDA has ordered bulk supplies of IMVAMUNE in 2015 and 2016 at a total value of USD 233 million. The bulk vaccine will be produced and recognized as revenue over the course of 2016 and 2017. While a tender process is required before a contract for final drug can be negotiated, it is our expectation that it will be received this year.

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

JANSSEN – A PRIME (BOOST) PARTNERSHIP

Our partnership with Janssen was established in 2014 when Janssen, spurred by the Ebola outbreak in West Africa, in-licensed our MVA-BN Filo vaccine candidate for use in a prime-boost Ebola vaccine regimen. Since, the partnership has further evolved and could face a boost in the near-term as Janssen has option to license our technology in additional indications.

It all started with Ebola. Preclinical studies had shown that combining Janssen's adenovirus–based vaccine candidate, Ad26.ZEBOV with Bavarian Nordic's MVA-BN Filo vaccine 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.

The potential synergistic effect of combining Janssen's AdVac® technology and Bavarian Nordic's MVA-BN technology would not only be subject of investigation as an Ebola vaccine; Janssen also requested for the evaluation of MVA-BN in three additional infectious disease targets. Upon evaluation of the first target, Janssen licensed MVA-BN in December 2015 for use in a prime-boost vaccine regimen targeting HPV with the goal of developing a vaccine to treat chronic HPV infections as well as prevent precancerous stages of HPV-induced cancer.

We have provided the remaining two undisclosed targets to Janssen for evaluation, potentially offering an opportunity to further boost this partnership, if additional license agreements are entered.

MVA-BN Filo

Ebola vaccine candidate in Phase 3 development

MVA-BN Filo is a filovirus vaccine candidate, initially developed by Bavarian Nordic in collaboration with the NIAID. MVA-BN Filo 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 fevers.

MVA-BN Filo is licensed to Janssen for use in a prime-boost Ebola vaccine regimen in which a dose of Janssen's Ad26.ZEBOV is first given to prime the immune system, and then a dose of MVA-BN Filo is given at a later date to boost the immune response, with the goal of creating stronger and longer-lasting immunity.

Together with an array of consortium partners, Janssen is conducting multiple clinical Phase 1, 2 and 3 trials in

JANSSEN – continued

healthy adults, children, elderly and immunocompromised populations across Europe, USA and Africa with the goal of ultimately registering the vaccine. While results from these studies are still pending, Janssen has completed a submission to the World Health Organization (WHO) for Emergency Use Assessment and Listing (EUAL) for the vaccine regimen. The EUAL is a special procedure that can be implemented when there is an outbreak of a disease with high rates of morbidity or mortality and a lack of treatment or prevention options. EUAL assists UN Member States and procurement agencies determine the acceptability for use of a specific vaccine in a public health emergency, and while the EUAL potentially allows for deployment of a vaccine in an emergency, the vaccine remains investigational pending formal regulatory agency review and approval.

Additionally, the vaccine regimen has obtained Orphan Drug Designation from the U.S. Food and Drug Administration (FDA). The designation provides certain incentives amongst other for drugs intended for the safe and effective prevention of rare diseases that affect fewer than 200,000 people in the U.S., or that affect more than 200,000 persons but are not expected to recover development costs.

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

Progress report 2016 and up to present

April
Results from the first Phase 1 study of the Ebola vaccine regimen were published in JAMA: The Journal of the American Medical Association. The results show that the vaccine regimen produced an antibody response in 100 percent of healthy volunteers that was sustained 8 months following immunization, indicating potential for a durable response.

September
Janssen completed a submission to the World Health Organization (WHO) for Emergency Use Assessment and Listing (EUAL) for the Ebola vaccine regimen.

September
Janssen initiated a first-in-human Phase 1 clinical study to test a multivalent version of the AdVac/MVA-BN prime-boost vaccine regimen, designed to protect against multiple filoviruses, including the Ebola, Sudan and Marburg viruses. The U.S. study, funded by NIAID, will test the safety, tolerability and immunogenicity of this vaccine regimen in varying dosing schedules among healthy volunteers.

JANSSEN – *continued*

MVA-BN HPV

Human papillomavirus (HPV) vaccine candidate in preclinical development

MVA-BN HPV is a new vaccine candidate, designed for Janssen as part of the development of a prime-boost vaccine regimen with Janssen's AdVac technology. The prime-boost vaccine is targeting HPV and represents a novel approach for early treatment and interception of HPV-induced cancers The long-term goal is to develop a vaccine to treat chronic HPV infections as well as prevent precancerous stages of HPV-induced cancer.

A Phase 1 clinical study of the vaccine candidate is planned for initiation in 2017.

HPV

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.

This significant disease burden can be addressed by intercepting disease progression and treating the viral infection.

Read more

www.bavarian-nordic.com/pipeline/mva-bn-hpv

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THE BAVARIAN NORDIC SHARE

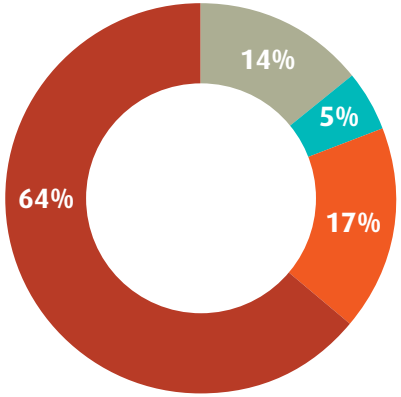
Shares of biotech and pharmaceutical companies were overall underperforming the general market in 2016 and Bavarian Nordic was no exception to this unfavorable trend. After four years of solid increase, the price of Bavarian Nordic share decreased 30 per cent during 2016; the share price at year-end 2016 was DKK 249.00, versus DKK 357.50 at year-end 2015.

Still, over a five year period, the share has performed extremely well yielding an impressive return of 548% outperforming most other indices.

Share capital

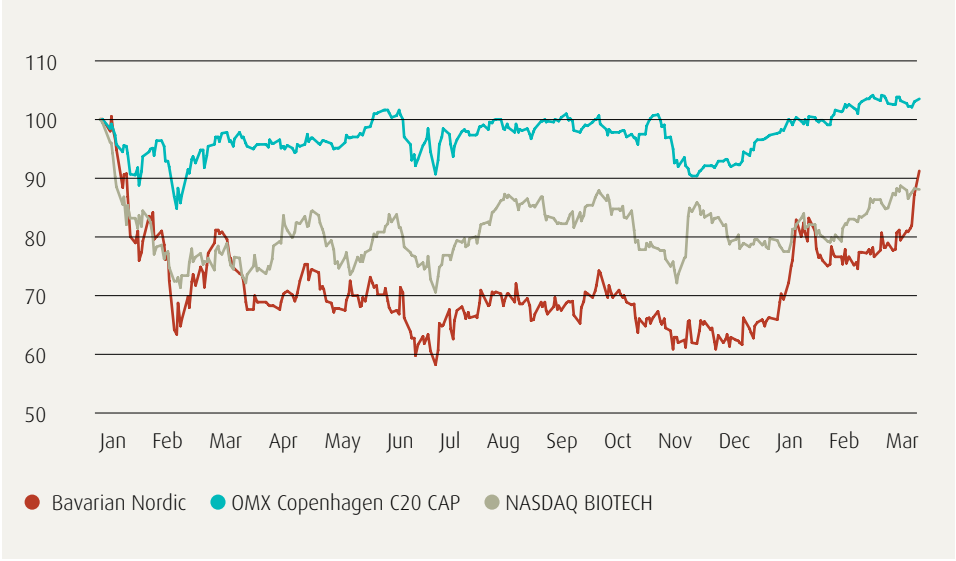
Bavarian Nordic is listed on the Nasdaq Copenhagen exchange under the symbol BAVA. The Company's share capital was DKK 313,538,460 by year-end 2016, comprising 31,353,846 shares with a nominal value of DKK

Distribution of share capital



- **Denmark**
- **EU**
- **North America**
- **Non-registered**

Share price development compared to indices



THE BAVARIAN NORDIC SHARE – *continued*

10 each. Each share carries one vote. The Company completed a private placement of 2,770,000 new shares in April 2016, raising gross proceeds of DKK 665 million. In addition, 564,175 new shares were issued as a result of warrant exercise by employees during the year. By December 31, 2016, there were 1,484,552 outstanding warrants, which entitle warrant holders to subscribe for 1,484,552 shares of DKK 10 each. Thus the fully diluted share capital amounted to DKK 328,383,980 at year-end.

Ownership

As of December 31, 2016, Bavarian Nordic had 38,370 registered shareholders owning 27,099,503 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.

Bavarian Nordic holds 11,144 own shares as treasury shares, corresponding to 0.04% of the share capital. The shares were purchased in May 2016 to hedge obligations under incentive scheme for the Company's executive management. See note 28 in the consolidated financial statements.

American depositary receipts (ADR)

Bavarian Nordic has established a sponsored Level 1 American Depositary 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 at 4 pm CET on Tuesday, April 25, 2017, at the Comwell Borupgaard, Nørrevej 80, DK-3070 Snekkersten, Denmark. In addition to the regular items on the agenda of the annual general meeting in accordance with article 12 of the Articles of Association, the Board of Directors intends to propose the following:

- Proposal to increase and extend the authorization of the Board of Directors in Article 5a of the Articles of Association, so that the Board of Directors is authorized to increase the share capital of the Company until June 30, 2018.
- Proposal to increase and extend the authorization of the Board of Directors in Article 5b of the Articles of Association, so that the Board of Directors until December 31, 2018 is authorized to issue warrants, which entitle the holders to subscribe for shares in the Company.
- Proposal to revise the general guidelines for incentive remuneration of the Board of Directors and the Executive Management.
- Proposal to approve remuneration of the Board of Directors and the Board Committees for the current financial year.
- Proposal to authorize the Board of Directors to repurchase Company shares.

Investor relations

The Company seeks to maintain an active dialogue with shareholders,

THE BAVARIAN NORDIC SHARE – *continued*

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, subject to due observance of the Company's investor relations policy.

Analysts

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 2017

April 25, 2017	Annual General Meeting
May 4, 2017	Financial Statements for the first quarter of 2017 (Q1)
Aug 25, 2017	Financial Statements for the first half of 2017 (Q2)
Nov 8, 2017	Financial Statements for the first nine months of 2017 (Q3)

Services for shareholders

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.

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

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CORPORATE SOCIAL RESPONSIBILITY

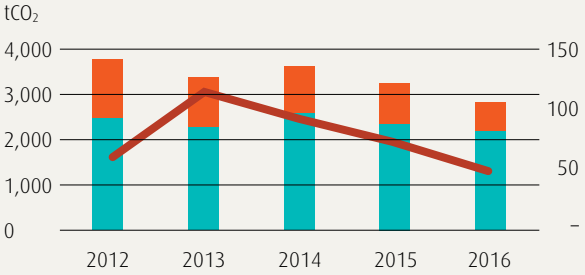
In Bavarian Nordic, we maintain a strong corporate governance structure and communicate openly and transparently about our CSR efforts, which particularly focus on minimizing the environmental impact from our production, but also concentrate on the safety and well-being of our employees, as well as other 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.

The Company is still growing, and 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

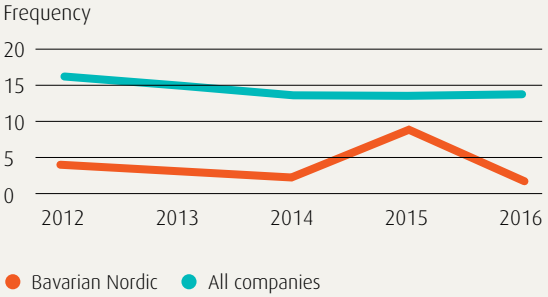
Selected data from the CSR report

Emissions



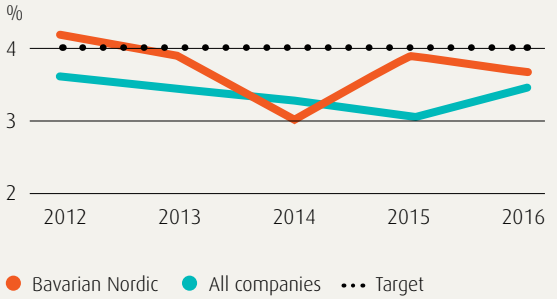
Total CO_2 emissions and indexed CO_2 emissions per production batch, base year 2009.

Occupational accidents



Number of accidents per million working hours compared with DI (Confederation of Danish Industry) statistics for work-related accidents (all occupational groups).

Sickness absence



Comparison with DI (Confederation of Danish Industry) statistics for sickness absence (all companies).

CSR – continued

that could help to protect or sustain people's lives. With this is mind, we believe that our science makes the greater impact.

Highlights from 2016

Environmental impact

Despite increased manufacturing activities, our total CO2 emissions were 13% lower compared to 2015, and our relative climate impact from production dropped by impressive 39%, reaching the lowest level in both absolute and relative terms since we started our CSR reporting.

Given the increased manufacturing activities, reductions in energy and water consumption were not possible in 2016. However, the relative consumption for both energy and water (as measured by number of production batches) decreased by 25% due to better production efficiency.

Likewise, the amount of waste was slightly higher than compared to 2015. However, as we succeeded in implementing new procedures for separation and handling of waste, we increased the share of waste for recycling from 9% in 2015 to 43% in 2016. Importantly, the fraction of waste requiring special treatment was reduced.

Employees

We remain committed to a high level of safety throughout the organization, and did not report any serious work-related accidents. The occupational accident rate was the lowest reported to-date which we believe is a result of our proactive work, in particular to identify and mitigate risks through increased focus on reporting and handling of near-misses and observations. In addition, we were pleased to maintain the sickness absence rate below our target of 4%.

We maintained an equal distribution of men and women in managerial positions with 48% and 52% respectively.

Read more

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

NEVER JUST SAVING ONE LIFE

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.

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.

As the Company is growing and maturing the focus on risk management has also increased. A dedicated task to improve the quality and further consolidate the operational risk assessment will be implemented in 2017.

In order to fulfil these objectives, the Company has set up internal systems for this purpose. In addition, external advisers assist in the constant assessment and updating. All relevant units in the Company participate in the identification and assessment of risk factors in order to address them properly. 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 2016, 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. The Company also reduced its dependency on CMO's for clinical trial material by adding more CMO's to the vendor list.

In April 2016 the Company raised DKK 665 million in a private placement securing a year-end cash preparedness in the DKK 2,300 million range. This will enable the Company to continue the development of its pipeline and in particular move RSV and CV301 to proof of concept, independent of the outcome of the pivotal Phase 3 study of PROSTVAC.

In September 2016 the Company filed an Advanced Pricing Agreement (APA) with the Danish and U.S. tax authorities in regards to future tax payments related to PROSTVAC. An APA is an agreement between the two involved tax authorities on how PROSTVAC revenues should be distributed between the parent company Bavarian Nordic A/S and the U.S. subsidiary Bavarian Nordic, Inc. We expect to have a final agreement in place late 2017 or early 2018.

The primary risk to the revenue in 2016 was related to the production and storage of IMVAMUNE bulk to the U.S. Government and thus an important point of focus. As the number of IMVAMUNE bulk batches for the U.S. Government will increase with continued production in 2017, the Company initiated the construction of a new storage facility at the Kvistgaard site in the fourth quarter of 2016 with completion in the first quarter of 2017.

The primary risks in 2017 relate to the final read out of the Phase 3 trials of PROSTVAC and IMVAMUNE, data from the Phase 2 trial of MVA-BN RSV, recruitment of patients for the Phase 2 trials of CV301, production and storage of bulk drug substance of IMVAMUNE to U.S. Government, production of clinical trial material for our various studies and final tech transfer of PROSTVAC.

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 major short-to-medium-term uncertainties

RISK MANAGEMENT – *continued*

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
- Preparations for commercial manufacturing of PROSTVAC and commercial manufacturing of multiple vaccines at the Kvistgaard facility including validation of the production unit
- Performance and dependence of the Company's subcontractors and most significantly CMO's and CRO's
- 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 (PROSTVAC & IMVAMUNE)
- Risks relating to the Company's technologies, projects and products
- The ability to attract and retain key personnel
- The move of the U.S. subsidiary from California to North Carolina
- 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 including protection against attempts to penetrate firewalls and intrude servers
- 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 generally 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 has started working on implementing the requirements of the Sarbanes-Oxley Act (SOX). The preparation continues in 2017 with the goal of being SOX compliant by year-end 2018.

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 struc-

INTERNAL CONTROL – *continued*

ture, 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.

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.

The 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, the 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 2016 on the Company's website: www.bavarian-nordic.com/corporategovernance.

Board and Management practices

Bavarian Nordic is managed in a two-tier structure composed of the Board of Directors ("the Board") and the Corporate Management. 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 Corporate Management is appointed by the Board, which lays down their terms and conditions of employment and the framework for their duties. The Corporate Management is responsible for the day-to-day management of Bavarian Nordic in compliance with the guidelines and directions issued by the Board. The day-to-day operations do not include transactions of an unusual nature or of material importance to the affairs of Bavarian Nordic. The Corporate Management is currently Paul Chaplin, President and CEO of the Company and Ole Larsen, Executive Vice President & CFO of the Company.

The work and composition of the board

The Board consists of six 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. In 2016, the Board held seventeen meetings, of which nine were conference calls.

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. During the year, the Finance, Risk and Audit Committee

held five meetings and the Nomination and Compensation Committee held six meetings, including one conference call. The primary activities of these committees during 2016 are explained on the Company's website.

By 2016, the Board has not yet met its target for the underrepresented gender (15%, equivalent to one person), which must be met in 2017. While the Nomination and Compensation Committee have worked to identify potential candidates, Dr. Frank Verwiel was nominated and elected to the Board in 2016, based on his qualifications and competences. In 2017, the Board will reassess the target figure.

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.

For detailed information on fees to the Board, see note 8 in the consolidated financial statements.

Apart from the fixed fees and fees for attending board and committee meetings, the members of the Board did not receive any other remuneration from Bavarian Nordic in 2016.

MANAGEMENT OF BAVARIAN NORDIC

Board of Directors: (from left) Peter Kürstein, Erik Gregers Hansen, Claus Bræstrup, Gerard Van Odijk, Anders Gersel Pedersen and Frank Verwiel.

MANAGEMENT – *continued*

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 2017. 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 member of the board of UDG Healthcare plc.

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 2017. 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 2017. 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 Evolva Holding SA, Ataxion, Inc. and Evotec AG. Member of the executive board of Kastan ApS.

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

MANAGEMENT – continued

Board of Directors

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 2017. 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, Astrup 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 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, Berco 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 2017. 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 and its subsidiary, and ApS FMD I and its two subsidiaries. Deputy chairman of the board of FOSS A/S and Ejendomsselskabet Experimentarium A/S. Member of the board of N. Foss & Co. A/S and Den Erhvervsdrivende Fond Gl. Strand, Experimentarium, One Life and Dansk BørneAstma Center. 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 2017. 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 Achillion Pharmaceuticals, Inc. and AveXis, Inc.

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

MANAGEMENT – *continued*

Executive Management

In January 2017, we strengthened our executive management with the appointment of Henrik Birk as Chief Operating Officer.

Prior to joining Bavarian Nordic in 2008, Mr. Birk served in various management positions at Coloplast focusing on supply chain and production. Since joining Bavarian Nordic, he has served in positions of increasing responsibility, most recently as Senior Vice President, Strategy, People and Organization.

Mr. Birk has played an integral role in the establishment and management of the Company's strategic alliances with the U.S. Government as well as industry partners, but has also been a key driver in the organizational development over the years. His merits are a valuable contribution to the management, where he will continue to develop and lead the execution of Bavarian Nordic's operational and HR strategies.

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.

MANAGEMENT – continued

Ownership interests in Bavarian Nordic as of December 31, 2016

	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	7,000	5,000	-10,000	-	-
Anders Gersel Pedersen	500	-	10,000	-	-	-
Claus Bræstrup	7,385	1,000	5,000	-5,000	-	-
Erik Gregers Hansen	29,000	-	5,000	-	-	-
Peter Kürstein	6,250	-	10,000	-	-	-
Frank Verwiel	-	-	-	-	-	-
Executive Management						
Paul Chaplin	39,800	13,000	179,105	33,100	6,546	6,546
Ole Larsen	12,000	6,000	139,597	15,800	4,598	4,598
Henrik Birk[4]	-	-	44,600	-20,000	-	-

[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, approved by the annual general meeting in April 2015, the board no longer receives warrants. The last grant of warrants to the board occurred in 2013.

[3] In March 2016, 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 into restricted stock units (RSUs). The award of RSUs was made in accordance with the Company's remuneration policy and the general guidelines for incentive remuneration. The numbers include matching shares.

[4] Henrik Birk was appointed to the Executive Management in January 2017.

FINANCIAL REVIEW 2016

The financial review is based on the Group's consolidated financial information for the year ended December 31, 2016, with comparative figures for the Group in 2015 in brackets. There is no significant difference in the development of the Group and the Parent Company.

In 2016, we generated revenues of DKK 1,007 million (DKK 1,021 million). Earnings before interest and taxes, or EBIT were DKK 33 million (DKK 2 million). As of December 31, 2016, the Group had cash and cash equivalents of DKK 854 million (DKK 374 million). In addition, the Group held investments in securities of DKK 1,046 million (DKK 684 million). The Group also maintained credit lines of DKK 392 million (DKK 393 million) as of such date, of which DKK 392 million (DKK 393 million) was undrawn. The cash preparedness as of December 31, 2016 amounted to DKK 2,292 million (DKK 1,451 million).

Income statement

Revenue

Revenue for the year was DKK 1,007 million (DKK 1,021 million).

Revenue from product sales was DKK 832 million (DKK 840 million) and was composed by DKK 758 million (DKK 0 million) from sale of IMVAMUNE bulk drug substance to the U.S. Government and DKK 74 million (DKK 29 million) from the sale of IMVAMUNE final drug product to other customers. In 2015, revenue from product sales was mainly composed by DKK 762 million sale of MVA BN Filo Drug Substance to Janssen.

Revenue from ongoing development contracts including with the U.S. Government was DKK 94 million (DKK 181 million). In 2016 we also received the remaining IMVAMUNE holdback of DKK 81 million (DKK 0 million).

Production costs

Production costs amounted to DKK 298 million (DKK 415 million). Costs related directly to revenue amounted to DKK 224 million (DKK 300 million). Other production costs totaled DKK 74 million (DKK 115 million). The inventory write-down of the year is DKK 26 million lower than last year. In 2015 we put the new multi-product facility into operation, resulting in some initial costs.

Research and development costs

The total research and development spending was DKK 476 million (DKK 518 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 53 million (DKK 109 million).

Our capitalized research and development costs related to IMVAMUNE for regulatory approval in the United States were DKK 29 million (DKK 25 million). The amortized research and development costs related to IMVAMUNE for regulatory approval in the United States increased from DKK 3 million in 2015 to DKK 69 million in 2016, mainly due to delivery under the bulk supply order of IMVAMUNE. In 2015 we only delivered 0.3 million IMVAMUNE doses.

Distribution and administrative costs

The distribution costs were DKK 39 million (DKK 42 million) and the administrative costs were DKK 174 million (DKK 175 million).

Financial income and financial expenses

Financial income was DKK 38 million (DKK 99 million). Net foreign exchange gains attributable to an increased USD/DKK exchange rate amounted to DKK 18 million (DKK 67 million). Interest on securities amounted to DKK 16 million (DKK 15 million).

Financial expenses were DKK 31 million (DKK 23 million). The increase was primarily attributable to a net loss on derivate financial instruments amounted to DKK 24 million (DKK 0 million). In 2015 fair value adjustments on securities were negative by DKK 17 million, whereas there was a positive fair value adjustment on securities of DKK 4 million in 2016.

Tax on income for the year

Tax on the income for the year was an expense of DKK 9 million (expense of DKK 18 million), corresponding to a tax rate of 22.6%.

Liquidity and capital resources

As of December 31, 2016, we had cash and cash equivalents of DKK 854 million and held investments in securities of DKK 1,046 million. We also maintained credit lines of DKK 392 million as of such date, of which DKK 392 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, 2016 principally with a combination of revenue from product sales, including contract work for the U.S. Government and a capital increase through a private placement.

Cash flows

Net cash provided by operating activities totaled DKK 268 million (DKK 105 million). Prepayments from customers increased by DKK 125 million during 2016.

Net cash used in investing activities was DKK 448 million (DKK 178 million), of which DKK 358 million (DKK 119 million) was investment in securities, and DKK 92 million (DKK 60 million) was investment in property, plant and equipment and intangible assets.

Net cash provided by financing activities totaled DKK 657 million (DKK 27 million). In April 2016, a private placement raised net proceeds of DKK 625 million. Proceeds from exercise of our warrant programs amounted to DKK 37 million (DKK 29 million).

The net cash flow for 2016 was positive by DKK 477 million (DKK 46 million negative).

Balance sheet

The balance sheet total was DKK 2,824 million as of December 31, 2016 (DKK 1,989 million).

Assets

The intangible assets stood at DKK 83 million (DKK 108 million). The ongoing IMVAMUNE development project decreased by DKK 40 million as DKK 69 million was expensed in concurrence with sale of IMVAMUNE bulk drug substance to U.S. Government.

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

The deferred tax asset has decreased by DKK 20 million, of which deferred tax related to share-based payment amounted to DKK 24 million. The value of tax losses carried forward decreased by DKK 11 million.

Inventories stood at DKK 147 million (DKK 91 million), of which the ongoing IMVAMUNE bulk drug substance production amounts to DKK 42 million. The write-downs have increased by DKK 21 million. Inventories comprise raw materials for production, work in

progress and manufactured goods and commodities.

Receivables stood at DKK 166 million (DKK 185 million), of which trade receivables amounted to DKK 130 million (DKK 138 million).

As of December 31, 2016, cash and securities stood at DKK 1,900 million (DKK 1,058 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 2,017 million (DKK 1,342 million).

Liabilities

Prepayments from customers stood at DKK 531 million (DKK 406 million). In January 2016, the Company received an upfront payment of DKK 62 million from Janssen Pharmaceuticals, Inc. related to the license and collaboration agreement for developing a vaccine regimen targeting cancers induced by human papillomavirus (HPV). During 2016, DKK 12 million has been recognized as revenue. 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 can invoice the bulk drug substance (BDS) product once BARDA has approved documentation confirming the initiation of production for each BDS batch. As per December 31, 2016, the prepaid BDS batches amount to DKK 76 million. For detailed information on prepayments, see note 26.

CONTENTS

Financial statements

Consolidated Income Statement

For the years ended December 31, 2016 and 2015

DKK thousand	Note	2016	2015
Revenue	3	1,006,742	1,020,561
Production costs	4,8,9	297,793	415,138
Gross profit		**708,949**	**605,423**
Research and development costs	5,8,9	463,169	386,811
Distribution costs	6,8,9	38,560	42,272
Administrative costs	7,8,9,10	174,213	174,786
Total operating costs		**675,942**	**603,869**
Income before interest and tax (EBIT)		**33,007**	**1,554**
Financial income	11	37,877	99,357
Financial expenses	12	31,335	23,282
Income before company tax		**39,549**	**77,629**
Tax on income for the year	13	8,949	18,203
Net profit for the year		**30,600**	**59,426**
Earnings per share (EPS) – DKK			
Basic earnings per share of DKK 10	14	1.0	2.1
Diluted earnings per share of DKK 10	14	1.0	2.1

Consolidated Statement of Comprehensive Income

For the years ended December 31, 2016 and 2015

DKK thousand	Note	2016	2015
Net profit for the year		**30,600**	**59,426**
Items that may subsequently be reclassified to the income statement:			
Exchange rate adjustments on translating foreign operations		(14,842)	(38,371)
Change in fair value of financial instruments entered into to hedge future cash flows		(259)	–
Tax on other comprehensive income	13	57	–
Other comprehensive income after tax		**(15,044)**	**(38,371)**
Total comprehensive income		**15,556**	**21,055**

Consolidated Statement of Cash Flow

For the years ended December 31, 2016 and 2015

DKK thousand	Note	2016	2015
Net profit for the year		**30,600**	**59,426**
Adjustment for non-cash items:			
Financial income		(37,877)	(99,357)
Financial expenses		31,335	23,282
Tax on income for the year		8,949	18,203
Depreciation and amortization	9	45,364	43,525
Expensing (amortization) of IMVAMUNE development project	15	68,785	2,694
Share-based payment	8	18,186	26,746
Adjustment for other non-cash items		2,825	–
Changes in development projects for sale	17	–	(41,656)
Changes in inventories		(55,981)	30,845
Changes in receivables		20,711	28,017
Changes in provisions		(570)	(878)
Changes in current liabilities		126,237	(12,470)
Cash flow from operations (operating activities)		**258,564**	**78,377**
Received financial income		21,311	43,742
Paid financial expenses		(3,515)	(2,935)
Paid company taxes		(8,759)	(13,861)
Cash flow from operating activities		**267,601**	**105,323**

	Note	2016	2015
Investments in and additions to intangible assets	15	(43,709)	(28,269)
Investments in property, plant and equipment	16	(47,810)	(31,652)
Disposal of property, plant and equipment		1,979	1,200
Investments in financial assets		(389)	(122)
Investments in securities		(784,230)	(734,557)
Disposal of securities		425,976	615,277
Cash flow from investment activities		**(448,183)**	**(178,123)**
Payment on mortgage and construction loan		(34,363)	(1,885)
Proceeds from mortgage loan		32,389	–
Proceeds from warrant programs exercised		37,305	28,595
Proceeds from private placement		664,800	–
Costs related to issue of new shares		(40,083)	(141)
Purchase of treasury shares		(2,849)	–
Cash flow from financing activities		**657,199**	**26,569**
Cash flow of the year		**476,617**	**(46,231)**
Cash and cash equivalents as of January 1		374,063	398,357
Currency adjustments		2,916	21,937
Cash and cash equivalents as of December 31		**853,596**	**374,063**

Consolidated Statement of Financial Position – Assets

December 31, 2016 and 2015

DKK thousand	Note	2016	2015
Non-current assets			
Software		5,165	3,194
IMVAMUNE development project		60,951	100,500
Other intangible assets in progress		16,903	4,495
Intangible assets	15	**83,019**	**108,189**
Land and buildings		202,804	218,610
Leasehold improvements		678	402
Plant and machinery		54,903	53,562
Other fixtures and fittings, other plant and equipment		19,057	19,358
Assets under construction		48,894	33,828
Property, plant and equipment	16	**326,336**	**325,760**
Other receivables	20	1,303	914
Financial assets		**1,303**	**914**
Deferred tax assets	13	**130,473**	**150,142**
Total non-current assets		**541,131**	**585,005**

	Note	2016	2015
Current assets			
Development projects for sale	17	**70,069**	**70,069**
Inventories	18	**146,983**	**91,002**
Trade receivables	19	130,391	137,927
Tax receivables		2,506	4,174
Other receivables	20	25,396	19,652
Prepayments	21	7,325	23,230
Receivables		**165,618**	**184,983**
Securities	23	1,046,301	684,141
Cash and cash equivalents		853,596	374,063
Securities, cash and cash equivalents		**1,899,897**	**1,058,204**
Total current assets		**2,282,567**	**1,404,258**
Total assets		**2,823,698**	**1,989,263**

Consolidated Statement of Financial Position – Equity and Liabilities

December 31, 2016 and 2015

DKK thousand	Note	2016	2015
Equity			
Share capital		313,539	280,197
Treasury shares		(111)	–
Retained earnings		1,731,898	1,066,558
Other reserves		(28,089)	(4,276)
Equity		**2,017,237**	**1,342,479**
Liabilities			
Provisions	24	24,949	25,226
Debt to credit institutions	25	29,714	31,324
Non-current liabilities		**54,663**	**56,550**
Debt to credit institutions	25	2,136	1,969
Prepayment from customers	26	530,645	405,789
Trade payables		71,958	69,574
Company tax		72	621
Provisions	24	–	570
Other liabilities	22	146,987	111,711
Current liabilities		**751,798**	**590,234**
Total liabilities		**806,461**	**646,784**
Total equity and liabilities		**2,823,698**	**1,989,263**

Consolidated Statement of Changes in Equity

December 31, 2016

DKK thousand	Share-capital	Treasury shares	Retained earnings	Reserves for currency adjustment	Reserves for currency 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	–	–	–	–	(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.

Treasury shares

In May 2016, the Board of Directors decided to launch a share buy-back program, under which the Company bought back 11,144 of its own shares in May 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. Under the share-based incentive program payment of half of the achieved cash bonus for 2015 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.

Treasury shares represent 0.04% of the total share capital.

Consolidated Statement of Changes in Equity

December 31, 2015

DKK thousand	Share-capital	Retained earnings	Reserves for currency adjustment	Share-based payment	Equity
Equity as of January 1, 2015	**276,712**	**972,321**	**(35,185)**	**38,246**	**1,252,094**
Comprehensive income for the year					
Net profit for the year	–	59,426	–	–	59,426
Other comprehensive income					
Exchange rate adjustments on translating foreign operations	–	–	(38,371)	–	(38,371)
Total comprehensive income for the year	**–**	**59,426**	**(38,371)**	**–**	**21,055**
Transactions with owners					
Share-based payment	–	–	–	9,287	9,287
Warrant programs exercised	3,485	34,816	–	(9,706)	28,595
Warrant programs expired	–	136	–	(136)	–
Costs related to issue of new shares	–	(141)	–	–	(141)
Tax related to items recognized directly in equity	–	–	–	31,589	31,589
Total transactions with owners	**3,485**	**34,811**	**–**	**31,034**	**69,330**
Equity as of December 31, 2015	**280,197**	**1,066,558**	**(73,556)**	**69,280**	**1,342,479**

Transactions on the share capital

DKK thousand	2016	2015	2014	2013	2012
Share capital as of January 1	280,197	276,712	260,944	260,944	260,944
Issue of new shares	33,342	3,485	15,768	–	–
Share capital as of December 31	**313,539**	**280,197**	**276,712**	**260,944**	**260,944**

The share capital comprises a total of 28,019,671 shares of DKK 10 as of December 31, 2015 (27,671,247 shares). The shares are not divided into share classes, and each share carries one vote.

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, 2016.

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 2015 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, 2016. 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. The new standard is not expected to have any material impact on the consolidated financial statements as the new standard doesn’t 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 is not expected to 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. The standard has not yet been endorsed by the EU. 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 35-40 million based on the lease contracts in effect as of December 31, 2016.

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, and the definitions of ratios are also included.

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.

Note 1

Significant accounting policies – continued

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 non-monetary 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 is focused on growth strategies that through private and public partnerships will develop and commercialize novel vaccines and immunotherapies against infectious diseases and cancer.

The Group decided in March 2015 to abandon the divisional structure and merged the two divisions; "Cancer Immunotherapy" and "Infectious Diseases". Therefore, the Group does no longer prepare segment reporting internally, hence only has one operating segment to report externally.

The internal financial reporting no longer contains separate sections for the two divisions.

Geographic spilt of revenue and revenue from major customers are 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 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.

Financial definitions

Earnings per share and diluted earnings per share:

$$\frac{\text{Net profit for the year} \times 100}{\text{Average number of shares}}$$

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 as specified in note 14.

The ratios are calculated and applied in accordance with "Anbefalinger og Nøgletal 2015" (Recommendations and Financial Ratios 2015) issued by the Danish Society of Financial Analysts. The ratios are stated on page 13.

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)
- Capitalization of development costs (note 5 and 15)
- Inventories, including impairment and production overheads (note 18)
- Provisions (note 24)

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

Change in accounting estimates
No significant changes have been made in accounting estimates in 2016.

Note 3

Revenue

DKK thousand	2016	2015
IMVAMUNE/IMVANEX sale	831,783	77,813
Other product sale	–	762,054
Sale of goods	831,783	839,867
IMVAMUNE sale, development results	80,746	–
Contract work	94,213	180,694
Sale of services	174,959	180,694
Revenue	**1,006,742**	**1,020,561**
Total revenue includes:		
Fair value adjustment concerning financial instruments entered into to hedge revenue	(11,979)	–
Geographic split of revenue:		
USA	894,615	199,444
Holland	37,881	792,814
Canada	44,832	22,569
Other geographic markets	29,414	5,734
Revenue	**1,006,742**	**1,020,561**

No revenue has been achieved on the Danish market in 2016 and 2015.

Revenue for the following customers represent more than 10% of total revenue:
- Biomedical Advanced Research and Development Authority (BARDA), USA, DKK 875.9 million (DKK 152.3 million) including the remaining IMVAMUNE holdback of DKK 80.7 million (DKK 0 million) received in 2016.
- Crucell/Janssen, Holland, part of Johnson & Johnson Group, DKK 37.9 million (DKK 792.8 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 can receive up to USD 975 million in upfront and milestone payments. The agreement includes the following payments:
- upfront option grant payment of USD 60 million;

Note 3

Revenue – continued

- option exercise and license payment of USD 80 million;
- additional incremental payments starting at USD 50 million, but with a potential to exceed USD 230 million should the median overall survival benefit of PROSTVAC exceed the efficacy seen in Phase 2 results;
- regulatory milestones of up to USD 110 million receivable upon grant of final regulatory approval in pre specified major markets; and
- sales milestones of up to USD 495 million.

Upon signing the Group received the upfront option grant payment of USD 60 million. In accordance with the Group's accounting policy, Management has assessed whether the upfront option payment of USD 60 million represents a transfer of goods or services that has value to BMS on a stand-alone basis. As Management has concluded that no goods or services have been transferred yet, the upfront option payment of USD 60 million is recognized in the statement of financial position at December 31, 2016 as a prepayment from customers. The upfront option payment will be recognized as revenue when we provide BMS with top-line PROSPECT data.

Upon exercise of the option by BMS, the PROSTVAC license and any associated trial information to date will effectively transfer to BMS without any restrictions. Accordingly, we will recognize as revenue the option exercise and license payments. As BMS and we have agreed that we will complete the Phase 3 trial, a portion of the payment will be allocated to the completion of the Phase 3 trial of PROSTVAC if BMS exercises its option before the Phase 3 trial is completed. Upon completion of the Phase 3 trial, the Group will recognize as revenue the Phase 3 completion milestone payments. Regulatory and sales milestone payments will be recognized as revenue when relevant milestones are achieved.

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 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.

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.

Note 4

Production costs

DKK thousand	2016	2015
Cost of goods sold, IMVAMUNE/IMVANEX sale	171,517	20,511
Cost of goods sold, other product sale	–	171,209
Contract costs	52,747	108,678
Other production costs	73,529	114,740
Production costs	**297,793**	**415,138**

Production costs include external filling costs of DKK 7.6 million in 2016 (DKK 26.4 million).

Other production costs amounted to DKK 73.5 million (DKK 114.7 million), of which write-downs of inventory totaled DKK 20.8 million (DKK 46.7 million). During 2015 we incurred intial costs when we put the new multi-product facility into operation.

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.

Note 5

Research and development costs

DKK thousand	2016	2015
Research and development costs incurred this year	476,367	517,632
Of which:		
Contract costs recognized as production costs (note 4)	(52,747)	(108,678)
Capitalized development costs (note 15)	(29,236)	(24,837)
	394,384	384,117
Expensing (amortization) of prior-year costs attributable to the IMVAMUNE development project (note 15)	68,785	2,694
Research and development costs recognized in the income statement	**463,169**	**386,811**

Research and development costs include expenses for external clinical research organizations, or CRO's, of DKK 196.0 million in 2016 (DKK 230.1 million).

In 2016 research and development costs increased as amortized research and development costs related to IMVAMUNE development project was expensed by DKK 68.8 million compared to DKK 2.7 million in 2015, mainly due to delivery in 2016 under the bulk supply order of IMVAMUNE.

In addition, research and development costs also included severance costs of DKK 2.4 million in 2016. In 2015 research and development cost included severance costs of DKK 12.0 million due to a reduction of the number of headcount of approximately 40 researchers.

Note 5

Research and development costs – continued

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 and May 2016, 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.

The costs capitalized at December 31, 2016 were limited to those costs incurred and considered recoverable. The primary reason for the probable recovery of the capitalized costs is the delivery agreement with BARDA, which included the historical delivery of 28 million doses and orders received in 2015 and 2016 to deliver further IMVAMUNE batches prior to the final regulatory approval by the FDA and as such before the completion of the development project.

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, which are recognized directly in the income statement, 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.

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 Group 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	2016	2015
Wages and salaries	284,308	300,455
Contribution based pension	21,651	21,026
Social security expenses	12,425	17,588
Other staff expenses	24,910	21,301
Share-based payment	18,186	26,746
Staff costs	**361,480**	**387,116**
Staff expenses are distributed as follows:		
Production costs	142,591	138,548
Research and development costs	111,364	124,426
Distribution costs	13,676	21,687
Administrative costs	92,302	99,725
Capitalized salaries	1,547	2,730
Staff costs	**361,480**	**387,116**
Average number of employees converted to full-time	429	420
Number of employees as of December 31 converted to full-time	437	409

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

DKK thousand	2016	2015
Staff costs include the following costs:		
Board of Directors:		
Gerard van Odijk (Chairman):		
Remuneration	925	878
Share-based payment	23	47
Anders Gersel Pedersen (Deputy chairman):		
Remuneration	590	560
Share-based payment	23	47
Claus Braestrup:		
Remuneration	425	395
Share-based payment	23	47
Erik Gregers Hansen:		
Remuneration	495	443
Share-based payment	23	47
Peter Kürstein:		
Remuneration	420	395
Share-based payment	23	47
Frank Verwiel:		
Remuneration	320	–
Remuneration to Board of Directors	**3,290**	**2,906**

Note 8

Staff costs – continued

DKK thousand	2016	2015
Group Management:		
Paul Chaplin (CEO):		
Salary	5,548	5,369
Paid bonus	1,179	3,964
Other employee benefits	958	171
Share-based payment	2,035	708
Ole Larsen (CFO):		
Salary	3,388	3,300
Paid bonus	828	1,652
Other employee benefits	176	176
Contribution based pension	339	330
Share-based payment	1,513	619
James B. Breitmeyer (former Chief Development Officer):		
Salaries	–	2,986
Paid bonus	–	4,601
Share-based payment	–	64
Severance costs	–	2,869
Remuneration to Group Management	**15,964**	**26,809**
Total management remuneration	**19,254**	**29,715**

Restricted stock units

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

For further description of restricted stock units see note 28.

Warrants

In December 2016 Paul Chaplin was granted 58,100 warrants with a fair value of DKK 3.2 million and Ole Larsen was granted 40,800 warrants with a fair value of DKK 2.2 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.
Executive Vice President and Chief Development Officer James B. Breitmeyer resigned July 31, 2015.

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 Group Management and other employees are disclosed in note 28.

Members of the Group Management have contracts of employment containing standard terms for members of the Group 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 Group Management is terminated by the Company without misconduct on the part of such member, the member of the Group Management is entitled to compensation, which, depending on the circumstances, may amount to a maximum of 12-18 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	2016	2015
Depreciation and amortization included in:		
Production costs	38,991	36,271
Research and development costs	2,018	3,307
Distribution costs	–	18
Administrative costs	4,355	3,929
Depreciation and amortization	**45,364**	**43,525**
Hereof loss from disposed fixed assets	1,283	36

Note 10

Fees to auditor appointed at the annual general meeting

DKK thousand	2016	2015
Audit of financials statements	1,461	4,461
Other assurance services	2,056	3,404
Tax advisory	755	1,224
Other services	1,067	294
Fees	**5,339**	**9,383**

In 2015, other assurance services included a fee of DKK 3.4 million related to the filing of a Form F-1 Registration Statement with the U.S. Securities and Exchange Commission (the "SEC") for a proposed initial public offering of American Depositary Shares ("ADSs"). In 2015, audit of financial statements also included a fee of DKK 3.0 million related to re-audit of 2013 and 2014 under US PCAOB auditing standards.

Note 11

Financial income

DKK thousand	2016	2015
Financial income from bank and deposit contracts	272	38
Interest income from financial assets not measured at fair value in the income statement	272	38
Financial income from securities	15,640	14,959
Fair value adjustments on securities	3,542	–
Net gains on derivative financial instruments at fair value through the income statement (held for trading)	–	17,402
Net foreign exchange gains	18,423	66,958
Financial income	**37,877**	**99,357**

Net foreign exchange gains are mainly related to the increasing USD rate during 2016 and 2015.

Net foreign exchange gains include DKK 12.1 million (DKK 37.6 million) of unrealized gains related to intercompany receivable with Bavarian Nordic, Inc.

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 as well as net currency gains.

Note 12

Financial expenses

DKK thousand	2016	2015
Interest expenses on debt	3,678	2,676
Interest expenses on financial liabilities not measured at fair value through the income statement	3,678	2,676
Fair value adjustments on securities	–	16,749
Adjustment of net present value of provisions	3,386	3,857
Net loss on derivative financial instruments at fair value through the income statement (held for trading)	24,271	–
Financial expenses	**31,335**	**23,282**

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 adjustment of the net present value of provisions.

Note 13

Tax for the year

DKK thousand	2016	2015
Tax recognized in the income statement		
Current tax on profit for the year	2,897	15,182
Adjustments to current tax for previous years	6,926	(12)
Current tax	**9,823**	**15,170**
Change in deferred tax	7,127	7,077
Adjustment of deferred tax due to change in estimates of timing	–	(4,055)
Adjustments to deferred tax for previous years	(8,001)	11
Deferred tax	**(874)**	**3,033**
Tax for the year recognized in the income statement	**8,949**	**18,203**
Tax on income for the year is explained as follows:		
Income before company tax	39,549	77,629
Calculated tax (22.0%/23.5%) on income before company tax	8,701	18,243
Tax effect on:		
Different tax percentage in foreign subsidiaries	(1,670)	(1,515)
Non-recognized deferred tax asset on current year losses in foreign subsidiaries	6,226	10,861
Income ()/expenses that are not taxable/deductible for tax purposes	1,819	(5,330)
Change in non-recognized deferred tax asset	(5,053)	–
Adjustment of deferred tax due to change in estimates of timing	–	(4,055)
Adjustments to deferred tax for previous years	(8,001)	11
Adjustments to current tax for previous years	6,926	(12)
Other corrections	1	–
Tax on income for the year	**8,949**	**18,203**
Tax recognized in other comprehensive income		
Tax on change in fair value of financial instruments entered into to hedge future cash flows	(57)	–
Tax recognized in equity		
Tax on share based payment	20,600	(31,589)

Tax on income is an expense of DKK 8.9 million (expense of DKK 18.2 million), corresponding to an effective tax rate of 22.6% (23.4%).

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 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 the Board of Directors that include revenue from existing and future contracts for the sale of IMVAMUNE, PROSTVAC and other development projects. The utilization of the recognized deferred tax asset is dependent on regulatory approval of PROSTVAC as well as future taxable profits arising from sales of PROSTVAC and other products. Management believes that it is more likely than not that sales of PROSTVAC will generate significant future revenue for the Company over the coming years. In management's opinion, it is therefore probable that sufficient taxable income will be available against which the unused tax losses can be utilized in order to recognize the deferred tax asset in Denmark of DKK 130.5 millon (DKK 150.1 million) as of December 31, 2016.

Note 13

Tax for the year – continued

2016

DKK thousand	January 1, 2016	Recognized in the income statement	Recognized in 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	52,788	(10,646)	–	42,142
Recognized deferred tax assets	**150,142**	**874**	**(20,543)**	**130,473**

2015

DKK thousand	January 1, 2015	Recognized in the income statement	Recognized in equity	December 31, 2015
Intangible assets	(4,194)	(8,249)	–	(12,443)
Property, plant and equipment	991	(257)	–	734
Development projects for sale	–	(39,233)	–	(39,233)
Inventories	(1)	1	–	–
Accrued project costs	70	(218)	–	(148)
Obligations	804	156	–	960
Prepayment from customers	38,129	51,145	–	89,274
Share-based payment	24,565	2,056	31,589	58,210
Tax losses carried forward	61,222	(8,434)	–	52,788
Recognized deferred tax assets	**121,586**	**(3,033)**	**31,589**	**150,142**

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 182.0 million (DKK 182.0 million). The 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 41.1 million (DKK 46.1 million).

The tax value of non-recognized tax losses carried forward in subsidiary Bavarian Nordic, Inc. amounts to DKK 187.5 million (DKK 152.4 million) of which DKK 11.1 million (DKK 10.4 million) relates to state tax and DKK 176.4 million (DKK 142.0 million) relates to federal tax (tax rate of 35%). The tax value of non-recognized tax credits carried forward in subsidiary Bavarian Nordic, Inc. amounts to DKK 79.6 million (DKK 67.7 million) of which DKK 33.5 million (DKK 28.7 million) relates to state tax and DKK 46.1 million (DKK 39.0 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	2016	2015
Net profit for the year	30,600	59,426
Earnings per share of DKK 10	1.0	2.1
Diluted earnings per share of DKK 10	1.0	2.1
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)	30,101	27,798
Weighted average number of treasury shares (thousand units)	(7)	-
Weighted average number of outstanding ordinary shares used in the calculation of basic earnings per share (thousand units)	30,094	27,798
Average dilutive effect of outstanding warrants under incentive schemes	238	804
Weighted average number of outstanding ordinary shares used in the calculation of diluted earnings per share (thousand units)	30,332	28,602
Outstanding warrants have been included in the calculation of diluted earnings per share.		
2016-program	450,300	–
2015-program	313,824	335,002
2014-program	457,500	457,500
2013-programs	227,317	553,600
2012-programs	35,611	263,503
2011-program	–	15,000
Outstanding warrants, cf. note 28	**1,484,552**	**1,624,605**

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. Interest expenses on borrowings to finance the production of intangible assets are included in cost if they relate to the period of production. Other borrowing costs are expensed.

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.

Since the IMVAMUNE development asset is expected to generate probable future economic benefits both from the U.S. Government and other non-U.S. countries the amortization policy is to amortize the IMVAMUNE development asset based on the number of doses delivered to date to the U.S. Government and other non-U.S. countries relative to the total number of doses delivered to date and expected to be delivered over the next five years.

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 descriped 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

2016

DKK thousand	Acquired patents and licenses	Software	IMVAMUNE development project	Other intangible assets in progress	Total
Costs as of January 1, 2016	6,864	58,006	100,500	4,495	169,865
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	**6,864**	**62,338**	**60,951**	**16,903**	**147,056**
Amortization as of January 1, 2016	6,864	54,812	–	–	61,676
Amortization	–	2,352	–	–	2,352
Exchange rate adjustments	–	9	–	–	9
Amortization as of December 31, 2016	**6,864**	**57,173**	**–**	**–**	**64,037**
Carrying amount as of December 31, 2016	**–**	**5,165**	**60,951**	**16,903**	**83,019**

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

Reclassification of acquired licenses is explained in note 17.

Other intangible assets in progress include investments in software.

Geographical split of intangible assets – 2016

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

Note 15

Intangible assets – continued

2015

DKK thousand	Acquired patents and licenses	Software	IMVAMUNE development project	Other intangible assets in progress	Total
Costs as of January 1, 2015	38,148	57,243	78,357	1,283	175,031
Additions	–	220	24,837	3,212	28,269
Transfer from property, plant and equipment	–	496	–	–	496
Expensed (amortized) related to sale of development results	–	–	(2,694)	–	(2,694)
Reclassification to development projects for sale	(31,282)	–	–	–	(31,282)
Exchange rate adjustments	(2)	47	–	–	45
Cost as of December 31, 2015	**6,864**	**58,006**	**100,500**	**4,495**	**169,865**
Amortization as of January 1, 2015	13,429	52,408	–	–	65,837
Amortization	–	2,339	–	–	2,339
Reclassification to development projects for sale	(6,562)	–	–	–	(6,562)
Exchange rate adjustments	(3)	65	–	–	62
Amortization as of December 31, 2015	**6,864**	**54,812**	**–**	**–**	**61,676**
Carrying amount as of December 31, 2015	**–**	**3,194**	**100,500**	**4,495**	**108,189**

Geographical split of intangible assets – 2015

Denmark	107,858
Germany	331
Total intangible assets	**108,189**

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

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.

Grants

Grants that compensate the Group for purchase of assets are recognized initially in the balance sheet as a liability and are then recognized in the income statement on a systematic basis over the useful life of the asset.

Significant accounting estimates

Management reviews the estimated useful lives of material property, plant and equipment at the end of each financial year. Management's review of useful lives in 2016 did not give rise to any changes as compared with 2015.

Note 16

Property, plant and equipment – continued

2016

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, 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 16

Property, plant and equipment – continued

2015

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, 2015	304,244	12,883	248,963	75,811	24,031	665,932
Additions	1,071	–	1,561	4,965	24,055	31,652
Transfer	6,801	–	6,768	153	(13,722)	–
Transfer to intangible assets	–	–	–	–	(496)	(496)
Disposals	–	(3,911)	–	(9,078)	(47)	(13,036)
Exchange rate adjustments	1	424	–	1,989	7	2,421
Cost as of December 31, 2015	**312,117**	**9,396**	**257,292**	**73,840**	**33,828**	**686,473**
Depreciation and impairment losses as of January 1, 2015	78,100	11,991	184,357	54,911	–	329,359
Depreciation	15,406	308	19,373	6,063	–	41,150
Disposals	–	(3,692)	–	(8,096)	–	(11,788)
Exchange rate adjustments	1	387	–	1,604	–	1,992
Depreciation and impairment losses as of December 31, 2015	**93,507**	**8,994**	**203,730**	**54,482**	**–**	**360,713**
Carrying amount as of December 31, 2015	**218,610**	**402**	**53,562**	**19,358**	**33,828**	**325,760**

Mortgage loans of DKK 33.3 million are secured by mortgages totaling DKK 50.0 million on the property Bøgeskovvej 9/Hejreskovvej 10A, Kvistgaard. In addition, as of December 31, 2015, 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 272.2 million.

Geographical split of property, plant and equipment – 2015

Denmark	319,863
Germany	3,998
USA	1,899
Total property, plant and equipment	**325,760**

Note 17

Development projects for sale

DKK thousand	2016	2015
Development projects for sale January 1	70,069	–
Reclassified acquired NCI licenses from intangible assets	–	24,719
License payment to NCI related to the PROSTVAC agreement with Bristol-Myers Squibb	–	41,656
Exchange rate adjustment	–	3,694
Development projects for sale December 31	**70,069**	**70,069**
Specification:		
PROSTVAC	47,869	47,869
CV301	22,040	22,040
Brachyury	160	160
Development projects for sale	**70,069**	**70,069**

In March 2015, the Company entered into an Option and License Agreement with Bristol-Myers Squibb (BMS) related to PROSTVAC. As a result of this new agreement, Management reassessed the accounting treatment of acquired NCI (National Cancer Institute) licenses related to PROSTVAC. 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. Prior to March 2015, previously acquired licenses from the NCI have been recognized as an intangible asset because it has been undetermined whether the licenses would be recovered through use by the Group itself or through sale. The NCI licenses will effectively transfer to BMS if the option related to the PROSTVAC agreement is exercised. Therefore, in 2015 Management has reclassified the carrying amount of the acquired NCI licenses from intangible assets to development project for sale under current assets. The reclassification was a result of the change in the Group's expectations of how it will realize the asset as a consequence of the agreement with BMS. Further, in accordance with the license agreement with NCI, the Group has an obligation to pay 10% of the received upfront option payment from BMS to NCI. This additional license payment of USD 6 million was paid in 2015 and recognized as part of the 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	2016	2015
Raw materials and supply materials	38,887	31,785
Work in progress	206,943	135,589
Manufactured goods and commodities	11,850	13,517
Write-down on inventory	(110,697)	(89,889)
Inventories	**146,983**	**91,002**
Write-down on inventory as of January 1	(89,889)	(45,891)
Write-down for the year	(21,012)	(46,733)
Use of write-down	–	2,735
Reversal of write-down	204	–
Write-down on inventory as of December 31	**(110,697)**	**(89,889)**
Cost of goods sold amounts to, cf. note 4	171,517	191,720

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	2016	2015
Trade receivables from IMVAMUNE sale	96,807	–
Trade receivables from other product sale	–	61,979
Trade receivables from contract work	33,584	75,948
Trade receivables	**130,391**	**137,927**

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	2016	2015
Deposits	1,303	914
Receivable VAT and duties	14,947	8,581
Interest receivables	10,449	8,272
Other receivables	–	2,799
Other receivables	**26,699**	**20,566**
Classified as:		
Non-current assets	1,303	914
Current assets	25,396	19,652
Other receivables	**26,699**	**20,566**

Accounting policies

Receivables are measured at initial recognition at fair value and subsequently at amortized value usually equal to the nominal value.

Note 21

Prepayments

DKK thousand	2016	2015
Accrued project costs	–	672
Other prepayments	7,325	22,558
Prepayments	**7,325**	**23,230**

At December 31, 2015, prepayments included advisory fees of DKK 14.2 million related to the filing of a Form F-1 Registration Statement with the U.S. Securities and Exchange Commission (the "SEC") for a proposed initial public offering of American Depositary Shares ("ADSs"). In April 2016, when the Company completed a private placement, part of the accrued advisory fees were moved to equity as cost related to the issue of new shares, and the remaining amount was expensed as administrative costs.

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	2016	2015
Derivative financial instruments at fair value through the income statement	36,509	–
Liability relating to phantom shares	18,047	20,490
Payable salaries, holiday accrual etc.	60,698	56,238
Other accrued costs	31,733	34,983
Other liabilities	**146,987**	**111,711**

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	2016	2015
Categories of financial instruments		
Trade receivables	130,391	137,927
Other receivables	26,699	20,566
Loan and receivables	**157,090**	**158,493**
Cash and cash equivalents	853,596	374,063
Cash and cash equivalents	**853,596**	**374,063**
Securities	1,046,301	684,141
Financial assets measured at fair value through the income statement	**1,046,301**	**684,141**
Mortgage debt	31,850	33,293
Trade payables	71,958	69,574
Other liabilities	92,432	91,221
Financial liabilities measured at amortized cost	**196,240**	**194,088**
Derivative financial instruments at fair value through the income statement (currency)	36,250	–
Liability relating to phantom shares	18,047	20,490
Financial liabilities measured at fair value through the income statement	**54,297**	**20,490**
Derivative financial instruments to hedge future cash flows (interest)	259	–
Financial liabilities used as hedging instruments	**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
2016				
EUR	50,273	25,320	(34,699)	40,894
USD	472,102	106,499	(67,649)	510,952
2015				
EUR	36,865	89	(14,839)	22,115
USD	96,741	125,991	(80,804)	141,928

Sensitivity analysis on exchange rates

DKK thousand	Likely change in exchange rate	Hypothetical change in equity	Hypothetical change in profit
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)
2015			
Change if higher USD-rate than actual rate	15%	32,027	89,111
Change if higher EUR-rate than actual rate	1%	197	(570)

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, 2015.

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 months	132,610	(8,347)
Total			**(36,250)**

The currency option contracts are "boosted risk reversals" and the put and call options opposing each other. The Company shall deliver USD 37.5 million instead of USD 25 million in case the DKK/USD rate is above 6.8285 at maturity date.

Hedging of expected future cash flows

In 2016 the Company concluded two currency swap contracts (total of USD 65 million) to partly hedge the cash flow related to the IMVAMUNE BDS sale. As per December 31, 2016 one of the contracts was still open but recognized as held for trading instead of fair value hedge since the payment was received just before year-end. The contract expires January 12, 2017 and is listed in the above table. The hedging impact from the two contracts amounts to DKK -12 million and has been recognized as part of the revenue.

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			2016
DKK thousand	Contract amount based on agreed rates	Fair value as of December 31	Fair value adjustment recognized in other comprehensive income
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 853.6 million as of December 31, 2016 (DKK 374.1 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	2016		2015	
DKK thousand	Fair value as of December 31	Effective interest	Fair value as of December 31	Effective interest
Within 0-2 years	601,326	-0.3%	151,829	0.0%
Within 3-5 years	131,635	0.1%	422,663	0.2%
After 5 years	313,340	2.5%	109,649	3.0%
Total	**1,046,301**	**0.6%**	**684,141**	**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 effect of DKK 22-23 million on the Group´s profit and equity (negative effect of DKK 5-6 million). A corresponding fall in the interest rate level would have had an equivalent positive effect on profit and equity.

Maturity of financial liabilities (including interest) – 2016

DKK thousand	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
Credit institutions	2,465	9,677	22,321	34,463
Trade payables	71,958	–	–	71,958
Other liabilities	110,551	–	–	110,551
Non-derivative financial liabilities	**184,974**	**9,677**	**22,321**	**216,972**
Derivative financial liabilities	**36,508**	**–**	**–**	**36,508**

Maturity of financial liabilities (including interest) – 2015

Credit institutions	3,538	14,049	29,275	46,862
Trade payables	69,574	–	–	69,574
Other liabilities	112,332	–	–	112,332
Non-derivative financial liabilities	**185,444**	**14,049**	**29,275**	**228,768**

With respect to the Group´s mortgage debt, 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 0.3 million. A corresponding fall in the interest rate would have had an equivalent positive impact.

In May 2015, the Group secured a loan facility of EUR 50 million (DKK 371.7 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, may be utilized in one or more tranches. Under the terms of the agreement, the Group has until May 2017 to draw on these monies. The loan is a three to five year bullet loan and could potentially carry a fixed or variable interest payment. The margin associated with the loan facility is 3.26%. As of December 31, 2016, the balance remains unused.

The Group has a credit facility of DKK 20 million (DKK 20 million) at Nordea Denmark. As of December 31, 2015, 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, 2016 and December 31, 2015, 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 – 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)	–	(258)	(258)
Financial liabilities used as hedging instruments	**–**	**(258)**	**(258)**
Derivative financial instruments at fair value through the income statement (currency)	–	(36,250)	(36,250)
Financial liabilities measured at fair value through the income statement	**–**	**(36,250)**	**(36,250)**

Fair value hierarchy for financial instruments measured at fair value – 2015

DKK thousand	Level 1	Level 2	Total
Securities	684,141	–	684,141
Financial assets measured at fair value through the income statement	**684,141**	**–**	**684,141**

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 contract and currency swap contracts are valued according to generally accepted valuation methods based on relevant observable swap curves and exchange rates.

Note 24

Provisions

DKK thousand	2016	2015
Provisions as of January 1	25,796	22,817
Additions during the year	(277)	7,169
Payments during the year	(570)	(4,190)
Provisions as of December 31	**24,949**	**25,796**
Long-term incentive agreements:		
Reiner Laus	24,949	25,226
Closure of Berlin facility	–	570
Provisions as of December 31	**24,949**	**25,796**

DKK thousand	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
2016	–	21,352	3,597	24,949
2015	570	21,743	3,483	25,796

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. 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.

The total outstanding consideration to Reiner Laus amounts to a maximum of DKK 63.5 million (DKK 61.5 million). The risk-adjusted net present value amounts to DKK 24.9 million (DKK 25.2 million). The agreement remains unchanged after Reiner Laus' resignation.

In December 2012, Management decided to discontinue the Group's operations at the facility in Berlin. The remaining repayment obligation of investment grants received from the German authorities have been repaid in 2016.

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 expense.

Significant accounting estimates

A management estimate is required on recognition of contingent payments related to incentive agreements. Management considers in the light of expectations for the coming year's research and development achievements the likelihood that expected results will trigger contingent payments. Contingent payments were DKK 24.9 million as of December 31, 2016 (DKK 25.2 million). Management considers it more likely than not that the predefined milestones related to PROSTVAC will occur.

The estimates and assumptions applied are based on historical experience and other factors which Management considers relevant under the circumstances, but which are inherently incomplete and inaccurate at the time of presentation of the financial statements, and unexpected events or circumstances may arise. The Group is subject to risks and uncertainties which may have the effect that the actual outcomes may deviate from the estimates made.

Note 25

Debt to credit institutions

DKK thousand	Due within 1 year	Due between 1 and 5 year	Due after 5 years	Total
2016				
Mortgage [1]	2,136	8,570	21,144	31,850
Total	**2,136**	**8,570**	**21,144**	**31,850**
2015				
Mortgage [2]	653	2,900	15,867	19,420
Mortgage [3]	1,316	5,901	6,656	13,873
Total	**1,969**	**8,801**	**22,523**	**33,293**

[1] Floating interest – swapped to fixed interest of 0.9625% – expiry 2031
[2] Fixed interest 4.1684% – expiry 2035
[3] Fixed interest 4.5352% – expiry 2024

The fair value of the debt amounts to DKK 32.2 million (DKK 36.5 million) based on the market value of the underlying bonds.

Accounting policies

Mortgage 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	2016	2015
Prepayment from customers as of January 1	405,789	375,190
Prepayments received during the year	142,655	631,158
Repaid during the year	–	(21,135)
Recognized as income during the year	(17,799)	(579,424)
Prepayment from customers as of December 31	**530,645**	**405,789**

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 can invoice the bulk drug substance (BDS) product once BARDA has approved documentation confirming the initiation of production for each BDS batch. The payments are recognized as prepayment. Recognition of revenue will occur in concurrence with release of each produced and tested BDS batch. As per December 31, 2016, the prepaid BDS batches amount to DKK 75.6 million. The Company has a repayment obligation in case the BDS batches are not delivered.

In March 2015, the Company signed an agreement that provides 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 (USD 60 million). The upfront payment has been recognized as a prepayment from customers and will be recognized as revenue when the Company provides BMS with top-line PROSPECT data.

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 in full 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, 2016, recognition of DKK 49.5 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 DKK 3.2 million each. The payments are recognized as revenue in concurrence with recognition of the cost of the study. As of December 31, 2016, recognition of DKK 7.0 million in revenue is outstanding. There is no repayment obligation.

Note 27

Related party transactions

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

Besides the remuneration of the Board of Directors and the Group 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.

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 an incentive plan by way of warrant plans. 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 – 2016	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)
August 2011	15,000	–	(10,000)	–	(5,000)	–	–	54
May 2012	30,000	–	(11,889)	–	–	18,111	18,111	54
August 2012	233,503	–	(216,003)	–	–	17,500	17,500	59
February 2013	40,000	–	(40,000)	–	–	–	–	55
August 2013	443,600	–	(286,283)	–	–	157,317	157,317	74
December 2013	70,000	–	–	–	–	70,000	–	97
August 2014	457,500	–	–	–	–	457,500	–	131
December 2015	335,002	–	–	(21,178)	–	313,824	–	367
December 2016	–	450,300	–	–	–	450,300	–	260
Total	**1,624,605**	**450,300**	**(564,175)**	**(21,178)**	**(5,000)**	**1,484,552**	**192,928**	

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

Note 28

Share-based payment – continued

Warrant overview – 2015	Outstanding as of January 1	Additions	Exercised	Annulled	Terminated	Transferred	Outstanding as of December 31
Board of Directors	65,000	–	(15,000)	–	–	–	50,000
Corporate Management	250,000	69,802	(50,000)	–	–	–	269,802
Other Group Management	120,000	–	–	(60,000)	–	(60,000)	–
Other employees	1,028,550	265,200	(88,906)	(18,675)	–	(308,969)	877,200
Resigned employees	255,171	–	(194,518)	–	(2,019)	368,969	427,603
Total	**1,718,721**	**335,002**	**(348,424)**	**(78,675)**	**(2,019)**	**–**	**1,624,605**
Weighted average exercise price (DKK)	**90**	**367**	**82**	**100**	**194**	**–**	**148**
Weighted average share price at exercise (DKK)			**316**				
Number of warrants which can be exercised as of December 31, 2015							278,503
at a weighted average exercise price of DKK							58

Specification of parameters for Black-Scholes model	May 2012	Aug. 2012	Feb. 2013	Aug. 2013	Dec. 2013	Aug. 2014	Dec. 2015	Dec. 2016
Average share price	43.30	52.00	45.50	68.00	82.00	117.50	334.00	222.50
Average exercise price at grant	54.00	59.10	55.00	73.90	96.50	131.40	366.85	260.20
Expected volatility rate	52.5%	50.0%	28.3%	36.4%	35.4%	39.7%	53.8%	44.6%
Expected life (years)	3.3	3.3	3.1	3.3	3.3	3.3	3.3	3.0
Expected dividend per share	–	–	–	–	–	–	–	–
Risk-free interest rate p.a.	0.31%	-0.09%	0.22%	0.78%	0.74%	0.63%	0.25%	-0.48%
Fair value at grant [1)]	13	16	6	16	17	29	115	54

[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 2016 DKK 18.4 million compared to DKK 9.3 million in 2015.

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:			
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
February 2013	Annual Report 2015	Interim Report Q2 2016	Annual Report 2016	Interim Report Q2 2017
August 2012	Interim Report Q3 2015	Interim Report Q1 2016	Interim Report Q3 2016	Interim Report Q1 2017
May 2012	Interim Report Q2 2015	Annual Report 2015	Interim Report Q2 2016	Annual Report 2016

Phantom shares

In 2013, 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, 2014 to December 31, 2016. 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 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.

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 under the 2014-2016 program is conditional on the price of the Company's shares being at least 10% higher than the exercise price at the time of exercise. The exercise under the 2015-2017 program, the 2016-2018 program and the 2017-2019 program 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

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

The expected volatility is based on the historic volatility.

The expense in respect of phantom shares granted in 2016 provided a cost of DKK 1.0 million.

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

2015-2017 phantom share program	2016	2015
Outstanding as of January 1	29,140	–
Granted during the year	28,754	29,140
Outstanding phantom shares as of December 31	**57,894**	**29,140**
Liability in DKK thousand as of December 31	**3,727**	**5,110**
Specification of parameters for Black–Scholes model		
Share price December 31	249	358
Average share exercise price	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 2016 provided an expense of DKK 1.8 million, whereas the revaluation of previously granted phantom shares provided an income of DKK 3.2 million, net income DKK 1.4 million (net expense 2015: DKK 5.1 million).

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

Note 28

Share-based payment – continued

2014-2016 phantom share program	2016	2015	2014
Outstanding as of January 1	58,846	29,836	–
Granted during the year	28,322	29,010	29,836
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 expected volatility is based on the historic volatility.

Phantom shares granted in 2016 provided an expense of DKK 4.3 million, whereas the revaluation of previously granted phantom shares provided an income of DKK 6.4 million, net income DKK 2.1 million (net expense 2015: DKK 12.2 million).

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

The 2014-2016 program will exercise in January 2017 with an exercise price corresponding to the average share price for the period January 1 - January 13, 2017.

Restricted stock units

In March 2016, 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 2.0 million into 7,430 restricted stock units using the share price of the Company at grant date (DKK 270). 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 at the time of the grant of the matching shares (i.e. 3 years from the time of grant). One matching share is granted for each two acquired restricted stock units. The maximum number of matching shares is 3,714. The initial granted restricted stock units and the potential matching shares total 11,144 shares. In May 2016, the Company bought back 11,144 of its own shares to meet the obligation to deliver up to 11,144 shares to the members of the Executive Management in March 2019, when the current restricted stock units program vests.

Outstanding restricted stock units – 2016	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 (7,430 shares) had no impact on the income statement for 2016, as the corresponding cash bonus (DKK 2.0 million) was accrued in 2015, 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 1.0 million measured at the same fair value as the initial restricted stock units (DKK 270). The obligation will be expensed over the three year vesting period. During 2016, DKK 0.3 million has been expensed and recognized as share-based payment.

Note 29

Contingent liabilities and other contractual obligations

DKK thousand	2016	2015
In 2010, the Group received a performance-based milestone payment of USD 25 million under the RFP-3 contract. The milestone payment has been recognized as revenue in 2010-2012 in concurrence with delivery of the initial 20 million dose order. The RFP-3 contract has a reimbursement clause in the event that the Group does not comply with the terms of the contract. Management considers it highly unlikely that this will occur.	176,320	170,750

Operational leasing

Leasing obligations for cars and office equipment.

The operational leasing agreements are irrevocable up to 51 months.

– Due within 1 year	1,907	1,567
– Due between 1 and 5 years	1,981	1,473
Minimum leasing cost recognized in net profit for the year	1,868	1,564

Rental commitments

Rental agreements for laboratory and offices facilities.

The rental agreements are irrevocable from 6 to 68 months.

– Due within 1 year	17,221	14,464
– Due between 1 and 5 years	50,268	55,637
– Due after 5 years	951	4,577
Minimum rental cost recognized in net profit for the year	20,599	17,598

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 22.2 million. The sub-lease agreement covers the remaining lease period and will contribute with an income of a similar amount.

DKK thousand	2016	2015

Collaborative agreements

Contractual obligations with research partners for long-term research projects.

– Due within 1 year	52,134	48,712
– Due between 1 and 5 years	136,472	144,113

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.

If and when Bristol-Myers Squibb exercises the option under the Option and License Agreement for PROSTVAC from March 2015, the Group will receive USD 80 million, and the National Cancer Institute (NCI) has a right to 10% of this payment, i.e. USD 8 million (included in the amounts above).

Other contractual obligations

Other obligations include among other things purchase commitments related to filling of vaccines.

– Due within 1 year	18,978	8,126
– Due between 1 and 5 years	9,479	–

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 63.5 million. As per December 31, 2016 the provision amounts to DKK 24.9 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. In addition, the floating charge secures 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 10, 2017, the Company announced an agreement with F. Hoffmann-La Roche Ltd (Roche) whereby Roche has agreed to supply their PD-L1 blocking antibody Tecentriq® (atezolizumab) for a clinical study combining Bavarian Nordic's cancer vaccine, CV301, and Tecentriq in patients with urothelial carcinoma, or bladder cancer.

Except as noted above, there have been no significant events between December 31, 2016 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 15, 2017.

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Financial statements

Income Statement

For the years ended December 31, 2016 and 2015

DKK thousand	Note	2016	2015
Revenue		1,006,742	1,020,561
Production costs	3.4	297,793	414,664
Gross profit		**708,949**	**605,897**
Research and development costs	2,3,4	474,651	363,225
Distribution costs	3	38,991	43,408
Administrative costs	3.4	229,167	186,379
Total operating costs		**742,809**	**593,012**
Income before interest and tax (EBIT)		**(33,860)**	**12,885**
Income from investments in subsidiaries	10	8,055	6,521
Financial income	5	47,076	111,362
Financial expenses	6	32,915	24,659
Income before company tax		**(11,644)**	**106,109**
Tax on income for the year	7	(4,123)	14,019
Net profit for the year		**(7,521)**	**92,090**
Proposed appropriation of net profit:			
Retained earnings		**(7,521)**	**92,090**

Notes with reference to the consolidated financial statements	**Note**
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Production costs	4
Distribution costs	6
Administrative costs	7

Statement of Financial Position – Assets

December 31, 2016 and 2015

DKK thousand	Note	2016	2015
Non-current assets			
Software		4,877	2,863
IMVAMUNE development project		60,951	100,500
Other intangible assets in progress		16,903	4,495
Intangible assets	8	**82,731**	**107,858**
Land and buildings		202,112	217,998
Leasehold improvements		678	401
Plant and machinery		54,903	53,562
Other fixtures and fittings, other plant and equipment		14,063	14,452
Assets under construction		45,739	33,450
Property, plant and equipment	9	**317,495**	**319,863**
Investments in subsidiaries	10	98,464	90,677
Receivables from subsidiaries	10	395,724	303,216
Other receivables		1,035	655
Financial assets		**495,223**	**394,548**
Deferred tax assets	7	**130,457**	**150,126**
Total non-current assets		**1,025,906**	**972,395**

	Note	2016	2015
Current assets			
Development projects for sale	11	**256,747**	**257,514**
Inventories	12	**146,193**	**90,316**
Trade receivables		130,391	137,927
Receivables from subsidiaries		–	72,910
Tax receivables		2,506	4,174
Other receivables		29,766	16,188
Prepayments		6,070	18,381
Receivables		**168,733**	**249,580**
Securities		1,046,301	684,141
Cash and cash equivalents		839,010	361,789
Securities, cash and cash equivalents		**1,885,311**	**1,045,930**
Total current assets		**2,456,984**	**1,643,340**
Total assets		**3,482,890**	**2,615,735**

Statement of Financial Position – Equity and liabilities

December 31, 2016 and 2015

DKK thousand	Note	2016	2015
Equity			
Share capital		313,539	280,197
Treasury shares		(111)	–
Retained earnings		2,216,069	1,586,245
Reserve for development costs		40,949	–
Other reserves		50,668	69,280
Equity		**2,621,114**	**1,935,722**
Provisions	14	**24,949**	**25,226**
Liabilities			
Credit institutions		29,714	31,324
Non-current liabilities		**29,714**	**31,324**
Credit institutions		2,136	1,969
Prepayment from customers		530,645	405,789
Trade payables		59,332	50,525
Payables to subsidiaries		105,820	92,089
Other liabilities	13	109,180	73,091
Current liabilities		**807,113**	**623,463**
Total liabilities		**836,827**	**654,787**
Total equity and liabilities		**3,482,890**	**2,615,735**

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Statement of Changes in Equity

December 31, 2016

DKK thousand	Share capital	Treasury shares	Retained earnings	Reserve for development costs	Other reserves	Equity
Equity as of January 1, 2016	280,197	–	1,586,245	–	69,280	1,935,722
Net profit for the year	–	–	(7,521)	–	–	(7,521)
Exchange rate adjustments	–	–	(268)	–	–	(268)
Changes in fair value of financial instruments entered into to hedge future cash flows	–	–	–	–	(259)	(259)
Tax on equity postings	–	–	–	–	57	57
Share-based payment	–	–	–	–	20,629	20,629
Warrant program exercised	5,642	–	40,341	–	(8,678)	37,305
Warrant recharged	–	–	43,822	–	–	43,822
Warrant program 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)
Reserve for development costs	–	–	(40,949)	40,949	–	–
Tax related to items recognized directly in equity	–	–	–	–	(30,241)	(30,241)
Equity as of December 31, 2016	**313,539**	**(111)**	**2,216,069**	**40,949**	**50,668**	**2,621,114**

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.

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 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 2015 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.

Effect of changes to the Danish Financial Statements Act

The new Danish Financial Statements Act effective from January 1, 2016, requires an equity reserve corresponding to capitalized development costs occurred after January 1, 2016. As per December 31, 2016 the reserve for development costs amounts to DKK 40.9 million.

Note 2

Research and development costs

DKK thousand	2016	2015
Research and development costs incurred this year	487,849	494,046
Of which:		
Contract costs recognized as production costs	(52,747)	(108,678)
Capitalized development costs (note 8)	(29,236)	(24,837)
	405,866	360,531
Amortization of prior-year costs attributable to the IMVAMUNE development project (note 8)	68,785	2,694
Research and development costs recognized in the income statement	**474,651**	**363,225**

Accounting policies

See consolidated financial statements note 5.

Note 3

Staff costs

DKK thousand	2016	2015
Wages and salaries	185,598	170,416
Contribution based pension	16,127	14,824
Social security expenses	1,783	1,707
Other staff expenses	18,833	14,720
Share-based payment	13,804	20,693
Staff costs	**236,145**	**222,360**
Staff expenses are distributed as follows:		
Production costs	134,596	128,351
Research and development costs	23,566	20,532
Distribution costs	10,623	12,866
Administrative costs	67,277	60,496
Capitalized salaries	83	115
Staff costs	**236,145**	**222,360**
Average number of employees converted to full-time	279	261
Number of employees as of December 31 converted to full-time	290	266

Accounting policies

See consolidated financial statements note 8.

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

Remuneration to Corporate Management and the Board of Directors is disclosed 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	2016	2015
Depreciation and amortization included in:		
Production costs	38,925	36,271
Research and development costs	1,112	1,033
Administrative costs	2,252	3,269
Depreciation and amortization	**42,289**	**40,573**
Hereof profit ()/loss from disposed fixed assets	–	–

Note 5

Financial income

DKK thousand	2016	2015
Financial income from bank and deposit contracts	272	38
Financial income from subsidiaries	10,722	11,599
Financial income from securities	15,640	14,959
Fair value adjustments on securities	3,542	–
Net gain on derivative financial instruments at fair value in the income statement	–	17,402
Net foreign exchange gains	16,900	67,364
Financial income	**47,076**	**111,362**

Accounting policies

See consolidated financial statements note 11.

Note 6

Financial expenses

DKK thousand	2016	2015
Interest expenses on debt	3,674	2,672
Financial expenses to subsidiaries	1,584	1,381
Fair value adjustments on securities	–	16,749
Adjustment of net present value of provisions	3,386	3,857
Net loss on derivative financial instruments at fair value in the income statement	24,271	–
Financial expenses	**32,915**	**24,659**

Accounting policies

See consolidated financial statements note 12.

Note 7

Tax for the year

DKK thousand	2016	2015
Tax recognized in the income statement		
Current tax on profit for the year	–	10,997
Current tax on profit for previous years	6,392	(11)
Currrent tax	**6,392**	**10,986**
Change in deferred tax	(2,514)	7,077
Adjustment of deferred tax due to change in estimates of timing	–	(4,055)
Adjustments to deferred tax for previous years	(8,001)	11
Deferred tax	**(10,515)**	**3,033**
Tax for the year recognized in the income statement	**(4,123)**	**14,019**
Tax on income for the year is explained as follows:		
Income before company tax	(11,644)	106,109
Calculated tax (22.0%/23.5%) on income before company tax	(2,562)	24,936
Tax effect on:		
Income from investments in subsidiaries	(1,772)	(1,532)
Permanent differences	1,820	(5,330)
Current tax on profit for previous years	6,392	(11)
Adjustment of deferred tax due to change in estimates of timing	–	(4,055)
Adjustments to deferred tax for previous years	(8,001)	11
Tax on income for the year	**(4,123)**	**14,019**
Tax recognized in equity		
Tax on change in fair value of financial instruments entered into to hedge future cash flows	(57)	–
Tax on share based payment	30,241	(31,589)
Tax for the year recognized in equity	**30,184**	**(31,589)**

DKK thousand	January 1, 2016	Recognized in the income statement	Recognized in 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	(4,465)	(30,241)	23,504
Tax losses carried forward	52,772	(10,646)	–	42,126
Recognized deferred tax assets	**150,126**	**10,515**	**(30,184)**	**130,457**

Accounting policies and significant accounting estimates

See consolidated financial statements note 13.

Deferred tax

Recognized deferred tax assets relates 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

2016

DKK thousand	Acquired patents and licenses	Software	IMVAMUNE development project	Other Intangible assets in progress	Total
Costs as of January 1, 2016	6,864	56,096	100,500	4,495	167,955
Additions	–	1,338	29,236	13,136	43,710
Transfer	–	728	–	(728)	–
Transfer to/from property, plant and equipment	–	2,073	–	–	2,073
Expensed (amortized) related to sale of development results	–	–	(68,785)	–	(68,785)
Cost as of December 31, 2016	**6,864**	**60,235**	**60,951**	**16,903**	**144,953**
Amortization as of January 1, 2016	6,864	53,233	–	–	60,097
Amortization	–	2,125	–	–	2,125
Amortization as of December 31, 2016	**6,864**	**55,358**	**–**	**–**	**62,222**
Carrying amount as of December 31, 2016	**–**	**4,877**	**60,951**	**16,903**	**82,731**
Carrying amount as of December 31, 2015	**–**	**2,863**	**100,500**	**4,495**	**107,858**

Accounting policies and significant accounting estimates

See consolidated financial statements note 15.

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

Note 9

Property, plant and equipment

2016

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, 2016	311,326	2,182	257,292	34,848	33,450	639,098
Additions	–	520	215	2,776	38,338	41,849
Transfer	–	–	22,137	87	(22,224)	–
Transfer to/from intangible assets	–	–	–	–	(2,073)	(2,073)
Disposals	(228)	–	(78)	–	(1,752)	(2,058)
Cost as of December 31, 2016	**311,098**	**2,702**	**279,566**	**37,711**	**45,739**	**676,816**
Depreciation as of January 1, 2016	93,328	1,781	203,730	20,396	–	319,235
Depreciation	15,658	243	21,011	3,252	–	40,164
Disposals	–	–	(78)	–	–	(78)
Depreciation as of December 31, 2016	**108,986**	**2,024**	**224,663**	**23,648**	**–**	**359,321**
Carrying amount as of December 31, 2016	**202,112**	**678**	**54,903**	**14,063**	**45,739**	**317,495**
Carrying amount as of December 31, 2015	**217,998**	**401**	**53,562**	**14,452**	**33,450**	**319,863**

Accounting policies and significant accounting estimates

See consolidated financial statements note 16.

For collateral see the consolidated financial statements note 16.

Note 10

Investment in subsidiaries

2016

DKK thousand	Investments in subsidiaries	Receivables from subsidiaries
Costs as of January 1, 2016	186,609	303,216
Additions	–	82,617
Exchange rate adjustments	–	9,891
Cost as of December 31, 2016	**186,609**	**395,724**
Net revaluation as of January 1, 2016	(95,932)	–
Net share of profit/loss for the year	8,055	–
Exchange rate adjustments	(268)	–
Net revaluation as of December 31, 2016	**(88,145)**	**–**
Carrying amount as of December 31, 2016	**98,464**	**395,724**
Carrying amount as of December 31, 2015	**90,677**	**303,216**

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.

Note 11

Development projects for sale

DKK thousand	2016	2015
Development projects for sale January 1	257,514	–
Reclassified from intangible assets	–	110,852
Royalty payments	68,300	146,662
Adjustment to royalty payment	(69,067)	–
Development projects for sale December 31	**256,747**	**257,514**

Accounting policies

See consolidated financial statements note 17.

In 2011, Bavarian Nordic A/S and Bavarian Nordic, Inc. signed a sub-license agreement that transfer the right to use PROSTVAC to Bavarian Nordic A/S. Under the agreement Bavarian Nordic A/S had to pay an upfront of DKK 138.6 million (USD 25 million) as well as future royalty payments when income from sales of PROSTVAC are obtained. 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", see explanation in consolidated financial statements note 17.

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 has been 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%).

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).

Note 12

Inventories

DKK thousand	2016	2015
Raw materials and supply materials	38,098	31,099
Work in progress	206,942	135,589
Manufactured goods and commodities	11,850	13,517
Write-down on inventory	(110,697)	(89,889)
Inventories	**146,193**	**90,316**
Write-down on inventory as of January 1	(89,889)	(45,891)
Write-down for the year	(21,012)	(46,733)
Use of write-down	–	2,735
Reversal of write-down	204	–
Write-down on inventory as of December 31	**(110,697)**	**(89,889)**
Cost of goods sold amounts to	171,517	191,720

Accounting policies and significant accounting estimates

See consolidated financial statements note 18.

Note 13

Other liabilities

DKK thousand	2016	2015
Derivative financial instruments at fair value in the income statement	36,508	–
Liability relating to phantom shares	13,664	20,490
Payable salaries, holiday accrual etc.	44,167	42,583
Other accrued costs	14,841	10,018
Other liabilities	**109,180**	**73,091**

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	2016	2015
Provisions as of January 1	25,226	22,209
Additions during the year	(277)	7,169
Disposals during the year	–	(4,152)
Provisions as of December 31	**24,949**	**25,226**

DKK thousand	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
2016	–	21,352	3,597	24,949
2015	–	21,743	3,483	25,226

Accounting policies and significant accounting estimates
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 the ongoing Phase 3 study.

In September 2016, the initial royalty payment of DKK 146.7 million (USD 22.1 million) paid to Bavarian Nordic, Inc. in March 2015 was reduced by DKK 69.1 million (USD 10.3 million), see further description in note 10.

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. Gaurantees 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	2016	2015
Due within 1 year	4,701	2,512
Due between 1 and 5 years	2,687	1,459
Commitments according to rent and lease agreements until expiry	**7,388**	**3,971**

Note 17

Contingent liabilities and other contractual obligations

DKK thousand	2016	2015
Collaborative agreements		
Contractual obligations with research partners for long-term research projects.		
– Due within 1 year	47,902	44,614
– Due between 1 and 5 years	1,411	13,319
Other contractual obligations		
Other obligations include among other things security services and IT licenses.		
– Due within 1 year	18,742	8,126
– Due between 1 and 5 years	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, 2016. 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	2016	2015
Guarantees for subsidiaries		
The Parent Company stands surety for a credit facility to a subsidiary of a maximum of	4,276	3,622
The Parent Company stands surety for letter of credit to subsidiaries of a maximum of	3,943	3,730

Bavarian Nordic A/S has signed a guarantee in favor of Bavarian Nordic, Inc.'s landbord 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 7.0 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, 2016.

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, 2016 as well as of the results of their operations and the Group's cash flows for the financial year January 1 – December 31, 2016.

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 15, 2017

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

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, 2016, which comprise the income statement, statement of financial position, statement of changes in equity and notes, including the summary of significant accounting policies, for the Group as well as the Parent and the consolidated cash flow statement and the consolidated statement of comprehensive income. 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, 2016 and of its financial performance and cash flows for the financial year January 1 – December 31, 2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Further, in our opinion, the parent financial statements give a true and fair view of the financial position of the Parent at December 31, 2016 and of its financial performance for the financial year January 1 – December 31, 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing 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 IESBA Code of Ethics for Professional Accountants and 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.

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, 2016. 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		
Refer to notes 2 and 3 in the consolidated financial statements. Revenue recognized under the Biomedical Advanced Research and Development Authority (BARDA) contracts with the U.S. Government related to IMVAMUNE amounted to DKK 876 million in 2016. Contracts with BARDA include multiple elements, and recognition of revenue is significant and requires subjective evaluation. 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 are transferred to BARDA, and the Group no longer retains managerial responsibility for, or control of, the goods sold and services delivered to BARDA.	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, using third party sources, we tested whether the performance obligations for revenue recognized under the BARDA contracts were met in 2016. We also evaluated the financial statements disclosures related to revenue.
Deferred revenue under the BMS PROSTVAC agreement		
Refer to notes 2, 3 and 26 in the consolidated financial statements. The statement of financial position includes a prepayment from Bristol-Myers Squibb (BMS) of DKK 399 million (USD 60 million) at December 31, 2016, representing the exclusive up-front option payment received from Bristol-Myers Squibb (BMS) in 2015 under the PROSTVAC agreement. 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 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 not met in 2016, and that the prepayment is recognized as deferred revenue in the statement of financial position at December 31, 2016. We also evaluated the financial statements disclosures related to deferred revenue.

Key audit matter		How the matter was addressed in the audit	
Measurement of deferred tax asset in Denmark *Refer to notes 2 and 13 in the consolidated financial statements.* The statement of financial position includes a deferred tax asset in Denmark of DKK 130 million at December 31, 2016. The utilization of the deferred tax asset is based on Management's expectations that it is more likely than not that PROSTVAC will generate significant future revenues as well as future taxable profits from sales of PROSTVAC and other products.	Judgement is therefore required in assessing the most significant accounting estimate, i.e. the probability of success for PROSTVAC, and resulting impact on the carrying amount of the deferred tax asset at the balance sheet date.	Based on our risk assessment procedures on the Group's business process and internal controls for measurement of deferred tax assets, we tested the appropriateness of the Group's model for measurement of deferred tax assets. We reviewed and challenged the documentation prepared by Management on the deferred tax assets, including Management's best estimate. We tested the applied assumptions to the budget and forecasts as approved by the Board of Directors.	We reviewed and challenged the supporting documentation for the probability of success for PROSTVAC. Our tax specialists reviewed the tax calculation for compliance with relevant tax requirements. We also evaluated the financial statements disclosures related to deferred tax assets.

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, and for the preparation of parent financial statements that give a true and fair view in accordance with the Danish Financial Statements Act.

Management is also responsible 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 the preparation of the consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Parent 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 International Standards on Auditing 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 International Standards on Auditing and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism 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 the preparation of 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 Parent 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 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 15, 2017

Deloitte
Statsautoriseret
Revisionspartnerselskab
Business Registration No 33 96 35 56

Martin Norin Faarborg
State-Authorized
Public Accountant

Henrik Hjort Kjelgaard
State-Authorized
Public Accountant

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.

Design
Kontrapunkt

Photo
Carsten Andersen,
page 15

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BAVARIAN NORDIC